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ECONOMICS COMMENTATOR

South Dakota State University

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May 29, 2014

SOUTH DAKOTA 2014 AGRICULTURAL LAND VALUES AND CASH RENTAL RATES



by
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We wish to thank the individuals who participated in the 2014 South Dakota Farm Real Estate Market Survey. Without their responses this report would not be possible. Special thanks to student co-author Bronc McMurtry for helping conduct the survey, inputting data, and preparing tables and charts, and to Penny Stover for maintaining the mailing list and varied survey tasks.

South Dakota's agricultural land value changes have moderated compared to the boom conditions of the previous three years. During the past year (from 2013 to 2014), agricultural land values increased 6.1%, compared to annual percentage increases varying from 16.5% to 33.6% in the three previous years. Overall, agricultural land values have more than doubled since 2010 and increased seven-fold since 2000.

The average value of all agricultural land (as of February 2014) in South Dakota was \$2,470 per acre, varying from an average of \$5,763 in the east-central region to \$512 in the northwest region. These are key findings from the 2014 South Dakota Farm Real Estate Market Survey completed by 224 agricultural lenders, Farm Service Agency officials, rural appraisers, assessors, realtors, professional farm managers, and SDSU Extension field specialists.

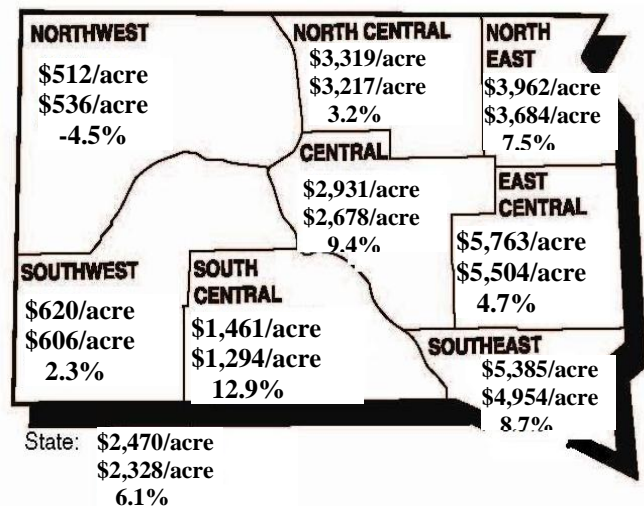
This is the twenty-fourth annual SDSU survey designed to estimate agricultural land values and cash rental rates by type of land in different regions of the State. The information in this *Economics Commentator* provides an overview of current findings across South Dakota. We caution the reader to use 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 rate information for nonirrigated cropland, hayland, rangeland, and tame pasture are provided in Figures 2-4.

Average Land Value Summary

The all-agricultural land average values are highest in the three eastern regions with per acre values ranging from \$5,763 in the east-central region to \$3,962 in the northeast region. In the central and western regions, per acre all-land values vary from \$3,319 in the north-central to \$512 in the northwest region. In the south-central region agricultural land values increased more than 12% (Figure 1).

Figure 1. Average value of South Dakota agricultural land, February 1, 2014 and 2013.



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, 2014

Middle: Average per-acre value – February 1, 2013

Bottom: Annual percent change in per-acre land value.

Source: 2014 South Dakota Farm Real Estate Market Survey, SDSU.

Agricultural land values are generally 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, 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 or 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, as of February 2014, averaged \$4,478 per acre, a 5.4% increase from one year earlier. Average values of non-irrigated cropland varied from \$7,114 in the east-central region to \$3,953 in the central region and \$820 per acre in the southwest region (Figure 2).

South Dakota hay land values averaged \$2,458 per acre as of February 2014, a 7.6% increase from one year earlier. Average values of hay land varied from \$4,762 in the southeast to \$590 per acre in the northwest.

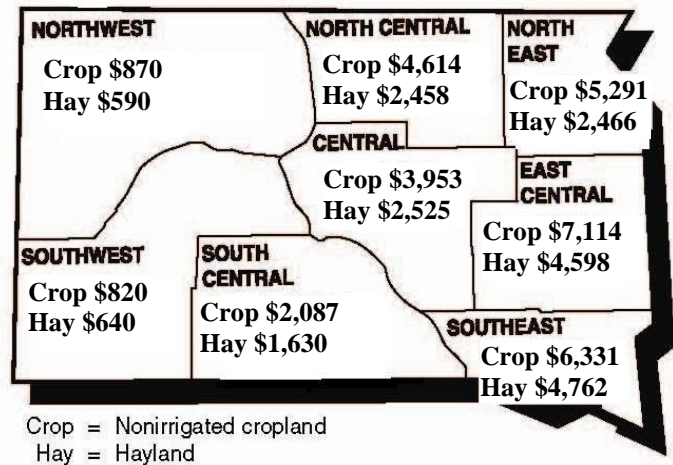
In February 2014, the value of South Dakota native rangeland averaged \$987 per acre, an 8.6% increase from one year earlier. The average value of tame pasture was \$1,603 per acre, a 4.0% increase. Native rangeland is concentrated in the western and south-central regions of South Dakota, while tame pasture is concentrated in the central and eastern regions.

Average rangeland values are highest in the east-central and southeast regions (\$2,861 and \$2,698 per acre, respectively) and lowest in the southwest and northwest regions (\$571 and \$436 per acre, respectively). In other regions average rangeland values vary from \$1,859 in the northeast to \$1,187 per acre in the south-central region.

Tame pasture values in each region were higher than rangeland values, but followed a similar pattern with average values varying from \$3,098 in the east-central to \$483 per acre in the northwest region (Figure 3).

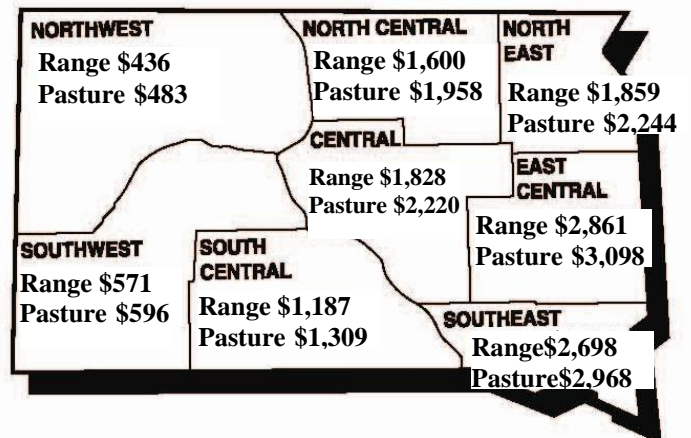
During the past year, per acre land value increases were reported in most regions for most land uses. Cropland and rangeland values increased in seven of eight regions, while tame pasture and hay land values increased in five regions.

Figure 2. Average per acre value of South Dakota cropland and hay land, by region, February 2014.



Source: 2014 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 3. Average per acre value of South Dakota rangeland and tame pasture, by region, February 2014.



Source: 2014 South Dakota Farm Real Estate Market, SDSU

Average Cash Rental Rate Summary

The cash rental market provides important information on returns to agricultural land. Three-fourths of South Dakota farmers and ranchers renting land are involved in one or more cash leases. A majority of agricultural land cash leases are annual renewable agreements.

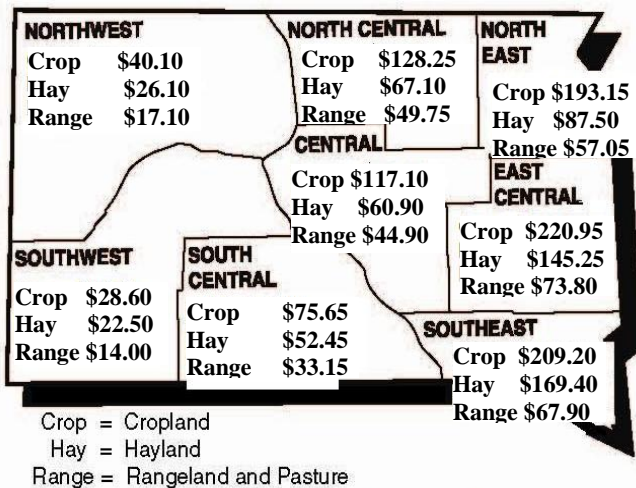
The statewide change in cash rental rates per acre from 2013 to 2014 was \$5.80 for cropland, \$5.10 for hay land and \$1.75 for pasture / rangeland. The corresponding percentage change in statewide cash rental rates was 4.0% for cropland and 6.5% for hay land and for pasture / rangeland.

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. Cash rental rates are highest in the east-central and southeast regions and lowest in the western regions for all land uses (Figure 4).

Average cash rental rates in 2014 for non-irrigated cropland vary from \$28.60 per acre in the southwest region to \$117.10 in the central region and \$220.95 per acre in the east-central region (Figure 4). This is the second time that average cash rental rates for cropland exceeded \$100 per acre in all five regions east of the Missouri River and \$200 per acre in any region of South Dakota.

Cropland cash rental rates increased modestly in most regions of South Dakota. From 2013 to 2014, cash rental rates for cropland increased more than \$15 per acre in the southeast region and approximately \$6 per acre in the east-central and northeast regions. Cash rental rates for cropland decreased slightly in the south-central and southwest regions. The statewide average increase in cropland cash rental rates was \$5.80 per acre.

Figure 4. Average per acre cash rental rate of South Dakota nonirrigated cropland, hayland, and rangeland, by region, 2014.



Source: 2014 South Dakota Farm Real Estate Market Survey, SDSU.

East of the Missouri River, cash rental rates for hay land vary from an average of \$169.40 per acre in the southeast region to \$67.10 and \$60.90 per acre respectively, in the north-central and central regions. West of the Missouri River, hay land cash rental rates in 2014 vary from an average of \$52.45 in the south-central to \$22.50 in the southwest region.

Cash rental rates for hay land increased more than \$25 per acre in the southeast and east-central regions, compared to either increases or decreases of a few

dollars per acre across the central and western regions of the state.

Respondents were asked to report 2014 cash rental rates per acre on privately owned rangeland and pasture 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 \$14 to \$17 per acre in western regions to \$44.90 in the central region and \$73.80 in the east-central region (Figure 4).

Statewide, rangeland and pasture cash rental rates increased an average of almost \$2 per acre from 2013 to 2014, with some variation across regions. For example, rangeland cash rental rates increased \$2.10 in the northwest region and \$9.75 per acre in the southeast region.

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 cash rate of return to land, before deduction of property taxes and other landowner expenses. It is a common measure of cash return used in analysis of farmland market trends.

Current average rates of gross cash return on agricultural land in South Dakota are lower in 2014 than in any of the past 23 years. For 2014, the average ratio of gross cash rent to current land value for all-agricultural land and non-irrigated cropland was 3.2%, and for rangeland was 3.3%.

This is the fifth consecutive year that gross cash rates of return for all agricultural land in South Dakota have been 4.0% or lower, compared to an average of 5.5% from 2000 to 2009 and 7.4% during the 1990's.

Longer-Term Farmland Market Trends

Cash rates of return to agricultural land were relatively stable during the 1990's and declined substantially from 2001 to 2014. These findings indicate that increased farmland values during the 1990's were supported by comparable rates of increase in cash rental rates. However, from 2001 to 2014, cash rental rates increased at a slower percentage rate than increases in cropland or rangeland values, which led to decreased cash rates of return to land. The major economic factors influencing these long term trends are discussed in the research report referenced at the end of this Commentator.

Although land value appreciation slowed in 2014, from 1991 to 2013 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 provided underlying support for increases in land values. These basic economic factors, along with relatively low mortgage interest rates, stimulated farmland purchases by investors and by farmers expanding their operations.

Land Market Factors: Current & Prospective

Respondents to each survey are asked for their assessment of major factors influencing buyers and sellers of farmland, along with the major positive factors and negative factors influencing farmland markets.

Farm expansion and investment potential, along with strong profits and high commodity prices continue to be cited by 2014 survey respondents as the major reasons for purchasing farmland. The major reasons for selling farmland are realizing gains from high sale prices, retirement from farming, and settling estates.

High farm commodity prices, low mortgage interest rates, high farm profits, and strong crop yields were listed as positive factors affecting farm real estate markets. Declining crop prices and concern about future input costs were the major negative factors.

Prior to 2014, the booming market psychology had been very strong in recent years. Some respondents remain optimistic about farmland market conditions for the coming year, but also express growing concerns about continued commodity price declines and general uncertainty about future conditions affecting land markets.

This year only 30% to 50% of respondents, depending on land use, expect land values to increase in the next 12

months. About half of respondents expect land values to hold steady, and the remainder forecast declines.

In summary, respondents to the 2014 survey are much less optimistic about farmland market conditions for the following year. This lack of optimism reflects the impact of expected lower commodity prices on farm profits and on cash rental rates which are capitalized into increasing land values. There are growing concerns about impacts of continued commodity price declines and uncertainty concerning future federal policies for deficit reduction, taxation, credit and finance, agriculture, and renewable energy.

This issue of the *Commentator* highlights some key findings from the 2014 farmland market survey. Considerably more detailed information, including historical (1991 – 2014) annual data on land values and cash rental rates is available in the full copy of South Dakota Agricultural Land Market Trends, 1991-2014, by Janssen, Dillivan and McMurtry. An electronic copy may be accessed at: <http://igrow.org> OR <http://igrow.org/up/resources/03-7000-2014.pdf>
Contact: Kim Dillivan (kim.dillivan@sdstate.edu) at 605-626-2870.

NOTE: This special edition of the *Commentator* is available electronically on the Economics Department website at: <http://econ.sdstate.edu/research/commentator/no548.pdf>

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