



TEXAS LAND MARKET DEVELOPMENTS - 2005

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TECHNICAL REPORT

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Executive Summary of Texas Land Market Developments – 2005

- Prices rose 16 percent from \$1,274 per acre in 2004 to \$1,483 per acre in 2005. This was a record high for a 100-acre tract.
- Prices rose strongly throughout the state. The area stretching from San Antonio to the Gulf Coast registered especially high percentage increases.
- The 2005 market saw an increased presence of investment-minded buyers bringing an influx of tax-sheltered cash.
- Out-of-state investors were more prevalent.
- Some investors appear to perceive inflation in the future.
- Buyers are flocking to the market to buy before rising prices force them out.
- The dearth of quality properties for sale continues.
- Sizable price gains should continue into 2007.

Demand for recreational land and an influx of investment-driven buyers combined to propel the 2005 land market to an historic high.

These factors also pushed up the price of an acre of Texas rural land by 16 percent, from \$1,274 per acre in 2004 to \$1,483 per acre in 2005. That milestone, marked the fourth double-digit percentage increase in the past five years (Figure 1). In the aftermath of the 9-11 attacks, only 2002 with an anemic 3 percent rise failed to post gains exceeding 10 percent.

The 2005 performance extended bullish market results for the third straight year. The 16 percent gain matched the 2004 expansion and was the third highest annual gain in the past 40 years. Only 1973 and 1974 experienced larger price increases. Table 1 reports the prices reflected in Figure 1.

The real or inflation-adjusted price of \$306 per acre in 1966 dollars pushed past the previous record high of \$288 set in 1984-85. Nominal prices shown in Figure 1 reflect the actual prices paid while real prices reflect the nominal prices adjusted for inflation. This strong upward trend produced a 76 percent, five-year gain in nominal prices since 2000. That gain yielded a 12 percent annual compound return over 2000-05.

Fueled by high levels of activity, the 2005 markets recorded 8,368 total sales, exceeding the 2004 record volume of 8,073 sales. Figure 2 indicates the reported sales volume for each year between 1982 and 2004. The chart reveals an explosion in the level of activity following 2002 that continues unabated.

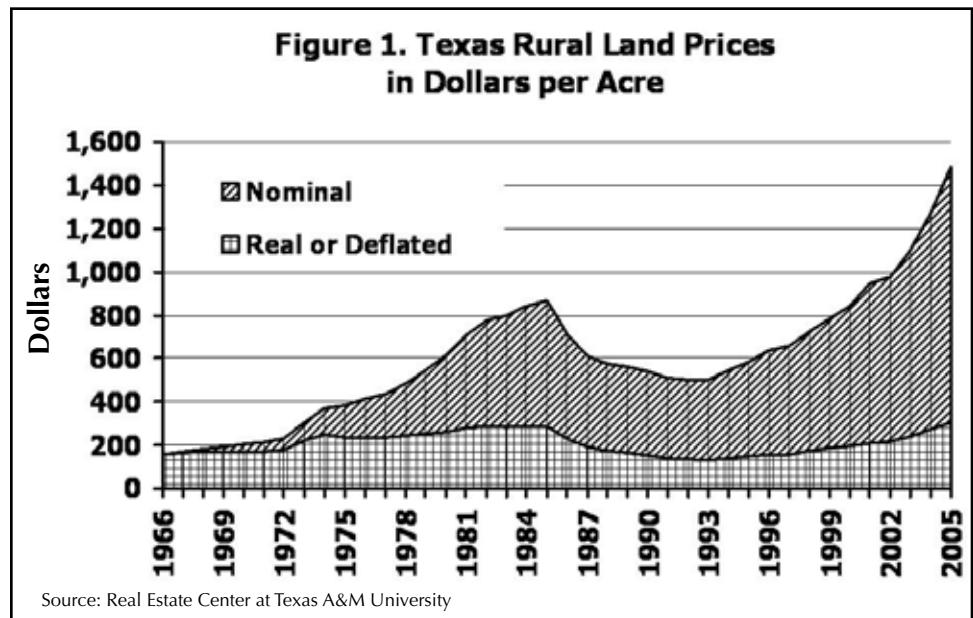
Typical Tract Transaction

At 100 acres, the typical transaction remained small. Tract size has settled at a modest level since size peaked in 1997-98 (Figure 3). That size drop roughly coincided with the increase in volume of sales as a growing number of buyers scoured the countryside for properties that fit their land purchase budget. Sellers often split larger holdings to broaden the potential market for their land and boost its price per acre. The rush to subdivide larger holdings has resulted in a shortage of large properties.

Many investors approach land markets with a specific sum earmarked for land purchases. That amount determines the total price range of property they will consider. For example, a buyer with \$5 million to invest will seek out properties with asking prices near that amount. Consequently, sellers of large properties generally face a restricted market because relatively few potential buyers can muster the resources needed for such large purchases.

Offering smaller properties tends to attract more competing buyers, increasing the bidding pressure and shortening marketing time. The falling tract size and increasing numbers of sales in Texas markets reflect these realities.

Figure 4 suggests that sales of small properties ebbed during the 1970s and early 1980s, settling at historic lows in the latter part of the decade. The numbers of small sales began a gradual



increase after 1993, only to see an explosion in the sales volume from 2001 through 2005.

Historically averaging 42 percent of total sales, small tracts composed more than 48 percent of the total in four of the past five years. Along with the increase in absolute numbers of sales, small properties have also posted dramatic increases in price per acre, especially in 2004 and 2005. These market developments have coincided with a rush to the countryside in all parts of Texas.

From the late 1990s, the percentage of small sales moving through the market has increased substantially until small sales now compose half of all sales reported to the Center (Figure 5).

For investors with substantial amounts to invest, the array of available properties often is limited owing to the breakup of large holdings. The resulting dearth of large property offerings may have created conditions allowing sellers to capture a per-acre premium. The number of properties greater than 5,000 acres sold in the past two years has increased when compared to the norm in the 1980s (Figure 6). Although the volume of 80-

percent of such sales. In 2002, however, that volume fell to 65 percent and in 2005 declined to just 50 percent of large sales. In 2005, half of large sales occurred throughout the remainder of Texas with the largest volume, 12 sales or 15 percent, taking place in Rio Grande Plains of South Texas (LMA 11). The North Central Plains (LMA 12) accounted for another nine sales or 11.25 percent of large transactions. Obviously, large property buyers are spread across the state.

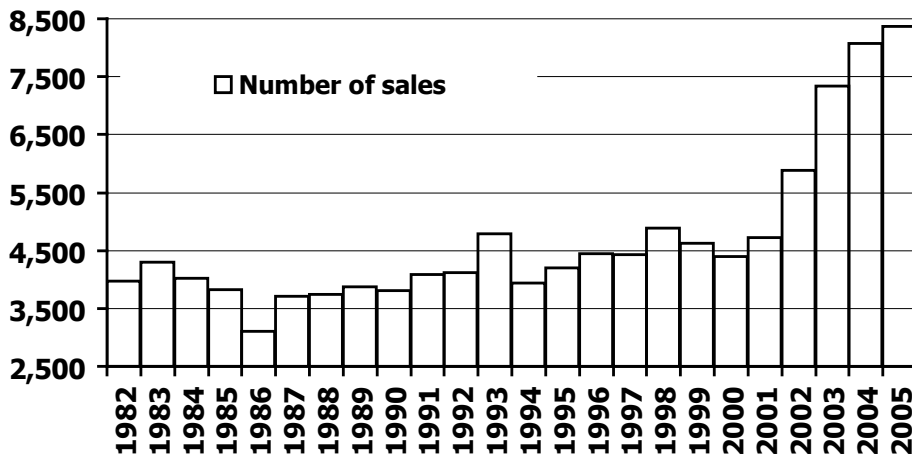
Non-Agricultural Purchases Expand

Viewing land prices as the result of agriculturally based activities increasingly reflects the conventional wisdom from a simpler time. In past decades, land prices tended to strictly reflect the productive capabilities of the soil as they were converted into agricultural income. As Texas evolved to an urban-based society, nonfarm buyers flocked to the countryside buying acreage for recreation and investment.

In the past decade, these nonagricultural buyers have come to dominate market activity. Increasingly, the prevalence of purchases driven by the desire to avoid capital gain taxes on the sale of real estate has prompted sellers to take advantage of the 1031 exchange opportunities in the IRS regulations. The 1031 exchange allows an owner to convert one real estate investment with another without recognizing the gain as taxable income.

Many market participants now frequently note that 1031 exchanges, often involving buyers from outside Texas, are inspiring a growing number of transactions in the Texas land markets. Resident Texans have reacted by accelerating plans to purchase land before prices move too high. Together, these forces have

Figure 2. Texas Land Market Volume

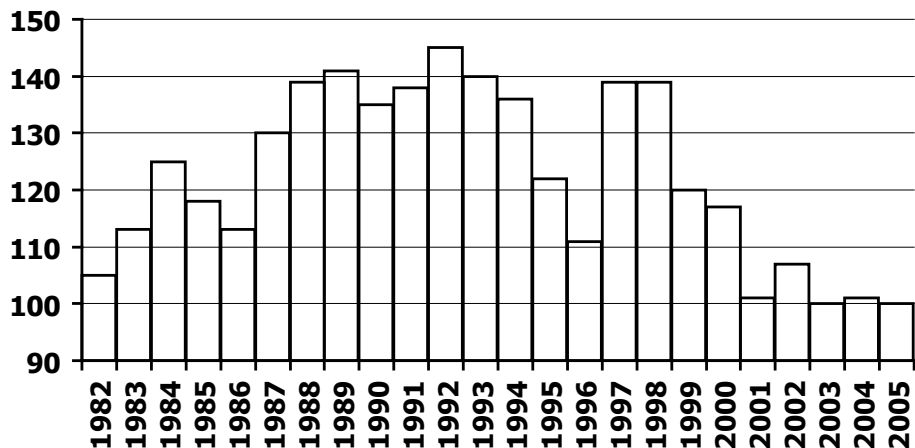


Source: Real Estate Center at Texas A&M University

90 sales is a small proportion of the market, that level is much greater than the approximately 30 sales from the earlier era. In addition to the increased volume, the median price paid for these tracts increased substantially above historical precedents.

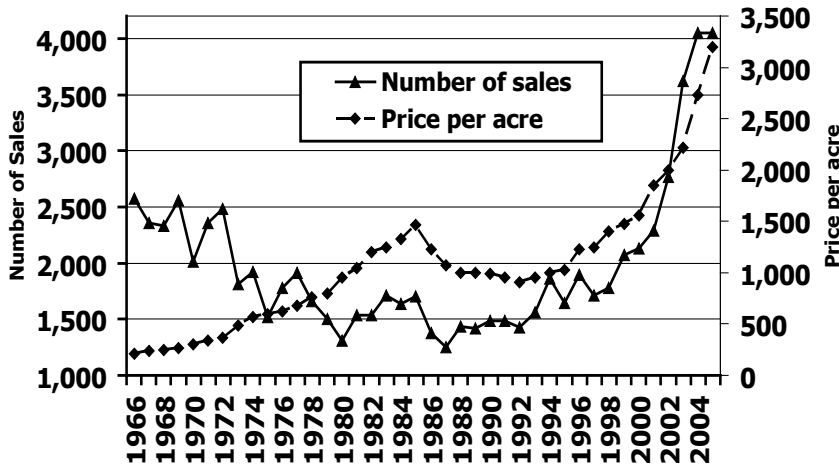
Obviously, large ranch sales compose a small proportion of the entire market (Figure 7). However, the focus of the large property portion of the market has shifted since 2001. During the 1966-2006 interval, the large portion of the market concentrated in West Texas, Land Market Areas (LMA) 1-9, (see appendix for geographic boundaries of LMAs). West Texas has historically accounted for more than 70

Figure 3. Typical Tract Size in Acres



Source: Real Estate Center at Texas A&M University

Figure 4. Texas Land Sales Smaller Than 100 Acres



Source: Real Estate Center at Texas A&M University

anomalies accounted for the only regions exhibiting lower prices and did not signal a general weakening market-wide trend. Those regions will likely rebound in 2006.

Prospects for 2006

Forces propelling prices upward have accelerated into 2006, pushing markets even higher. Investors seem to perceive inflation ahead and desire to plow funds into tangible assets like land. Tax considerations add to the demand for land. Despite high energy price levels, recession does not appear to be on the immediate horizon, and the economy continues to thrive.

The thriving economy contributes to incomes that support the demand for recreational property. Buyers have begun to seek out land to avoid being priced out of the market as increasing demand

created a feverish struggle to identify attractive properties and attempting to induce the owner to sell.

Regional Land Market Developments

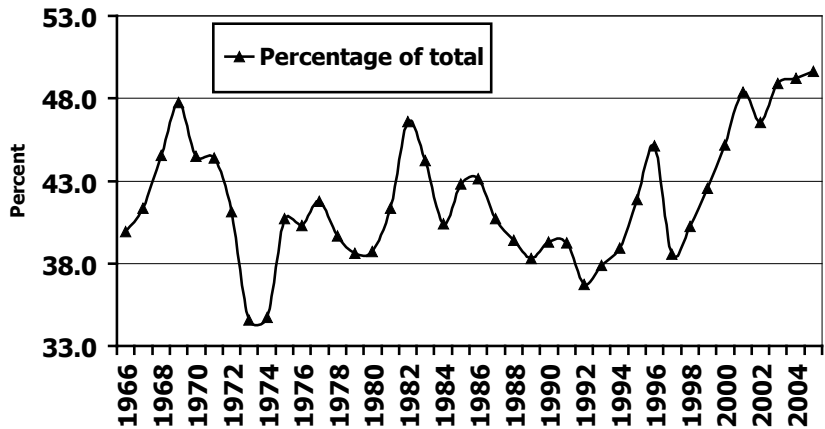
In 2005, the geographic distribution of land prices continued to reflect both population density and the draw of scenic amenities (Figure 8). The highest prices surrounded cities: Dallas-Fort Worth, Houston, El Paso, Austin and the Lower Rio Grande Valley. Responding to the scenic appeal of the Hill Country, the high prices stretched westward from Austin through Fredericksburg to Kerrville. The lowest price land found a column through West Texas from Amarillo through the Trans-Pecos area to the Rio Grande. As Figure 8 clearly indicates, most of the higher prices in Texas occur in the heavily populated eastern portion of the state.

Figures 9 shows regional percentage changes in median price per acre from 2004 to 2005. The highest percentage price gains prevailed in a strip from San Antonio through Gonzales to the Coastal Bend, land market areas 18, 19 and 21. The second tier of percentage price jumps prevailed from the Stephenville region through Wichita Falls, Lake Texoma to Texarkana, LMAs 13, 12, 22 and 29.

The South Texas brush country (LMA 11) also posted large price increases. Much of the remainder of the state saw sizable escalation of prices with only the Highland Lakes, Trans-Pecos and Mule Shoe areas taking a breather in 2005 following their hot markets in 2004.

Market developments in 2005 reflected the increased presence of investment-minded buyers and an influx of tax-sheltered cash. Prices rose strongly throughout Texas. Market

Figure 5. Texas Land Sales Smaller Than 100 Acres as Percent of Total



Source: Real Estate Center at Texas A&M University

drives prices up. These circumstances lead market participants to note repeatedly a dearth of quality listings and long lists of potential buyers.

The troubling market influences consist of high energy prices and rising interest rates. At some point, continued high oil prices will sabotage economic activity. However, they have not derailed the recovery at this time. Future interest rate hikes may take a toll. Farm policy is in complete disarray, so no one can realistically predict operating conditions for farmers in the near future. And drought stalks across Texas, weakening both farming and ranching. Despite these potential problems, current activity suggests that by 2007, land prices should post another sizable increase.

Regional Developments

The following LMAs registered especially strong (statistically significant) trends compared with markets levels in of 2004.

All of these regions experienced price increases with some posting large percentage gains. The local developments reflected a voracious appetite for land. The analysis notes some of the forces driving those trends and Table 2 contains detailed statistics documenting regional developments.

LMAs 10, 11, 18, 19 and 21. Hottest Texas region in 2005 (price increases from 24 to 33 percent)

- Recreation still drives this market resulting in premium prices for ranches with established game management plans.
- Investors have also appeared in increasing numbers with many using 1031 exchanges to purchase property.
- Nonhunting recreation is becoming more common.
- Demand for developable land is strong.
- High oil prices have increased income to royalty owners and some of that money is finding its way into the land market.
- The inventory of available properties continues to be tight.

LMAs 12, 13, 14, 22, 29, 30 and 31. The second hottest region in 2005 (percentage increases ranging from 9 to 32 percent)

- Prices throughout this region experienced a dramatic rise.
- Recreational and investment purchases are driving prices.
- Purchases with 1031 exchange money has become more prevalent.
- Buyers from metropolitan areas have expanded into much of this area in search of cheaper land.
- Markets have been extremely active.

LMAs 20, 23, 24, 25, 26 and 27. Booming urban regions (percentage increases ranging from 7 percent to 22 percent)

- Demand for development land is driving good quality land prices higher.
- Investors are positioning themselves for future expansion and development. Buyers appear to be positioning purchases to be in the path of development in the next two to three years.
- Mineral development activity over the Barnett Shale is

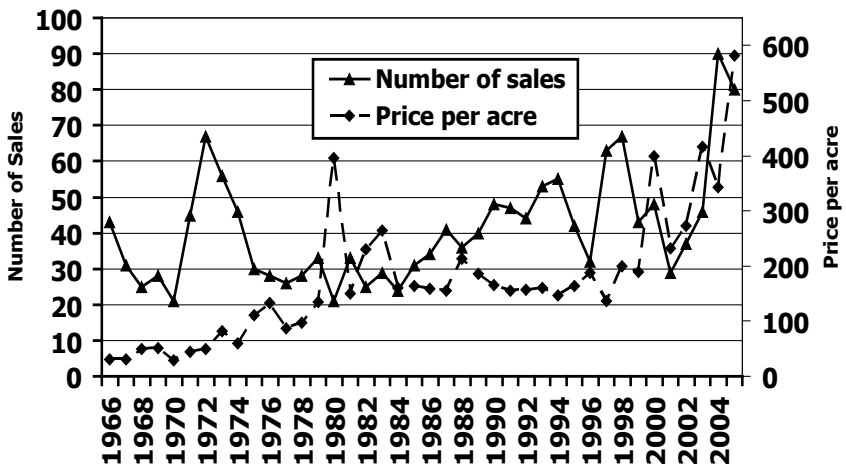
influencing the market near Fort Worth.

- Recreational users must compete with developers for land in these regions.

LMAs 15 and 17. Vigorous Hill Country market (11 to 18 percent increase)

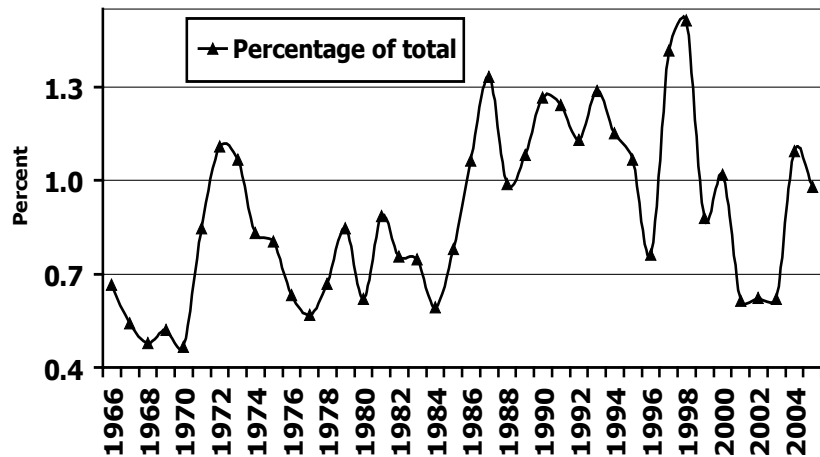
- At \$5,785 per acre, the Kerrville area posted the highest median price in Texas.
- The volume of reported sales increased across the area.
- Recreational demand and investment buyers dominated the market.
- Developments are spreading in much of the area.

Figure 6. Texas Land Sales Greater Than 5,000 Acres



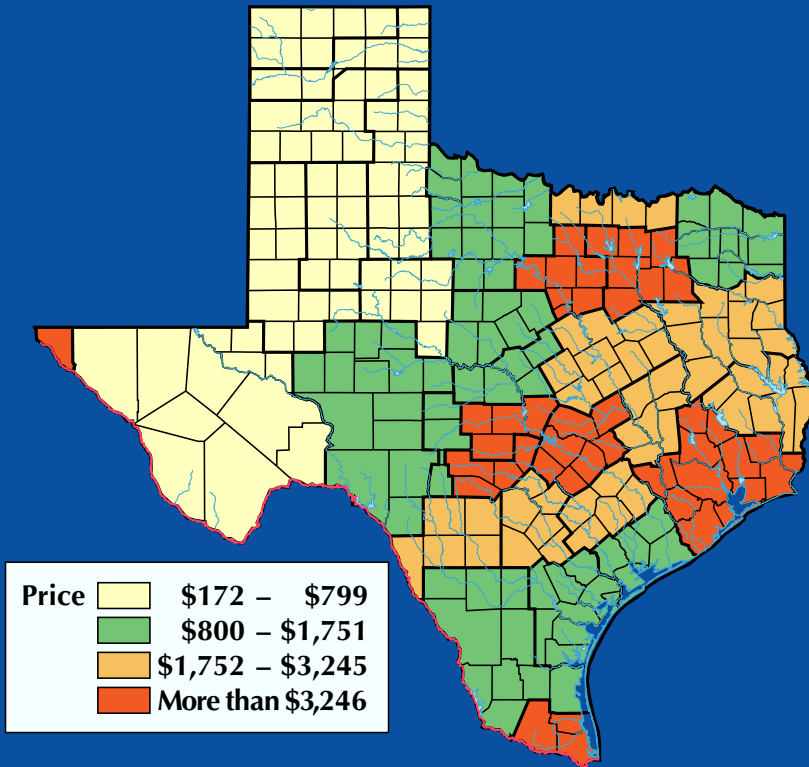
Source: Real Estate Center at Texas A&M University

Figure 7. Texas Land Sales Greater Than 5,000 Acres as Percent of Total



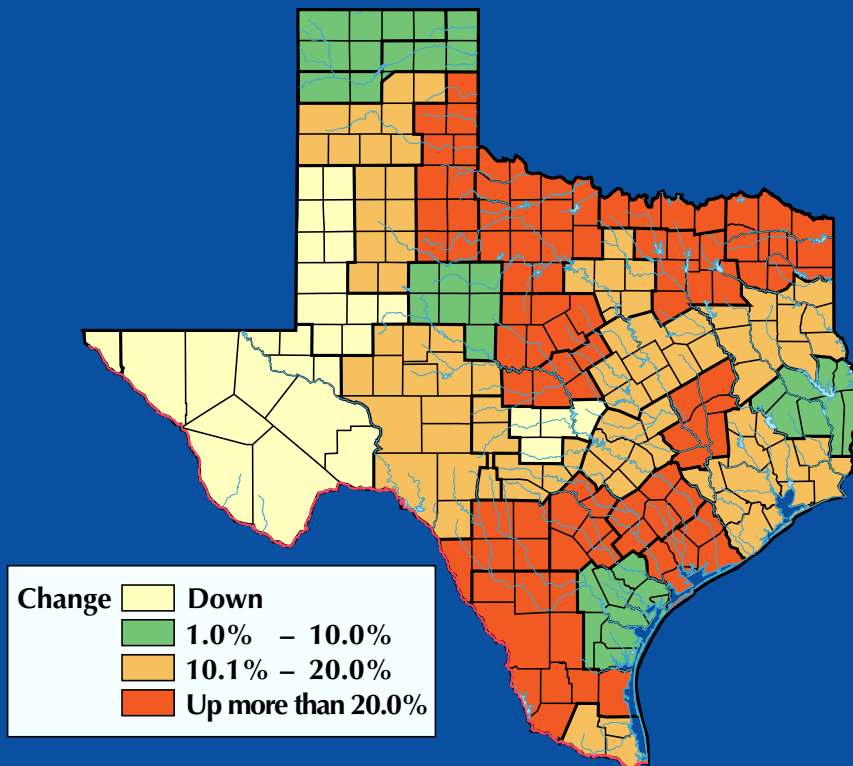
Source: Real Estate Center at Texas A&M University

Figure 8. Texas Rural Land Prices, 2005



Source: Real Estate Center at Texas A&M University

Figure 9. Percent Change in Texas Rural Land Prices, 2004-05



Source: Real Estate Center at Texas A&M University

Table 1. Nominal and Real Changes in Weighted Average Price of Texas Rural Land, 1966–2005

Year	Median Tract Size (acres)	Weighted Average Price per Acre	Nominal	Annual Compound Pretax Growth Rate from 1966	Deflated Weighted Average Price per Acre*	Real	Annual Compound Pretax Growth Rate from 1966
			Year-to -Year Percentage Change			Year-to -Year Percentage Change	
1966	120	\$157	****	****	\$157	****	****
1967	110	169	8	8	164	4	4.5
1968	101	181	7	7	168	2	3.4
1969	100	190	5	7	168	0	2.3
1970	107	204	7	7	172	2	2.3
1971	110	213	4	6	171	-1	1.7
1972	120	233	9	7	179	5	2.2
1973	153	304	30	10	221	23	5.0
1974	150	372	22	11	248	12	5.9
1975	126	384	3	10	234	-6	4.5
1976	128	412	7	10	238	2	4.2
1977	121	436	6	10	236	-1	3.8
1978	126	485	11	10	246	4	3.8
1979	132	544	12	10	254	3	3.8
1980	138	613	13	10	263	4	3.8
1981	124	708	15	11	278	6	3.9
1982	105	773	9	10	286	3	3.8
1983	113	796	3	10	283	-1	3.5
1984	125	842	6	10	288	2	3.4
1985	118	865	3	9	288	0	3.2
1986	113	714	-17	8	232	-19	2.0
1987	130	611	-14	7	193	-17	1.0
1988	139	574	-6	6	176	-9	0.5
1989	141	562	-2	6	166	-6	0.2
1990	135	539	-4	5	153	-8	-0.1
1991	138	508	-6	5	139	-9	-0.5
1992	145	499	-2	5	134	-4	-0.6
1993	140	503	1	4	132	-1	-0.6
1994	136	544	8	5	140	6	-0.4
1995	122	586	8	5	147	5	-0.2
1996	111	638	9	5	158	7	-0.0
1997	139	657	3	5	160	1	0.1
1998	139	723	10	5	174	9	0.3
1999	120	786	9	5	186	7	0.5
2000	117	842	7	5	195	5	0.6
2001	101	945	12	5	214	10	0.9
2002	107	974	3	5	217	1	0.9
2003	100	1,097	13	5	240	11	1.2
2004	102	1,274	16	6	273	14	1.5
2005	100	1,483	16	6	306	12	1.7

*In terms of 1966 dollars

Source: Real Estate Center at Texas A&M University

Table 2. Trends in Texas Rural Land Markets, 2004–05

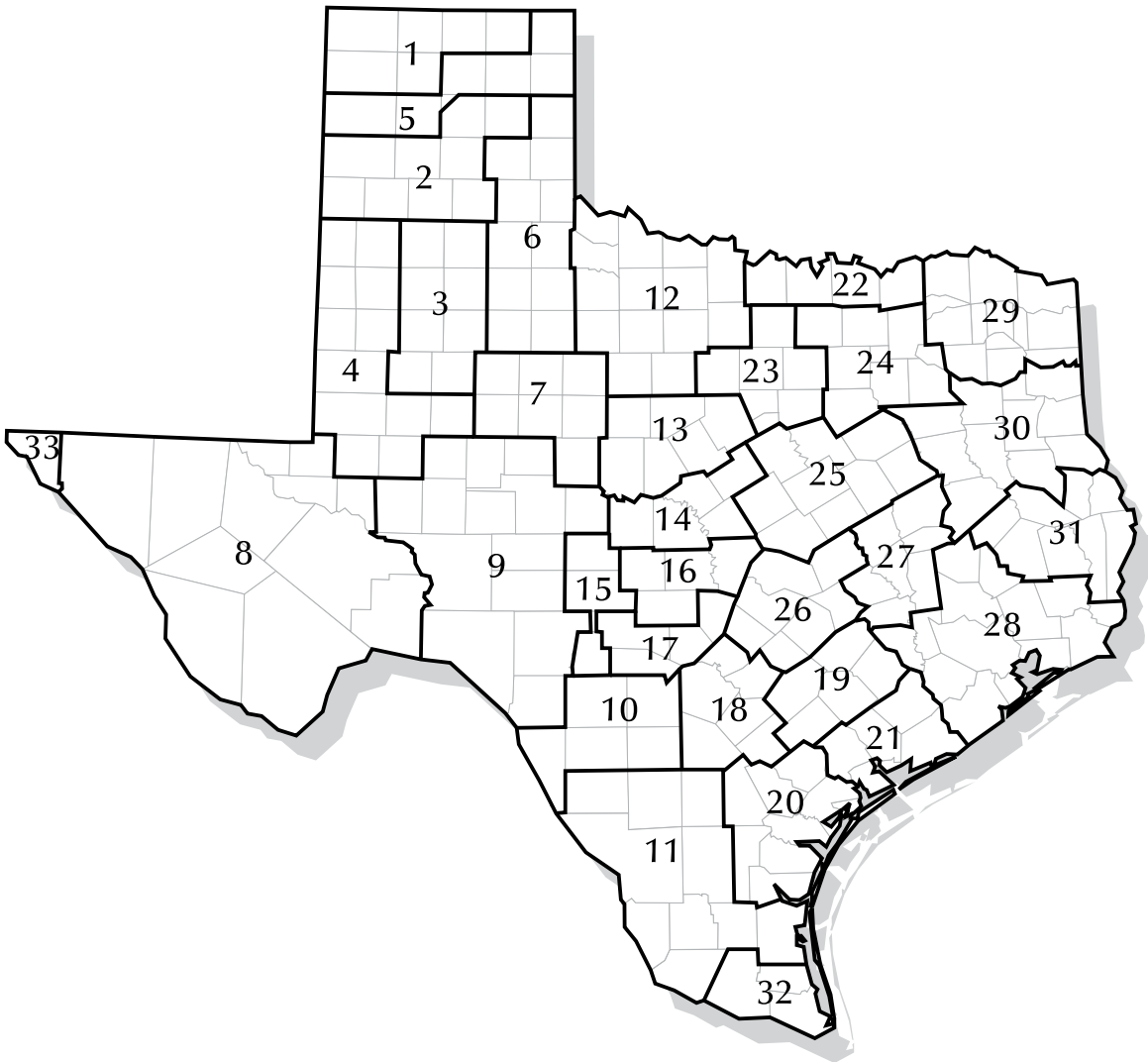
LMA	Description	Volume of Sales			Typical Size of Transaction				Typical Prices							
		2004	2005	Percentage	Acres per Sale		Change		Extremes		Dollar per Acre		Change		Extremes	
					2004	2005	Percentage	TEST	Minimum	Maximum	2004	2005	Percentage	TEST	Minimum	Maximum
1	Panhandle–North	105	99	-6	370	627	69	*	80	21,778	500	550	10	**	120	1,800
2	Panhandle–Central	181	167	-8	320	331	3		45	9,325	445	500	12		147	15,211
3	South Plains	260	250	-4	200	200	0		10	1,440	501	566	13		85	13,857
4	Permian–West	265	264	0	240	314	31		12	5,613	543	511	-6		95	9,033
5	Canadian Breaks	25	31	24	390	640	64	*	20	2,240	373	389	4	**	176	4,975
6	Rolling Plains–North	214	174	-19	320	320	0		20	15,282	414	500	21	**	129	2,768
7	Rolling Plains–Central	281	261	-7	166	197	19	*	18	6,069	550	560	2		115	10,389
8	Trans-Pecos	45	25	-44	3,582	320	-91		25	74,220	210	172	-18		85	3,500
9	Edwards Plateau–West	295	480	63	255	259	1		10	86,889	694	800	15	**	160	18,493
10	Edwards Plateau–South	199	212	7	140	73	-48	*	10	78,762	1,779	2,214	24	**	119	22,244
11	Rio Grande Plains	146	185	27	570	303	-47	**	11	14,471	950	1,200	26	*	457	6,930
12	North Central Plains	414	432	4	160	167	4		11	34,350	668	850	27	**	275	10,722
13	Crosstimbers	489	542	11	136	141	4		10	10,300	1,196	1,500	25	**	361	15,745
14	Hill Country–North	348	411	18	160	159	-1		11	11,403	1,448	1,751	21	**	685	13,198
15	Hill Country–West	114	135	18	240	161	-33		19	1,580	1,397	1,550	11	**	234	12,456
16	Highland Lakes	255	267	5	57	67	18		10	6,256	3,552	3,500	-1	**	1,460	20,272
17	Hill Country–South	193	210	9	60	52	-14		10	4,495	4,910	5,785	18	**	979	24,478
18	San Antonio	433	347	-20	58	55	-5		10	2,128	2,133	2,818	32	**	316	25,000
19	Coastal Prairie–North	319	304	-5	67	51	-24	*	10	1,305	2,387	3,100	30	**	533	23,003
20	Coastal Prairie–South	231	175	-24	128	101	-21		12	8,788	1,352	1,450	7	**	750	22,144
21	Coastal Prairie–Middle	144	161	12	103	97	-6		10	21,322	1,219	1,627	33	**	525	18,602
22	Texoma	178	242	36	75	49	-34	**	10	1,170	2,033	2,675	32		900	21,500
23	Fort Worth Prairie	252	341	35	40	31	-20		10	13,000	3,710	4,250	15	**	938	20,231
24	Dallas Prairie	262	311	19	48	50	4		10	1,102	2,780	3,359	21	*	400	23,000
25	Blacklands–North	518	517	0	96	92	-5		10	2,320	1,750	2,009	15	**	406	15,189
26	Blacklands–South	424	510	20	44	46	4		10	1,761	3,259	3,847	18	*	350	24,916
27	Brazos	436	344	-21	38	39	3		10	3,700	2,667	3,242	22	**	345	18,802
28	Houston	434	452	4	40	45	12	*	10	3,882	4,012	4,525	13	*	420	23,756
29	North East	130	102	-22	88	78	-12		10	5,251	926	1,201	30		283	13,837
30	Piney Woods–North	152	189	24	53	68	27		11	2,331	1,588	1,825	15	*	494	9,150
31	Piney Woods–South	42	51	21	65	54	-16		10	547	1,700	1,850	9	**	850	7,445
32	Lower Rio Grande Valley	287	176	-39	40	27	-33	**	10	1,829	3,112	3,482	12		835	19,500
33	El Paso	2	1	-50	94	108	15		108	108	9,400	7,500	-20		7,500	7,500
Texas		8,073	8,368	4	102	100	-1		10	86,889	1,274	1,483	16	**	85	25,000

Source: Real Estate Center at Texas A&M University

Note 1: Test shows the result of a Mann-Whitney test of the indicated changes; (**) indicates significance at 99% level; (*) indicates significance at the 95% level; all others showed no statistically verifiable trend

Note 2: Test data in the volume, size and price columns are rounded. Percentage calculations are based on unrounded numbers.

Texas Land Market Areas



1 Panhandle–North	12 North Central Plains	23 Fort Worth Prairie
2 Panhandle–Central	13 Crosstimbers	24 Dallas Prairie
3 South Plains	14 Hill Country–North	25 Blacklands–North
4 Permian–West	15 Hill Country–West	26 Blacklands–South
5 Canadian Breaks	16 Highland Lakes	27 Brazos
6 Rolling Plains–North	17 Hill Country–South	28 Houston
7 Rolling Plains–Central	18 San Antonio	29 Northeast
8 Trans-Pecos	19 Coastal Prairie–North	30 Piney Woods–North
9 Edwards Plateau–West	20 Coastal Prairie–South	31 Piney Woods–South
10 Edwards Plateau–South	21 Coastal Prairie–Middle	32 Lower Rio Grande Valley
11 Rio Grande Plains	22 Texoma	33 El Paso

Source: Real Estate Center at Texas A&M University

Texas Market Areas and Counties

Land Market Area 1

Dallam
Hansford
Hartley
Moore
Ochiltree
Sherman

Land Market Area 2

Armstrong
Briscoe
Carson
Castro
Deaf Smith
Gray
Parmer
Randall
Swisher

Land Market Area 3

Borden
Crosby
Dawson
Floyd
Garza
Hale
Lubbock
Lynn

Land Market Area 4

Andrews
Bailey
Cochran
Ector
Gaines
Hockley
Howard
Lamb
Martin
Midland
Terry
Yoakum

Land Market Area 5

Hemphill
Hutchinson
Lipscomb
Oldham
Potter
Roberts

Land Market Area 6

Childress
Collingsworth
Cottle
Dickens
Donley
Hall
Kent
King
Motley
Stonewall
Wheeler

Land Market Area 7

Fisher
Jones
Mitchell
Nolan
Runnels
Scurry
Taylor

Land Market Area 8

Brewster
Crane
Culberson
Hudspeth
Jeff Davis
Loving
Pecos
Presidio
Reeves
Terrell
Ward
Winkler

Land Market Area 9

Coke
Concho
Crockett
Edwards
Glasscock
Irion
Kinney
Reagan
Schleicher
Sterling
Sutton
Tom Green
Upton
Val Verde

Land Market Area 10

Frio
Maverick
Medina
Uvalde
Zavala

Land Market Area 11

Brooks
Dimmit
Duval
Jim Hogg
Kenedy
La Salle
McMullen
Starr
Webb
Zapata

Land Market Area 12

Archer
Baylor
Clay
Foard
Hardeman
Haskell
Jack
Knox
Shackelford
Stephens
Throckmorton
Wichita
Wilbarger
Young

Land Market Area 13

Brown
Callahan
Coleman
Comanche
Eastland
Erath

Land Market Area 14

Hamilton
McCulloch
Mills
Lampasas
San Saba

Land Market Area 15

Kimble
Menard
Real

Land Market Area 16

Burnet
Gillespie
Llano
Mason

Land Market Area 17

Bandera
Blanco
Kendall
Kerr

Land Market Area 18

Atascosa
Bexar
Comal
Guadalupe
Karnes
Wilson

Land Market Area 19

Colorado
DeWitt
Fayette
Gonzales
Lavaca

Land Market Area 20

Aransas
Bee
Goliad
Jim Wells
Kleberg
Live Oak
Nueces
Refugio
San Patricio

Land Market Area 21

Calhoun
Jackson
Matagorda
Victoria
Wharton

Land Market Area 22

Cooke
Fannin
Grayson
Montague

Land Market Area 23

Hood
Johnson
Palo Pinto
Parker
Somervell
Tarrant
Wise

Land Market Area 24

Collin
Dallas
Denton
Ellis
Hunt
Kaufman
Rains
Rockwall
Van Zandt

Land Market Area 25

Bell
Bosque
Coryell
Falls
Freestone
Hill
Limestone
McLennan
Navarro

Land Market Area 26

Bastrop
Caldwell
Hays
Lee
Milam
Travis
Williamson

Land Market Area 27

Brazos
Burlleson
Grimes
Leon
Madison
Robertson
Washington

Land Market Area 28

Austin
Brazoria
Chambers
Fort Bend
Galveston
Hardin
Harris
Jefferson
Liberty
Montgomery
Orange
San Jacinto
Walker
Waller

Land Market Area 29

Bowie
Camp
Cass
Delta
Franklin
Hopkins
Lamar
Marion
Morris
Red River
Titus
Upshur
Wood

Land Market Area 30

Anderson
Cherokee
Gregg
Harrison
Henderson
Houston
Nacogdoches
Panola
Rusk
Shelby
Smith

Land Market Area 31

Angelina
Jasper
Newton
Polk
Sabine
San Augustine
Trinity
Tyler

Land Market Area 32

Cameron
Hidalgo
Willacy

Land Market Area 33

El Paso



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