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ECONOMICS COMMENTATOR

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SOUTH DAKOTA AGRICULTURAL LAND VALUES AND CASH RENTAL RATES, 2011



by
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We wish to thank the individuals who participated in the 2011 South Dakota Farm Real Estate Market Survey. Without their responses this report would not be possible. Special thanks to: Nelly Bourlion for conducting the survey and inputting data and Penny Stover for maintaining the mailing list and varied survey tasks.

Agricultural land values in South Dakota are booming! Values increased 16.5% this past year, which is the third highest rate of increase since 1991. As of February 2011, the average value of all-agricultural land in South Dakota was \$1,374 per acre. Agricultural land values increased more than 11% in all regions except the northwest region which showed a 4% increase. From 2010-2011, statewide average cash rental rates per acre increased for all uses, with substantial increases (greater than 10%) in cash rental rates in several regions. Average percentage increase in cash rental rates was 14.1% for cropland, 10.8 for hayland, and 11.2% for pasture and rangeland. These are some of the key findings from the 2011 South Dakota Farm Real Estate Market Survey completed by 194 agricultural lenders, Farm Service Agency officials, rural appraisers, assessors, realtors, professional farm managers, and Extension agricultural educators.

This is the twenty-first SDSU survey designed to estimate agricultural land values and cash rental rates by type of land in different regions of the State. The information in this *Economics Commentator* provides an overview of current findings 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.

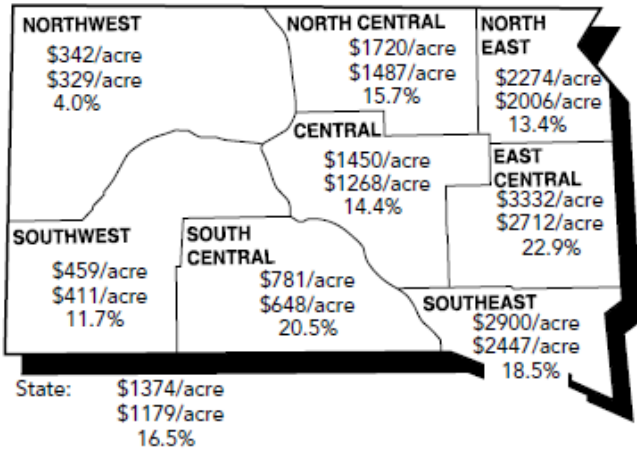
Respondents provided county land value and cash rental rate information by agricultural land use. Responses, grouped by region with average values for all classes of land, are provided in Figure 1. Separate estimates of land value and cash rental rates for nonirrigated cropland, hayland, rangeland, and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

Average Land Value Summary

The statewide land value change of 16.5% is the third highest annual rate of increase in the past 21 years. From 2004-2005 and 2007-2008, annual increases in all-agricultural land values exceeded 20%. Overall, agricultural land values in South Dakota have more than doubled since 2005 and have increased six-fold since 1991.

The all-land average values are highest in the state's eastern regions; per acre values there range from \$3,332 in the east-central region to \$2,900 in the southeast region to \$2,274 in the northeast region. This is the first year that all-land values averaged more than \$3,000 per acre in any region. Per acre increases from last year varied from \$620 per acre in the east-central to \$268 per acre in the northeast region (figure 1). The eastern regions contain the most productive land in South Dakota. Cropland and hayland are the dominant agricultural land uses in eastern South Dakota, varying from 70% of farmland acres in the northeast to 79% in the southeast.

Figure 1. Average value of South Dakota agricultural land, February 1, 2010 and 2011, 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, 2011
 Middle: Average per-acre value—February 1, 2010
 Bottom: Annual percent change in per-acre land value

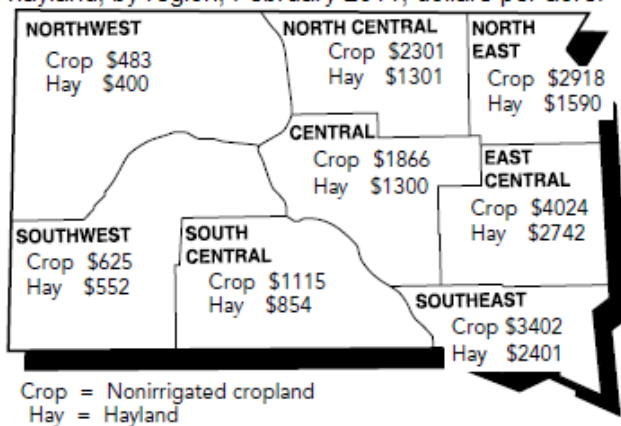
Source: 2011 South Dakota Farm Real Estate Market Survey, SDSU.

The lowest average land values are found in the northwest (\$342) and southwest (\$459) regions, where rangeland is the predominant land use.

In each region, per acre values are highest for irrigated land, followed in descending order by nonirrigated cropland, hayland, tame pasture, and native rangeland. Within each region, there is substantial variation in per acre land values by use and land productivity (figures 2 and 3).

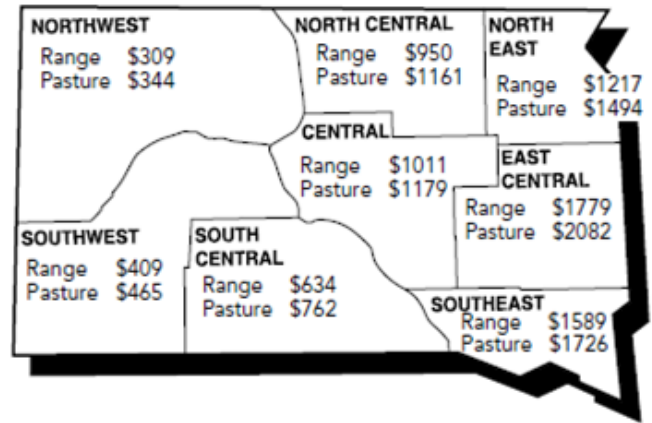
Non-irrigated cropland values in South Dakota averaged \$2,389 per acre, a 17.7% increase from one year earlier. Average values of non-irrigated

Figure 2. Average value of South Dakota cropland and hayland, by region, February 2011, dollars per acre.



Source: 2011 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 2011, dollars per acre.



Source: 2011 South Dakota Farm Real Estate Market Survey, SDSU.

cropland vary from \$4,024 in the east-central to \$483 per acre in the northwest region (figure 2). South Dakota hayland values averaged \$1,377 per acre as of February 2011, a 15.2% increase from one year earlier. Average values of hayland vary from \$2,742 in the east-central to \$1,300 per acre in the north-central and central regions to \$400 in the northwest.

In February 2011, the value of South Dakota native rangeland averaged \$611 per acre, while the average value of tame pasture was \$1,011 per acre. This was the first year statewide tame pasture values exceeded \$1,000 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 rangeland and tame pasture values increased 13.1% and 18.4%, respectively, during the past year. Rangeland and pasture values have increased more than 10% annually for six consecutive years (2002-2008) and in the current year. Statewide, per acre values of rangeland and tame pasture have more than doubled since 2004 and increased more than five-fold since 1991.

Average rangeland values are highest in the east-central and southeast regions (\$1,779 and \$1,589 per acre, respectively) and lowest in the southwest and northwest regions (\$409 and \$309 per acre, respectively). In other regions, average rangeland values vary from \$634 per acre in the south-central region to \$1,217 per acre in the northeast region.

In most regions, average values of tame pasture varied from 9 to 22% higher than the average value of rangeland. However, due to differences in regional concentration, the statewide average value of tame pasture was 65% higher than the average value of rangeland. Three-fourths of rangeland acres are located in counties west of the Missouri River, compared to less than half of tame (improved) pasture acres.

In the cropland-intensive regions of eastern South Dakota and in the north-central region, the average per acre value of nonirrigated cropland varies from 2.1 to 2.4 times the average value of native rangeland. In the more rangeland-intensive central and western regions, the average per acre value of cropland varies from 1.5 to 1.85 times the average value of rangeland.

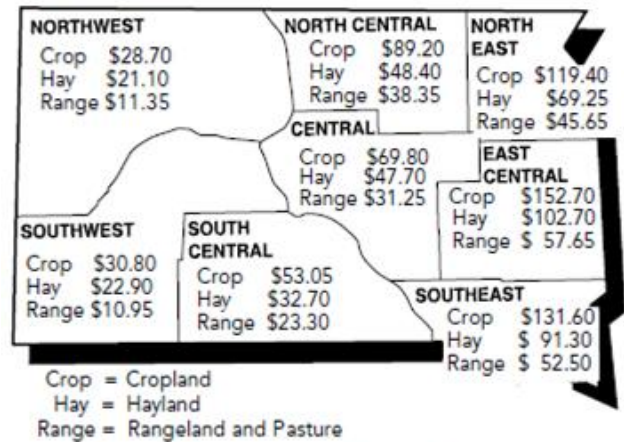
Average Cash Rental Rate Summary

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. Statewide average cash rental rates increased \$12.25 per acre for cropland, \$5.60 per acre for hay land, and \$2.10 for rangeland. In general, cash rental rate increases for cropland and rangeland were strongest in the three eastern regions and in the north central and south central regions. Cash rental rates increased for hay land occurred in all except the southeast region (figure 4).

Average cash rental rates in 2011 for nonirrigated cropland vary from \$28.70 to \$30.80 per acre in the western regions to \$152.70 per acre in the east-central region (figure 4). This is the first time that average cash rental rates for cropland exceed \$150 per acre in any region of South Dakota.

Statewide average cash rental rates increased \$12.25 per acre for cropland from 2010-2011. In the east central region cash rental rates increased an average of \$19.50 per acre and they varied between \$13 and \$15 per acre increases in the northeast, north central, southeast and south central regions. All other regions showed increases between \$3 and \$4.50 per acre in average rental rates for cropland.

Figure 4. Average cash rental rate of South Dakota nonirrigated cropland, hayland, and rangeland, by region, 2011, dollars per acre.



Source: 2011 South Dakota Farm Real Estate Market Survey, SDSU.

East of the Missouri River, cash rental rates for hayland vary from an average of nearly \$48 per acre, respectively, in the central and north-central regions to \$102.70 per acre in the east-central region. West of the Missouri River, hayland cash rental rates in 2011 vary from an average of \$21.10 per acre in the northwest to \$32.70 per acre in the south-central region.

Statewide, cash rental rates for hayland increased an average of \$5.60 per acre. Rates increased nearly \$19 per acre in the east central region and varied between \$4.40 and \$6.70 per acre increases in the central, northeast, north central and south central regions. The other regions showed changes of \$2.50 or lower.

Respondents were asked to report 2011 cash rental rates per acre and per AUM on privately owned rangeland and pastureland in their locality. Average cash rental rates per acre reflect regional differences in productivity and carrying capacity of pasture and rangeland tracts. Average cash rental rates vary from \$10.95 to \$11.35 per acre in western South Dakota to \$57.65 per acre in the east-central region.

Rangeland rates per AUM in 2011 vary from an average of \$23.75 per AUM in the northwest region to \$35.20 per AUM in the southeast region. The number of responses for AUM rates is too low to provide estimates for three regions (east-central, northeast, and north-central).

Rates of Return to Agricultural Land

The net rate of return is a return to agricultural land ownership after deducting property taxes and other land ownership expenses. Appraisers refer to the current annual net rate of returns as the market-derived capitalization rate. Average net rates of return for 2011 varied from 4.0% for non-irrigated cropland to 3.5% for hayland and 3.2% for rangeland, and averaged 3.5% for all-agricultural land. This is the third consecutive year that average net rates of return were below 3.7% for all-agricultural land, compared to an average of 5.4% during the 1990s and 4.3% from 2000 to 2008.

The practical range of net rates of return to land for 2011 reported by respondents varies from 2.0% to 7.5% for cropland, from 2.0% to 5.5% for hayland, and 1.0% to 5.0% for rangeland. The median net

rate of return was 3.8% for cropland, 3.3% for hayland, and 3.0% for rangeland.

For more detailed information, a full copy of South Dakota Agricultural Land Market Trends, 1991-2011, by Janssen and Pflueger, has been published. It may be accessed at:

http://pubstorage.sdstate.edu/AgBio_Publications/article/s/C278.pdf

(Note: There is an underscore, not a space, between *AgBio_Publications* in url)

Also, this special edition of the *Commentator* is available electronically on our website at:

<http://www.sdstate.edu/econ/research/commentator/no531.pdf>

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