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South Dakota Agricultural Land Values and Rental Practices: 1999

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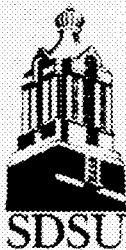
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ECONOMICS COMMENTATOR

South Dakota State University

No. 398

July 21, 1999

SOUTH DAKOTA AGRICULTURAL LAND VALUES AND RENTAL PRACTICES, 1999



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by

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South Dakota's agricultural land values increased 1.9% in 1998, which is the lowest annual percentage increase in the 1990s. The average value of agricultural land (as of February 1, 1998) varies from \$735 per acre in the southeast region to \$119 per acre in northwest South Dakota. These are key findings from the SDSU 1999 South Dakota Farm Real Estate Market Survey reports completed by 256 appraisers, lenders, and Extension agents knowledgeable of local farmland market trends.

This is the ninth 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.

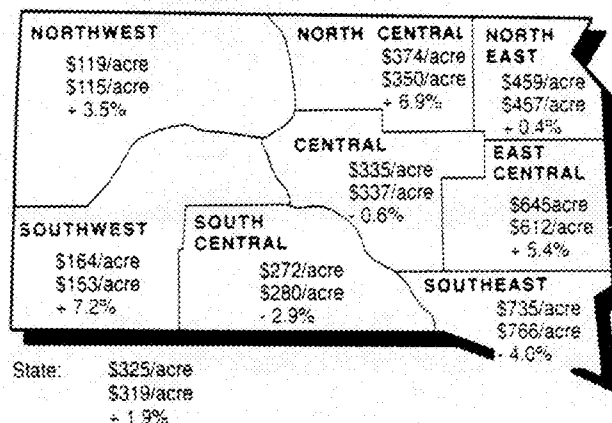
Respondents provided county land value and cash rental rate information by agricultural land use. Responses grouped by region with average values for all classes of land are provided in Figure 1. Separate estimates of land value and cash rental rate information for nonirrigated cropland, irrigated land, 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, 1999, the estimated South Dakota all agricultural land value average was \$325 per acre, an estimated 1.9% increase in value from one year earlier (Figure 1).

Figure 1. Average value of South Dakota agricultural land, February 1, 1999 and 1998, 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 non irrigated land use by region.

Top: Average per-acre value—February 1, 1999
Middle: Average per acre value—February 1, 1998
Bottom: Annual percent change in per-acre land value

Source: 1999 South Dakota Farm Real Estate Market Survey, SDSU.

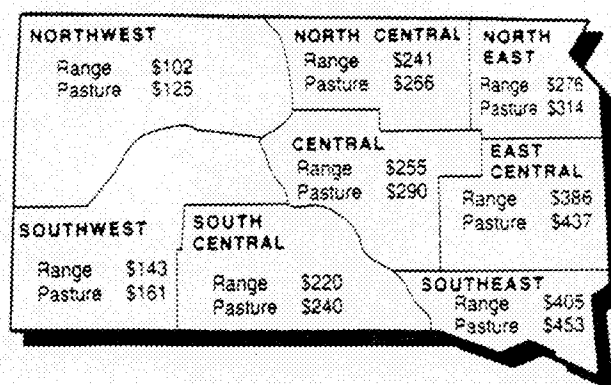
According to SDSU survey responses, agricultural land values increased from 1998 to 1999 in southwest (+2.2%), north central (+6.9%), northwest (+3.5%), northeast (+0.4%) and east central (+5.4%) regions. Decreases for other regions were: southeast (-4.0%), south central (-2.9%); and central (-0.6%).

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 \$735 per acre in the southeast to \$119 per acre in the northwest region of the state. Average rangeland values vary from \$405 per acre in the southeast region to \$102 per acre in the northwest region of South Dakota.

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 1999, dollars per acre.



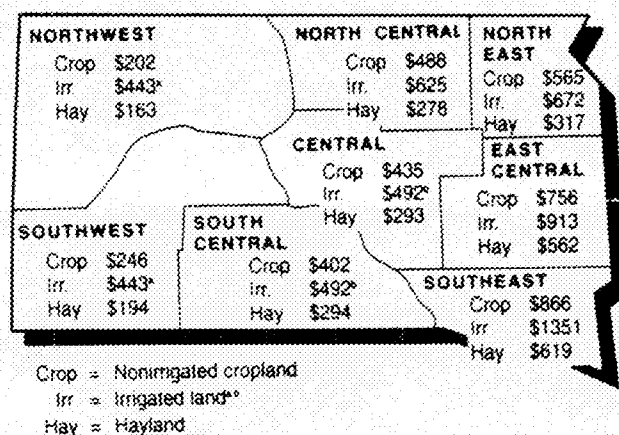
Source: 1999 South Dakota Farm Real Estate Market Survey, 1998.

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 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 South Dakota (Figures 4 and 5).

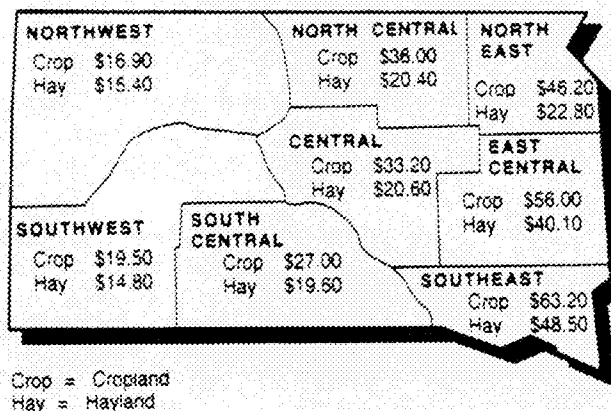
Figure 2. Average value of South Dakota cropland, irrigated land, and hayland, by region, February 1999, dollars per acre.



- * Irrigated land values shown for the northwest and southwest regions are based on the average value reported for gravity irrigated land in both western areas.
* Irrigated land values shown for the central and south-central regions are based on the average value reported in both regions.

Source: 1999 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 4. Average cash rental rate of South Dakota non-irrigated cropland and hayland, by region, 1999, dollars per acre.



Source: 1999 South Dakota Farm Real Estate Market Survey, SDSU.

Cash rental rates for nonirrigated cropland vary from an average of \$63.20 per acre in southeastern South Dakota to \$16.90 in northwestern South Dakota. Rangeland cash rental rates vary from an average of \$26.80 per acre in the southeast region to \$6.20 and \$7.70 per acre in western South Dakota regions.

From 1998 to 1999, cash rental rates per acre declined modestly in the southeast region for cropland (-\$4.40) and pasture land (-\$1.30). In all other regions, cropland cash rental rates changes varied from -\$1.00 to +\$2.30 per acre, while changes in rangeland cash rental rates only varied from -\$0.50 to +\$0.40 per acre. Hayland cash rental rates declined slightly in eastern South Dakota and remained steady or increased slightly in the rest of the State.

From 1991 to 1999, average reported cash rental rates for cropland, hayland and rangeland increased in all regions. During this period, average cash rental rates for cropland increased from 20% in the northeast region to 47% in the north central region. The average dollar amount of cropland cash rental rates increased from \$3.40 to \$4.80 per acre in the south central and western regions to \$13.90 per acre in the southeast region. Cash rental rates for hayland increased from less than \$3 per acre in the northeast and southwest regions to \$10 per acre in the southeast region.

From 1991 to 1999, average cash rental rates per acre of rangeland increased from nearly \$2 per acre in western South Dakota to +\$7.60 per acre in the southeast region. During this same period, average cash rental rates per AUM (Animal Unit Month) also increased in all except the east central region. In most regions, average increases in AUM rental rates varied from \$1.50 to \$3.50 per AUM.

Rangeland rates per AUM in 1999 are fairly uniform across regions (Figure 5). Rates range from an average of \$15.40 per AUM in the north central region to \$18.80 per AUM in the northeast region.

Rates of Return to Agricultural Land

The gross rent-to value ratio (gross cash rent as a percent of reported land value) is a measure of **gross** rate of return to land, before deduction of property taxes and other landlord expenses. Gross rent-to-value ratios for 1999 averaged 7.7% for non-irrigated cropland and 6.4% for rangeland.

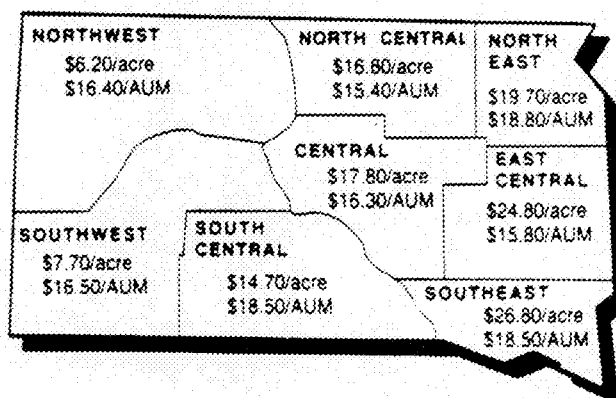
Respondents were asked to estimate **net** rates of return to agricultural land ownership in their locality, given current land values. Statewide, the estimated net rate of return to agricultural land averaged 4.6% for all

ag land, 6.4% for non-irrigated cropland, and 4.0% for rangeland.

From 1991 to 1999, the difference between GROSS and NET rates of return to agricultural land ownership averaged 2.0 percentage points and varied 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 4.6% 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 down payment 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.

Figure 5. Average cash rental rate of South Dakota rangeland and pastureland by region, 1999, dollars per acre and dollars per AUM.



Source: 1999 South Dakota Farm Real Estate Market Survey, SDSU.

Ag Land Market Expectations, Past and Prospective

Respondents are not optimistic about land value increases in the next 12 months. Only 30% of respondents expect agricultural land values to increase in 1999, with most of these respondents expecting land value increases of 1% to 5%. Compared to the past 8 years of survey responses, this is the lowest proportion of respondents expecting land value increases in the next 12 months. This is a dramatic reversal from the 1998 survey, when three-fourths (three-fifths) of respondents projected increasing cropland (rangeland) values in the next 12 months.

A majority of respondents project NO CHANGE in land values during 1999. Nearly 15% (8%) of respondents forecast declining cropland (rangeland) values during 1999. Modest declines in cropland values are projected by respondents in several regions, while rangeland values are expected to hold steady or increase slightly in all regions. Overall, the average (mean) projected change in agricultural land values during 1999 is only +0.5%.

Respondents listed major positive and negative factors affecting the farm real estate market in their localities. These factors help explain changes in the amount of farmland for sale, sale prices, and rental rates.

No specific item dominated respondents' list of positive factors. Investor interest, high crop yields, low interest rates, farm expansion, and hunting/recreation were the top five positive factors listed, accounting for 74% of responses.

For the first time, investors were listed as a positive factor more frequently (24%) than any other item. Investor interest was more than one-third of responses from those located in the western and central regions. Many respondents commented that investor interest in and ability to purchase farmland was an important factor maintaining farmland prices in their locality. However, some other respondents (5% of negative responses) viewed investors as a negative factor because they were able to outbid local farmers wanting to expand their operations and shutting out many beginning farmers from purchasing farmland.

High crop yields was the second ranked positive factor and was primarily listed by respondents in north

central and eastern regions of South Dakota, where crop yield in many counties have been considerably above long-term averages in recent years. Many respondents wrote that higher crop yields had partly offset declining prices and helped stabilize land market conditions.

Relatively low interest rates and farm expansion continue to be listed as positive factors by many respondents. However, in past years farm expansion was usually the most common factor listed. Hunting/recreation uses were often listed as positive factors by respondents located in east central, south central and central regions of the State.

Low commodity prices was the principal negative factor affecting farmland markets, according to 68% of responses. Other economic and financial items (low returns, higher input costs, no funds available) were also listed as negative factors. This is the first survey in the 1990's where general economic and financial factors were the predominant negative responses. In past years, specific industry factors (low cattle prices) or weather-related factors (flooding, prevented planting, etc) were often listed as negative factors.

For more detailed information, readers are encouraged to contact the Economics Department Library (605-688-4142) and ask for SDSU AES Circular C263, South Dakota Farmland Market Trends, 1991-1999.

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