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Long Term and Recent Farmland Market Developments in South Dakota

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LONG-TERM AND RECENT
FARMLAND MARKET DEVELOPMENTS
IN SOUTH DAKOTA

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A recent Economics Newsletter (No. 213) reported on declining farmland market prices and related farmland market developments in South Dakota in the past 3 years. A longer term perspective is presented in this report.

Long-Term Farmland Market Trends

USDA-reported farmland values have fluctuated considerably in the 20th Century (Figure 1). South Dakota average farmland values, in current dollars, increased from $39 per acre in 1910 to a peak of $71 in 1920. Values then declined for the next 21 years to low of $12 per acre in 1941. Farmland values then began an upward trend—reaching $40 per acre in 1955 and $85 in 1971.

Land values accelerated during the export boom period of the 1970's reaching a peak of $291 per acre in early 1982. The annual rate of increase in South Dakota farmland values was 4-5% from 1955-1971 and 12-13% from 1971-1982.

Farmland values and sale prices have declined since early 1982. Based on Federal Land Bank data, mid-1984 farmland sale prices were down about 20% from their peak. Price declines were sharpest in the southeast region (down 30-35%) of the State.

The decline is more dramatic if one views farmland values in terms of real purchasing power—with land values adjusted for the effect of inflation. In real terms (1972 dollars), farmland values in mid 1984 had come down to 1975 levels (Figure 1). Further, and perhaps somewhat surprisingly, real farmland values were higher in the 1915-1920 time period than they have been at any time since then.

Farmland price trends from 1920-1941 contributed greatly to more tenancy, higher foreclosure rates and changes in ownership. By the late 1930's, one-fourth of South Dakota's farmland was in foreclosure and less than one-half of the State's farmers owned any farmland. During the 1940's, many farmers were able to regain title to their land.

Post World War II trends of generally rising farmland values have contributed to the dominance of part ownership (part owners are farmers who own some land and rent additional land).

See the back page for an announcement of AGRIBUSINESS DAY 1985
Many farmers have desired or needed to expand their land holdings, while many others (retired farmers and nonfarm investors) wanted to own farmland for investment and other purposes. Farmers continue to own about two-thirds (68% in 1973) of South Dakota's agricultural land, while a majority of farmland owners today are non-operator landlords.

A main determinant of farmland price trends is current actual and expected trends in farmland net returns (rent). South Dakota farmland values and rents have moved, annually, in the same direction for 55 of the past 64 years (1921-1984). The ratio of annual net rent-to-value varied from 3.0-5.0% from 1921-1949 and 4.1-6.6% since then.

During the 1970's, farmland rents were rapidly rising, reflecting rising exports and commodity prices. Farmland buyers bid up the price of farmland such that rates of return to farmland, in the year of purchase, were less than rates of return on other long term investments such as corporate bonds. Farmland buyers were essentially competing for the right to obtain expected future increases in net returns with the additional income used to help make the loan payments. When expected increases in net returns did not materialize in the early 1980's, however, market prices of farmland also declined.

Recent Farmland Market Trends, 1971-1983

Information on recent (1971-1983) farmland market trends was developed from a data base of over 11,600 farmland sales provided by the Federal Land Bank of Omaha.

The average price per acre for farmland sold in South Dakota increased 4.4 times from 1971 to 1982, when it peaked at $428 per acre. [For the difference between the FLB-based data and the USDA-based data in the earlier section, see Econ Newsletter No. 200.] The average annual rate of increase in farmland sale prices during this period was 14.5%.

The average total sales price per tract increased each year from 1971 to 1981, when it peaked at about $133,300. The average tract sold involved 366 acres which was almost equally divided between cultivated land and pasture.

The average price of farmland varies widely within South Dakota. Most of the price variation can be attributed to differences in land productivity and use in different parts of the State.

The peak prices, which occurred in 1981-82, ranged from $155-195 per acre in northwestern South Dakota to $900-965 per acre in southeastern South Dakota. Since then, sale prices have dropped in all regions of South Dakota, with the largest dollar and percentage declines in the southeast.

The characteristics of farmland sale transactions also vary regionally. The majority of agricultural land sales occurred in eastern South Dakota, although more acres were sold in central and western South Dakota. Tracts sold in eastern South Dakota averaged 145-224 acres in size while tracts sold in central South Dakota were between 32-47 acres, on average, and tracts sold in western South Dakota averaged more than 1,000 acres.

Eastern South Dakota land sold was predominately cultivated (66-76%), while land sold in western South Dakota was mostly pasture (72-75%). Land sold in central South Dakota was a mixture of cultivated land and pasture land.

Irrigation systems were present on 1.8% of the farmland tracts sold. Western South Dakota had the highest percent (3.4%) of irrigated tracts sold.

Nearly 27% of farmland tracts sold in South Dakota had building sites on them. Farm houses comprised 52% of reported building values.

Non-agricultural factors influenced the sale price of 5.2% of farmland tracts sold. Residential development was listed as a factor in more than half of these sales.

Farmland Financing Trends

A major structural change in the post World War II farmland market has been greater credit financing. From 1945-1955, only 45-53% of farmland transfers in Northern Plains states were credit financed. Since 1970, 81-94% of
farm real estate transactions. In the midst of massive changes, certain factors have remained important.

First, farm operators have always been the major owners, buyers and sellers of farmland. This trend is expected to continue.

Second, farmland market prices are derived from current actual net returns (rents) and expected net returns. Rents and market prices of farmland generally move together. What has changed is the growing impact of international commodity and financial markets and Federal fiscal-monetary policies on the level of net returns and expected returns. In this sense, U.S. and South Dakota farmland markets are more responsive to worldwide and national economic policy conditions than they were in the 1950's through the early 1970's. The major impact of these factors in recent years and most likely in the next few years is continued downward pressure on farmland prices.

Finally, farm real estate credit terms are important to functioning of farmland markets. The terms during the 1970's were attractive to many buyers to finance farmland purchases with debt capital. Farm credit terms have tightened and future loan requests will be largely based on careful cashflow projections of repayment ability.

Forthcoming publication

Readers may request a copy of "Long Term and Recent Trends in South Dakota's Farmland Markets", Bulletin, South Dakota Agricultural Experiment Station, from the authors for a more detailed report of this study. A copy should be available within 4-6 weeks from the release of this Newsletter.
Twenty-third Annual

Agri-Business Day

Thursday, March 28, 1985

9:00 a.m. - 3:45 p.m.
Staurolite Inn,
Brookings, SD

Morning Topic: Farm Finance Tips for Saving $15,000

An Overview of the Financial Crisis in South Dakota—Mark Edelman

Tips for Financial Management—Mark Edelman and Wallace Anderud

Presentation of Agri-Business Person of the Year & Response from the Recipient

Lunch—A Demonstration of Infotext—Tom Bare

Afternoon Topic: Outlook, Marketing Tips and Coping with Stress

Implications of and Outlook for Changing Land Values in South Dakota—Larry Janssen

Guidelines for Improving the Marketing of Grains—Brian Schmising

Guidelines for Improving Marketing of Livestock—Gene Murra

Coping with Stress Relative to Crisis Situations in Farming & Ranching—Steve Small

The 31st Annual Banquet and Awards Program of the SDSU Student Economics Club will be held in the Volstorff Ballroom of the University Student Center, 6:30, March 26th.

Richard McCrossen, President of Citibank (South Dakota), will be the guest speaker.

Tickets must be purchased in advance from the Economics Department or at the registration desk for Agri-Business Day.