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LAND RUSH

By Charles E. Gilliland

Rural Prices Near 30-Year High

Despite two major droughts in three years and historically low prices for farm and ranch products, Texas rural land markets finished 1998 with a strong upward trend. A healthy economy and expanding incomes combined to support a 10 percent land price hike as the weighted average price per acre went from \$657 per acre in 1997 to \$700 per acre in 1998.

Fueled by strong demand from non-agricultural buyers, this remarkable price gain marked the fifth year of recovering land prices. The percentage increase matched performance and prices last posted in the 1978-82 era (Table 1). The current state-wide weighted average price indicates that markets have risen to 83 percent of the 1985 high of \$865 per acre.

Notwithstanding the sustained recovery, after adjusting for changes in the consumer price index, deflated Texas rural land prices lagged behind prices in the 1966 market. The real (deflated) price of \$144 per acre rose a substantial 8 percent but still fell short of the 1966 price of \$157 per acre. That drop from the 1966 price represented a compound loss of 0.26 percent spanning the 33-year period. However, this apparent negative for landowners and buyers may disguise a potentially lucrative investment opportunity.

Higher Prices Possible

Because current prices appear to be lagging behind historical prices in real terms, the market may still have room for price improvement. Specifically, population growth in major urban areas feeds the demand for land. Growing metropolitan populations begin to expand into rural settings as non-agricultural land buyers search for recreational properties. Further, individuals seek alternatives to the hectic pace and associated problems of urban living. These forces work their way into the land market, as non-agricultural buyers purchase rural land and, consequently, farmers and ranchers must compete with these buyers for land.

The graph illustrates the influence of non-agricultural land buyers in Texas' rural land markets. This graph charts the relative level of Texas' rural land price, tracked in the Center's land price series, with the USDA average value of Texas farmland. During the mid-years of the last decade, Texas suffered a debilitating recession and non-agricultural buyers abandoned land markets. The down market lasted from 1986 through 1993, coinciding with a period where the Center's weighted average price of rural land and the USDA value for farmland converged.

After 1993, non-agricultural buyers, supported with a sustained recovery in the general economy, reentered the rural land market. With increasing frequency, these buyers sought investment bargains, rural homesites and hunting properties. The Center's rural land price series, indicative of all rural land sales, began to rise more quickly than the purely agricultural value tracked by USDA after 1993. Clearly, the non-farm buyer's influence had returned to help set price trends in Texas rural land markets.

Continued Recovery Likely

Potential investment opportunity arises from the relative positions of the land market in the early and later years of this Center land price series (Table 1). The recession of the 1980s reduced land prices more than the drop in incomes would seem to warrant. While Texas' population has expanded from approximately ten million in the mid-1960s to nearly 20 million in 1998, the inflation adjusted price-per-acre fell below the price at the beginning of the study period.



GOOD CROPS BUT LOW PRICES mean little profit for farmers this year. Consequently, prices for farm and ranch land lag other rural properties, especially those with recreational potential.

More people with higher incomes should create demand that boosts prices beyond 1966 levels. By simple comparison with historical price levels, current prices appear to under-value land when non-agricultural demand is considered. Therefore, despite the woes of agricultural producers, Texas rural land prices may be poised for continued recovery as long as the general economy expands.

Local land market trends often vary from state-wide patterns as buyers and sellers approach the market differently. Examining the land price trends provides useful insights into

market conditions. Regional 1998 rural land market performance varied across the state with some agriculturally dominated areas exhibiting land prices weakness. However, all of the regions that registered statistically verifiable trends posted price increases (Table 2). The gains ranged from 10 percent in the brush country of the Rio Grande Plains (LMA 11) to 46 percent in the Lower Rio Grande Valley (LMA 32). The strength in these regional markets reflects a vigorous economy, that sustained and improved land prices, with expanding incomes—despite the punishing drought of 1998.

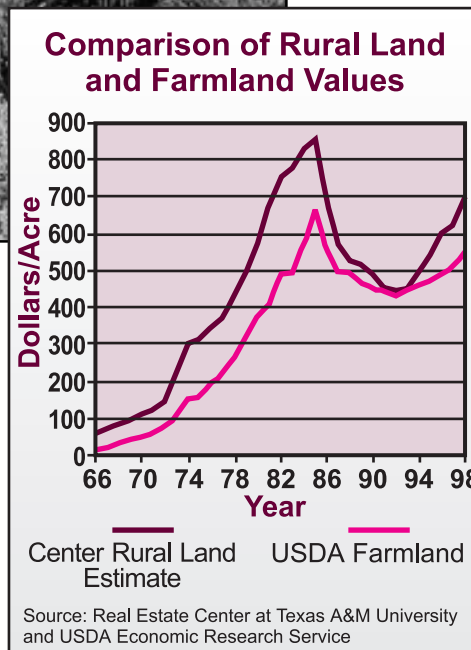
Rio Grande Plains

The brush country of the Rio Grande Plains (LMA 11) increased by 10 percent from \$492 per acre to \$540 per acre. Strong demand for hunting properties contributed to this sizable price increase. With buyers seeking developed hunting properties, game-proof fences have proliferated in this region. Developed hunting properties typically have an existing game management plan, some lodging facilities and high fences. Similar ranches in this region frequently command a premium price ranging from \$100 to \$200 per acre more than comparable properties without the same amenities. This strong demand has contributed to subdividing of larger properties into smaller units designed to appeal to owners who cannot afford to invest in larger acreage.

These non-agricultural buyers frequently curtail or eliminate livestock production on the properties. Current Texas property tax laws preserve the open-space taxation based on agricultural productivity values for lands with a valid wildlife management plan. Although some cattle grazing can contribute to the viability of deer populations, sheep and goats directly compete with deer for food. Therefore, this region will probably see continued upward pressure on prices with reduced importance on some kinds of livestock grazing.

Highland Lakes

Feverish land-buying activity in the Highland Lakes (LMA 16) region has propelled the median price past that of the Kerrville area for the first time. The regional median price rose 26 percent, from \$1,340 per acre to \$1,695 per acre, in 1998. This increase assisted Fredericksburg's emergence as a popular tourist and recreational location. Although hunting plays a role in demand for land in this area, other attractions have drawn a large following. Tempering the bullish picture was the decline in the number of reported sales. This drop in



volume reflects the region's shortage of quality properties for sale.

Coastal Prairie

The Coastal Prairie – North (LMA 19) and Coastal Prairie – South (LMA 20) posted price increases of 36 percent and 4 percent, respectively. The Coastal Prairie – North median price rose from \$1,159 per acre in 1997 to \$1,581 per acre in 1998 in an increasingly active market. Although the Coastal Prairie – South median price only increased from \$800 to \$828 per acre, the trend was consistent and pervasive throughout the region. Observers report an increase in demand for rural homesites from Houston city dwellers seeking the stability and slower-paced life of a rural area. The influx includes families, retirees and persons with careers built around a virtual office. Spreading urban-based demand has counter balanced poor agricultural market conditions to support higher land prices.

Texoma

The Texoma (LMA 22) region posted a 13 percent price increase from \$957 per acre in 1997 to \$1,082 per acre in 1998. This growth reflected spreading demand from the Dallas-Fort Worth metroplex. Formerly confined to regions closer to the cities, these buyers are moving to establish homes in the country. The burgeoning economic activity in the Metroplex has fueled the area's general rise in land prices.

Blacklands – North

After lagging behind the price level of the surrounding region, the Blacklands – North (LMA 25) played catch-up in 1998. The regional median rose 22 percent from \$830 to \$1,016 per acre. Non-agricultural demand drove prices upward as development and rural home building influenced the market.

Brazos

The urban growth and bustling economy of the Brazos (LMA 27) area has sparked a 21 percent increase in median prices. The 1997 price of \$1,200 per acre expanded to \$1,451 in 1998, reflecting growing demand pressures.

Houston

In the Houston (LMA 28) region, continued income growth and an expanding urban population fueled a statistically significant price rise from \$1,800 to \$2,180 per acre, 21 percent more than 1997 levels. This increase occurred despite the decline in prices for agricultural commodities and oil. The increasingly diversified Houston economy continued to support a vigorous land market.

Lower Rio Grande Valley

Development, both around the cities and throughout the countryside, propelled the median price of rural land upward in the Lower Rio Grande Valley (LMA 32), despite its agricultural woes. Adding to the residential land demand, the Interior Department has scheduled further additions to its Rio Grande Valley wildlife preserves.

Environmental groups have cooperated with this project by contributing the excess over market value when owners required more than appraised value for their properties. The purchases have contributed to market strength. Purely agricultural lands are reportedly not selling well. The strong demand for rural homesites, however, continues to strengthen rural prices throughout the Valley.

Some agriculturally dominated regions registered declines in median price per acre. Statistical testing indicates, however, that none of these apparent market declines prevailed

Table 1. Nominal and Real Changes in the Weighted Average Price of Texas Rural Land, 1966-98

Year	Median Tract Size (acres)	Nominal			Real		
		Weighted Average Price per Acre	Year-to-Year Percentage Change	Annual Compound Pretax Growth Rate from 1966	Deflated Weighted Average Price per Acre*	Year-to-Year Percentage Change	Annual Compound Pretax Growth Rate from 1966
1966	120	157	NA	NA	157	NA	NA
1967	110	169	8	8	164	4	4.5
1968	101	181	7	7	169	3	3.8
1969	100	190	5	7	168	-1	2.3
1970	107	204	7	7	171	2	2.2
1971	110	213	4	6	170	-1	1.6
1972	120	233	9	7	180	6	2.3
1973	153	304	30	10	222	23	5.1
1974	150	372	22	11	245	10	5.7
1975	126	384	3	10	232	-5	4.4
1976	128	412	7	10	235	1	4.1
1977	121	436	6	10	234	0	3.7
1978	126	485	11	10	241	3	3.6
1979	132	544	12	10	243	1	3.4
1980	138	613	13	10	242	0	3.1
1981	124	708	15	11	253	5	3.2
1982	105	773	9	10	260	3	3.2
1983	113	796	3	10	259	0	3.0
1984	125	842	6	10	264	2	2.9
1985	118	865	3	9	261	-1	2.7
1986	113	714	-17	8	211	-19	1.5
1987	130	611	-14	7	175	-17	0.5
1988	139	574	-6	6	157	-10	0.0
1989	141	562	-2	6	148	-6	-0.3
1990	135	539	-4	5	134	-9	-0.7
1991	138	508	-6	5	121	-10	-1.0
1992	145	499	-2	5	116	-4	-1.2
1993	140	503	1	4	113	-3	-1.2
1994	136	544	8	5	119	5	-1.0
1995	122	586	8	5	125	5	-0.8
1996	111	638	9	5	132	6	-0.6
1997	139	657	3	5	133	1	-0.5
1998	139	720	10	5	144	8	-0.3

*In 1966 dollars

Source: Real Estate Center at Texas A&M University

throughout the areas for all types of rural land. This lack of uniformity in land price trends reflects a divergence between markets for ranch land and farm land. Observers contend that farm land, in general, remained steady to slightly down, while demand for ranches remained robust. Thus, ample income growth and funds from non-agricultural forces ensured that even the poor-performing land markets registered surprising strength in the face of daunting crop and price conditions.

Examining historical price trends places the 1998 market in context that may indicate future trends. Land price increases similar to those observed in the 1997-98 markets occurred in 1973-74 and 1978-81 (Table 1). These previous eras accompanied economies beset with inflation and unsettled economic times and probably reflected unprecedented increases in demand for agricultural products and severe restrictions in oil supplies. In both cases, the economy failed to sustain the conditions creating the demand for land. Taking those factors into account prompts some observers to question the current economy's ability to sustain growing demand for land.

Bleak Farm Land Prospects

Several differences between those times and the current situation point to reasons to believe that the recovery in land prices may continue. First, as previously noted, deflated current prices are low compared to historical levels. Second, the anticipated transfer of wealth from the World War II generation to their heirs may be underway, and this sudden acquisition of wealth will likely fuel purchases of homes and real estate. Finally, inflation now remains in check while the economy continues to expand. All of these issues point to forces that may favor continuation of the strong non-agricultural demand for rural land. Prices should continue to rise for attractive land in good locations.

Table 2. Trends in Texas Rural Land Prices, 1996-98

Land Market Area	Median Price (\$/ac)		Trend Analysis		Volume of Sales Analysis		
			Change 1997-98		Number of Sales		(%)
	1997	1998	(%)	Test	1997	1998	1997-98
1	\$385	\$357	(7)		99	78	(21)
2	363	307	(15)		189	200	6
3	450	481	7		170	166	(2)
4	400	425	6		110	129	17
5	233	225	(3)		38	45	18
6	235	250	6		112	170	52
7	395	368	(7)		133	140	5
8	119	100	(16)		52	39	(25)
9	343	386	13		95	174	83
10	700	755	8		177	183	3
11	492	540	10	**	81	77	(5)
12	460	403	(12)		186	189	2
13	584	549	(6)		197	146	(26)
14	721	704	(2)		185	131	29
15	559	696	25		50	90	80
16	1,340	1,695	26	*	108	63	(42)
17	1,857	1,511	(19)		20	25	25
18	969	929	(4)		123	123	0
19	1,159	1,581	36	**	133	195	47
20	800	828	4	*	132	166	26
21	850	882	4		109	110	1
22	957	1,082	13	*	196	109	(44)
23	1,800	2,000	11		141	107	(24)
24	1,273	1,400	10		184	177	(4)
25	830	1,016	22	**	313	382	22
26	1,350	1,501	11		91	96	(5)
27	1,200	1,451	21	**	260	212	(18)
28	1,800	2,180	21	**	259	224	(14)
29	736	760	3		213	221	4
30	1,000	1,033	3		151	112	(26)
31	1,207	1,459	21		28	32	14
32	1,373	2,000	46	*	110	113	3
33	5,350	7,822	46		2	2	0
State	\$657	\$720	10		4,447	4,426	0

Note: State price is a weighted average of regional median prices

(*) indicates significance at the 95 percent level

(**) indicates significance at the 99 percent level

Source: Real Estate Center at Texas A&M University

Farm land (land not likely to be purchased for recreational purposes), however, may face decidedly different prospects. The threat of continuing drought, combined with low prices for agricultural commodities, creates a bleak portrait of future land price trends. The agricultural component of rural land demand will likely remain weak until these conditions improve. Land markets in primarily agricultural areas may fare less well in the coming year than land near growing communities or with desirable recreational features. Further increase in land prices are expected statewide with some areas having weakening prices. The prosperity, however, rests on non-agricultural demand for continued improvement. ☒

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