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South Dakota Agricultural Land Values and Rental Practices: 2000


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ECONOMICS COMMENTATOR

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SOUTH DAKOTA AGRICULTURAL LAND VALUES AND RENTAL PRACTICES, 2000



by

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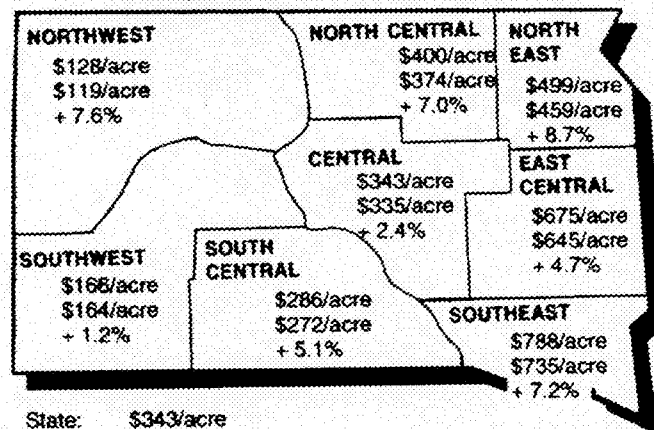
We wish to thank the individuals who participated in the 2000 Farm Real Estate Market Survey. Without their responses this report would not be possible. Special thanks go to Todd Lee for input of the data and to Amy Larson for analyzing and compiling the data. Also, thanks to Janet Wilson and Penny Stover for developing and maintaining the mailing list, administering the survey and formatting the reports.

South Dakota's agricultural land values increased 5.5% over this past year. The average value of agricultural land (as of February 1, 2000) varies from \$788 per acre in the southeast region to \$128 per acre in northwest South Dakota. These are key findings from the SDSU 2000 South Dakota Farm Real Estate Market Survey reports completed by 251 appraisers, lenders, and Extension agents knowledgeable of local farmland market trends.

Average Land Value Summary

As of February 1, 2000, the estimated South Dakota all agricultural land value average was \$343 per acre, an estimated 5.5% increase in value from one year earlier (Figure 1).

Figure 1. Average value of South Dakota agricultural land, February 1, 2000 and 1999, 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, 2000
Middle: Average per acre value—February 1, 1999
Bottom: Annual percent change in per-acre land value

Source: 2000 South Dakota Farm Real Estate Market Survey, SDSU.

This is the tenth annual SDSU survey developed to estimate agricultural land values and cash rental rates by type of land in different regions of the State. Summaries of prior survey results were reported in earlier *Economics Commentator* issues.

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, irrigated land, hayland, rangeland, and tame pasture are provided in Figures 2-5.

The information in this newsletter provides an overview of agricultural land values and cash rental rates across South Dakota. We caution the reader to use this information as a general reference, while relying on local sources for more specific details.

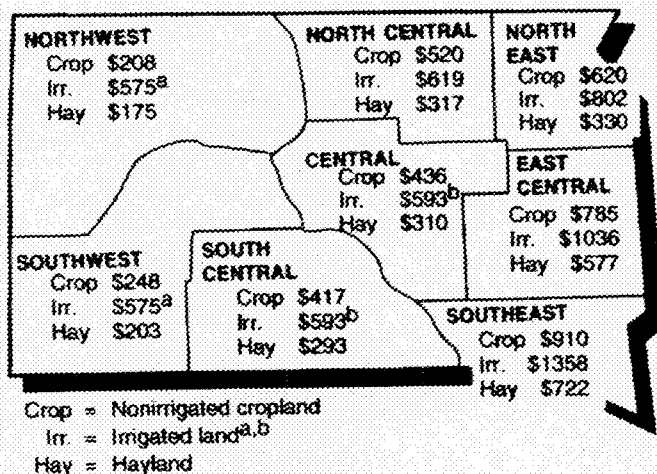
According to SDSU survey responses, agricultural land values increased from 1999 to 2000 in the southwest (+1.2%), north central (+7.0%), northwest (+7.6%), northeast (+8.7%), east central (+4.7%), southeast (+7.2%), south central (+5.1%); and central (+2.4%) regions.

Agricultural land values are highest in the southeast, followed by the east central 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.

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 (Figures 2 and 3). Within each region, there is substantial variation in per acre land value by land use and land productivity.

Average nonirrigated cropland values range from \$910 per acre in the southeast to \$208 per acre in the northwest region of the state. Average rangeland values vary from \$456 per acre in the southeast region to \$111 per acre in the northwest region of South Dakota.

Figure 2. Average value of South Dakota cropland, irrigated land, and hayland, by region, February 2000, dollars per acre.

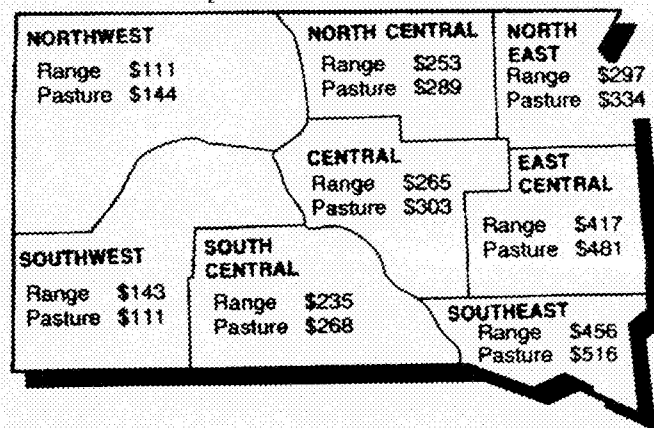


^a Irrigated land values shown for the northwest and southwest regions are based on the average value reported for gravity irrigated land in both western areas.

^b Irrigated land values shown for the central and south-central regions are based on the average value reported in both regions.

Source: 2000 South Dakota Farm Real Estate Market Survey, SDSU.

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 2000, dollars per acre.



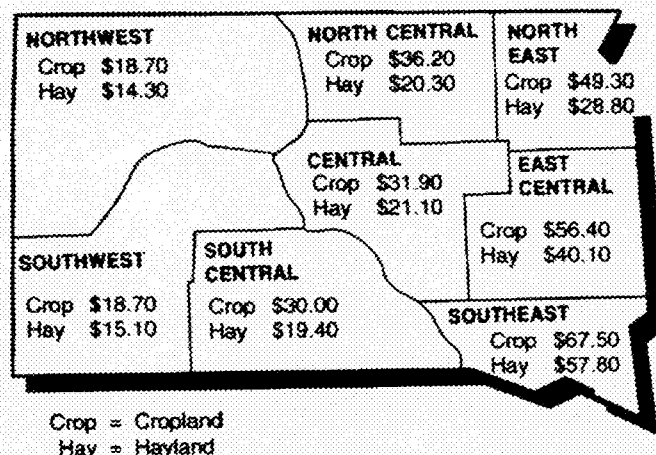
Source: 2000 South Dakota Farm Real Estate Market Survey, SDSU.

Average Cash Rental Rate Summary

The cash rental market provides important information on returns to agricultural land. Nearly three-fourths of South Dakota farmland renters and three-fifths of agricultural landlords are involved in one or more cash leases for cropland, hayland, or pasture/rangeland. A majority of cash leases are annual renewable agreements.

Cash rental rates are quite variable among South Dakota regions. Within each region, the average annual cash rental rates are highest for irrigated land, followed by nonirrigated cropland, hayland and pasture/rangeland. For each land use, cash rental rates are highest in southeast and east central regions of South Dakota, and lowest in western South Dakota (Figures 4 and 5).

Figure 4. Average cash rental rate of South Dakota nonirrigated cropland and hayland, by region, 2000, dollars per acre.



Source: 2000 South Dakota Farm Real Estate Market Survey, SDSU.

Cash rental rates for nonirrigated cropland vary from an average of \$67.50 per acre in southeastern South Dakota to \$18.70 in northwestern South Dakota. Rangeland cash rental rates vary from an average of \$31.00 per acre in the southeast region to \$6.80 in the northwest region.

From 1999 to 2000, cash rental rates per acre increased slightly in the southeast region for cropland (+\$4.30) and pasture land (+\$4.20). In all other regions, cropland cash rental rates changes varied from -\$1.30 to +\$3.10 per acre, while changes in rangeland cash rental rates varied from +\$0.30 to +\$2.00 per acre. Hayland cash rental rates increased or remained steady in eastern, central, and southwestern South Dakota. Slight decreases occurred in the rest of the state.

From 1991 to 2000, average reported cash rental rates for cropland, hayland and rangeland increased in all regions. During this period, average cash rental rates for cropland increased from 18% in the southwest region to 48% in the north central region. The average dollar amount of cropland cash rental rates increased, ranging from \$2.80 in the south central region to \$18.20 per acre in the southeast region. Cash rental rates for hayland increased by less than \$4 per acre in the northwest and southwest regions to \$19.30 per acre in the southeast region.

From 1991 to 2000, average per acre cash rental rates of rangeland increased by nearly \$3 per acre in western South Dakota to \$16.80 per acre in the southeast region. During this same period, average cash rental rates per AUM (Animal Unit Month) also increased in all regions. Average increases in AUM rental rates varied from \$1.90 to \$5.00 per AUM.

Rangeland rates per AUM in 2000 are fairly uniform across regions (Figure 5). Rates range from an average of \$15.50 per AUM in the north central region to \$19.80 per AUM in the northeast region.

Rates of Return to Agricultural Land

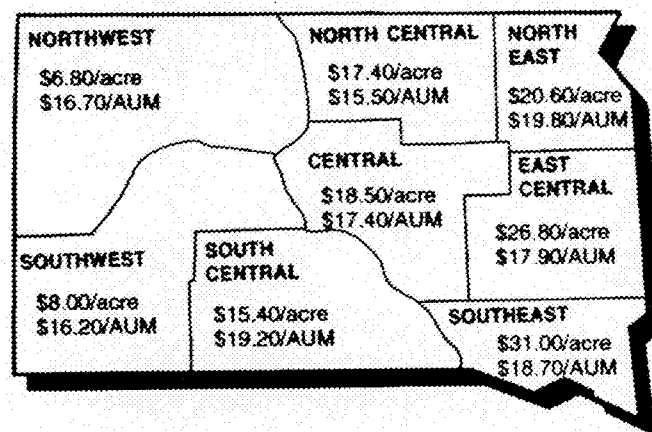
The gross rent-to-value ratio (gross cash rent as a percent of reported land value) is a measure of gross rate of return to land, before deduction of property taxes and other landlord expenses. Gross rent-to-value ratios for 2000 averaged 7.8% for non-irrigated cropland and 6.3% for rangeland.

Respondents were asked to estimate net rates of return to agricultural land ownership in their locality, given current land values. Statewide, the estimated net rate of return to agricultural land averaged 5.1% for all agricultural land, 5.5% for non-irrigated cropland, and 4.9% for rangeland.

From 1991 to 2000, the difference between GROSS and NET rates of return to agricultural land ownership averaged 2.0 percentage points and varied by 1.6 to 2.6 percentage points across different regions and land uses.

The current average net rate of return of 5.1% on all agricultural land in South Dakota is much lower than current farmland mortgage interest rates. This implies that relatively large down payment requirements are necessary before farmland purchases can be expected to cash flow from net returns. A cautious approach to debt financing is recommended for farmland buyers.

Figure 5. Average cash rental rate of South Dakota rangeland and pastureland by region, 2000, dollars per acre and dollars per AUM.



Source: 2000 South Dakota Farm Real Estate Market Survey, SDSU.

Ag Land Market Factors

Respondents listed major positive and negative factors affecting the farm real estate market in their localities. These factors help explain changes in the amount of farmland for sale, sale prices, and rental rates.

No specific item clearly dominated respondents' list of positive factors. Investor interest, high crop yields, government programs, high livestock prices, and hunting/recreation were the top five positive factors listed, accounting for 84% of responses.

Again this year, investors were listed as a positive factor more frequently (26%) than any other item. Many respondents commented that investor interest in, and ability to purchase, farmland were an important factors in maintaining farmland prices in their locality. However, some other respondents (7% of negative responses) viewed investors as a negative factor because they were able to outbid local farmers wanting

to expand their operations and shutting out many beginning farmers from purchasing farmland.

Governmental programs ranked second (18%) among positive factors. Identification by respondents of governmental programs as a positive factor influencing the agricultural real estate market is understandable given the level of governmental assistance provided to farmers over the past years.

Hunting/recreation (16%) and the level of crop yields (14%) continue to be listed as positive factors by many respondents. However, in past years farm expansion was usually the most common factor listed. Other major positive factors listed by respondents include livestock prices and expansion.

Low commodity prices was the principal negative factor affecting farmland markets, according to 61% of responses. Other economic and financial items

(lower returns and higher input costs) were also listed as negative factors. This is the second survey in the 1990's where general economic and financial factors were the predominant negative responses. In past years, specific industry factors (low cattle prices) or weather-related factors (flooding, prevented planting, etc) were often listed as negative factors.

For more detailed information, readers are encouraged to contact the Economics Department Library (605-688-4142) and ask for SDSU AES Circular C263, South Dakota Farmland Market Trends, 1991-2000.

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