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ECONOMICS COMMENTATOR

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SOUTH DAKOTA AGRICULTURAL LAND VALUES AND CASH RENTAL RATES, 2003



by

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We wish to thank the individuals who participated in the 2003 Farm Real Estate Market Survey. Without their responses this report would not be possible. Special thanks to: Yonas Hamda for data input and statistical analysis; Janet Wilson for maintaining the mailing list; Barb Dininger for various survey tasks; and Penny Stover for updating the newsletter.

South Dakota's agricultural land values increased 9.7% this past year. The average value of agricultural land (as of February, 2003) varies from \$174 per acre in the northwest region to \$1009 per acre in southeast South Dakota. These are key findings from the SDSU 2003 South Dakota Farm Real Estate Market Survey reports completed by 239 agricultural lenders, Farm Service Agency officials, rural appraisers, assessors, realtors, professional farm managers, and Extension agricultural educators.

This is the thirteenth 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.

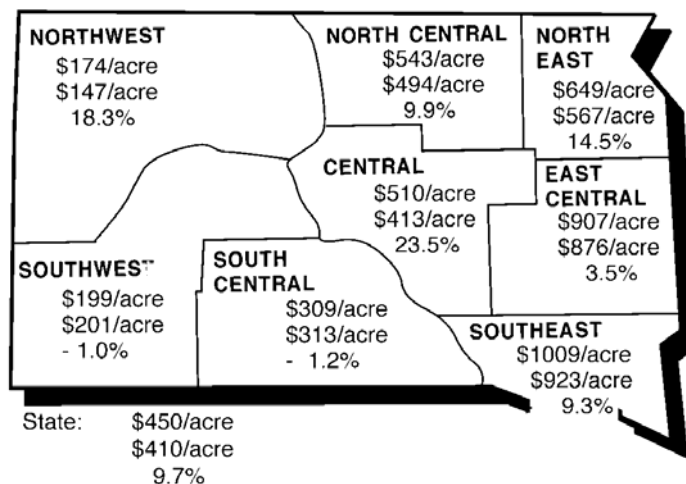
The information in this newsletter provides an overview of agricultural land values and cash rental rates across South Dakota. We caution the reader to use this information as a general reference, while relying on local sources for more specific details

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 2-4.

Average Land Value Summary

As of February, 2003, the estimated South Dakota all agricultural land value average was \$450 per acre, an estimated 9.7% increase in value from the 2002 estimate (Figure 1).

Figure 1. Average value of South Dakota agricultural land, February 1, 2003 and 2002, 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, 2003
Middle: Average per acre value—February 1, 2002
Bottom: Annual percent change in per acre land value

Source: 2003 South Dakota Farm Real Estate Market Survey, SDSU.

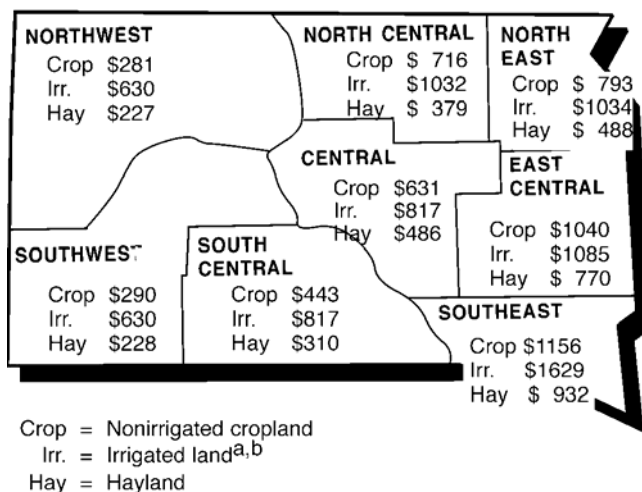
According to SDSU survey responses, agricultural land values increased from 2002 to 2003 in all except two regions--southwest (-1.0%) and south central (-1.2%). Increases in other regions were: north central (+9.9%), northwest (+18.3%), northeast (+14.5%), east central (+3.5%), southeast (+9.3%), and central (+23.5%).

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 \$1156 per acre in the southeast to \$281 per acre in the northwest region of the state. Average rangeland values vary from \$609 per acre in the southeast region to \$153 per acre in the northwest region of South Dakota.

Figure 2. Average value of South Dakota cropland, irrigated land, and hayland , by region, February 2003, dollars per acre.

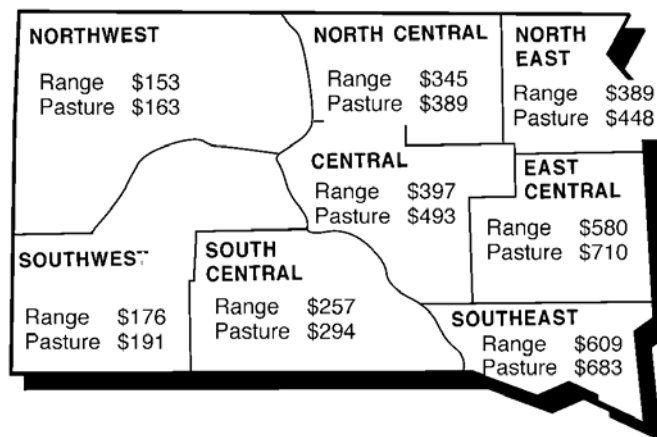


^aIrrigated land values shown for the northwest and southwest regions are based on the average value reported for gravity irrigated land in both western areas.

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

Source: 2003 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 2003, dollars per acre.

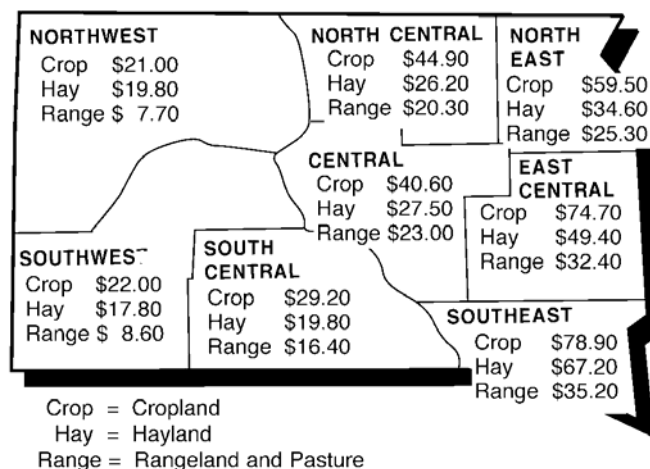


Source: 2003 South Dakota Farm Real Estate Market Survey, SDSU.

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 (Figure 4).

Figure 4. Average cash rental rate of South Dakota nonirrigated cropland, hayland, and rangeland by region, 2003, dollars per acre.



Source: 2003 South Dakota Farm Real Estate Market Survey, SDSU.

Average cash rental rates for nonirrigated cropland vary from \$78.90 per acre in southeastern South Dakota to \$21.00 in northwestern South Dakota. Average rangeland cash rental rates vary from \$35.20 per acre in the southeastern region to \$7.70 in the northwest region.

Cropland in most regions of the state experienced increases in rental rates from 2002 to 2003, while hayland rent per acre increased in all but the south central region of South Dakota. Pastureland generally had lower rental rate increases than either cropland or hayland. The following table provides per acre and per AUM changes in cash rental rates comparing 2003 to 2002. NR is used in the table as an abbreviation for no report available due to a lack of data and/or to preserve the confidentiality.

2002-2003 Change in Per Acre Cash Rent

	Cropland	Hayland	Pasture/Rangeland	AUM
Southeast	\$2.30	\$3.50	\$1.50	-\$0.40
East Central	\$4.90	\$0.20	\$0.40	NR
North East	\$2.00	\$3.60	\$1.60	NR
North Central	\$2.70	\$2.80	\$1.60	\$4.10
Central	\$4.65	\$6.40	\$3.30	\$4.10
South Central	-\$0.20	-\$0.60	\$0.80	\$0.30
Southwest	-\$0.60	\$2.30	-\$0.30	\$0.80
Northwest	\$0.60	\$2.30	\$0.50	\$1.70
State	\$2.60	\$2.60	\$0.80	NR

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 2003 averaged 7.4% for cropland, 7.1% for hayland, and 5.4% 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 4.5% for all agricultural land, 5.0% for non-irrigated cropland, 4.8% for hayland, and 4.1% for rangeland and pasture.

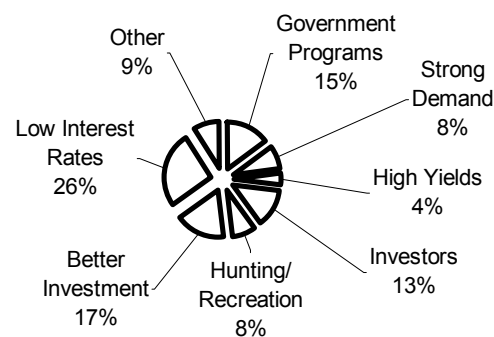
The current average net rate of return of 4.5% on all agricultural land in South Dakota is lower than current farmland mortgage interest rates. This implies that relatively large down payment requirements are necessary before farmland purchases can be expected to cash flow from net returns. Thus, a cautious approach to debt financing is recommended for farmland buyers.

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.

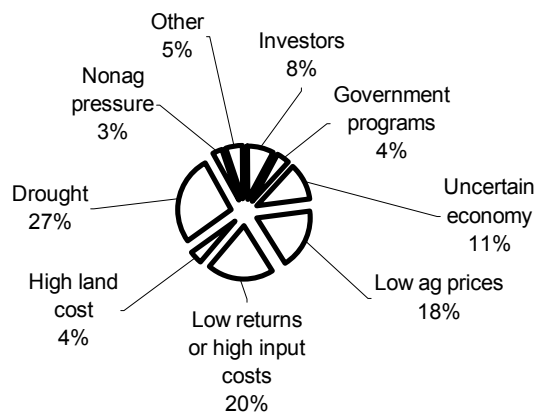
Among positive factors influencing the farm real estate market, low interest rates were identified most often by respondents (26%). Other positive factors were government programs (15%) and investor interest (investors) and hunting/recreation interest in farm or ranch land (combined for 21%).

Figure 5. Positive real estate market factors



Major negative factors in the farm real estate market included drought (identified by 27% of respondents) and low returns or high cost inputs (20%).

Figure 6. Negative real estate market factors



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 existing market conditions were the major reasons for selling farmland.

Survey respondents were asked to estimate the percentage change in land values during the previous year **and** to forecast percentage changes for the next year. More than two thirds of respondents provided their perception of previous year land value changes, but **only half** provided forecasts for next year.

Three fourths of respondents providing forecasts expect land values to increase in the next 12 months, while most others expect no change in land values. Only 2% expect land values to decline.

The median forecast percentage increase is 5% for rangeland compared to an average (mean) forecasted increase of 4.5% for pasture and hayland and 5.2% for cropland. Forecasted percentage changes were lower in western and south-central South Dakota than in eastern and north-central South Dakota.

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 2003 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.

For more detailed information, readers can go online at www.agbiopubs.sdstate.edu/articles/C268.pdf to print a full copy of SDSU AES Circular C268, South Dakota Farmland Market Trends, 1991-2003.

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