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# South Dakota Agricultural Land Values and Cash Rental Rates: 2005

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# ECONOMICS COMMENTATOR

South Dakota State University

No. 463

May 27, 2005

## SOUTH DAKOTA AGRICULTURAL LAND VALUES AND CASH RENTAL RATES, 2005



by

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We wish to thank the individuals who participated in the 2005 South Dakota Farm Real Estate Market Survey. Without their responses this report would not be possible. Special thanks to: Eric Gerlach for data input and conducting the survey; Janet Wilson for maintaining the mailing list; and Barb Dininger for various survey tasks.

South Dakota's agricultural land values increased 20.3% this past year and have doubled since 1998. The average value of agricultural land (as of February, 2005) varies from \$208 per acre in the northwest region to \$1,431 per acre in the east-central region.. These are key findings from the 2005 South Dakota Farm Real Estate Market Survey reports completed by 223 agricultural lenders, Farm Service Agency officials, rural appraisers, assessors, realtors, professional farm managers, and Extension agricultural educators.

This is the fifteenth annual SDSU survey designed 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.

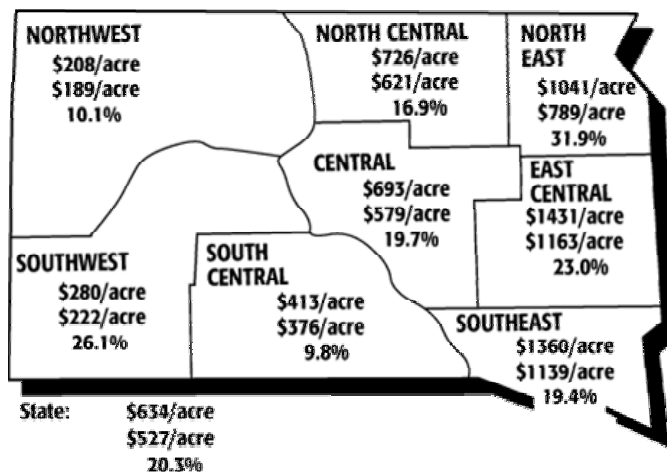
The information in this newsletter provides an overview of agricultural land values and cash rental rates across South Dakota. We caution the reader to use this information as a general reference, and to rely on local sources for more specific details.

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, 2005, the estimated South Dakota all agricultural land value average was \$634 per acre, a 20.3 % increase in value from the 2004 estimate (Figure 1). These statewide percentage increases are the largest in the history of the survey (15 years). The most recent change of 20.3% exceeds the 17.1% increase from 2003 to 2004 and the 9 – 10% annual rates of increase from 2000 to 2003.

**Figure 1. Average value of South Dakota agricultural land, February 1, 2005 and 2004, 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, 2005  
Middle: Average per-acre value—February 1, 2004  
Bottom: Annual percent change in per-acre land value

Source: 2005 South Dakota Farm Real Estate Market Survey, SDSU.

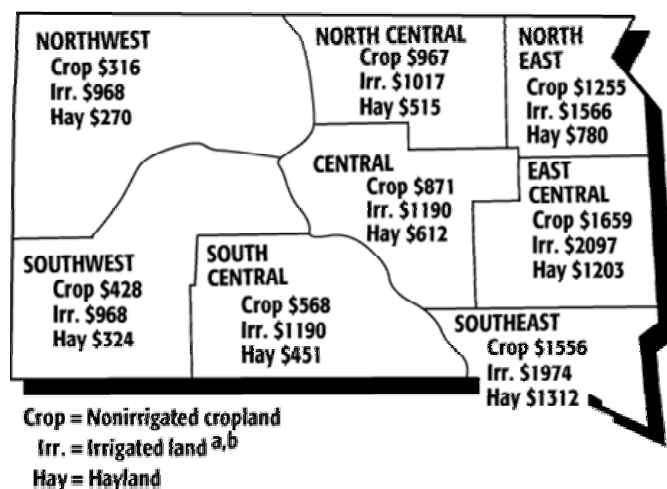
According to survey respondents, agricultural land values increased in all regions of South Dakota from 2004 to 2005. The largest rates of increases occurred in the northeast (31.9%), and southwest (26.1%) regions. Areas with land value increases fairly close to the state average were the north central (16.9%), central (19.7%), southeast (19.4%), and east central (23.0%) regions. Increases in the northwest and south-central regions were close to 10%.

Agricultural land values are highest in the east central region, followed by the southeast 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 values by use and land productivity.

Average nonirrigated cropland values range from \$1,659 per acre in the east-central region to \$316 per acre in the northwest region of the state. Average rangeland values vary from \$844 per acre in the east-central region to \$185 per acre in the northwest region of South Dakota.

**Figure 2. Average value of South Dakota cropland, irrigated land, and hayland, by region, February 2005, dollars per acre.**

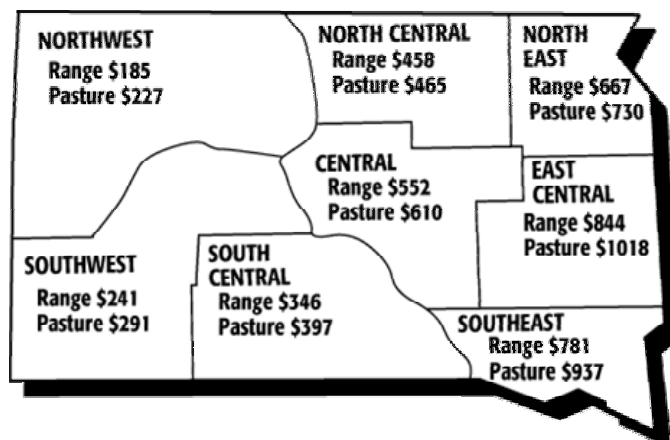


<sup>a</sup> Irrigated land values shown for the northwest and southwest regions are based on the average value reported for gravity irrigated land in both western areas.

<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: 2005 South Dakota Farm Real Estate Market Survey, SDSU.

**Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 2005, dollars per acre.**

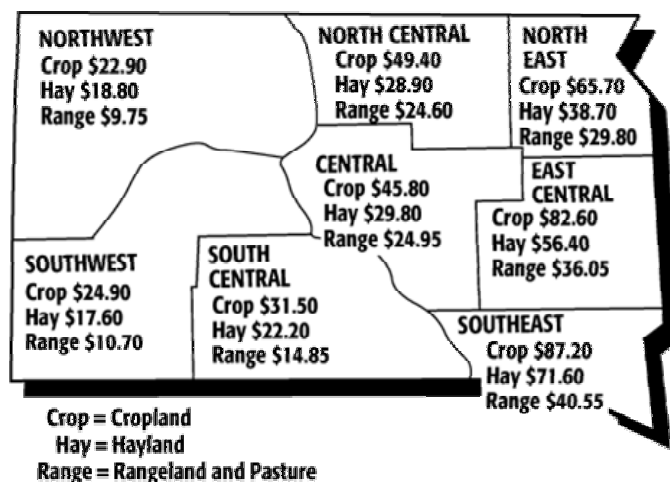


Source: 2005 South Dakota Farm Real Estate Market Survey, SDSU.

### 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 the southeast region and lowest in the western regions (Figure 4).

**Figure 4. Average cash rental rate of South Dakota nonirrigated cropland, hayland, and rangeland, by region, 2005, dollars per acre.**



Source: 2005 South Dakota Farm Real Estate Market Survey, SDSU.

Average cash rental rates for nonirrigated cropland vary from \$87.20 per acre in southeastern South Dakota to \$22.90 per acre in northwestern South Dakota. Average rangeland cash rental rates vary from

\$40.55 per acre in the southeastern region to \$9.75 per acre in the northwest region.

Cash rental rates per acre increased for cropland, hayland, and rangeland in all regions of South Dakota, except in the south central region. Statewide, cash rental rates increased an average of \$2.10 per acre for cropland and \$1.10 per acre for cropland (table 1). In general, cash rental rate increases were strongest in those regions where substantial land value increases were reported.

**Table 1. 2004-2005 Change in Per Acre Cash Rent**

	<u>cropland</u>	<u>hayland</u>	<u>rangeland</u>
Southeast	\$3.50	\$3.10	\$3.15
East-Central	\$3.80	\$3.00	\$0.15
Northeast	\$1.20	\$1.90	\$2.60
North-Central	\$1.80	\$1.80	\$2.00
Central	\$2.40	\$1.40	\$1.05
South-Central	-\$2.60	-\$2.60	-\$2.45
Southwest	\$1.80	\$1.80	\$0.70
Northwest	\$1.50	\$1.10	\$1.85
State	\$2.10	\$1.10	\$1.10

### 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 2005 averaged 5.7% for cropland and hayland, and 4.8% 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 land averaged 3.9% for all agricultural land, 4.5% for non-irrigated cropland, 4.0% for hayland, and 3.5% for rangeland and pasture.

The estimated rates of return, both gross and net, are the lowest estimates in the 15 years of the survey. These rates reflect more rapid increases in land values compared to cash rental rates, especially since 2001. During most of the 1990s, land values increased at slightly higher rates than cash rents. However, from 2001 to 2005, land values have increased at more than twice the percentage rate of increase in cash rents.

Farmland investors and buyers are currently in market conditions where an increasing proportion of total returns are from expectations of capital appreciation instead of current cash returns. This pattern of declining rates of cash return to land also occurs during the latter stages of land market price booms.

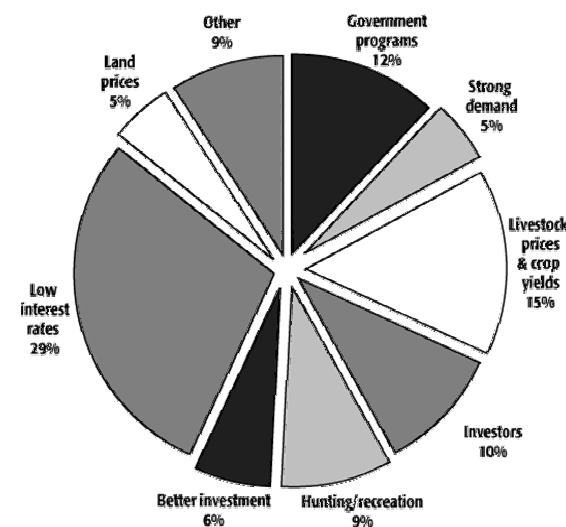
The current average net rate of return of 3.9% on all agricultural land in South Dakota is considerably lower than current farmland mortgage interest rates. This implies that relatively large down payment requirements are necessary before farmland purchases can be expected to cash flow from net returns. 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.

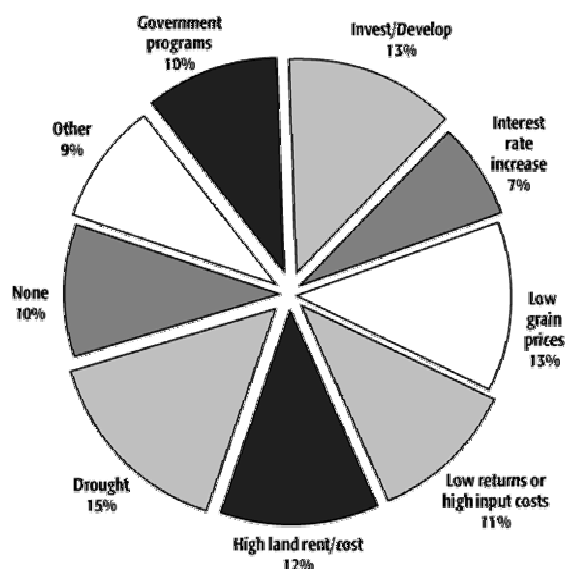
Among positive factors influencing the farm real estate market, low interest rates were identified most often by respondents (29%). Other positive factors were high livestock prices and high crop yields (15%), government programs (12%), and investor interest or hunting/recreation interest in farm or ranch land (combined for 19%).

**Figure 5. Positive real estate market factors, 2005.**



Major negative factors in the farm real estate market include continued impacts of drought (identified by 15% of respondents), low grain prices (13%), investment / development impacts on land prices (13%), high land rent / cost of purchase (12%), low returns or high cost inputs (10%), and government programs (10%). Compared to past surveys, respondents are more likely to list items related to rapid increases in land values or rental rates as a “negative” factor.

**Figure 6. Negative real estate market factors. 2005.**



Respondents identified major reasons for buying and selling farmland. Expansion, investment, and hunting/recreation demand were the most common responses for purchasing farmland. Retirement, estate settlement, and existing market conditions were the major reasons for selling farmland.

One half of respondents provided their land value forecast for next year. Eighty five percent of these respondents expect land values to increase in the next 12 months, while most others expect no change. Similar to last year, the median forecast percentage change in land values is a 5% increase for each land use.

In summary, respondents remain optimistic about prospective farm/ranch land market conditions in the next year. However, more respondents, compared to 2004, express concern that the land market is becoming “overheated” as land values in the past 4 years have increased much more rapidly than cash rental rates.

Farmland values have increased much more rapidly than the rate of general price inflation from 1991 to 2005 in all regions and for all land uses in South Dakota. Cash rental rate increases continue to provide underlying support for an expected increase in land values. These basic economic factors attract continued interest in farmland purchases by investors and by farmers expanding their operations.

For more detailed information, readers can go online at <http://agbiopubs.sdstate.edu/articles/C270.pdf> to print a full copy of SDSU AES Circular C270, *South Dakota Farmland Market Trends, 1991-2005*, authored by Janssen, Gerlach, and Pflueger. Copies of this publication should be available from your County Extension Office in the near future.

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