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Land Market Survey by Representative Counties South Dakota

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LAND MARKET SURVEY
BY
REPRESENTATIVE COUNTIES
SOUTH DAKOTA

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Sample Counties Selected for Study

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In Cooperation With
United States Department of Agriculture
Bureau of Agricultural Economics

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AN ANALYSIS OF THE CURRENT LAND MARKET IN SOUTH DAKOTA^{1/}

The Bureau of Agricultural Economics of the United States Department of Agriculture, with the Department of Agricultural Economics of the South Dakota Agricultural Experiment Station cooperating, is conducting a survey of agricultural real estate transfers in South Dakota. This study is designed to analyze the current land market. At the close of every three months' period during the calendar year information concerning land transfers is gathered from county records and other reliable sources concerning the number of transfers that have occurred, the types of sellers, the types of buyers, the intent of the buyers, the price per acre at which the transfer occurred, and the types of financing most commonly used. A representative group of counties has been selected for intensive study, the results of which, it is believed, may indicate the nature of the trend in the land market throughout South Dakota.

All of the information necessary for determining the exact price trend is frequently unavailable. Essential information may be withheld by the parties to the transfer. In other cases the buyer or the seller, or both, may be non-residents, in which case information concerning important phases of the transfer may be difficult to obtain. In spite of these limitations the results obtained, thus far, appear to justify the effort expended.

Classification of purchases, by types of buyers:

During the period January 1, 1943 to April, 1943, seventy-five per cent of the total number of land purchasers who acquired title to land in four representative counties of South Dakota through purchase during this period, were resident farmers. Of this number approximately two-thirds were land owners previously, and one-third tenants. Among the remaining purchasers, who constitute twenty-five per cent of the total number, more than three-fourths were resident non-farmers. Only a relatively small

per cent of the total land purchases were made by non-resident non-farmers. South Dakota land, therefore, is being purchased largely by South Dakota people.

Classification of properties sold, by types of sellers:

Forty per cent of the total acreage sold during the first quarter of 1943 came out of the hands of corporate land owners. Among the corporate sellers insurance companies released the largest acreage, with the Federal Land Bank in second place. The acreage sold by commercial banks was relatively small. Twenty-eight per cent of the acreage transferred was released by individuals. Within this group approximately two-thirds of the sellers were non-operators. The remaining thirty-two per cent of the acreage transferred was released by estates, the state of South Dakota, and counties which had acquired title to land through tax delinquency. It appears, therefore, that most of the sellers were involuntary owners.

Classification of transfers by types of financing:

Approximately fifty per cent of the total number of land transfers which occurred during the first quarter of 1943 were cash transactions. Obviously, some of the tracts purchased were small. Thirty-four per cent of the total number of transfers recorded were partial cash payment and mortgage transactions. The remaining sixteen per cent were of a purchase contract nature, many of which occurred in central and western South Dakota.

It is significant, perhaps, that in Brookings County seventy-two per cent of the acreage purchased was paid for in full. The average cash price per acre in Brookings, Brown, Clay and Haakon counties, in which transfers were classified according to types of financing, is shown in the following table. Only those transfers for which complete and reliable information is available were included in this classification.

	: Total	:	: Cash	:	: Cash & Mortgage	:	: Purchase Contract	:
	: Transfers	:	: Transfers	:	: Transfers	:	: Transfers	:
	: Ave.:	: % of Tot.:	: Ave.:	: % of tot.:	: Ave.:	: % of tot.:	: Ave.	:
	: price:	: acreage	: price:	: acreage	: price:	: acreage	: price	:
	: Total:	: Per	: trans-	: per	: trans-	: per	: trans-	: per
	: acres:	: acre	: ferred	: acre	: ferred	: acre	: ferred	: acre
Brookings	: 4963:	35.39:	72%	: 36.32:	25%	: 30.54:	3%	: 52.98
Brown	: 3292:	19.79:	47%	: 19.92:	39%	: 24.85:	14%	: 5.89
Clay	: 3381:	47.40:	14%	: 86.46:	85%	: 40.39:	1%	: 80.00
Haakon	: 12493:	2.31:	41%	: .84:	38%	: 2.62:	21%	: 4.72

Sales price in relation to assessed valuation:

The influences which play upon the determination of the assessed valuation of agricultural land in South Dakota at the present time are numerous and largely unscientific. Many of these influences lie wholly outside the realm of land valuation, hence a comparison of sale price and assessed valuation may be of only slight significance. However, in view of the prevailing statutory provisions for assessing land at "true and full value", a comparison may be warranted. In the following table a specific number of transfers, for which adequate information is available, has been selected as a basis for a comparison of current sale price and assessed valuation.

	: Sales Classified	:	: Sales	:	: Assessed
	: Number	: Total	: price	:	: valuation
	: of sales	: acreage	: per acre	:	: 1942
Brookings	: 25	: 4,963	: 35.39	:	: 38.49
Brown	: 20	: 4,261	: 19.79	:	: 21.27
Clay	: 19	: 2,621	: 47.40	:	: 64.28
Haakon	: 17	: 6,346	: 2.31	:	: 5.76

In retrospect:

A recent report on land prices issued by the Bureau of Agricultural Economics of the United States Department of Agriculture contains the following statement:

"Farm real estate values in the Northern Plains states range from 42 to 78 per cent of the 1912-14 average. It should not be construed, however, that values are still relatively low. The index of values was approximately 100 per cent of the 1912-14 base period in the decade prior to the depression of the 1930's. It is generally recognized now that those prices were too high in many areas, as evidenced by the large number of distress transfers."

Land which sold for 150 dollars per acre in 1920 in eastern South Dakota, was selling for 85 dollars per acre in 1929, and in 1932-33 for approximately 55 dollars. The full significance of the adjustments made necessary by such wide fluctuation is difficult to portray. Foreclosure, by 1932, had reached a rate approximately twenty times as great as that of the 1910-14 period.

In the light of past experience it seems entirely apparent that there is a need for materially reducing the influence of war-time prices upon the sale price of land. To avoid distress during the post-war period, land prices must be calculated in terms of long-run average yields and long run average prices. Should land prices be permitted to rise above this level computed in terms of long-time averages, as a result of the influence of inflated war-time prices, a period of readjustment must inevitably follow, which may bring hardship and distress to both debtors and creditors.

Experience gained during the 1918-1920 period serves as a grim reminder that a land boom may not be recognized until prices start to decline. In the meantime, if credit is available and interest moderate, buyers may be carried away by waves of optimism. The present rate of farm income is one of the highest on record. The supply of credit is large and interest rates are the

lowest on record. It seems especially necessary, therefore, to give prompt and serious attention to the need for averting the influence of optimism which springs from current war-time prices and inflated incomes. Land should be purchased only at a price which can be justified in terms of long-run average annual income. If indebtedness is incurred under present conditions it should be only in such amounts as can be largely liquidated during the period of high prices. The lessons learned from the experiences of 1918-1920 and the subsequent periods of mortgage foreclosure should be rewritten indelibly upon the minds of all people interested in and dependent upon stable land ownership.