

TEXAS LAND MARKET DEVELOPMENTS 2006

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TECHNICAL REPORT

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Texas Land Market Developments – 2006

Summary of Texas Land Market Developments – 2006

- Prices rose 23 percent, from \$1,483 per acre in 2005 to \$1,825 per acre in 2006, falling just short of the record one-year 30 percent increase recorded in 1973.
- Size of properties continued to fall, averaging 98 acres in 2006.
- Prices rose strongly throughout the state.
- Investment interest in land continued.
- Out-of-state and foreign investors appeared in greater numbers.
- Some investors appear to perceive inflation in the future.
- Buyers are flocking to the market to buy before rising prices force them out of the market.
- The market continues to see a dearth of quality properties for sale.
- Buyers were more likely to borrow purchase money as lenders strongly competed for business. However, loan-to-value ratios were reportedly modest.
- Corn prices pushed by anticipated demand for ethanol prompted more farmers to seek out land.
- Although observers express some concern about the rate of increase in prices, developments in 2007 should produce another sizable gain in land prices by year's end.

Texas land markets roared into uncharted territory in 2006 with buyers' insatiable demand for properties driving the statewide price per acre 23 percent above 2005 market levels. The price of an acre of Texas rural land soared from \$1,483 per acre in 2005 to \$1,825 per acre in 2006 (Figure 1). The 2006 price represents a 14 percent annual compound growth rate since 2001. Prices increased more than 93 percent over that five-year period. This marks the fourth straight year that price growth exceeded 10 percent and amounts to an acceleration of land price growth over 2004–05 levels.

The real or inflation-adjusted price of \$365 per acre in 1966 dollars pushed past the previous record high set in 2005 by \$59 per acre. Nominal prices shown in Figure 1 reflect the actual prices paid while real prices represent those nominal prices adjusted for inflation. The real price change indicates that prices, in terms of purchasing power, rose 20 percent above inflation in 2006.

The volume of sales remained strong (Figure 2). Fueled by high demand, the 2006 markets recorded the volume of

reported sales at 8,215, slightly below the 2005 record volume of 8,368 sales. The explosion in land buying activity that began in 2002 continues unabated.

Tract Size

At 98 acres, the typical transaction remained at the low end of the size spectrum. Figure 3 reveals that tract size has inched below 100 acres and remains substantially under the 140-acre levels posted through most of the 1990s.

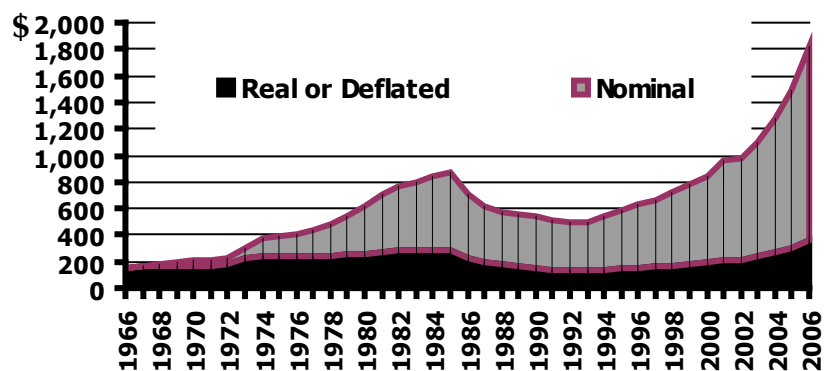
The drop in size roughly coincided with the increase in volume as a growing number of buyers scoured the countryside for properties that fit their land purchase budgets. The rush to subdivide larger holdings has resulted in a shortage of very large properties.

Figure 4 shows the number of sales smaller than 100 acres along with the associated median price per acre for those small sales. Sales of small properties declined during the 1970s through the 1980s, setting historic lows in 1980 and 1987. The volume of small sales began a gradual increase after 1993, then sharply increased after 2000.

Historically averaging 42 percent of total sales, small tracts grew to more than 48 percent of total sales for the past four years. The proportion last dropped below that threshold in 2002 (Figure 5). Small properties have also posted dramatic increases in price per acre. These developments have coincided with buyers rushing to the countryside in all parts of Texas.

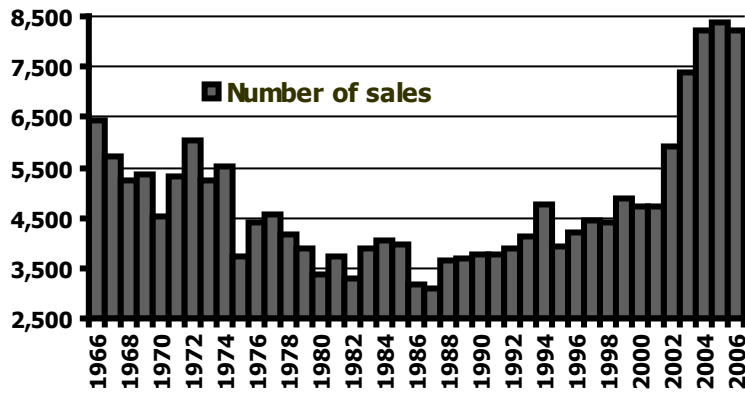
For investors with substantial amounts to invest, the array of available large properties is limited owing to the breakup of large holdings. The resulting dearth of large properties has forced buyers to pay a per-acre premium for large properties. Figure 6 reveals an expansion in the number of 5,000-acre-plus properties sold after 2000, until the figure dropped slightly in 2005 and again in 2006. Although the volume of 80 to 90

Figure 1. Texas Rural Land Prices in Dollars Per Acre



Source: Real Estate Center at Texas A&M University

Figure 2. Texas Land Market Volume



Source: Real Estate Center at Texas A&M University

As Texas has evolved into an urban-based society, nonfarm buyers have flocked to the countryside buying acreage for recreation and investment. In the past decade, these nonagricultural buyers have come to dominate market activity. Increasingly, sellers are taking advantage of 1031 exchange opportunities in the IRS regulations to avoid capital gain taxes on the sale of real estate.

The 1031 exchange allows an owner to convert one real estate investment in another without recognizing the gain as taxable income. Market participants are now noting that 1031 exchanges, often involving buyers from outside Texas, represent a substantial percentage of transactions in Texas land markets.

While recreation-minded consumers and investors are dominating Texas land markets,

sales is a small portion of the market, that level is much higher than the 30 or so sales occurring annually in the 1980s and 1990s. In addition to the uptick in volume, the median price paid for large tracts continues to increase well above 1990s prices.

Large ranch sales make up a small proportion of the land market. The focus of this segment of the market has shifted since 2001. From 1966 to 2006, the market for large tracts was concentrated in West Texas, in Land Market Areas 1–9 (see appendix for geographic boundaries of LMAs). West Texas has historically accounted for more than 70 percent of large tract sales. However, in 2002, that fell to 65 percent and in 2005 declined to 50 percent of large sales.

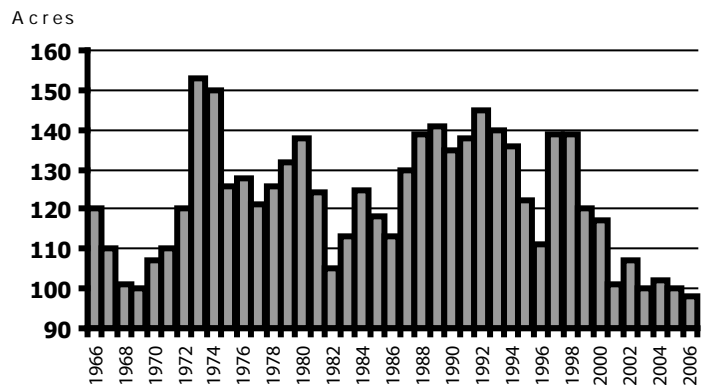
In 2005, half of large sales occurred outside of West Texas, with the largest volume (12 sales or 15 percent of total sales) taking place in the Rio Grande Plains of South Texas (LMA 11). The North Central Plains (LMA 12) accounted for another nine sales or 11.25 percent of large transactions. Obviously, large tract buyers are now looking statewide.

Changes in Market Dynamics

More and more buyers are no longer content to choose from properties on the market. Instead, buyer's representatives now frequently locate properties matching sellers' specified search criteria and approach the landowners with repeated offers until they agree to sell.

The prevalence of these kinds of bidding transactions may account for the sizable increases in market trend indicators. Specifically, these bidding transactions normally focus on highly desirable properties. Therefore, they may be altering the composition of the market by moving a higher percentage of superior quality properties through the market than in the normal historical setting in which buyers choose from listed properties. Because current market price indicators may include a disproportionate number of superior properties, they may indicate trends that are at odds with land price levels in a more representative sample of properties.

Figure 3. Typical Texas Tract Size



Source: Real Estate Center at Texas A&M University

rising corn prices in response to a projected expanding demand for ethanol have prompted farmers to return to the market.

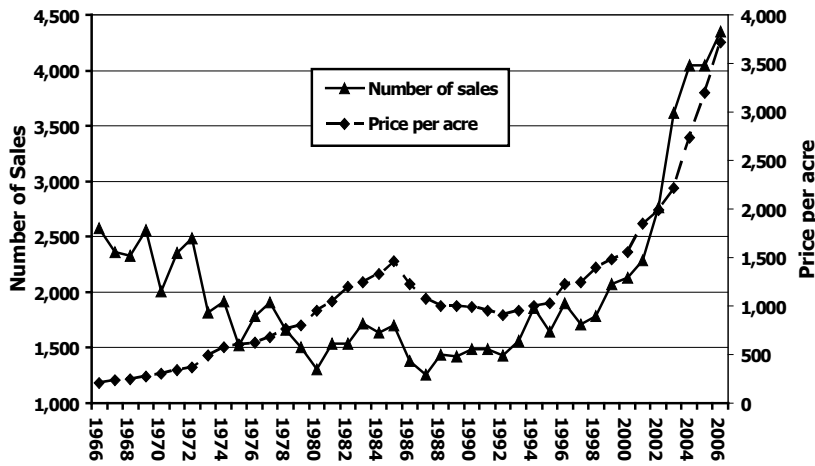
Regional Land Market Developments

In 2006, the geographic distribution of land prices continued to reflect both population density and the draw of scenic amenities (Figure 8). The highest prices surrounded Dallas-Fort Worth, Houston, El Paso, Austin and the Lower Rio Grande Valley. The scenic appeal of the Hill Country generated high prices that stretched westward from Austin through Fredericksburg to Kerrville. The lowest-priced land was within a column running through West Texas from Amarillo to the Trans-Pecos area to the Rio Grande. Most of the higher prices in Texas occur in the heavily populated eastern portion of the state (Figure 8).

The highest percentage price gains from 2005 to 2006 were geographically dispersed (Figure 9). Urban areas near Houston, Dallas and San Antonio all increased more than 30 percent. The Wichita Falls area continued to grow rapidly, as did San Antonio and Fredericksburg.

The largest percentage price jump hit the Trans-Pecos region, where small properties sold in larger than normal numbers, substantially driving up the median price for the area. None of the regions in Texas posted lower prices.

Figure 4. Texas Land Sales Smaller Than 100 Acres



Source: Real Estate Center at Texas A&M University

Market developments in 2006 reflected an increasingly intense contest for control of the Texas countryside. Investment-minded buyers continued to pour funds into land purchases and recreational buyers rushed to get in before prices climbed even higher. At year's end, farmers saw rising corn prices, making land purchases a viable option. Demand for land finished the year strongly.

Remainder of 2007

The forces propelling prices upward have accelerated and expanded in 2007. Markets seem poised to reach even higher levels. Some investors seem to perceive inflation ahead and are searching out tangible assets like land. Tax considerations continue to spark demand for land. The state's thriving economy continues to increase incomes, which are supporting demand for recreational property.

Ethanol-fueled corn prices are spurring farmers to buy land. Meanwhile, institutional and foreign investors have developed an appetite for Texas forest land. These circumstances have led market participants to repeatedly note a dearth of quality listings and brokers to maintain long lists of potential buyers.

Market observers and participants alike express growing apprehension about the near-frenzied atmosphere of the Texas land market. Noting an increase in borrowing among buyers and the high rate of price increase, many fear that current price trends will be unsustainable in the long run. Some note isolated instances of developers backing away from proposed land purchases. Peering ahead, a number of potential pitfalls appear on the horizon.

High energy prices could adversely impact the demand for recreational and development land. Further 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. Despite these potential problems, current activity suggests that by the end of 2007, Texas land prices should post another sizable increase.

Regional Developments

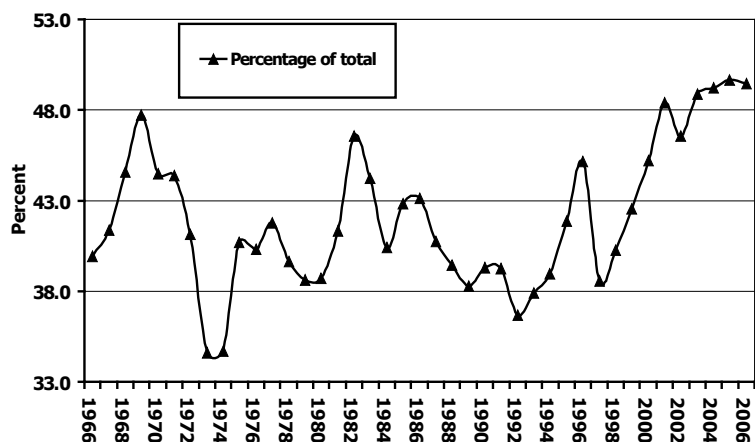
The following land market areas (LMA) registered especially strong (statistically significant) trends compared with 2005 market levels in. In addition to these land market areas, all regions experienced price increases in 2006. The local developments reflected a voracious appetite for land coupled with a limited supply of listings. The following analysis notes some of the forces driving those trends. Table 2 contains detailed statistics documenting regional developments.

LMA 8, 12, 16, 18, 24, 28, 32 and 33

These geographically dispersed areas were the hottest markets in 2006, all registering price increases greater than 30 percent. Markets reflecting these trends evidenced:

- a marked increase in use of leverage as more buyers borrowed to purchase,
- increased competition among lenders,
- disappearing distinctions between the price per acre for small and large properties,
- premium prices paid for both attractive and plain properties,
- available property inventory continuing to be tight and
- non-Texan buyers continuing to view land prices as bargains.

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



Source: Real Estate Center at Texas A&M University

LMAs 6, 13, 14, 15 and 27

The second hottest regional markets in 2006 saw percentage increases ranging from 25 to 29 percent. Slightly more removed from the urban influences of the larger cities, these areas evidenced the strong demand for land.

- Prices throughout this region experienced a dramatic rise.
- Recreational and investment purchases drove prices.
- Purchases with 1031 exchange money were significant.
- Buyers from metropolitan areas expanded into much of this area in search of cheaper land.
- Markets were active.

LMAs 7, 11, 17, 20, 22 and 23

These booming regions evidenced substantial demand pressures even as prices rose more quickly elsewhere. With percentage increases ranging from 20 to 22 percent, many of these areas experienced very strong growth in 2005 only to see a somewhat less sanguine market in 2006.

- At \$7,086 per acre the Kerrville area posted the highest median price in Texas.
- These markets saw continued interest in recreational properties.
- Investors appetites remained strong.

LMAs 1, 4, 9, 10, 19, 21, 25, 29 and 30

Prices in these areas grew between 4 and 19 percent in 2006 and experienced general continued growth of demand for land in 2006.

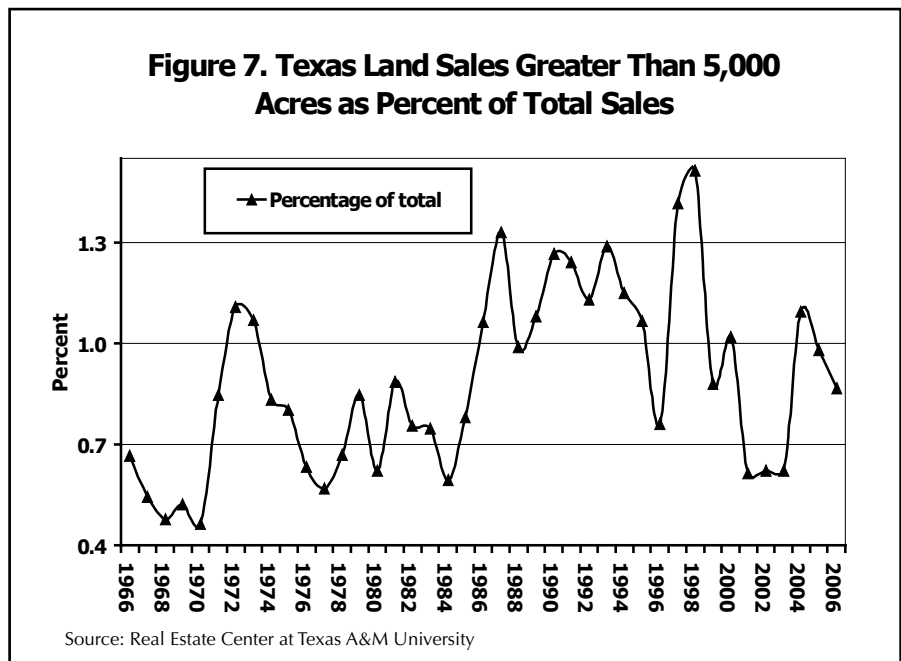
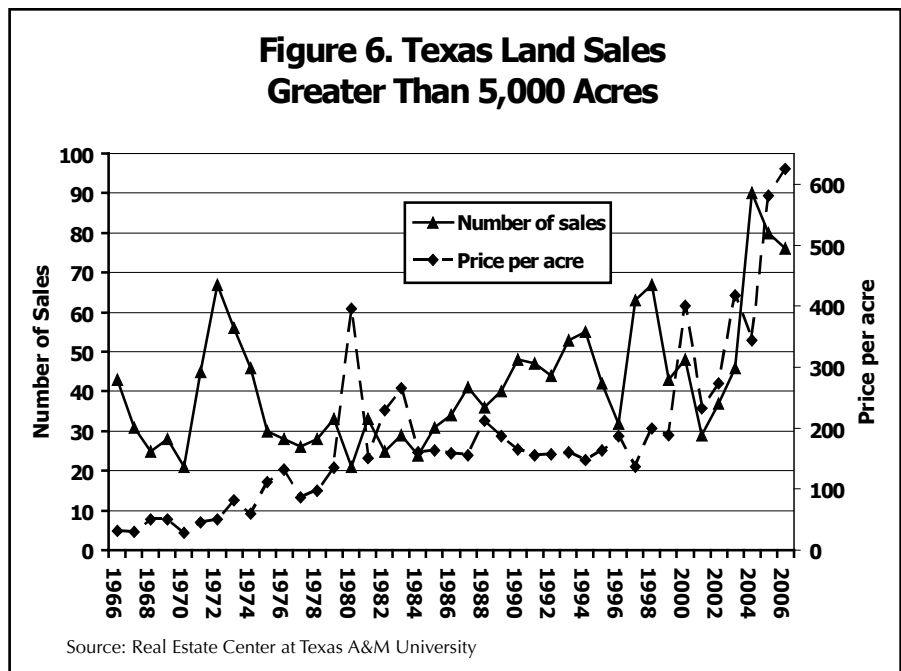
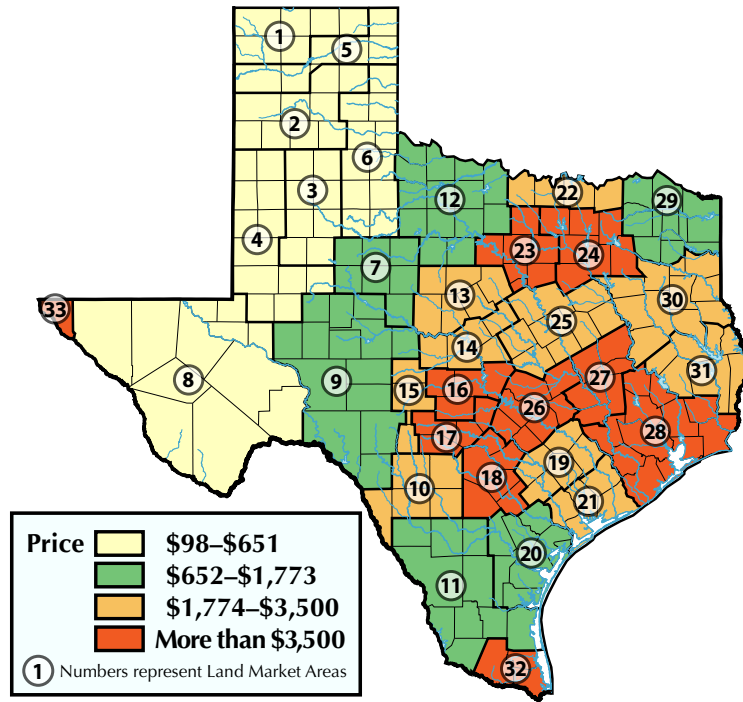
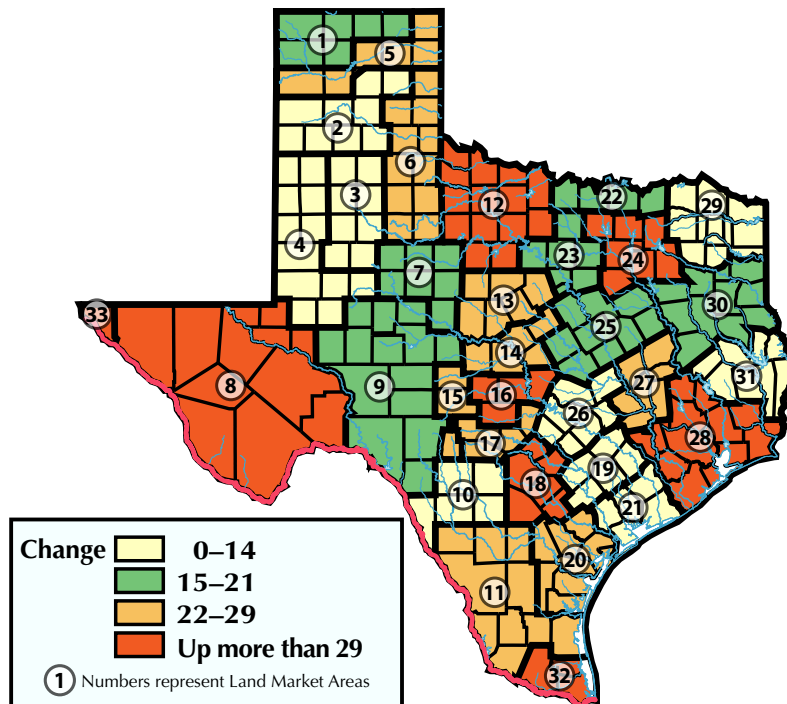


Figure 8. Rural Land Prices, 2006



Source: Real Estate Center at Texas A&M University

Figure 9. Rural Land Percent Price Change, 2006



Source: Real Estate Center at Texas A&M University

Table 1. Nominal and Real Changes in Weighted Average Price of Texas Rural Land, 1966–2006

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	305	12	1.7
2006	99	1,825	23	6	365	20	2.1

*In 1966 dollars

Source: Real Estate Center at Texas A&M University

Table 2. Trends in Texas Rural Land Markets, 2005–06

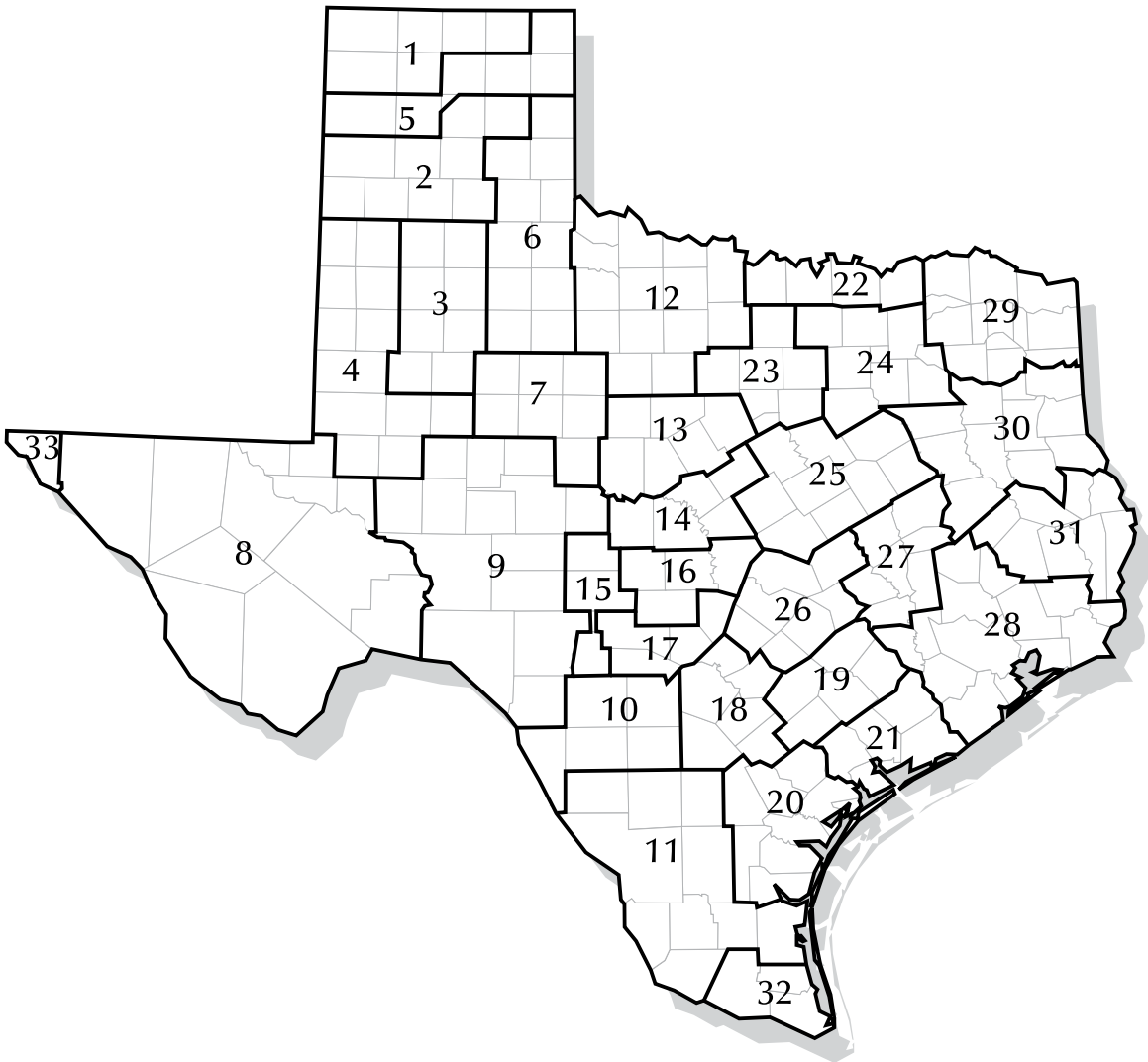
Land Market Area		Volume of Sales			Typical Size of Transaction					Typical Prices						
		2005	2006	Percentage	2005	2006	Change	TEST	Minimum	Maximum	2005	2006	Change	Percentage	TEST	Minimum
1	Panhandle–North	99	84	-15	627	480	-23	*	20	5,745	550	651	18	*	250	5,000
2	Panhandle–Central	167	201	20	331	327	-1		11	17,237	500	550	10		105	21,858
3	South Plains	250	233	-7	200	200	0		10	8,344	566	600	6		117	25,000
4	Permian–West	264	302	14	314	245	-22		12	18,360	511	571	12	*	110	8,333
5	Canadian Breaks	31	36	16	640	639	0		51	21,247	389	471	21		185	1,800
6	Rolling Plains–North	174	179	3	320	320	0		27	13,253	500	625	25	**	200	4,033
7	Rolling Plains–Central	261	263	1	197	190	-3		10	4,809	560	675	21	**	144	10,268
8	Trans-Pecos	25	52	108	320	194	-39	*	11	27,891	172	295	71	**	98	13,996
9	Edwards Plateau–West	480	408	-15	259	192	-26	**	12	27,758	800	950	19	**	153	10,400
10	Edwards Plateau–South	212	200	-6	73	102	39		10	61,840	2,214	2,314	4	*	673	21,429
11	Rio Grande Plains	185	127	-31	303	371	22		15	14,896	1,200	1,460	22	**	500	23,726
12	North Central Plains	432	548	27	167	134	-20	**	10	16,698	850	1,135	34	**	262	14,076
13	Crosstimbers	542	597	10	141	121	-14		10	5,885	1,500	1,916	28	**	303	24,036
14	Hill Country–North	411	311	-24	159	135	-15	*	10	4,593	1,751	2,250	28	**	875	15,044
15	Hill Country–West	135	148	10	161	206	28		10	2,798	1,550	1,994	29	**	619	22,562
16	Highland Lakes	267	317	19	67	60	-10		10	1,329	3,500	4,600	31	**	1,700	22,500
17	Hill Country–South	210	175	-17	52	36	-31	**	10	2,673	5,785	7,086	22	**	1,434	24,878
18	San Antonio	347	331	-5	55	47	-14	*	10	5,005	2,818	3,799	35	**	399	25,000
19	Coastal Prairie–North	304	347	14	51	50	-2		10	1,337	3,100	3,500	13	**	800	22,906
20	Coastal Prairie–South	175	152	-13	101	125	24		10	2,977	1,450	1,773	22	**	500	21,910
21	Coastal Prairie–Middle	161	158	-2	97	110	14	*	10	19,567	1,627	1,800	11	*	391	23,969
22	Texoma	242	343	42	49	49	-1		10	1,502	2,675	3,200	20	**	591	23,333
23	Fort Worth Prairie	341	363	6	31	32	2		10	3,571	4,250	5,274	24	**	585	25,000
24	Dallas Prairie	311	243	-22	50	40	-20	**	10	1,552	3,359	4,400	31	**	865	25,000
25	Blacklands–North	517	530	3	92	87	-5		10	5,901	2,009	2,389	19	**	641	14,098
26	Blacklands–South	510	500	-2	46	50	9		10	2,493	3,847	4,000	4		775	24,373
27	Brazos	344	276	-20	39	48	23	**	10	1,172	3,242	4,078	26	**	118	24,167
28	Houston	452	471	4	45	32	-29	**	10	7,500	4,525	6,000	33	**	448	25,000
29	North East	102	124	22	78	72	-7		11	4,313	1,201	1,374	14	*	432	12,603
30	Piney Woods–North	189	95	-50	68	105	55	**	12	2,800	1,825	2,156	18	**	563	5,660
31	Piney Woods–South	51	41	-20	54	76	40		15	1,664	1,850	2,000	8		625	5,059
32	Lower Rio Grande Valley	176	59	-66	27	25	-7		10	2,508	3,482	5,715	64	**	687	18,500
33	El Paso	1	1	0	108	145	33	-	145	145	7,500	10,791	44	-	10,791	10,791
Texas		8,368	8,215	-2	100	98	-2	**	10	61,840	1,483	1,825	23	**	98	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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