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South Dakota Farmland Rental Markets: Latest Conditions and Practices

by

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Introduction

Agricultural land in South Dakota is a significant asset of wealth and a key economic input into production agriculture. The value of private agricultural land and buildings in South Dakota was estimated to be \$18 billion in 1999. Nationally, 419 million acres are leased by farm operators with an estimated value of \$480 billion. Producers in South Dakota's rental market lease almost 40 percent of their agricultural land base. These percentages are consistent for states adjacent to South Dakota, with the amount of land in farms rented varying from 31 percent to 55 percent (Agricultural Economics and Land Ownership Survey (AELOS), U.S. Dept. of Agriculture, 1999).

In this *Commentator* we discuss current information on patterns of land ownership and leasing that exist in South Dakota. The primary source of information is the most recent national survey of agricultural land ownership (1999 AELOS) conducted by the U.S. Department of Agriculture. The AELOS survey is conducted about every ten years and is the only national survey of agricultural land ownership that is completed by farm operators and also by landlords. A total of 528 farm operators and 1428 landlords from South Dakota participated in this survey, and published results are expanded to statewide estimates.

Who Owns the Land?

The AELOS for 1999 revealed that about 45 percent of the nation's farmland is operated through a leasing agreement. Actual survey estimates

indicate 2.19 million landlords are leasing 419 million acres to farm operators in the U.S.

The pattern of ownership of South Dakota agricultural land covers the full range of age classes, occupations, and income levels. However, there are two basic owner groups: 1) owner operators (farmers and ranchers) who operate at least some of the land they own; and, 2) non-operator owners (landlords) who rent all the land they own to others.

As of 1999, there were nearly 61,400 private owners of agricultural land in South Dakota, of which approximately 30,600 were owner operators and 30,800 were non-operator owners. Of more than 40 million acres under private ownership, farm operators owned two-thirds of the total acreage while non-operator landlords owned the remaining one-third (Table 1). Privately owned agricultural land does not include tribal trust, federal or state owned lands that exceed 5 million acres in South Dakota. Most of the tribal trust and public lands are pasture and rangeland leased to farmers and ranchers.

**Table 1. Distribution of Land Ownership
Between Owner-operators and
Non-operator Owners, South
Dakota, 1999¹**

All Owners:	
Total Number of Owners	61,379
Acres (1,000) ²	40,345
Owner Operators: ³	
Total Number	30,604
% of all owners	49.9%
Total Acres Owned (1,000)	26,899
% of total acres	66.7%
Non-Operator Owners: ⁴	
Total Number	30,775
% of all owners	50.1%
Total Acres Owned (1,000)	13,446
% of total acres	33.3%

¹ Source: AELOS, 1999. Table 69

² While these acreage estimates do not correlate exactly with the more comprehensive 1997 Census of Agriculture, they are consistent.

³ Individuals who operate at least some of the land which they own.

⁴ Individuals who rent out all of the land they own to others.

In addition to the non-operator landlord acreage component in South Dakota, about 8,500 owner operators also lease part of their owned land to others; contributing nearly 2.5 million additional acres to the amount rented. In effect, nearly 40 percent of all private agricultural land in South Dakota was leased out by its owner in 1999 (Table 2).

Table 2. Private Agricultural Land Leased to Others in South Dakota, 1999¹

Ownership of Land Leased to Others:	Thousand of Acres
Non-operator Land	13,446
Owner Operator Land Rented to Others	2,487
Total Rented Land Base	15,933
Percent of All Private Land in Farms	39.5%

¹ Source: AELOS, 1999. Table 69.

Land Characteristics

The tremendous diversity of South Dakota in terms of soils, topography, and production capabilities is obvious in the distribution of land acreage across the various land classes. One-half of South Dakota's privately owned agricultural land base was classified as cropland, while most of the rest, nearly 46 percent, was pasture.

Nearly two-thirds of land acres owned by non-operator landlords is cropland, compared to only 42 percent of land owned by farmers. Over half of owner-operated acres are in pasture (Table 3). As a consequence, non-operator landlords own relatively higher-valued land, and in aggregate hold title to 40 percent of the total value of farm real estate in South Dakota, but own only one-third of the State's farmland acres.

Leasing Patterns

Given that nearly 40 percent South Dakota's agricultural land is leased each year, the pattern of leases being used is particularly noteworthy. In South Dakota in 1999, there were an estimated 71,500 agricultural leases of which 57 percent were cash leases and 29 percent were share leases. Most of the remainder (11 percent) were cash/share combination leases (Table 4). Over time, the general

trend has been a gradual shift from share leases to cash leases or cash/share leases due to preferences of both landlords and tenants.

Table 3. Land use Characteristics of Land Owned by Owner-operators and Non-operator Owners, South Dakota, 1999¹

Land Class	All Land	Owner-Operator Land	Non-Operator Owner Land
	----- 1000 acres -----		
Total Acreage	40,345	26,899	13,446
Percentage	100%	100%	100%
Cropland	20,350	11,371	8,979
Percentage	50.4%	42.3%	66.8%
Pastureland	18,769	14,796	3,973
Percentage	46.5%	55.0%	29.5%
All other land	1,227	733	494
Percentage	3.0%	2.7%	3.7%

¹ Source: AELOS, 1999. Tables 75, 77 and 79.

Table 4. Agricultural Land Rented by Type of Lease, 1999¹

Type	Lease		Acreage		
	No.	Percent Distribution	1,000 Acres	Percent Distribution	Avg. Size (Acres)
All Leases	71,535	100.0%	15,902	100.0%	222
Cash Leases	41,080	57.4%	8,812	55.4%	215
Share Leases	20,875	29.2%	4,361	27.4%	209
Cash/Share Lease	8,043	11.2%	2,395	15.1%	298
All Other Leases	1,537	2.1%	334	2.1%	217

¹ Source: AELOS, 1999. Table 99

Cash leases account for the largest share of total acres leased, largely due to the fact that pasture/rangeland leases are included in the leasing statistics. Cash leasing, rather than livestock share leasing, is the predominant form of pasture/rangeland leasing, which contributes to the greater proportion of leased acreage under cash arrangement. The average amount of gross rent received in a cash lease was \$35.75 per acre in 1999.

Share leasing remains an important cropland rental arrangement. The average amount of gross rent received in a share lease in 1999 was \$57.80 per acre before landlord share of expenses.

Cash/share leases are leases in which the renter pays part of the rent in cash and part of the rent in product shares. An example of a cash/share lease is a combination of share rent for crops and cash payment(s) for pasture or for tenant's use of buildings. The average amount of gross rent received per acre in 1999 was \$25.70.

Rental Market Participants

Participants in South Dakota's 1999 rental market for agricultural land included approximately 38,000 landlords and 19,600 tenants. In addition to non-operator landlords who rent out all of the land that they own, the landlord class also included owner-operators who leased out some owned land to others. Together, they leased out an average of 418 acres per landlord in 1999 and were involved in an average of 1.9 leases (Table 5).

Table 5. South Dakota's Land Rental Market Participants, 1999¹

Total Number of Landlords ²	37,980
Average Acreage Leased Out per Landlord	418
Average Number of Leases per Landlord	1.9
Total Number of Tenants ³	19,636
Average Acreage Leased per Tenant	810
Average Number of Leases per Tenant	3.6

¹Source: AELOS, 1999, Table 99 and 3.

² Landlords Include those owner-operators who rent out some land and non-operator owners

³ Tenants include part-owners who lease at least some of the land they operate, as well as full tenants who operate only land leased from others.

On the tenant side of the market, it was estimated for South Dakota that 19,600 tenants were leasing agricultural land from others in 1999. Moreover, these tenants were leasing an average of 810 acres that were contracted through an average of 3.6 leases.

The above implies that multiple leases, as well as multiple landlords, are the norm rather than the exception for farmers leasing land in South Dakota. In fact, it is not uncommon for tenants to be contracting with as many as eight different landlords as they configure a land base sufficient for a viable

operation. Moreover, given the continuing structural trends towards fewer and larger farming/ranching operations, this pattern probably will become more pronounced in the years ahead.

Summary

Two-fifths of South Dakota's privately owned agricultural land is leased. A majority of leased acres and lease numbers in South Dakota are cash leases, which dominates leasing arrangements for pasture and range land. Both share leases and cash leases are widely used in leasing cropland.

This **Commentator** has highlighted a few statewide, key findings from the recently published AELOS survey concerning the agricultural ownership and rental market in South Dakota. More detailed information from the AELOS survey will be made available in a forthcoming Economics Research Report. Detailed cash rental rates and land values for South Dakota from the annual South Dakota Farm Real Estate Survey are planned for a future **Commentator**.

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