



TEXAS LAND MARKET
DEVELOPMENTS –
FIRST HALF 2007

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TECHNICAL REPORT

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Summary of Texas Land Market Developments – First Half 2007

- Volume of sales faltered in the first half of 2007, falling to 3,769 sales compared with 5,452 2006 first half sales, a 31 percent drop.
- Prices rose 15 percent, from \$1,811 per acre in 2006 to \$2,076 per acre in 2007, continuing the rapid price appreciation trend since 2004.
- Size of properties dropped to a new low of 82 acres in 2007.
- Prices rose strongly throughout the state.
- The 2007 market saw growing interest in land as an investment.
- Some investors appear to perceive inflation in the future.
- Some observers see a noticeable increase in the number of buyers who immediately offer the property for resale at a higher price.
- The market continues to see a dearth of quality properties for sale, contributing to the slowdown in sales volume.
- Although observers express concern about emerging caution among buyers prompted by the rate of price increases, the second half of 2007 should produce another sizable gain in prices.
- Although use of leverage rose in 2007, the market still involves substantial percentages of cash.

Prices Up, Volume Down

Texas land prices have spiraled to ever-higher levels in the past five years, leading many to ponder the future of a market trading at unprecedented levels. In burgeoning markets buyers often scramble to grab anything offered for sale. But when uncertainty surfaces, buyers tend to become more cautious, focusing on top-quality properties.

While the first-half 2007 land market does not reflect such a shift to quality-driven sales, evidence suggests that the long-anticipated cooling of the market may have begun. Specifically, the number of reported sales in the first half of 2007 confirms a widely perceived slowdown in transaction volume in Texas rural land markets.

While more first half sales remain to be reported, the 2007 first-half volume of 3,769 sales dropped 31 percent below the 2006 first half volume of 5,452 (Figure 1). The 2007 level of activity roughly

corresponds with the volume registered in 2002 land markets.

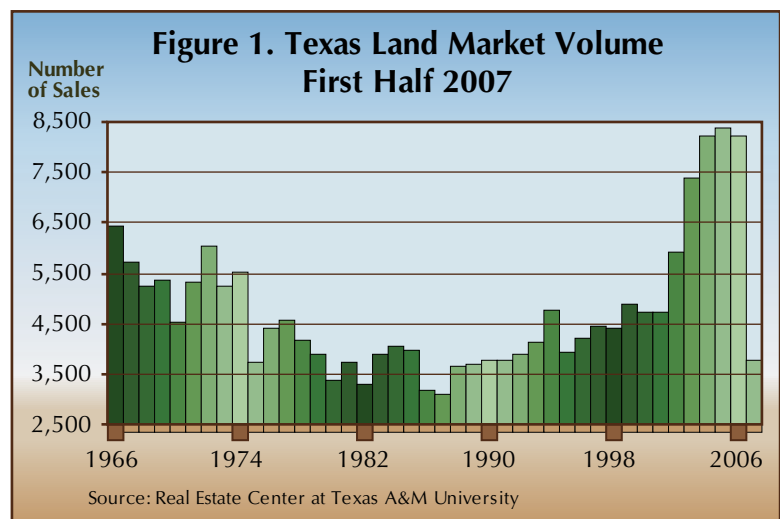
At 15 percent, the growth in sale price slowed from the stratospheric 23 percent growth posted in 2005 (Figure 2). The 2007 first-half price was \$2,075 per acre, topping \$2,000 per acre for the first time. The 2006 first-half price was \$1,811 per acre. Despite the deceleration in price growth, the 15 percent increase nearly matches the 16 percent growth over the entire year in the 2003 and 2004 markets.

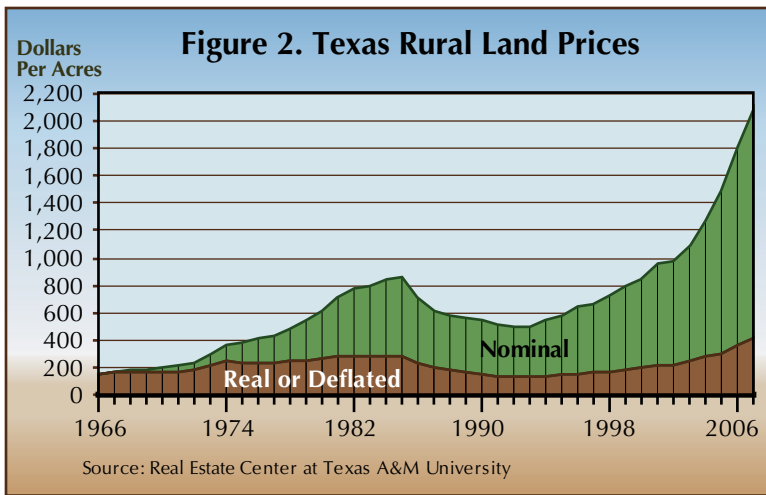
While indicating the noticeable slowdown in sales volume early in the year, market participants and observers noted increasing interest in late summer and do not see potential buyers abandoning the market. Two forces are contributing to the slackening in activity.

First, potential buyers are still searching for land, but continue to face shortages of quality properties for sale throughout the state. Second, potential sellers have begun to factor anticipated price growth into asking prices. The resulting jump in asking prices has startled some buyers and caused them to delay buying in hope of finding more desirable properties for the price.

The real or inflation-adjusted price of \$407 per acre in 1966 dollars pushed past the \$400 mark for the first time. Nominal prices (Figure 1 and Table 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 12 percent above inflation in the first half of 2007 compared with the same period in 2006.

At 82 acres, the typical transaction set a new low, indicating a prevalence of small properties in the 2007 market. Tract size





LMAs 29, 30 and 31 — East Texas markets have not seen immediate flipping of deals, but some buyers from 2004 and 2005 are now reselling at 25 to 35 percent profits. This market is largely cash-driven. Bucking the trend elsewhere, LMAs 29 and 31 both saw sales volume increase markedly in early 2007.

LMAs 12, 22 and 23 — These North Texas areas registered regionwide increases with the Wichita Falls and Fort Worth areas posting strongly higher prices. Barnett shale activity continues to support land-buying activity.

LMAs 25 and 27 — The Brazos River regions posted increases of 20 and 19 percent in the first half of 2007. The market is awash in cash, with few large properties for sale.

has dropped substantially under the 140 acre levels posted in 1997–98 (Figure 3).

Price Distribution

In 2007, the geographic distribution of land prices (Figure 4) continued to reflect both population density and the draw of scenic amenities, with the highest-priced land surrounding metropolitan areas and stretching through the Hill Country. West Texas continued to post the lowest land prices.

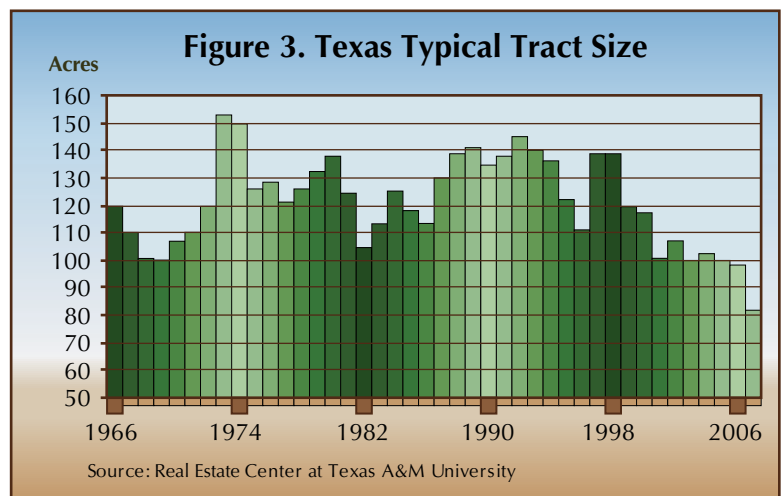
Figure 5 shows regional percentage changes in prices per acre from the first half of 2006 to the first half of 2007. The highest percentage price gains were concentrated along the Gulf coast and the periphery of the Hill Country. Activity in the Fort Worth area also propelled prices strongly upward. Some metro areas appeared to have cooled off from 2006 markets.

The supply of land for sale remains tight and demand remains healthy. Some markets in South Texas appear poised to take a breather from the rapid escalation of prices in recent years as some sellers have reduced asking prices.

Regional Developments

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

LMAs 19, 20 and 21 — Buyers discovered relatively lower prices prevailing in these Coastal Bend regions in the first half of 2007. Their quest for land drove prices higher with percentage increases ranging from 28 to 42 percent. Although there is still a lot of cash in the market, borrowing is becoming more prevalent. Lenders report an increased demand for loans, including from borrowers with substantial amounts of existing debt.

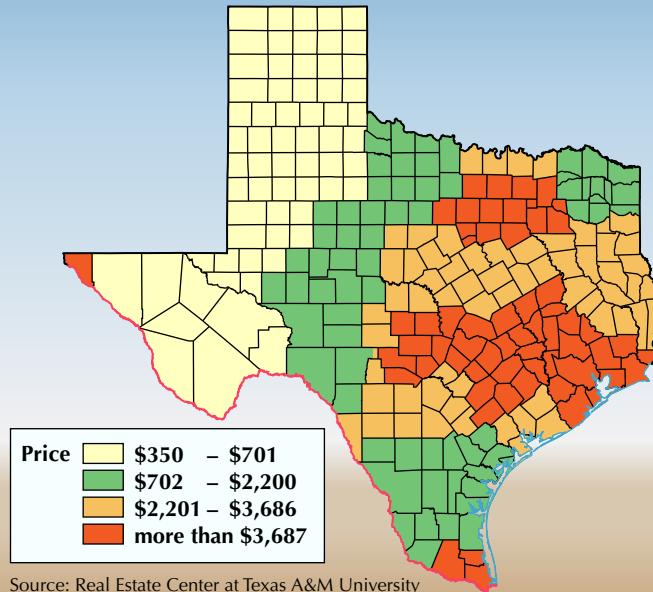


LMAs 4, 6, 7, 8 and 9 — These West Texas regions saw median prices rise 15 to 25 percent above comparable 2006 levels. Brokers report struggling to find good properties to sell. The volume of calls has increased and asking prices are about 30 percent higher than recent sale prices. This has made some buyers hesitant, but sellers are standing firm.

LMAs 10 and 11 — In the Edwards Plateau–South and Rio Grande Plains, the volume of transactions is substantially down while use of leverage is up. Asking prices, which are higher than last year, are no longer firm and price resistance is evident. However, first-half 2007 prices rose 11 to 22 percent above 2006 levels.

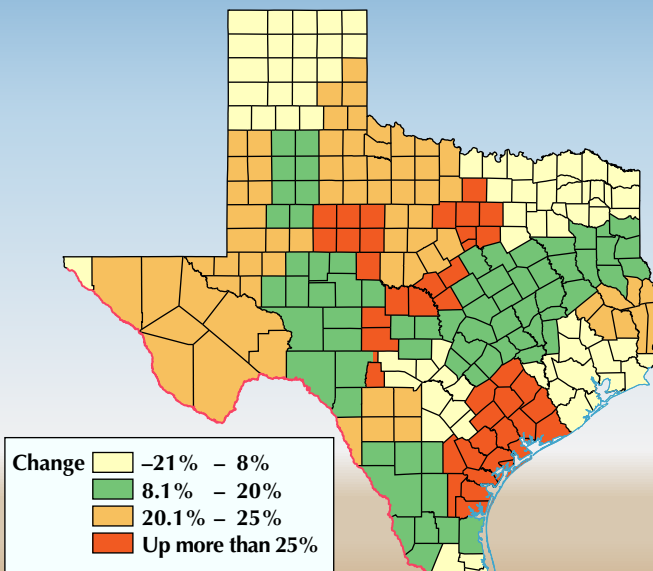
LMAs 13, 14, 15 and 16 — Prices in the periphery of the Hill Country and the Highland Lakes surged substantially, with increases ranging from 19 to 43 percent. Observers report an increase in investment-motivated purchases with an attendant increase in numbers of properties bought and immediately reoffered for sale. Prices are strong, but more bargaining is going on.

Figure 4. Land Prices, First Half 2007



Source: Real Estate Center at Texas A&M University
See PowerPoint slide presentation at:
<http://recenter.tamu.edu/speeches/CG102407Tyler.pdf>

Figure 5. Land Price Change, First Half 2007



Source: Real Estate Center at Texas A&M University
See PowerPoint slide presentation at:
<http://recenter.tamu.edu/speeches/CG102407Tyler.pdf>

Table 1. Nominal and Real Changes in Weighted Average Price of Texas Rural Land, 1966–2007

| 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 | 239 | 10 | 1.1 |
| 2004 | 102 | 1,274 | 16 | 6 | 270 | 13 | 1.4 |
| 2005 | 100 | 1,483 | 16 | 6 | 305 | 13 | 1.4 |
| 2006 | 99 | 1,825 | 23 | 6 | 364 | 19 | 2.1 |
| 2007 | 82 | 2,076 | 14 | 6 | 407 | 12 | 2.4 |

*In 1966 dollars

Source: Real Estate Center at Texas A&M University

Table 2. Trends in Texas Rural Land Markets, 2006–07

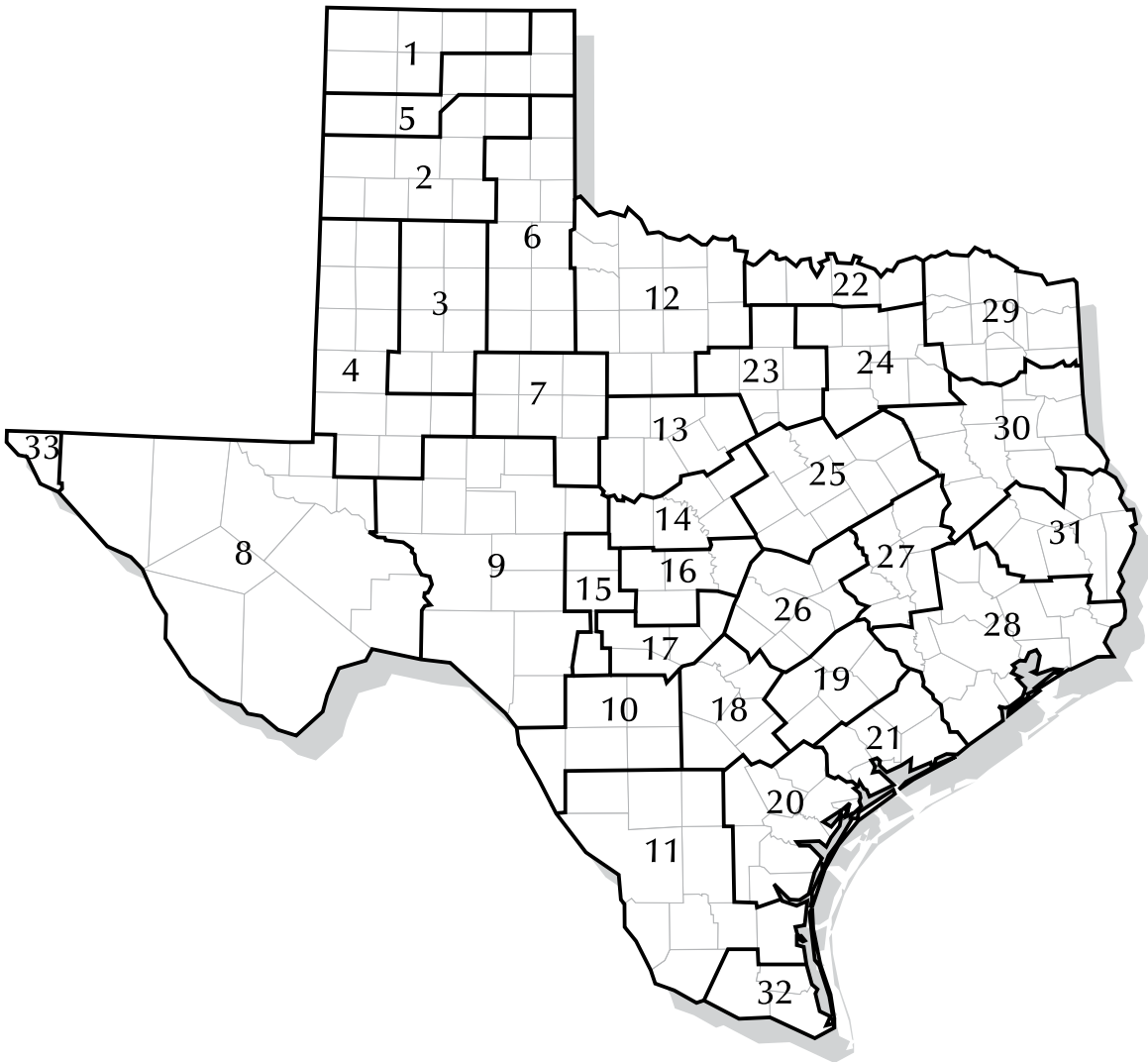
| Land Market Area | | Volume of Sales | | | Typical Size of Transaction | | | | | Typical Prices | | | | | | |
|------------------|-------------------------|-----------------|-------|------------|-----------------------------|------|------------|------|----------|----------------|-----------------|--------|------------|------|----------|---------|
| | | 2006 | 2007 | Percentage | Acres per Sale | | Change | | Extremes | | Dollar per Acre | | Change | | Extremes | |
| LMA | Description | 2006 | 2007 | Percentage | 2006 | 2007 | Percentage | TEST | Minimum | Maximum | 2006 | 2007 | Percentage | TEST | Minimum | Maximum |
| 1 | Panhandle–North | 65 | 59 | -9 | 620 | 640 | 3 | | 17 | 5,276 | 800 | 675 | -16 | | 3225 | 5,000 |
| 2 | Panhandle–Central | 163 | 98 | -40 | 383 | 320 | -16 | * | 10 | 4,160 | 560 | 589 | 5 | | 211 | 19,319 |
| 3 | South Plains | 189 | 79 | -58 | 194 | 196 | 1 | | 11 | 6,400 | 585 | 650 | 11 | | 119 | 6,250 |
| 4 | Permian–West | 231 | 117 | -49 | 316 | 260 | -18 | | 15 | 31,076 | 578 | 700 | 21 | ** | 235 | 5,033 |
| 5 | Canadian Breaks | 24 | 24 | 0 | 640 | 482 | -25 | | 69 | 2,457 | 451 | 442 | -2 | | 148 | 1,278 |
| 6 | Rolling Plains–North | 123 | 86 | -30 | 359 | 234 | -35 | ** | 20 | 2,726 | 563 | 701 | 25 | ** | 199 | 5,400 |
| 7 | Rolling Plains–Central | 164 | 131 | -20 | 206 | 162 | -22 | | 12 | 1,241 | 650 | 899 | 38 | ** | 199 | 11,505 |
| 8 | Trans-Pecos | 33 | 17 | -48 | 195 | 320 | 65 | | 12 | 32,882 | 288 | 350 | 22 | * | 188 | 8,710 |
| 9 | Edwards Plateau–West | 269 | 162 | -40 | 200 | 186 | -7 | | 10 | 27,758 | 960 | 1,100 | 15 | * | 78 | 8,582 |
| 10 | Edwards Plateau–South | 134 | 72 | -46 | 161 | 105 | -35 | * | 10 | 13,399 | 2,284 | 2,797 | 22 | ** | 637 | 19,608 |
| 11 | Rio Grande Plains | 86 | 79 | -8 | 370 | 426 | 15 | | 15 | 6,101 | 1,445 | 1,600 | 11 | * | 445 | 5,285 |
| 12 | North Central Plains | 351 | 246 | -30 | 128 | 160 | 25 | | 10 | 5,781 | 1,150 | 1,433 | 25 | ** | 325 | 10,692 |
| 13 | Crosstimbers | 367 | 224 | -39 | 116 | 102 | -12 | | 11 | 1,254 | 1,800 | 2,200 | 22 | ** | 750 | 10,825 |
| 14 | Hill Country–North | 196 | 151 | -23 | 148 | 100 | -32 | ** | 10 | 4,369 | 2,100 | 3,000 | 43 | ** | 562 | 13,430 |
| 15 | Hill Country–West | 95 | 81 | -15 | 280 | 128 | -54 | * | 11 | 6,249 | 1,756 | 2,400 | 37 | * | 831 | 22,000 |
| 16 | Highland Lakes | 188 | 171 | -9 | 60 | 60 | 1 | | 10 | 6,651 | 4,381 | 5,200 | 19 | ** | 2,300 | 22,560 |
| 17 | Hill Country–South | 111 | 79 | -29 | 45 | 43 | -4 | | 11 | 4,929 | 7,196 | 7,706 | 7 | | 1,055 | 20,055 |
| 18 | San Antonio | 210 | 173 | -18 | 43 | 49 | 15 | | 10 | 2,309 | 4,103 | 3,686 | -10 | | 467 | 24,000 |
| 19 | Coastal Prairie–North | 235 | 189 | -20 | 51 | 45 | -11 | | 10 | 615 | 3,100 | 4,303 | 39 | ** | 1,200 | 17,196 |
| 20 | Coastal Prairie–South | 107 | 57 | -47 | 132 | 74 | -44 | ** | 12 | 1,157 | 1,750 | 2,477 | 42 | ** | 950 | 8,687 |
| 21 | Coastal Prairie–Middle | 98 | 76 | -22 | 117 | 90 | -24 | | 17 | 4,100 | 1,881 | 2,416 | 28 | ** | 471 | 14,658 |
| 22 | Texoma | 230 | 208 | -10 | 45 | 48 | 6 | | 10 | 1,949 | 3,000 | 3,206 | 7 | * | 904 | 24,310 |
| 23 | Fort Worth Prairie | 282 | 135 | -52 | 33 | 25 | -24 | * | 10 | 4,446 | 4,801 | 6,667 | 39 | ** | 600 | 21,593 |
| 24 | Dallas Prairie | 157 | 83 | -47 | 44 | 42 | -5 | | 10 | 964 | 5,460 | 4,317 | -21 | | 850 | 25,000 |
| 25 | Blacklands–North | 340 | 281 | -17 | 100 | 52 | -48 | ** | 10 | 2,000 | 2,303 | 2,770 | 20 | ** | 599 | 18,909 |
| 26 | Blacklands–South | 352 | 196 | -44 | 50 | 40 | -21 | ** | 10 | 1,506 | 4,000 | 4,476 | 12 | | 984 | 21,946 |
| 27 | Brazos | 165 | 115 | -30 | 50 | 40 | -19 | | 10 | 455 | 3,890 | 4,624 | 19 | ** | 975 | 24,840 |
| 28 | Houston | 282 | 160 | -43 | 30 | 38 | 24 | | 10 | 1,936 | 6,006 | 6,485 | 8 | | 949 | 23,636 |
| 29 | North East | 72 | 113 | 57 | 89 | 59 | -33 | * | 10 | 1,678 | 1,413 | 1,505 | 7 | * | 482 | 7,605 |
| 30 | Piney Woods–North | 72 | 31 | -57 | 112 | 69 | -38 | * | 10 | 2,714 | 2,180 | 2,625 | 20 | * | 1,398 | 4,500 |
| 31 | Piney Woods–South | 23 | 39 | 70 | 94 | 55 | -41 | | 20 | 2,013 | 1,791 | 2,213 | 24 | * | 769 | 5,200 |
| 32 | Lower Rio Grande Valley | 37 | 36 | -3 | 33 | 32 | -3 | | 10 | 818 | 5,500 | 5,164 | -6 | | 1,316 | 20,899 |
| 33 | El Paso | 1 | 1 | 0 | 145 | 12 | -92 | - | 12 | 12 | 10,791 | 10,852 | 1 | - | 10,852 | 10,852 |
| Texas | | 5,452 | 3,769 | -31 | 102 | 82 | -19 | ** | 10 | 32,882 | 1,811 | 2,076 | 15 | ** | 78 | 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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