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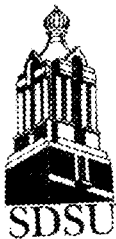
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ECONOMICS COMMENTATOR

South Dakota State University

No. 421

June 11, 2001

SOUTH DAKOTA AGRICULTURAL LAND VALUES AND RENTAL PRACTICES, 2001



by

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We wish to thank the individuals who participated in the 2001 Farm Real Estate Market Survey. Without their responses this report would not be possible. Special thanks to Barbie Johnson for input of the data and analyzing the data. Also, thanks to Janet Wilson and Penny Stover for developing and maintaining the mailing list and formatting the reports.

South Dakota's agricultural land values increased 8.7% over this past year. The average value of agricultural land (as of February 1, 2001) varies from \$884 per acre in the southeast region to \$141 per acre in northwest South Dakota. These are key findings from the SDSU 2001 South Dakota Farm Real Estate Market Survey reports completed by 215 appraisers, lenders, and Extension educators knowledgeable of local farmland market trends.

This is the eleventh 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.

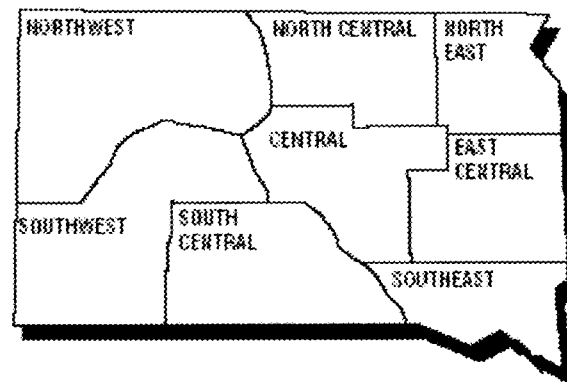
Respondents provided county land value and cash rental rate information by agricultural land use. Responses grouped by region with average values for all classes of land are provided in Figure 1. Separate estimates of land value and cash rental rate information for nonirrigated cropland, irrigated land, 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, 2001, the estimated South Dakota all agricultural land value average was \$373 per acre, an estimated 8.7% increase in value from one year earlier (Figure 1).

Figure 1. Average value of South Dakota agricultural land, February 1, 2001 and 2000, 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, 2001
Middle: Average per-acre value—February 1, 2000
Bottom: Annual percent change in per-acre land value

Source: 2001 South Dakota Farm Real Estate Market Survey, SDSU.

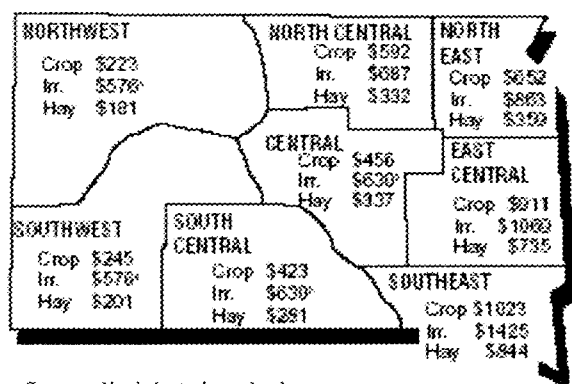
According to SDSU survey responses, agricultural land values increased from 2000 to 2001 in the north central (+11.3%), northwest (+10.2%), northeast (+5.4%), east central (+16.1%), southeast (+12.2%), central (+6.1%), but decreased in the southwest (-0.6%) and south central (-0.7%) regions.

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 \$1023 per acre in the southeast to \$223 per acre in the northwest region of the state. Average rangeland values vary from \$488 per acre in the southeast region to \$124 per acre in the northwest region of South Dakota.

Figure 2. Average value of South Dakota cropland, irrigated land, and hayland, by region, February 2001, dollars per acre.



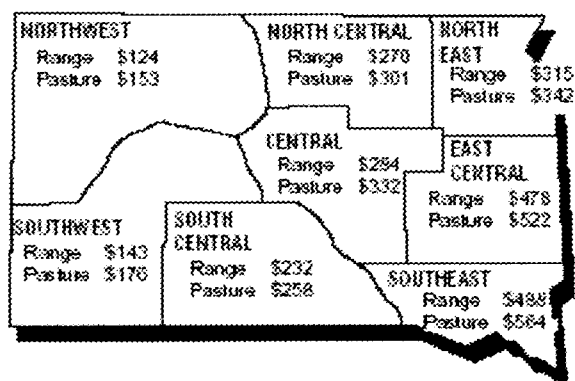
Crop = Nonirrigated cropland
Ir. = Irrigated land^a
Hay = Hayland

^a 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.

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

Source: 2001 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 2001, dollars per acre.

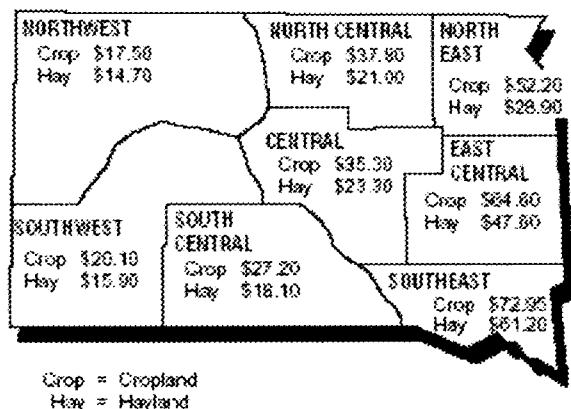


Source: 2001 South Dakota Farm Real Estate Market Survey, SDSU.

Average Cash Rental Rate Summary

The cash rental market provides important information on returns to agricultural land. 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 4. Average cash rental rate of South Dakota nonirrigated cropland and hayland, 2001, dollars per acre.



Crop = Cropland
Hay = Hayland

Source: 2001 South Dakota Farm Real Estate Market Survey, SDSU.

Cash rental rates for nonirrigated cropland vary from an average of \$72.95 per acre in southeastern South Dakota to \$17.50 in northwestern South Dakota. Rangeland cash rental rates vary from an average of \$30.90 per acre in the southeastern region to \$6.60 in the northwest region.

From 2000 to 2001, cash rental rates per acre increased considerably in the east central region for cropland (+\$8.20) and pasture land (+\$3.60). In all other regions, cropland cash rental rate changes varied from -\$1.20 to +\$3.40 per acre, while changes in rangeland cash rental rates varied from +\$3.60 to -\$2.50. Hayland cash rental rates increased or remained steady in all regions of the state except south central (-\$1.30) South Dakota.

From 2000 to 2001, cash rental rates increased in some regions and declined in other regions. Increases in rental rates were strongest in the east central region. The south central region had lower cash rents in 2001 than in 2000 in all classifications of land use. The following table gives the per acre or per AUM changes in cash rental rates comparing 2000 and 2001 rates.

2000-2001 Change in Per Acre Cash Rent				
	Cropland	Hayland	Pasture	per AUM
Northwest	-\$1.20	\$0.40	-\$0.20	-\$0.95
Southwest	\$1.40	\$0.80	\$0.60	\$1.60
North Central	\$1.60	\$0.70	\$0.10	\$1.30
Central	\$3.40	\$2.20	\$2.30	\$0.00
South Central	-\$2.80	-\$1.30	-\$2.50	\$0.60
North East	\$2.90	\$0.10	\$0.40	-\$1.20
East Central	\$8.20	\$7.50	\$3.60	\$3.10
South East	\$5.45	\$3.40	-\$0.10	\$1.30

Rates of Return to Agricultural Land

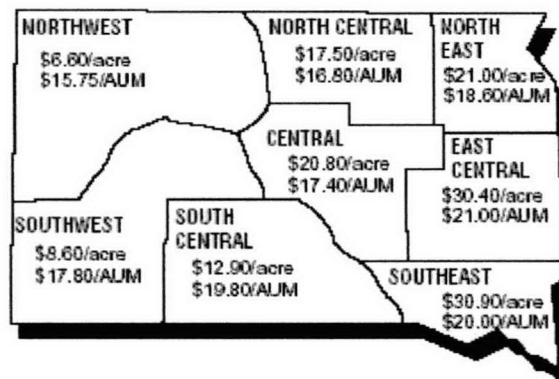
The gross rent-to value ratio (gross cash rent as a percent of reported land value) is a measure of **gross** rate of return to land, before deduction of property taxes and other landlord expenses. Gross rent-to-value ratios for 2001 averaged 7.5% for non-irrigated cropland, 7.3% for hayland, and 6.1% 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 4.8% for all agricultural land, 5.4% for non-irrigated cropland, and 4.3% for rangeland and pasture.

The current average net rate of return of 4.8% on all agricultural land in South Dakota is much lower than current farmland mortgage interest rates. 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 is recommended for farmland buyers.

Figure 5. Average cash rental rate of South Dakota rangeland and pastureland by region, 2001, dollars per acre and dollars per AUM.



Source: 2001 South Dakota Farm Real Estate Market Survey, SDSU.

Ag Land Market Factors

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.

Among positive factors influencing the farm real estate market, government programs were identified most often by respondents (25%). After government programs, other positive factors were investor interest (16%), high yields (11%), hunting/recreation demand (10%) and high livestock prices (9%).

Major negative factors in the farm real estate market included low grain prices (identified by 46% of respondents) and low returns to high cost inputs (15%). Pressure from investor interest was listed as a negative factor by 10% of respondents. Investors were listed as a negative factor perhaps because they were able to outbid local farmers wanting to expand their operations or beginning farmers seeking to purchase farmland.

In addition to the positive and negative factors in the South Dakota farm real estate market, survey respondents also identified major reasons for buying and selling farmland. Expansion, investment, and hunting/recreation demand were the three most common responses for buyers purchasing farmland. Retirement and estate settlement were the major reasons for selling farmland, accounting for 60% of the responses on reasons why farmland was sold.

A majority of respondents (55% to 60% depending on land use) expect land values to increase in the next year. Most other respondents expect no change in land values; a few expect declines. The average forecast percentage increase in land values varies from 2.5% for hayland to 3.0% for rangeland. Somewhat higher percentage changes are projected in regions east of the Missouri River.

In summary, respondents are fairly optimistic about prospective farm/ranch land market conditions in the next year. Farmland values have increased more than the rate of general price inflation from 1991 to 2001 in all regions and for all land uses in South Dakota. Cash rental rate increases provide underlying support for increase in land values. These basic economic factors attract interest in farmland purchases by investors and by farmers expanding their operation. Respondents indicated that investor interest, lower interest rates, crop yields substantially above long-term trends, government farm programs, improvements in livestock prices, and

hunting/recreation demands have led to increases in land market values during the past two years. However, many respondents are concerned about continued low grain / oilseed prices and the dependence of South Dakota agriculture on Federal farm program payments.

For more detailed information, readers can go online at www.abs.sdstate.edu/abs/pdf/C266.pdf or contact the Economics Department (605-688-4141) to request a copy of SDSU AES Circular C266, South Dakota Farmland Market Trends, 2000-2001. The publication should be available by the end of June.

ECONOMICS COMMENTATOR

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