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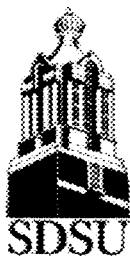
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# ECONOMICS COMMENTATOR

South Dakota State University

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## SOUTH DAKOTA AGRICULTURAL LAND TENURE AND OWNERSHIP TRENDS

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Recent trends in farm land tenure and ownership in South Dakota continue to follow historical patterns. These trends are of significance for three reasons. First, landowners make land use decisions which impact food supplies, natural resource development, conservation and the environment, employment and the distribution of wealth and income. Second, many public policies affecting land use also affect those who own and pay taxes on the land, and earn income from land. Third, a continuing controversy in our nation's land policies is whether or not family-size farm units should dominate land ownership and tenure patterns. Current information on land ownership and tenure can address these varied issues. Information presented in this issue is largely based on data from the U.S. Census of Agriculture.

### Land tenure

Land tenure is an important component of agricultural structure because it concerns the extent of ownership and control of the farmland resource – which comprises 65 – 70% of the total value of physical assets in South Dakota's farm sector. Land tenure also influences resource organization and control at the farm level, degree of freedom to make business decisions and degree of risks assumed by the owner, ease of entry into farming, and transfer of farmland to the next generation. The key issue in land tenure is the extent of **farm operator control** of the farmland resource by leasing or ownership.

Land tenure statistics, compiled by the U.S. Census of Agriculture, classify farm operators into three main categories:

- **Full owners** operate only land that they own. They may also lease land to other farmers;
- **Part owners** operate land that they own and also lease additional land from others. Some part owners may also lease land to other farmers; and
- **Tenants** operate only land they lease from others.

Land tenure situation and trends in South Dakota, shown in Tables 1 and 2, are generally consistent with U.S. trends and have been influenced by changing economic and public policies concerning agriculture. Land settlement in South Dakota from the 1860's to the early 1920's favored land ownership by families who tilled the soil - a direct result of the Homestead Act and similar legislation.

Table 1. Agricultural land tenure trends in South Dakota, 1940-1997

Tenure Class	1940	1950	1959	1969	1978	1987	1997
percent of farm operators							
Full owner	21	31	32	38	39	41	40
Part owner	26	38	41	45	45	43	46
Tenants	53	31	27	17	16	16	14
Total	100	100	100	100	100	100	100
Thousands of farms							
	72.5	66.4	55.7	45.7	39.7	36.4	31.3
Land in Farms							
	1940	1950	1959	1969	1978	1987	1997
percent of land in farms							
Full owner	10	18	18	28	29	30	29
Part owner	50	63	65	61	61	59	61
Tenants	40	19	17	11	10	11	10
Total	100	100	100	100	100	100	100

Sources: U.S. Census of Agriculture, South Dakota, various years

Declining economic conditions during the 1920's and 1930's drastically increased farm tenancy in South Dakota, reaching a peak in 1940 when 53% of farmers were tenants and 40% of farmland acres were leased by tenants. The major changes from 1940 to 1969 were rapid declines in relative importance of farm tenants and increased relative importance of full owners. Only modest



changes in land tenure have occurred since 1969 (Table 1).

Tenants have declined rapidly in total numbers, percent of farms, and proportion of land in farms. By 1997, tenants were only 13.9% of farmers leasing only 9.7% of South Dakota's agricultural land. Tenants are usually young or middle-age farmers and 79% sold less than \$100,000 of farm products (Table 2).

Table 2. Relationship of Farm Tenancy in South Dakota to Operator Age and Farm Sales Volume, 1997.

Age of operator years	Farm tenure class			All farms
	Full owner	Part owner	Tenant	
	percent of farms			
Less than 35	7.8	8.7	30.9	11.5
35-54	38.3	54.0	48.7	47.0
55 and older	53.8	37.2	20.4	41.6
Total	100.0	100.0	100.0	100.0
Average age	56.1	50.8	42.8	51.8
Farm sales volume	Farm tenure class			All farms
	Full owner	Part owner	Tenant	
	percent of farms			
Less than \$20,000	55.7	12.5	36.9	33.3
\$20,000-99,999	31.5	39.2	41.9	36.5
\$100,000-499,999	11.0	43.4	19.4	27.0
\$500,000 and above	1.8	4.9	1.8	3.2
Total	100.0	100.0	100.0	100.0
Number of farms	12,598	14,322	4,364	31,284

Source: U.S. Department of Agriculture, National Agricultural Statistics Service, 1997 Census of Agriculture, South Dakota, Vol. 1, Table 46.

Full owners recovered from a low of 21% of farmers in 1940 to 38% of farmers in 1969 and slightly increased to 40% of farmers since then. However, full ownership is not the major indicator of economic status or well-being in agriculture that it was in earlier decades. As shown in Table 2, full owners are concentrated among older farmers with relatively low farm product sales volume - 54% are 55 years of age or older and 56% sold less than \$20,000 of farm products. More than 30% of full owners also are landlords renting some of their farmland to others.

Since World War II, part owners have emerged as the dominant tenure class in terms of farm numbers, land in farms, and average farm

size. The proportion of part owners increased from 26% of farmers in 1940 to 45% in 1969 with little relative change since then. The average size of part-owner operated farms in 1997 was 1,905 acres (1,024 acres owned and 881 acres leased) compared to 1,013 acres owned and operated by full-owners and 988 acres leased and operated by tenants. The amount and proportion of farmland acres leased by part owners has been fairly stable (about 60%) since 1950. Part owners tend to be middle age and nearly one-half have farm product sales exceeding \$100,000.

The dominance of part ownership since 1950 indicates renting some operated land is a normal part of commercial agriculture in South Dakota and throughout most of the United States. In many cases, the most efficient method of expanding commercial farm operations is to lease rather than purchase additional farmland. Leasing often conserves an expanding farmer's working capital by reducing financial outlays to acquire farmland. Part ownership also permits these farmers to obtain the advantages of farmland ownership and the advantages of farmland leasing. In an economic environment of farm expansion, part ownership is an important capital management strategy to increase current returns and to reduce business risk.

### Land ownership

Information on agricultural land ownership is less complete than data on land tenure. National surveys of agricultural land ownership were conducted in 1946, 1978, and 1988. The following commentary on land ownership is based on land tenure / ownership data in the 1997 Census of Agriculture within the context of research reported from the 1978 and 1988 land ownership surveys.

In 1997, farmers **owned** 30.2 million acres (69% of land in farms) of agricultural land in South Dakota, but **owned and operated** only 27.4 million acres or 62% of land in farms. Farmers, mostly full-owners, rented out nearly 3.1 million acres to other farmers. However, 81% of farmland acres leased (13.8 million of 16.9 million acres rented) are owned by non-operator landlords (Table 3).

Farm renters generally lease from more than one landlord. Overall, there are nearly 18.7 thousand farmers leasing land from 48.3 thousand landlords, including an estimated 42.2 thousand non-operator landlords. Farmers tend to own more acres than non-operator landlords - an average of



1,123 acres per farmer owner-operator vs. 327 acres per non-operator landlord (Table 3). These results correspond with past research conducted and reported by the author on farmland rental markets in South Dakota.

Renters leasing from more than one landlord is the norm, not the exception. Furthermore, farmland renters often use a combination of cash and share leases.

Table 3 Agricultural Land Ownership and Leasing, South Dakota, 1997.

Item	Thousands of acres	Units	Number of Units	Average number of Acres per Unit
Land in Farms	44,355	Farm	31,284	1,418
Owned Land in Farms	27,434	Farms Operating owned land	26,920	1,019
Rented Land in Farms	16,931	Farms Operating leased land	18,686	906
		Landlords	48,261	351
Land Owned by Farmers	30,241	Farms owning land	26,920	1,123
Land Rented or Leased from Other Farms	3,117	Farm Operator Landlords	6,967	514
Nonoperator Landlord	13,814	Nonoperator Landlords	42,194	327

Source: U.S. Department of Agriculture, National Agricultural Statistics Service, U.S. Census of Agriculture, 1997, South Dakota, Vol. 1, Table 46.

The number of non-operator landlords (42.2 thousand) considerably exceeds the number of farmer owner-operators (26.9 thousand). The number of non-operator landlords has probably increased over time, while the number of South Dakota farm operators owning land has decreased from a peak of 46.4 thousand in 1950. Non-operator landlords tend to be older than farm operators leasing farmland.

Sustained net out-migration of farm youth and relatively high rates of farm retirement are major likely explanations of these ownership trends. A substantial (but unknown) percentage of non-operator landlords are retired farmers or farm widows receiving retirement income from renting out their farm. Also, many non-operator landlords are persons that were raised on the "family farm", but currently live elsewhere and work in other occupations.

## Future trends

Based on national studies conducted by the author, "the most important changes in farmland tenure, ownership, and leasing since World War II are: (1) increased separation of ownership and control of farmland; (2) emergence of part owners as the dominant tenure class; (3) reduced agricultural orientation of many farmland owners; and (4) evolutionary changes in farmland leasing agreements." (Janssen, 1993, pp. 495).

Farmland rental markets have become and will remain a "permanent" part of the organization of production agriculture in South Dakota and in the United States. Landlords provide a major source of capital to most commercial farm operators. The relative importance of landlords will continue to gradually increase because: (1) commercial farmers are usually able to achieve higher current rates of return by investing in other production assets; (2) farmland ownership is a source of current returns and potential capital appreciation with risk-return characteristics that are attractive to many investors (farmers and landlords); and (3) farmland remains a major source of "consumption income", that is, ownership provides satisfaction or pleasure for many owners, even though their primary income may be obtained from non-agricultural pursuits (Janssen, 1993, pp. 495).

The principal farmland buyers during the past 50 years have been established middle-age farmers who already owned some farmland and perhaps rented additional land. In the future, established farmers and nonfarm investors are likely to be the major buyers of South Dakota farmland. These two groups are in the best position to finance land purchases and have the necessary motivations to purchase agricultural land.

Additional information on land tenure and ownership trends and other structural trends in South Dakota agriculture may be obtained from: Diersen, Matthew A., Larry Janssen, & Paula Loewe, *The Structure of South Dakota Agriculture: Changes and Projections*, Research Report 2000-1, Economics Department, South Dakota State University, February 2000. Detailed study of land tenure and ownership trends in U.S. agriculture from 1946 to 1988 conducted by Janssen is available in Chapter 18 of *Size, Structure, and the Changing Face of American Agriculture*, 1993, Westview Press, A. Hallam, ed.



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