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Development tug-of-war

Urban issues versus rural values

Land is where it all begins. Factors and events that affect the cost of acquiring and adapting land ultimately determine market activity. The fundamentals for urban land have been strong: rising demand for homes and other urban activities with record-breaking construction levels. Rural land is in the midst of a long, slow recovery.

Compiled by the Research Staff

What might change these trends? While there is ample land available for urban expansion, concern is rising over the quality of new development and the social costs of unlimited suburban spread. There is a real possibility of tougher restrictions on where development can take place. The first part of the article looks at this movement and how last year's legislative session affected land markets.

While these are not the best times for agricultural and oil markets, land prices have held up. This is not irrational pricing but reflects facts that are not always well publicized. The second half of the article provides some details.

Urban Land Markets

With real estate markets strong and construction going full blast, it is understandable that concern over growth management should increase as well. Texas cities have few natural boundaries. So when they grow, they tend to spread. Loss of open space and air-quality-depleting automobile traffic are the price of such growth. Often, the government tries to place limits on the cost and the resulting tougher land-use policies limit the supply of developable land.

The issue of urban sprawl may even be introduced into the presidential contest this year. Certainly, Vice-President Al Gore feels this is his strong suit, and he will try to raise public awareness of unlimited growth threats. However, most of the struggle is at the local level, and the battle cry this time around is "smart growth."

Austin appears to be in the forefront of the smart growth movement, at least as far as Texas cities are concerned. The city has identified a broad area over the Edwards Aquifer Recharge

Zone in which growth is to be limited. While development in the area is not prohibited, developers willing to place projects elsewhere will find a measure of cooperation and assistance from the city in acquiring the needed permits and infrastructure extensions. If the plan proves effective, expect other large cities to emulate and adapt this approach, particularly if Texas continues to grow as it has in recent years.

For landowners, smart growth could mean a substantial divergence in land values in urban areas. Within growth priority areas, land values could soar as one objective of smart growth is to encourage high-density and in-fill development within the central city. Low-density expansion is discouraged. Landowners who thought they were in the "path of growth" may be disappointed, and the potential value of their property may be stunted. In another development, the federal government appears to be getting tougher in enforcing air quality standards and this could have serious effects on larger metropolitan areas.

While large cities try to channel and accommodate growth, some of the small, satellite towns surrounding them seem bent on shutting growth off altogether. Many residents of these areas do not want to be swallowed by urban sprawl and are trying to erect barriers to new residents. Of course, increasing numbers of people moving out of the central city feel the same way, causing smaller communities to attract a lot of growth.

The most recent legislative session appeared to be more concerned with perceived "abuses" of municipal powers than in equipping cities with stronger controls. One of the more significant bills becoming law was HB 89 which requires cities to have annexation plans if they want to expand their territory. There have been cases where cities have used annexation merely to stop nearby development. Among the provisions of the new law is a prohibition on annexing territory unless it has been in the city's annexation plan for three years.

House Bill 2045 sought to restrict cities' use of impact fees — the charges they place on new development to compensate for the cost of building and extending public infrastructure. The bill asked cities to estimate how much property tax the development would pay in the future and credit those taxes against the fee, or cut the fee by 50 percent in lieu of such analysis (earlier studies conducted in Tyler and San Antonio

by the Center documented the positive net fiscal impact of new subdivisions). Although vetoed by the governor, expect to see continued effort to modify cities' powers to exact impact fees.

There are new laws restricting municipal powers to regulate amateur radio antennas and anything that might restrict someone's rights to religious practices. On the other hand, a number of new laws were passed that strengthen counties' exercise of subdivision regulations (counties do not have zoning powers).

The drought of recent years elevated water supply and quality as a major issue. A system for groundwater regulation for the Edwards Aquifer was created in a previous session and is being implemented. This session avoided extension of those controls but did adopt a few minor measures, despite vigorous local opposition. Availability of fresh water may well become an important determinant of regional growth potential in the coming years.

Rural Land Markets

Despite falling crop prices and persistent drought, Texas rural land prices continue to rise, a trend that has endured through most of the last decade.

While farm income is important in supporting land valuations, there are several reasons why lower crop prices have not pushed land prices downward:

- Federal farm program payments and special drought relief programs helped keep farmers in operation, preventing a glut of forced farm land sales.
- Many areas of the state had adequate rains, resulting in ample harvests.
- In many areas, land values are supported by recreational uses, primarily hunting leases. Good game habitat can be equally or more lucrative than good crop land.

These factors do not necessarily mean that a continuation of agricultural difficulties will not affect land prices in the future. Farm land prices have been sliding a bit in the mid-west according to some observers. Similar declines have historically preceded national trends. However, a repeat of the precipitous drop in Texas land prices, as occurred from 1985 to 1992 is not likely, as farmers are much less debt-laden and better capitalized than they were at that time. Also, there is not as much in land prices reflecting the value of oil and gas leases as during the big run-up in land prices of the late 1970s.

So while Texas farmers may have problems to contend with, dealing with declining land markets should not be one of them, at least not in the near future. ➤

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