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South Dakota Farmland Market Trends-Another Year of Declining Prices

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South Dakota farmland prices have declined for three consecutive years. The average per acre price of South Dakota farmland sold from January—July 1985 declined 34% from the 1981-1982 peak. Mid-1985 South Dakota farmland prices are about the same as land prices observed in 1977-1978 and the same as the real (inflation-adjusted) 1974 value.

Background

Nationwide, farmland values have declined since 1981. This represents both a major reversal from the prior 25 consecutive years of increase and the longest period of decline since the Great Depression. During 1984, U.S. farmland values declined 12%—the largest annual percentage decline since 1933. According to USDA statistics, 1984 farmland price declines exceeding 20% occurred in eight Cornbelt and Great Plains states including South Dakota, Nebraska, Minnesota and Iowa. Farmland prices declined at a lesser rate in other states surrounding South Dakota.

South Dakota farmland values increased at a steady 3-5% annual rate from 1950 to 1973. From 1973 to 1981, farmland value increases accelerated to 17% per year with some year-to-year increases exceeding 25%. This boom in land values was directly related to rapid growth in export demand and major changes in international economic and trade policies.

South Dakota farmland values peaked in late 1981 and early 1982 and have since declined. Changing Federal economic policies (leading, for example, to high deficits/spending, interest rates and exchange rates) and unfavorable export market developments have been the major contributing factors.

Trends in South Dakota's farmland markets through July 1985 are presented in this newsletter. Emphasis is placed on regional and statewide trends in farmland sale prices and types of tracts sold. In the next newsletter, emphasis will be placed on underlying reasons for declining farmland prices and the implications for South Dakota.

Regional farmland sales data

The data in this and the following sections were collected and made available by the Federal Land Bank (FLB) of Omaha. They include most bona fide farmland sales of 40 acres or more whether or not financed by the FLB.

The data in Table 1 reflect 5,430 farm real estate transactions in different regions of South Dakota from 1981 to early (January-July) 1985. In Table 2, data on early 1985 average per acre sale prices for mostly cropland (85-100% cropland acres) tracts are compared with those for majority pasture/rangeland (typically 70-75% pasture) tracts. The data in Figure 1 show average per acre sales prices and the percentages of cropland sold (as a measure of land use and quality) for those counties in South Dakota with more than eight sales transactions during the 13-month period of July 1984 to July 1985.

Statewide overview

The average tract sold consists of about 300 acres. Farm buildings, present on 20% of the tracts, contributed an estimated 5.7% of total value. About 51% of the total farmland sold each year is cropland. A majority of the acres in one-fourth of the tracts are pasture/rangeland, while another 45% of the tracts contain mostly (85-100%) cropland. The remaining 30% of tracts...
Table 1. South Dakota Regional Farmland Sales Trends, 1981-85.

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</thead>
<tbody>
<tr>
<td>Average price ($/acre)</td>
<td>650</td>
<td>680</td>
<td>700</td>
<td>720</td>
<td>750</td>
<td>780</td>
<td>810</td>
<td>840</td>
<td>870</td>
<td>900</td>
<td>930</td>
<td>960</td>
<td>990</td>
<td>1020</td>
<td>1050</td>
<td>1080</td>
</tr>
<tr>
<td>Cropland as percent of total acres</td>
<td>60%</td>
<td>65%</td>
<td>70%</td>
<td>75%</td>
<td>80%</td>
<td>85%</td>
<td>90%</td>
<td>95%</td>
<td>100%</td>
<td>105%</td>
<td>110%</td>
<td>115%</td>
<td>120%</td>
<td>125%</td>
<td>130%</td>
<td>135%</td>
</tr>
</tbody>
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Table 2. Pasture and Cropland Sale Prices by Region. January - July 1985

<table>
<thead>
<tr>
<th>Region</th>
<th>Pasture</th>
<th>Cropland</th>
<th>Average sale price per acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Dakota</td>
<td>600</td>
<td>800</td>
<td>700</td>
</tr>
<tr>
<td>East</td>
<td>500</td>
<td>700</td>
<td>600</td>
</tr>
<tr>
<td>Northeast</td>
<td>450</td>
<td>650</td>
<td>500</td>
</tr>
<tr>
<td>North</td>
<td>350</td>
<td>550</td>
<td>400</td>
</tr>
<tr>
<td>Central</td>
<td>250</td>
<td>450</td>
<td>300</td>
</tr>
</tbody>
</table>

Source: Compiled from Database of Reported Farmland Sales, Federal Land Bank of Omaha. All reported non-irrigated cropland and pasture beneficial sale (50 acres or more are included. Sales of irrigated land are also included in the Black Hills region because they comprise one-third of the total farmland acreage. The average sale price of tracts sold in 1981-1982 and 1983 was equal to the average sale price of tracts sold in January 1983-July 1985.

a The sales prices per acre are weighted by acres sold per tract in each region and of the state.
b The sales prices per acre are weighted by acres sold per tract in each region and of the state.
c The sales prices per acre are weighted by acres sold per tract in each region and of the state.
d The sales prices per acre are weighted by acres sold per tract in each region and of the state.

The average price of majority pasture/rangeland tracts is 48-60% of the average price of mostly cropland tracts in all regions, except the Central region.

Eastern South Dakota

Land prices have been consistently highest in southeastern South Dakota. Average price of tract sold (128 acres) is the lowest there of any region, while percent of cropland sold is the highest there and in the east central region (73-74%). Average farmland prices have declined faster in the southeast, however, than in any other region of the State -- dropping from $958 in 1981 to $515 in early 1985. Price trends in this heavily corn, soybean and feeder livestock region are closely related to price declines in the Cornbelt regions of neighboring states.

Farmland prices in the east central region are second highest, with an early 1985 average price of $460 per acre. Average prices peaked in early 1982 and have declined at a somewhat slower rate than in the southeast (-34% vs. -46%).

The northeast region ranks third in the annual average per acre sale price (65% cropland). Prices there have also declined about one-third. Farmland...
prices in this highly diversified grain-livestock region have been hit by the declining returns for most commodities in 1984-85.

Central and Western South Dakota

Farmland prices in the north central and central regions have declined at a slower rate than further east in the State. The price decline in the northern section of the James River Valley appears to be less than elsewhere in these two regions. In these regions, the changing economics of spring wheat, small grain and range cattle have the strongest impact on agricultural land prices. The Federal wheat program provisions have tempered cropland price declines there.

Agricultural land prices have generally declined less in the south central and western regions (west of the Missouri River). Low turnover of tracts sold is a contributing factor. The numbers of reported sales in most western and south central counties (except for Tripp, Gregory, Meade and Butte) are much lower than for other regions of South Dakota. The dominant type of land sold in these counties is rangeland, followed by winter wheat and spring wheat.

The western region has the lowest average price per acre ($157 in early 1984), second lowest percent cropland (32%) and highest number of acres sold per tract (1,156 acres) of any region in South Dakota.

Sale price, acres sold and many other characteristics of land transfers are substantially different in the Black Hills (including foothills) region than in the rest of western South Dakota. Three-eighths of farmland tracts sold contained irrigated land. Altogether, irrigated land consists of 14% of total acres sold. Nonfarm factors (recreation, forestry, residential) are also reported to affect the sale price of more than one-third of farmland tracts sold in this region compared to less than 6% in any other region. Prices sharply declined in 1981-82 and again in 1984.
Major characteristics of the South Dakota farmland market

Farm owner-operators are the major buyers and sellers of South Dakota farmland. Since 1983, 63% of farmland tracts have been purchased by established farmers/ranchers expanding their business. Buyers just getting started in farming purchased 14% of tracts sold while nonfarm investors purchased 13% of tracts sold. The remaining tracts (5%) were purchased by other types of buyers.

Credit availability and terms are extremely important variables in the farmland market. An increased proportion of sales is fully cash financed. Average downpayment requirements on credit-financed purchases have increased. Both features represent major reversals from trends observed from 1945-1982. Since 1982, for example, 27% of farmland tracts sold have been cash financed, compared to only 10-14% of tracts sold from 1971-1981. The average debt-to-purchase price in 1984 and 1985 is 76% compared to 80% and above in previous years.

Seller financing remains the most important source of farm real estate credit (36% market share of tracts sold since 1982), followed by the Federal Land Bank with 23%. Other significant sources of credit are commercial banks, Farmers Home Administration and insurance companies.

In the next newsletter, underlying reasons for declining farmland prices will be examined in more detail. The future prospects and implications for South Dakota will also be explored.