



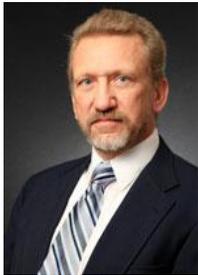
ECONOMICS COMMENTATOR

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SOUTH DAKOTA AGRICULTURAL LAND MARKET FACTORS



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We wish to thank the individuals who participated in the 2012 South Dakota Farm Real Estate Market Survey. Without their responses this report would not be possible. Special thanks to: Olivia Tyrrell for conducting the survey and inputting data and Penny Stover for maintaining the mailing list and varied survey tasks.

Agricultural land values continue to boom for all land uses and in most regions of South Dakota. The most recent annual (2011 to 2012) increase of 26.8% for all agricultural land values in South Dakota is the highest annual rate of increase in the past 22 years of this survey. From 2011 to 2012, statewide average cash rental rates per-acre increased for all land uses, with substantial increases (>20%) in cropland and hay land cash rental rates in several regions.

This is the last in a series of three Commentators reporting on agricultural land market conditions in South Dakota for 2012.

Major Reasons for Purchase and Sale of Farmland

During each of the 22 years of the SDSU Farm Real Estate Market Survey, respondents have been asked to provide major reasons for buying and selling farmland in their localities. Nearly 95% of 2012 respondents provided one or two reasons in each category.

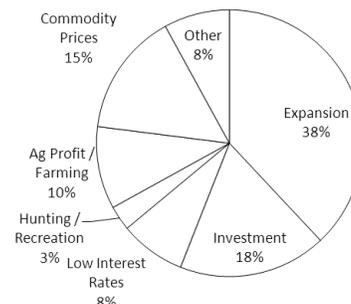
Farm expansion (38%) continues as the most common reason given for purchasing farmland (figure 1). Twenty-five percent cited high commodity prices and related increases in farm profits as the major reasons for purchasing farmland. Another 18% referred to long-term investment related purposes as the motivating factor for purchasing farmland.

Other key reasons for purchasing farmland include low mortgage interest rates, hunting / recreation opportunities, and various other factors.

Farm expansion continues as the most commonly cited reason for purchasing farmland. The prospect of higher farm profits and commodity prices has emerged as a major factor motivating farmland purchases in recent years.

Retirement, high land prices, and estate settlement continue as the three most common reasons for selling farmland (figure 2). Retirement or farmer exit was listed by 29% of responses, while another 24% listed estate settlement as the major reason for selling. Selling farmland to capitalize on current high land prices and resulting capital gains were listed by 37% of responses - the highest percent recorded in our 22 year survey history!

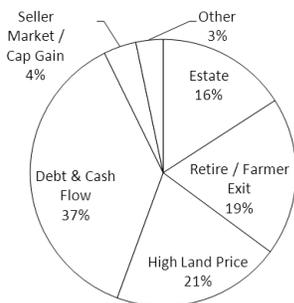
Fig 1. Reasons for buying farmland



Source: 2012 South Dakota Farm Real Estate Market Survey, SDSU.

Only 5% of responses cited financial pressures and seller's need to reduce debt and generate greater cash flow as major reasons for selling farmland (figure 2). The incidence of financial pressure as a primary motivation for selling farmland has varied from 4% to 10% of responses in the past seven years of this survey.

Fig 2. Reasons for selling farmland



Source: 2012 South Dakota Farm Real Estate Market Survey, SDSU.

Respondents' Assessment of Factors Influencing Farmland Markets in South Dakota

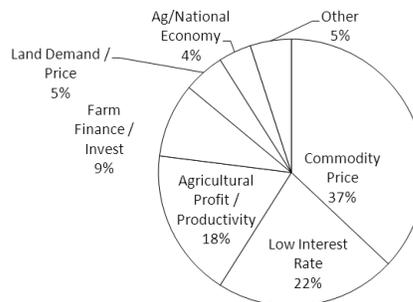
Respondents were asked to list major positive and negative factors affecting the farm real estate market in their localities. These factors help explain changes in the amount of farmland for sale, sale prices, and rental rates. Eighty five percent of survey respondents listed one to three positive reasons, but only 65% listed one to three negative reasons. Thirty seven percent of total responses listed high commodity prices as the main positive factor. Low mortgage interest rates, farm profitability / productivity and farm finance / investment climate were three other key positive factors (figure 3).

Higher input costs and general economic conditions (slow recovery and uncertainty / volatility) were the two most common negative factors and consisted of 48% of negative responses (figure 4). Farm financial factors (tight credit and financial pressure), few new farmers, uncertainty of future federal tax and farm programs, and various "other" items were also listed as negative factors. However, 14% indicated that all farmland market factors were positive.

In summary, respondents to the 2012 survey are very optimistic about farmland market conditions for the following year. Most respondents, 84% to 91%

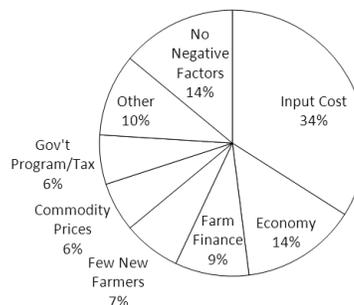
depending on land use, expect land values to increase in the next 12 months and the remainder expect no change.

Fig 3. Positive factors in the farm real estate market



Source: 2012 South Dakota Farm Real Estate Market Survey, SDSU

Fig 4. Negative factors in the farm real estate market



Source: 2012 South Dakota Farm Real Estate Market Survey, SDSU

For more detailed information, a full copy of South Dakota Agricultural Land Market Trends, 1991 – 2012, by Janssen and Pflueger, has been published. It may be accessed at:

<http://igrow.org/up/resources/03-3007-2012.pdf>

NOTE: This edition of the *Commentator* is available electronically on our website at:

<http://www.sdstate.edu/econ/research/commentator/no542.pdf>

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