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# ECONOMIC \$ COMMENTATOR

South Dakota State University

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## SOUTH DAKOTA AGRICULTURAL LAND VALUES AND CASH RENTAL RATES, 2007



by  
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We wish to thank the individuals who participated in the 2007 South Dakota Farm Real Estate Market Survey. Without their responses this report would not be possible. Special thanks to: Tyler Ahrendt for data input and conducting the survey; Janet Wilson for maintaining the mailing list; and to Penny Stover for several varied survey tasks.

South Dakota's agricultural land values increased 14.4% this past year. The average value of agricultural land (as of February, 2007) varies from \$285 per acre in the northwest region to \$1946 per acre in the east central region. These are key findings from the 2007 South Dakota Farm Real Estate Market Survey reports completed by 214 agricultural lenders, Farm Service Agency officials, rural appraisers, assessors, realtors, professional farm managers, and Extension agricultural educators.

This is the seventeenth 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.

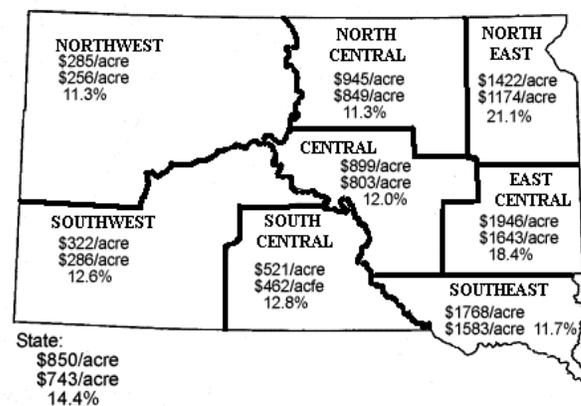
Respondents provided county land value and cash rental rate information by agricultural land use. Responses, grouped by region with average values for all classes of land, are provided in Figure 1. Separate estimates of land value and cash rental rate information for nonirrigated cropland, irrigated land, hayland, rangeland, and tame pasture are provided in Figures 2-4.

### Average Land Value Summary

As of February 2007, the average value of all agricultural land in South Dakota was \$850 per-acre, a 14.4% increase in value from one year earlier. This rate of increase is the same as reported from 2005 to 2006 and is lower than the record high increase of 20.2% from 2004 to 2005.

The increase of \$107 per-acre in the value of all agricultural land is the second highest annual dollar per-acre increase during the past 17 years. Overall, agricultural land values in South Dakota have doubled

**Figure 1. Average value of South Dakota agricultural land, February 1, 2007 and 2006, 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 non irrigated land use by region.

Top: Average per acre value—February 1, 2007  
Middle: Average per acre value—February 1, 2006  
Bottom: Annual percent change in per acre land value

Source: 2007 South Dakota Farm Real Estate Market Survey, SDSU.

since 2002 and tripled since 1996! Agricultural land values increased at double digit rates in all regions of South Dakota with the strongest increase of 21.1% in the northeast and 18.4% in the east-central region. In all other regions, land values increased between 11.3% and 12.8%

The all-land average values are highest in the three eastern regions with per-acre values ranging from \$1,946 in the east-central region to \$1,768 in the southeast region and \$1,422 in the northeast region. The per-acre increase in all-land values from 2006 to 2007 varied from \$303 per-acre in the east-central region to \$185 per acre in the southeast region.

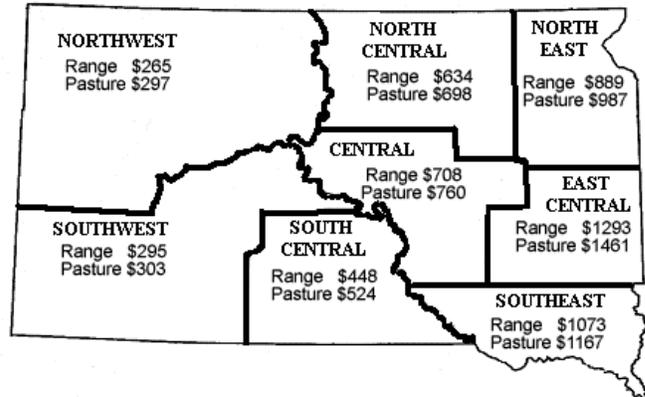
Agricultural land values are highest in the east central region, followed by the southeast region. Cropland and hayland are the dominant land uses in these regions, which contain the most productive land in South Dakota. The lowest average land values are found in the northwest and southwest regions.

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.

Cropland values have been increasing at a much slower rate in the western and south-central regions compared to the more cropland intensive regions east of the Missouri River. For example, cropland values in the northwest and southwest region doubled from 1995 to

2007 while cropland values more than tripled during the same period in all five regions east of the Missouri River. From 2006 to 2007, cropland values increased an average of \$330 per-acre in the east-central region and \$314 per acre in the northeast region, compared to \$182 per-acre in the southeast region. These three eastern regions contain 45% of South Dakota's cropland. Corn and soybeans are the major crops in most counties.

**Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 2007, dollars per acre.**



Source: 2007 South Dakota Farm Real Estate Market Survey, SDSU.

South Dakota hay land values averaged \$875 per-acre as of February 2007, a 15.4% increase from one year earlier. Very strong annual increases in hay land values (from 17.2% to 23.7%) occurred in the north-central region and in all eastern regions, while the other regions had single digit annual rates of increase. The lowest annual increases occurred in the southwest and south-central regions.

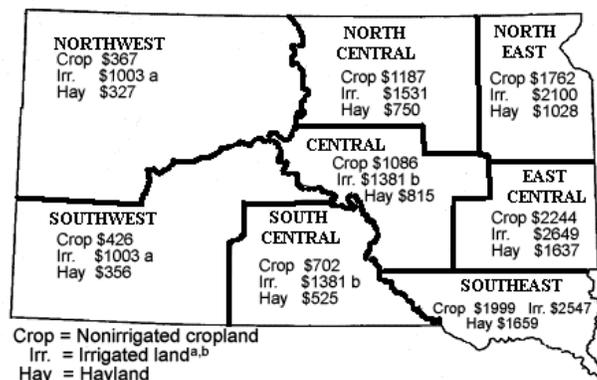
In February 2007, the value of South Dakota native rangeland averaged \$448 per-acre, while the average value of tame pasture was \$684 per-acre. Native rangeland is concentrated in the western and central regions of South Dakota, while tame pasture is concentrated in the central and eastern regions.

The statewide average values of rangeland and tame pasture increased 16.1% and 14.8%, respectively, during the past year (Feb. 2006 to Feb. 2007). This is the fifth consecutive year that double-digit (>10%) increases in both pasture and rangeland values occurred in South Dakota.

### 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

**Figure 2. Average value of South Dakota cropland, irrigated land, and hayland, by region, February 2007, dollars per acre.**



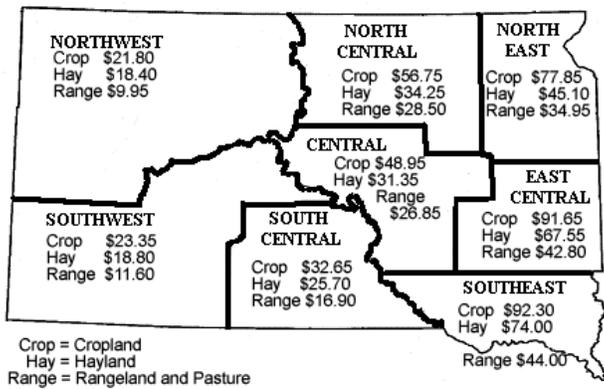
<sup>a</sup>Irrigated land values shown for the northwest and southwest regions are based on the average value reported for gravity irrigated land in both western areas.

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

Source: 2007 South Dakota Farm Real Estate Market Survey, SDSU.

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, 2007, dollars per acre.**



Source: 2007 South Dakota Farm Real Estate Market Survey, SDSU.

From 2006 to 2007, statewide average cash rental rates increased \$3.85 per-acre for cropland, \$1.55 per acre for hay land, and \$0.60 per-acre of pasture/rangeland. The average percentage increase in cash rental rates was 6.3% for cropland, 3.9% for hay-land, and 3.6% for rangeland. In general, cash rental rate increases were greatest in the same regions where the strongest land value increases were reported. Average cash rental rates in 2007 for non-irrigated cropland vary from \$21.80 to \$23.35 per-acre in the western regions to \$91.65 per-acre in the east-central region and \$92.30 per-acre in the southeast region.

Hay land cash rental rates in 2007 vary from an average of \$18.40 per-acre to \$18.80 per-acre in western South Dakota and from \$31.35 to \$34.25 per-acre in the north-central and central regions, respectively.

Rangeland and pasture average cash rental rates vary from \$9.95 to \$11.60 per-acre in western South Dakota to \$44.00 per-acre in the southeast region. Rangeland rates per AUM in 2007 vary from an average of \$21.95 per-AUM in the northwest region to \$27.00 per-AUM in the north-central region. Rental rates per-AUM increased in all regions from 2006 to 2007 except in the southeast and south-central regions.

### 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. In 2007, the statewide average gross rate of return (rent-to-value ratio) is 4.9% for non-irrigated cropland, 4.8% for hay-land, 4.0% for rangeland, and 4.4% for all agricultural land. This is the second year in the 17 years of this annual survey that the

statewide average gross rates of return to all non-irrigated agricultural land is lower than 5%.

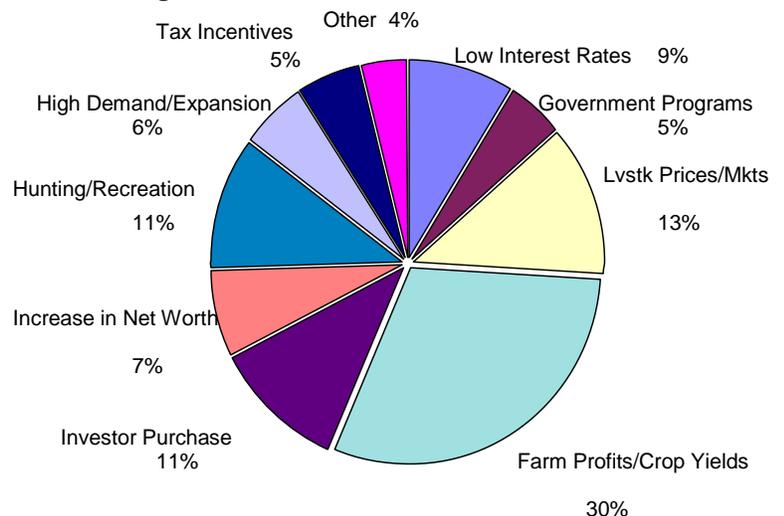
Respondents were asked to estimate **net** rates of return to agricultural land ownership in their locality, given current land values. Average net rates of return for 2007 varied from 4.2% for non-irrigated cropland to 3.9% for hay land, and to 3.4% for rangeland and pasture, and averaged 3.8% for all agricultural land. This is the third consecutive year during the past 17 years that average net rates of return for all-agricultural land were below 4%.

### 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.

This year, 30 percent of respondents indicated farm profits/crop yields as positive factors in the farm real estate market. Thirteen percent of respondents indicated livestock and commodity prices as positive factors. Drought / weather conditions and higher input costs (especially fuel, energy, and fertilizer cost) were the two most common responses cited as negative factors.

**Fig 5. Positive factors in the farm real estate market**

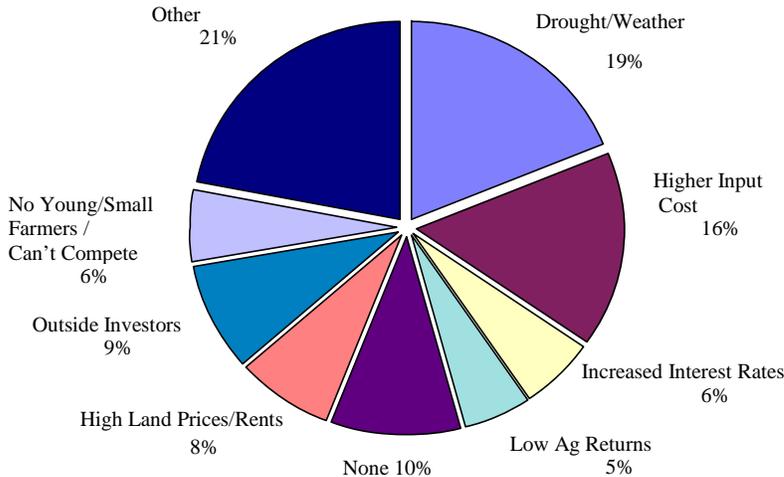


In 2006 and 2007, relatively low interest rates were still cited as a positive factor, but increasing interest rates were cited nearly as often as a negative factor in the farmland market. Government programs, tax incentives, and increase in net worth were frequently cited as positive factors, while low agricultural returns, few young farmers, and small farmer's inability to compete with large operations were often cited as negative factors. Other listed negative factors included farm program uncertainty, competition for non agricultural uses of farmland, and taxes.

Respondents continue to be divided in the assessment of investor interest in farm real estate and continued esca-

tion of farmland prices. High demand for farmland was a positive factor (6%), while high land prices and cash rental rates were cited as a negative factor (8%). Investors (mostly non-local) were listed as a positive factor and as a negative factor. Some respondents stated that outside investors are raising land prices to levels that are becoming out of reach for local farmers.

**Fig. 6 Negative factors in the farm real estate market**



Respondents identified major reasons for buying and selling farmland. Farm land expansion and investment purposes were the most common responses for purchasing, along with hunting/recreation. Retirement, estate settlement, and existing market conditions continue to be major reasons for selling farmland.

Ninety percent of respondents providing forecasts expect land values to increase in the next year, the highest proportion of respondents forecasting land value increases in 17 years of survey reports. Most other respondents expect no change in land values; only one percent forecast a decline in land values next year. The

median forecast percentage increase is 8% for pasture / rangeland and 10% for cropland, compared to average (mean) forecasted increases varying from 7.2% for rangeland to 8.3% for cropland.

2007 survey respondents are optimistic about further increases in farmland values, with very few predicting declines in land prices or cash rental rates. Prospects of continued increases in input expenses, possible increases in long-term interest rates, and growing concerns about future Federal farm program legislation are not sufficient to change their optimistic outlook. Major increases in 2006 crop prices and prospects for continued higher crop prices for the next few years are fueling this optimism.

Prospective buyers and investors, enamored with low interest rates and often perceiving higher prospective cash returns from crop / forage production for bio-energy sources are investing in farmland. In this speculative market situation, it may take considerable increases in general price inflation and interest rates, and farm price / production declines to take the "steam" out of continued upward pressures on land values.

For more detailed information, a full copy of South Dakota Farmland Market Trends, 1991-2007, by Janssen and Pflueger, will be published in the coming weeks. Copies should be available from your County Extension Office. It may also be accessed at: <http://agbiopubs.sdstate.edu/articles/C272.pdf> **NOTE:** This special edition of the *Commentator* is being made available electronically on our website at: <http://econ.sdstate.edu/research/commentator/no489.pdf> . Our policy remains to provide electronic copies several weeks after our subscribers have received the newsletter.

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