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South Dakota Agricultural Land Values: 2012


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ECONOMICS COMMENTATOR

South Dakota State University

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SOUTH DAKOTA AGRICULTURAL LAND VALUES, 2012



by
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We wish to thank the individuals who participated in the 2012 South Dakota Farm Real Estate Market Survey. Without their responses this report would not be possible. Special thanks to: Olivia Tyrrell for conducting the survey and inputting data and Penny Stover for maintaining the mailing list and varied survey tasks.

Agricultural land values continue to boom for all land uses and in most regions of South Dakota. The most recent annual (2011 to 2012) increase of 26.8% for all agricultural land values in South Dakota is the highest annual rate of increase in the past 22 years of this survey.

From 2000 to 2011, statewide annual increases in all-agricultural land values varied from 5.1% to 22.5%, with two years of annual increases exceeding 20%. Overall, agricultural land values in South Dakota have more than doubled since 2007 and have increased nearly five-fold from 2000.

Cropland values increased at a higher rate than per acre value increases for other agricultural land uses. There were considerable regional differences in land value changes. Cropland values increased statewide by 29.1% compared to increases of 27.1% for hay land, and 20.5% for rangeland and pasture. Cropland and hay land values increased in all regions, while rangeland and pasture increased in most regions.

The strongest increases in land values (above 20% for all agricultural land uses) occurred in the southeast, central, and north central regions. The lowest percentage change in land values occurred in the northwest and southwest regions.

These are some of the key findings from the 2012 South Dakota Farm Real Estate Market Survey. The 2012 SDSU Farm Real Estate Market Survey is the 22nd annual survey of agricultural land values and cash rental rates by land use and quality in different regions of South Dakota. The 2012 estimates are based on reports from 202 responses to the 2012 SDSU survey. Responses are from agricultural lenders, Farm Service Agency officials, rural appraisers, assessors, realtors, professional farm managers, and Extension field specialists. All are familiar with farmland market trends in their localities.

The agricultural commodity price boom that restarted in the summer of 2010 is the major economic factor influencing South Dakota farmland market conditions in 2011 and in 2012. From June or July 2010, cash prices of corn, wheat and soybeans increased from 50% to nearly 80% and beef calf prices have increased beyond previous (historical) highs. Of course, input costs (especially fossil fuel dependent items) are also increasing, but considerable profit enhancement opportunities continue to be available. Secondly, farm mortgage interest rates remain low – generally less than 5.9% for fixed term loans and less than 5.3% for variable rate loans- although credit standards have probably tightened (Minneapolis Federal Reserve – Agricultural Credit Conditions Survey, 4th Quarter, 2011)

All-agricultural land value estimates, 2012

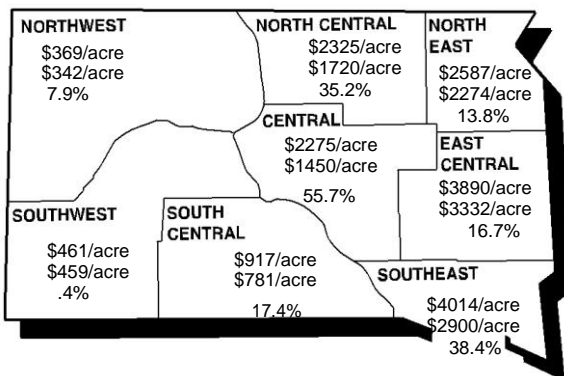
Depending on land use, the statewide estimated annual percentage change from Feb. 2011 to 2012 varied from 20.5% to 29.1%. The six eastern and central regions reported double-digit increases (10%+) for most land uses, while the two western regions reported changes of less than 10% for most land uses.

As of February 2012, the average value of all-agricultural land in South Dakota was \$1,742 per acre, a 26.8% increase in value from one year earlier (figure 1). Three regions had higher percentage rates of increase than the statewide average – southeast, central and north-central regions. Three regions – northeast, east-central, and south central reported increases varying from 13.8% to 17.4%. There was a minimal increase in all-land values in the southwest region and a 7.9% increase in the northwest region.

This is the first year that all-land values are close to \$4,000 per acre in any region! In the other regions east of the Missouri River, per-acre values of all-agricultural land varied from \$2,257 in the central region to \$2,325 in the north-central to \$2,587 in the northeast region. Per-acre increases in these five regions varied from \$313 in the northeast to \$1104 in the southeast.

Agricultural land values are much lower in regions west of the Missouri River than in the eastern and central regions of South Dakota. The average value per acre varies from \$917 in the south-central region to \$369 per acre in the northwest region, respectively.

Fig 1. Average value of South Dakota agricultural land, February, 2012 and 2011, and percent change from one year ago.



State: \$1742/acre
\$1374/acre 26.8%

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.

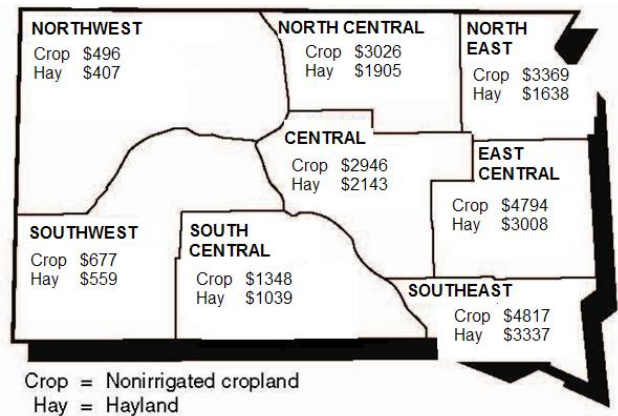
Top: Average per-acre value—February 1, 2012
Middle: Average per-acre value—February 1, 2011
Bottom: Annual percent change in per-acre land value

Source: 2012 South Dakota Farm Real Estate Market Survey, SDSU

Land values and value changes by type of land and region

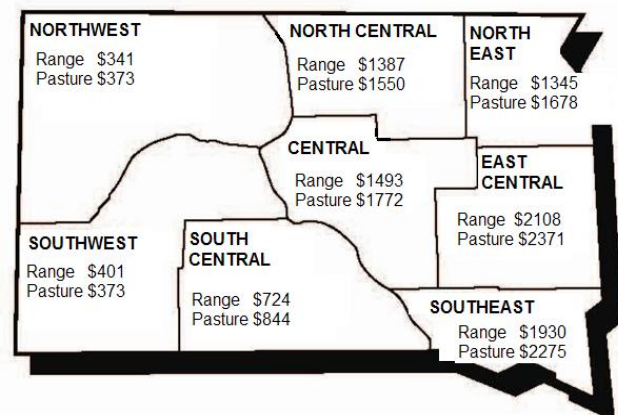
In each region, per-acre values are highest for irrigated land, followed by non-irrigated cropland, hayland, tame pasture, and native rangeland. For each non-irrigated land use, per-acre land values are highest in the three eastern regions and lowest in the three regions west of the Missouri River - northwest, southwest, and south-central regions (figures 2 and 3). These regional differences in land values by land use have largely remained consistent over time and are closely related to climate patterns, soil productivity differences, and crop/forage yield differences across the state.

Fig 2. Average value of South Dakota cropland, and hayland, by region, February 2012, dollars per acre.



Source: 2012 South Dakota Farm Real Estate Market Survey, SDSU.

Fig 3. Average value of South Dakota rangeland and tame pasture, by region, February 2012, dollars per acre.



Source: 2012 South Dakota Farm Real Estate Market Survey, SDSU.

Recent trends in agricultural land values discussed in this *Commentator* are related to record high commodity prices and net returns in agriculture, along with low interest rates. Recent increases in land values should be examined within the context of longer-term trends in land values, cash rental rates, and cash rates of return which are closely related to key economic factors. These factors include:

- (1) Sharp declines in farm mortgage interest rates from early 2001 to late 2004 and continued relatively low mortgage interest rates.
- (2) Federal farm program provisions of the 1996 and 2002 farm bills, especially the level of crop subsidies and removal of planting restrictions.
- (3) Substantial increase in use of crop insurance for yield or revenue protection.
- (4) Technology change in agriculture that expanded the geographic range of corn and soybean production, along with rapid development of ethanol plants.
- (5) General economic conditions of low inflation rates in most years.

From 1991 to 2012, agricultural land values increased more rapidly than the rate of general price inflation in all regions of South Dakota. Also, continued increases in cash rental rates provide underlying support for increases

in land values. These basic economic factors, along with relatively low mortgage interest rates, attract interest in farmland purchases by investors and by farmers expanding their operations.

For more detailed information, a full copy of [South Dakota Agricultural Land Market Trends, 1991 – 2012](#), by Janssen and Pflueger, has been published. It may be accessed at:

<http://igrow.org/up/resources/03-3007-2012.pdf>.

NOTE: This special edition of the *Commentator* is available electronically on our website at:

<http://www.sdstate.edu/econ/commentator/no540.pdf>

This *Commentator* is the first in a series of three *Economics Commentators* reporting on agricultural land market conditions in South Dakota. The next **Commentator** reports on cash rental rates and cash rates of return, while the third one reports on major reasons for farmland purchase and sale and respondent assessment of farmland market conditions.

ECONOMICS COMMENTATOR

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