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SOUTH DAKOTA AGRICULTURAL LAND MARKET FACTORS 2010



by

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Economic Commentator No.519 highlighted the change in agricultural land values in South Dakota this past year. This *Commentator* highlights the agricultural land market factors which survey respondents indicated were the most prevalent factors influencing the change in valuation of agricultural land this past year. The SDSU Farm Real Estate Market Survey asks respondents to provide major reasons for buying and selling farmland in their localities. Nearly 92% of respondents provided one or two reasons in each category.

Reasons for Buying Farmland

Farm expansion (37%) was the most common reason for purchasing farmland (figure 1). Twenty-three percent cited investment-related purposes as a major reason. Investment purposes varied from purchasing farmland and speculating on higher increases in land values to seeking better long-term returns than those available in the stock market. Additional reasons for purchase of farmland (each listed by 3% to 9% of total responses) are location, farming pursuits, hunting/recreation, favorable commodity prices and farm profits, and low mortgage interest rates.

Reasons for Selling Farmland

Retirement, estate settlement, and high land prices were the most common reasons for selling farmland

(figure 2). Retirement or farmer exit was listed by 32% of survey respondents. Twenty percent of responses listed estate settlement as the major reason for selling, and another 15% stated that farmland was sold to capitalize on current high land prices. Closely related reasons, listed by another 10% of responses, were increased demand for farmland (seller's market) and currently low capital gains taxes.

Another 10% of responses cited financial pressures and seller's need to reduce debt and generate greater cash flow as major reasons for selling farmland.

Figure 1. Reasons for buying farmland

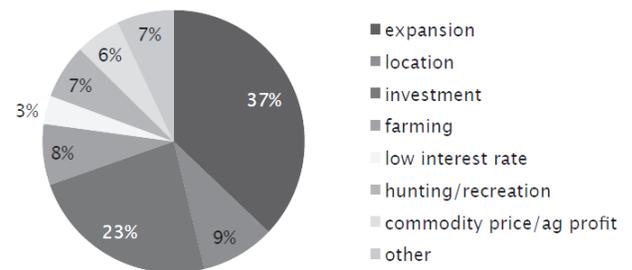
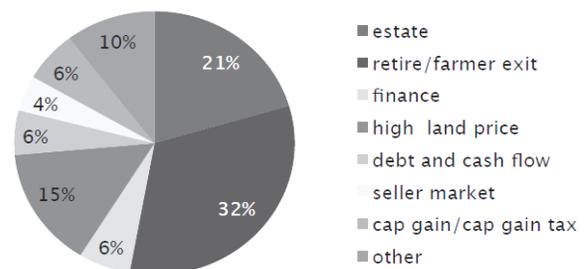


Figure 2. Reasons for selling farmland

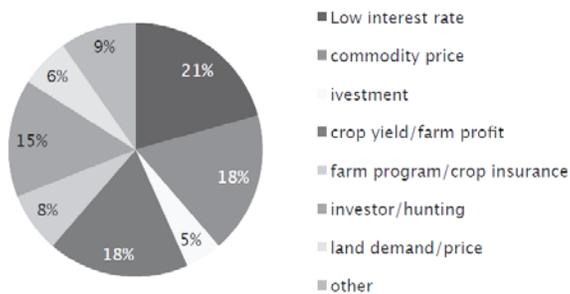


Factors Influencing Farmland Markets

Survey respondents were asked to list 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. Nearly 84% of respondents listed one to three positive reasons, while 78% also listed one to three negative reasons. This year, no specific item dominated in the list of positive factors. Low interest rates, high commodity prices, crop yields and farm profits, and investor-related factors (including hunting and recreation), were the four major positive factors listed, accounting for about 74% of responses (figure 3). Low mortgage interest rates were cited by 21% of respondents as a positive factor influencing farm real estate market conditions. High commodity prices, excellent crop yields, and strong farm profits combined for another 18% of positive responses. Land demand and price, stock market volatility, government farm programs, and crop insurance were each listed by another 5% to 8% of responses (figure 3).

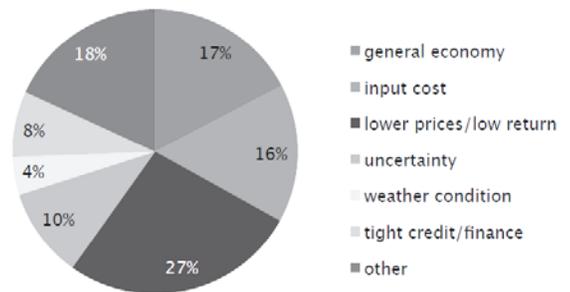
Figure 3. Positive factors in the South Dakota farm real estate market.



Negative factors in the South Dakota farm real estate

Low commodity prices coupled with low returns, a relatively poor general economic situation, higher input costs, and continued economic uncertainty were the four most common negative factors and were 70% of the negative responses (figure 4). Low commodity prices coupled with low returns accounted for 27% of responses and were the dominant negative factors influencing farmland markets in South Dakota. Weather and wet conditions and tight credit and financial pressure were also listed as important negative factors influencing farmland markets.

Figure 4. Negative factors in the South Dakota farm real estate market.



For more detailed information, a full copy of South Dakota Agricultural Land Market Trends, 1991-2010, by Janssen, Pflueger and Opoku, has been published. It may be accessed at: <http://agbiopubs.sdstate.edu/articles/C276.pdf>

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