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BY CHARLES E. GILLILAND, GREGORY PETTIGREW, DAVID CARCIERE AND ZACHRY DAVIS

**B**uyers focusing on recreation and investment have propelled Texas rural land prices into the stratosphere. The price of an acre of rural Texas soared 16 percent in 2004, rising from \$1,097 in 2003 to \$1,274 per acre (Figure 1).

The price surge is the largest single-year percentage increase since those registered from 1972 to 1974 and the third-highest annual gain in the past 38 years.

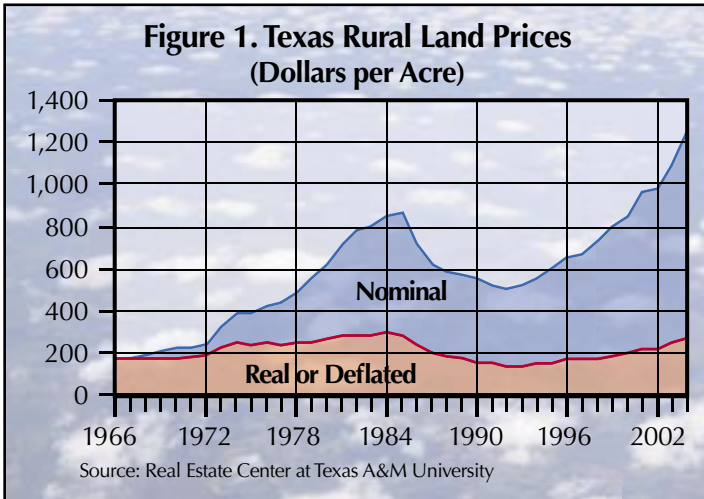
At \$273 per acre, real prices adjusted to reflect 1966 dollars reached 1980–1981 price levels but were below the 1984 peak of \$288 per acre. This strong price performance is a 62 percent five-year gain in nominal (actual) prices since 1999, a 10 percent annual compound return.

These market developments resulted from feverish land-buying activity totaling 8,073 sales in 2004. That activity level outpaced the 2003 record volume of 7,283 sales by 11 percent. Sales have exploded since 2001.

The typical tract size sold in Texas during 2004 was 102 acres (Figure 2). Today's market is driven by sales of smaller properties, a trend that began in 2001 when the median tract size fell noticeably.

Meanwhile, volume of sales for larger properties increased from 29 in 2001 to 87 in 2004. Concurrently, sales of small properties (fewer than 150 acres) increased from 1,864 in 2001 to 3,009 in 2004.

In years past, land prices strictly reflected the productive capabilities of the soil along with the ebb and flow of commodity markets. Now, nonagricultural buyers fuel activity



with investment and recreational considerations influencing markets all across Texas.

Research suggests that the link between nonagricultural personal income and land prices has strengthened. Analysis and anecdotal evidence suggest nonfarm buyers are dominating rural land markets like never before.

Regional median prices have risen sharply across Texas. From the high-priced Houston-to-Austin-to-Hill Country corridor to the lower-priced Panhandle and Trans-Pecos areas, markets thrived in 2004. For the first time ever, not one region registered a lower median price per acre than in the previous year.

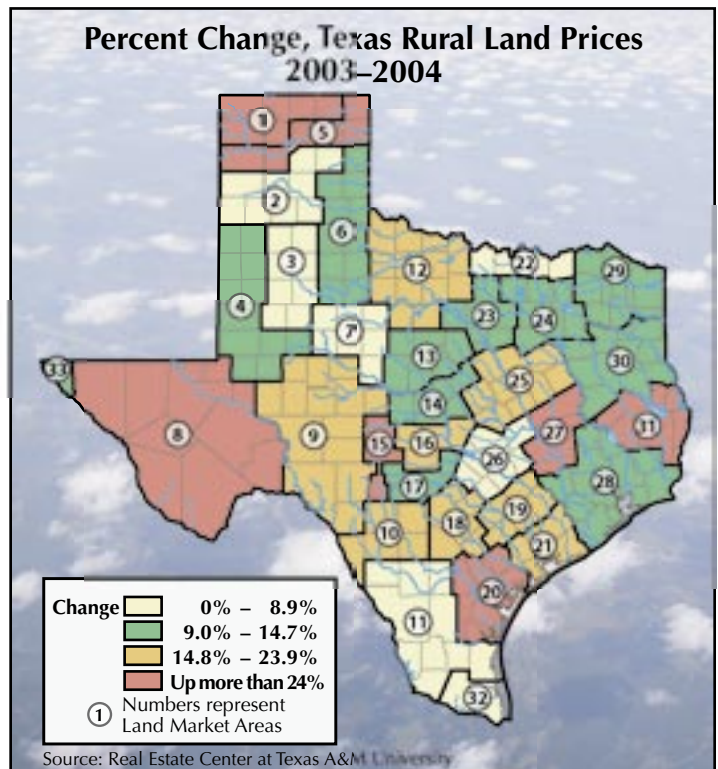
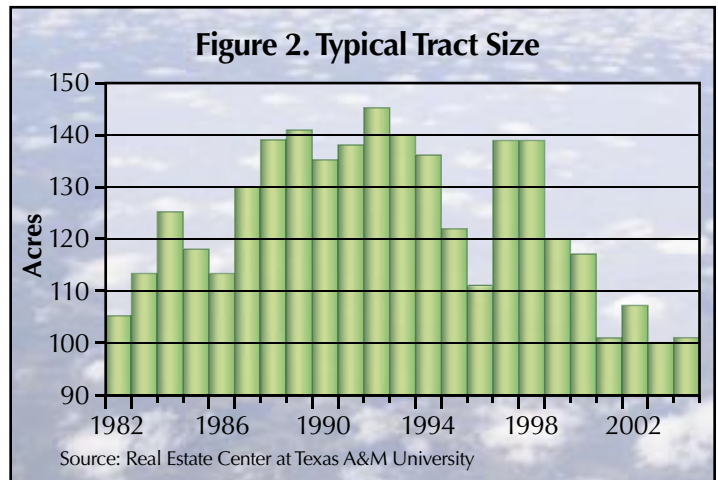
Ironically, Land Market Areas 1 and 5 registered two of the largest percentage increases while their cropland neighbors, LMAs 2 and 3, had prices remain steady. However, most areas of the state saw prices rise in 2004.

The forces sending prices upward continue to drive 2005 markets. A general lack of lucrative investment alternatives makes the decision to acquire land less costly than when stocks are booming. Currently, low interest rates continue to foster interest in all real estate. Recession is not a factor, and the economy appears to be thriving.

**D**anger signs have appeared, however. High oil prices, which are stubbornly refusing to drop despite an apparently abundant supply, may sabotage the current recovery. Interest rate hikes in the offing may also take a toll.

Still, economists are calling for robust farm income in Texas in 2005, and nothing has dampened enthusiasm for Texas land. Despite some anecdotal evidence of emerging price resistance, 2005 is shaping up to be another strong year in Texas land markets. By 2006, land prices may post another sizable increase. ➤

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