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ECONOMICS COMMENTATOR

SOUTH DAKOTA STATE UNIVERSITY

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SOUTH DAKOTA AGRICULTURAL LAND VALUES AND RENTAL PRACTICES, 1997

by

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South Dakota's agricultural land values increased 6.2% in 1996, which is the highest annual percentage increase in the 1990s. The average value of agricultural land (as of February 1, 1997) varies from \$660 per acre in the southeast region to \$108 per acre in northwest South Dakota. These are key findings from the SDSU 1997 South Dakota Farm Real Estate Market Survey reports completed by 238 appraisers, lenders, and Extension agents knowledgeable of local farmland market trends.

This is the seventh annual SDSU survey developed to estimate agricultural land values and cash rental rates by type of land in different regions of the State. Summaries of prior survey results were reported in earlier *Economics Commentator* issues.

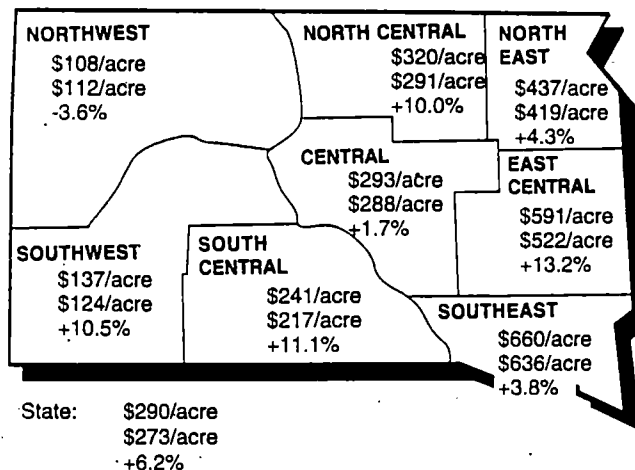
Respondents provided county land value and cash rental rate information by agricultural land use. Responses grouped by region with average values for all classes of land are provided in Figure 1. Separate estimates of land value and cash rental rate information for nonirrigated cropland, irrigated land, hayland, rangeland, and tame pasture are provided in Figures 2 - 5.

The information in this newsletter provides an overview of agricultural land values and cash rental rates across South Dakota. We caution the reader to use this information as a general reference, while relying on local sources for more specific details.

Average Land Value Summary

As of February 1, 1997, the estimated South Dakota all-agricultural land value average was \$290 per acre, an estimated 6.2% increase in value from one year earlier (Figure 1). (Ag land values in all

Figure 1. Average value of South Dakota agricultural land, February 1, 1997 and 1996, and percent change from one year ago.



Regional and statewide average values of agricultural land are the weighted averages of dollar value per acre and percent change by proportion of acres of each nonirrigated land use by region.

Top: Average per-acre value—February 1, 1997
Middle: Average per-acre value—February 1, 1996
Bottom: Annual percent change in per-acre land value

Source: 1997 South Dakota Farm Real Estate Market Survey, SDSU.

regions of South Dakota increased more than the rate of general price inflation from 1991 to 1997.)

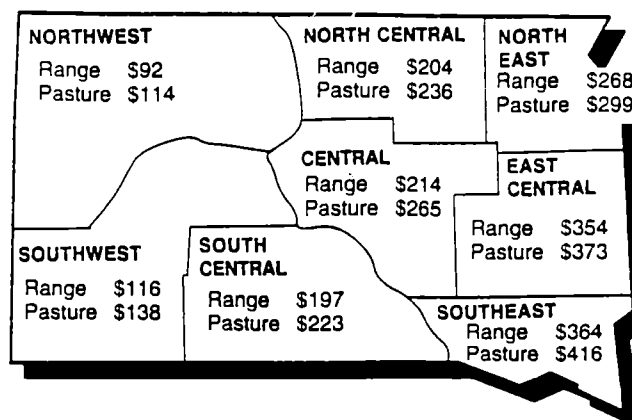
According to SDSU survey responses, agricultural land values sharply increased from 1996 to 1997 in the east central (+13.2) and the south central (+11.1%) regions. They also increased in the southwest (+10.5%), north central (+10.0%), northeast (+4.3%), southeast (+3.8%), and central (+1.7%) regions. Land values declined slightly in the northwest (-3.6%).

Agricultural land values are highest in the southeast followed by the east central region. Cropland and hayland are the dominant land uses in these regions, which contain the most productive land in South Dakota. The lowest average land values are found in the northwest and southwest regions.

In each region, per acre values are highest for irrigated land, followed in descending order by nonirrigated cropland, hayland or tame pasture, and native rangeland (Figures 2 and 3). Within each region, there is substantial variation in per acre land value by land use and land productivity.

Average nonirrigated cropland values range from \$777 per acre in the southeast to \$386 and \$412 per acre in the central and north central regions of the

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 1997, dollars per acre.



Source: 1997 South Dakota Farm Real Estate Market Survey, SDSU.

state respectively to \$188 per acre in northwest South Dakota. Average rangeland values vary from \$364 and \$354 per acre in the southeast and east central regions, respectively, to \$197-\$214 per acre in the central regions, to \$92-\$116 per acre in western South Dakota.

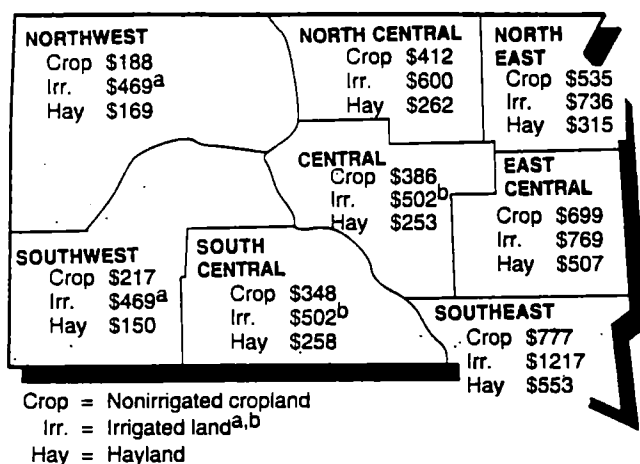
Average Cash Rental Rate Summary

The cash rental market provides important information on returns to agricultural land. Nearly three-fourths of South Dakota farmland renters and three-fifths of agricultural landlords are involved in one or more cash leases for cropland, hayland, or pasture/rangeland. A majority of cash leases are annual renewable agreements.

Cash rental rates are quite variable within each region and highly variable among South Dakota regions. Within each region, the average annual cash rental rates are highest for irrigated land, followed by nonirrigated cropland, hayland and pasture/rangeland. For each land use, cash rental rates are highest in southeast and east central regions of South Dakota, and lowest in western S.D. (Figures 4 and 5).

Cash rental rates for nonirrigated cropland vary from an average of \$57.40 per acre in southeastern South Dakota to \$19.10 in southwestern South Dakota. Rangeland cash rental rates vary from an average of \$23.60 and \$25.70 per acre in the east central and southeast regions, respectively, to \$6.60 and \$6.80 per acre in western South Dakota regions.

Figure 2. Average value of South Dakota cropland, irrigated land, and hayland, by region, February 1997, dollars per acre.

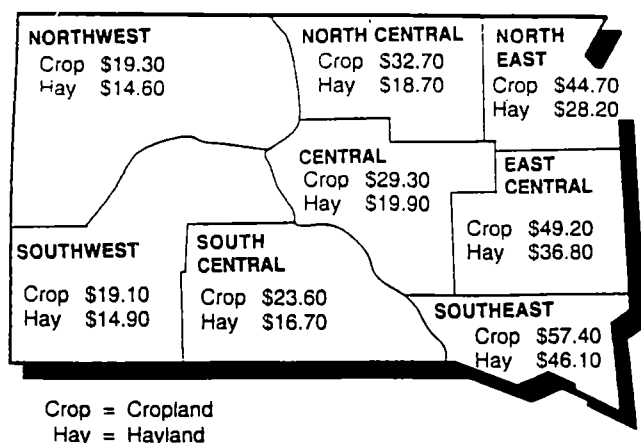


^aIrrigated land values shown for the northwest and southwest regions are based on the average value reported for gravity irrigated land in both western areas.

^bIrrigated land values shown for the central and south-central regions are based on the average value reported in both regions.

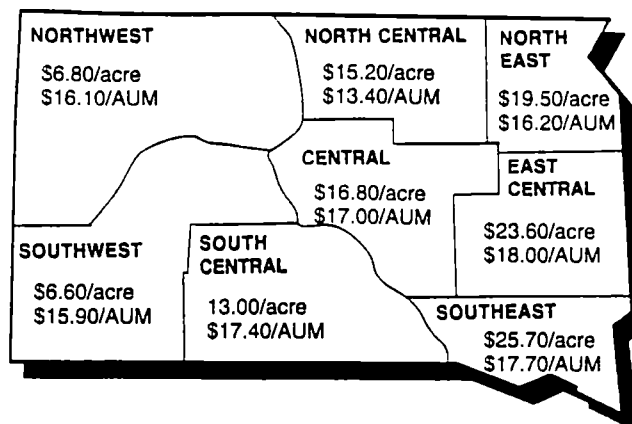
Source: 1997 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 4. Average cash rental rate of South Dakota nonirrigated cropland and hayland, by region, 1997, dollars per acre.



Source: 1997 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 5. Average cash rental rate of South Dakota rangeland and pastureland by region, 1997, dollars per acre and dollars per AUM.



Source: 1997 South Dakota Farm Real Estate Market Survey, SDSU.

From 1996 to 1997, average cash rental rates for cropland increased \$3.90 per acre in the east central region and \$2.70 per acre in the southeast region (not shown in figures). Cropland cash rental rates were steady to higher in most other regions. Average per acre cash rental rates for hayland increased in all regions. Average per acre cash rental rates for hayland increased by the greatest amount (+\$4.50 to \$4.60) in the southeast and east central regions.

Rangeland rates per AUM (Animal Unit Month) in 1997 are fairly uniform across regions (Figure 5). Rates range from an average of \$13.40 per AUM in the north central region to \$18.00 per AUM in the east central region.

Rates of Return to Agricultural Land

Gross rent-to-value ratios (gross cash rent as a percent of reported land value) are a measure of gross rate of return to land, before deduction of property taxes and other landlord expenses. Gross rent-to-value ratios averaged 7.3% for all ag land, 8.1% for non-irrigated cropland, and 6.6% for rangeland.

Respondents were asked to estimate net rates of return to agricultural land ownership in their locality, given current land values. Statewide, the estimated net rate of return to agricultural land averaged 5.2% for all ag land, 6.3% for non-irrigated cropland, and 4.4% for rangeland.

From 1991 to 1997, the difference between GROSS and NET rates of return to agricultural land ownership averaged 2.0 percentage points and varies from 1.5 percentage points to 2.4 percentage points across different regions and land uses. Most of the difference between gross returns and net returns was caused by property tax levies.

The current average net rate of return of 5.2% on all agricultural land in South Dakota is much lower than farmland mortgage interest rates of 7.5% to 10%. This implies that relatively large downpayment requirements are necessary before farmland purchases can be expected to cash flow from net returns. A cautious approach to debt-financing will be required to help farmland buyers avoid another financial crisis.

Ag Land Market Expectations, Past and Prospective

One-half of the respondents expect NO CHANGE in land values during 1997 and only 1% expected declining farmland values. This was a considerable change in expectations from 1995 and 1996 survey responses when more than 10% of respondents expected declining land values during the following year. The major explanation is the positive impact of the new farm program on land values in the early years (1996-1998) of the 7-year commodity program.

Thirty-eight percent of all respondents expect agricultural land values to increase from 1% to 6%,

while others (11% of respondents) expect greater increases in land values of +7.0% to +15%. The average expected change in farmland values is 2.5%, with land value increases expected in all regions.

Many respondents commented that Federal farm program payments, strong interest in bidding cropland into the revised Conservation Reserve Program, and improving calf prices should lead to increased agricultural land values in the next 12 months. However, most of the responses were returned before the extent of calf losses in northern and western South Dakota and the extent of spring flooding of cropland in central and eastern South Dakota were known. These weather-related factors may dampen increases in areas with severe losses and prevented plantings, unless disaster assistance relief is substantial.

Agricultural lease terms are changing and will likely continue to change. Based on respondent comments there appears to be gradual trends to more

cash leasing in most regions of South Dakota. In addition, with the changing conditions of agriculture, landlords and tenants are adjusting lease terms and developing new, or moving towards different, lease arrangement such as flexible cash lease arrangements and hunting leases.

For more detailed information, readers are encouraged to contact the Economics Department Library (605-688-4142) and ask for SDSU AES Circular C260, South Dakota Agricultural Land Market Trends, 1991-1997, available August, 1997.

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