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## South Dakota Agricultural Land Values and Rental Practices: 2002

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# ECONOMICS COMMENTATOR

South Dakota State University

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## SOUTH DAKOTA AGRICULTURAL LAND VALUES AND RENTAL PRACTICES, 2002



by

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*We wish to thank the individuals who participated in the 2002 Farm Real Estate Market Survey. Without their responses this report would not be possible. Special thanks to: Heidi Sheifelbein for data input and statistical analysis; Janet Wilson for maintaining the mailing list, Barb Dininger for various survey tasks; and Danci Anderson for updating the newsletter.*

South Dakota's agricultural land values increased 9.9% this past year. The average value of agricultural land (as of February, 2002) varies from \$147 per acre in the northwest region to \$923 per acre in southeast South Dakota. These are key findings from the SDSU 2002 South Dakota Farm Real Estate Market Survey reports completed by 241 agricultural lenders, Farm Service Agency officials, rural appraisers, assessors, realtors, professional farm managers, and Extension agricultural educators.

This is the twelfth 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.

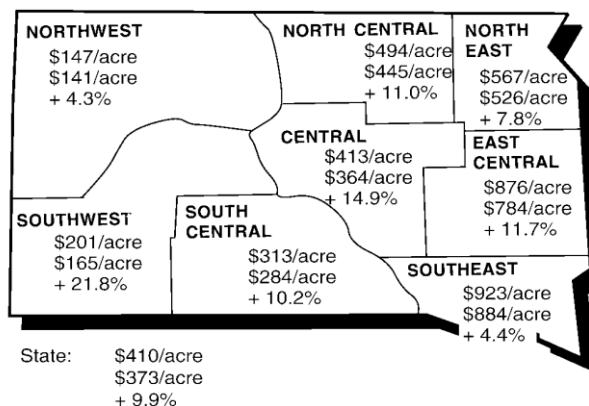
Respondents provided county land value and cash rental rate information by agricultural land use. Responses grouped by region with average values for all classes of land are provided in Figure 1. Separate estimates of land value and cash rental rate information for nonirrigated cropland, irrigated land, 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, 2002, the estimated South Dakota all agricultural land value average was \$410 per acre, an estimated 9.9% increase in value from one year earlier (Figure 1).

Figure 1. Average value of South Dakota agricultural land, February 1, 2002 and 2001, 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, 2002  
Middle: Average per-acre value—February 1, 2001  
Bottom: Annual percent change in per-acre land value

Source: 2002 South Dakota Farm Real Estate Market Survey, SDSU.

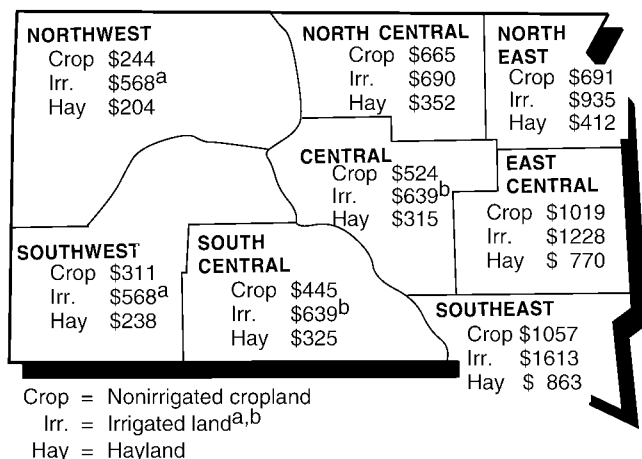
According to SDSU survey responses, agricultural land values increased from 2001 to 2002 in all the regions; north central (+11%), northwest (+4.3%), northeast (+7.8%), east central (+11.7%), southeast (+4.4%), central (+14.9%), southwest (+21.8%), and south central (+10.2%) regions.

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 \$1057 per acre in the southeast to \$244 per acre in the northwest region of the state. Average rangeland values vary from \$543 per acre in the east central region to \$127 per acre in the northwest region of South Dakota.

Figure 2. Average value of South Dakota cropland, irrigated land, and hayland , by region, February 2002, dollars per acre.

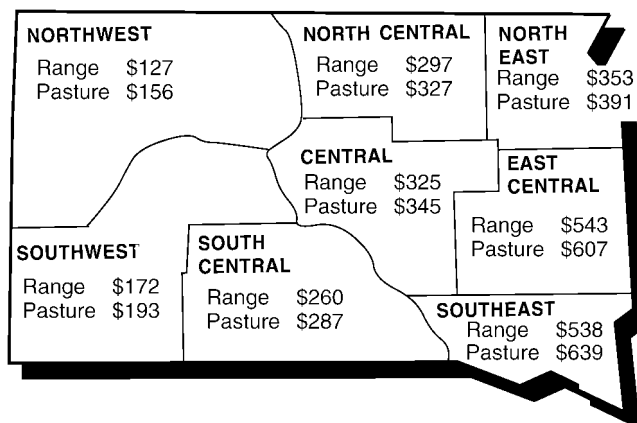


<sup>a</sup>Irrigated land values shown for the northwest and southwest regions are based on the average value reported for gravity irrigated land in both western areas.

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

Source: 2002 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 2002, dollars per acre.

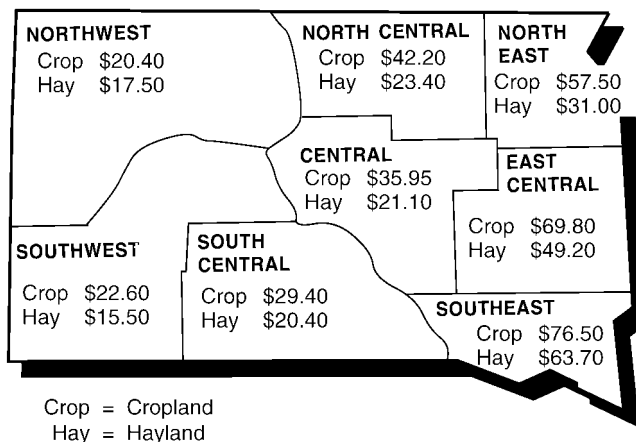


Source: 2002 South Dakota Farm Real Estate Market Survey, SDSU.

### 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 cropland and lowest for pasture and 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, by region, 2002, dollars per acre.



Source: 2002 South Dakota Farm Real Estate Market Survey, SDSU.

Cash rental rates for nonirrigated cropland vary from an average of \$76.50 per acre in southeastern South Dakota to \$20.40 in northwestern South Dakota. Rangeland cash rental rates vary from an average of \$33.70 per acre in the southeastern region to \$7.20 in the northwest region.

From 2001 to 2002, cash rental rates per acre increased in most regions of the state. Changes in rental rates for cropland varied from +\$0.65 to \$5.30, while changes in hayland rates ranged from -\$0.40 to +\$2.80, and pasture land rates varied from -\$1.10 to +\$2.80.

Cropland in all regions of the state experienced increases in rental rates, while hayland rent per acre increased most in the northwest region of South Dakota. Pastureland generally had lower rental rate increases than either cropland or hayland, except in the northeast and south central regions, both of which had significantly higher increases (\$2.70). The following table provides per acre and per AUM changes in cash rental rates comparing 2001 and 2002 rates.

	<b>2001-2002 Change in Per Acre Cash Rent</b>			
	<b>Cropland</b>	<b>Hayland</b>	<b>Pasture</b>	<b>per AUM</b>
Northwest	\$2.90	\$2.80	\$0.60	\$1.85
Southwest	\$2.50	-\$0.40	\$0.30	\$1.30
North Central	\$4.40	\$2.40	\$1.20	-\$0.50
Central	\$0.65	-\$2.20	-\$1.10	-\$1.10
South Central	\$2.20	\$2.30	\$2.70	\$1.40
North East	\$5.30	\$2.10	\$2.70	-\$0.90
East Central	\$5.20	\$1.60	\$1.60	-\$3.00
South East	\$3.55	\$2.50	\$2.80	\$0.70

### Rates of Return to Agricultural Land

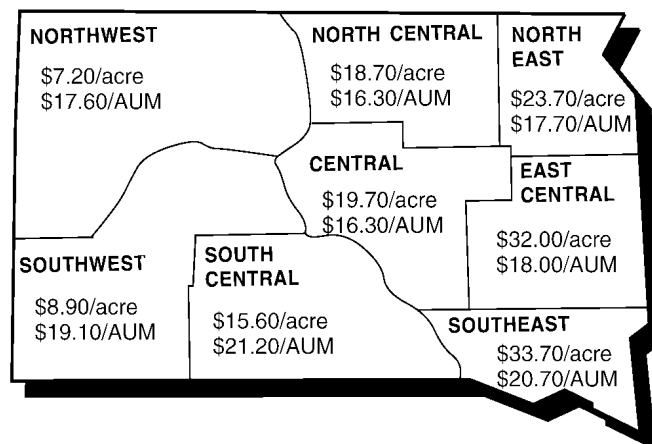
The gross rent-to value ratio (gross cash rent as a percent of reported land value) is a measure of **gross** rate of return to land, before deduction of property taxes and other landlord expenses. Gross rent-to-value ratios for 2002 averaged 7.4% for cropland, 7.2% for hayland, and 5.7% for rangeland.

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 4.5% for all agricultural land, 5.2% for non-irrigated cropland, and 3.9% for rangeland and pasture.

The current average net rate of return of 4.5% on all agricultural land in South Dakota is considerably 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, 2002, dollars per acre and dollars per AUM.



Source: 2002 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 (24%). Other positive factors were low interest rates (15%) and investor interest and hunting/recreation interest in farm or ranch land which along with nonagricultural development accounted for 28% of positive factors.

Major negative factors in the farm real estate market included low grain prices (identified by 42% of respondents) and low returns to high cost inputs (13%). This is the fourth year in a row that general economic and financial factors were the predominant negative responses.

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

A majority of respondents (about 75%) expect land values to increase in the next year. They forecast an average percentage increase in land values of 4%. All other respondents expect no change in land values. No regional differences in forecast percentages could be discerned.

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 2002 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 continued investor participation, 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 three years. However, many respondents remain 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.agbiopubs.sdstate.edu/articles/C267.pdf](http://www.agbiopubs.sdstate.edu/articles/C267.pdf) or contact the Economics Department (605-688-4141) to request a copy of SDSU AES Circular C267, South Dakota Farmland Market Trends, 2001-2002. The publication should be available by the end of June.

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