

A Reprint from *Tierra Grande*

# SIZZLING LAND

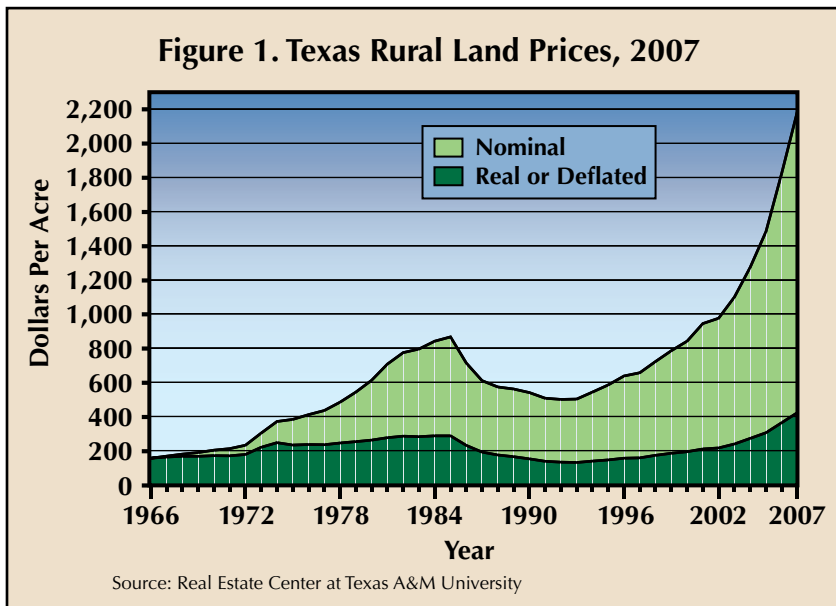
By Charles E. Gilliland, Nirad Pachchigar and Siddhartha Singh

Overall, Texas land markets increased robustly in 2007, but the rise was primarily concentrated in small- to medium-sized properties. Prices for large acreages rose but at a much reduced rate. This disparity emerged as the demand for development acreage slowed.

Most markets continued to report shortages of good-quality properties for sale. Interested buyers appeared once sellers backed off marked-up asking prices. As the year closed, rising uncertainty in financial markets coupled with soaring commodity prices and lack of alternative investments drove market acceleration as investment buyers targeted cropland.

At 20 percent, the growth in sales prices nearly matched the stratospheric 23 percent posted in 2006 (Figure 1). At \$2,190 per acre, the 2007 statewide price topped \$2,000 per acre for the first time. The 2006 price was \$1,825 per acre.

Despite the slight dip in price growth in 2006, the 2007 increase eclipses the 16 percent growth in both the 2003 and 2004 markets. Texas land prices in 2007 were 224 percent of what they were in 2002. That represents a compound growth rate of more than 17 percent annually.



The real or inflation-adjusted price of \$424 per acre in 1966 dollars pushed past the \$400 mark for the first time. Nominal prices reflect the actual prices paid while real prices represent those nominal prices adjusted for inflation (Figure 1). The real price change indicates that in terms of purchasing power, prices rose 17 percent above inflation in 2007.

### Tract Size

The 2007 market saw a pronounced shift away from larger properties. Size of tract per transaction dropped precipitously to 80 acres compared with 98 acres in 2006 (Figure 2). Markets have hovered in the 100-acre range for the past five years.

Tract size is substantially under the 140-acre levels posted in 1997–98. The 80-acre tract size per transaction sets a new low for Texas land markets.

Small property prices registered a \$4,000-per-acre median in 2007 compared with \$1,800 per acre for the large

properties. Prices for small properties rose 15 percent in 2007 while typical property prices increased 13 percent. By contrast, following a dramatic rise in 2006, large property prices barely moved in 2007, rising only 4 percent over 2006 levels. This suggests that demand for large properties has cooled from the feverish 2006 levels.

### Future Trends

With soaring commodity prices and an unparalleled five-year increase in prices, Texas land markets are increasingly difficult to predict. Many conventional assumptions about price behavior no longer seem to apply. In the current situation, observers see an array of near-term prospects.

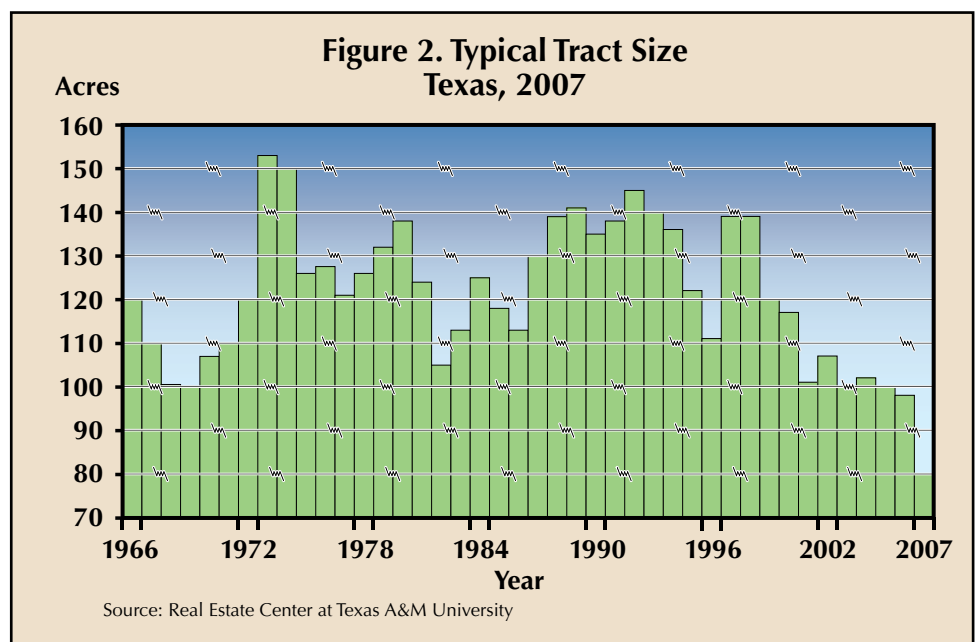
First, land prices probably cannot indefinitely sustain the rate of increase seen in the past five years. However, trends continue to reflect an upward price spiral.

Second, a substantial drop in prices would most likely follow a severe economic dislocation such as a prolonged, deep recession. Ongoing financial market problems now make that a possibility. It seems increasingly likely that some kind of direct governmental intervention in financial markets will eventually occur. That kind of solution may help avoid or at least limit the financial damage the economy faces without it.

Third, without a severe economic blow, land prices will likely continue to rise but at a more sustainable rate.

Will buyers continue to flock into land markets with cash to drive prices ever higher? It is possible. The economy remains awash in investment money seeking a safe haven. Many investors have decided land is a viable option, especially cropland.

In the closing months of 2007, soaring commodity prices led investors to anticipate strong earnings from farming well into the future. These investors, competing with farmers flush with cash from good crops, are



driving up cropland prices (Figure 3). In addition, some new investors have begun to focus on ranch properties. The falling U.S. dollar has made land prices extremely cheap for many foreign investors.

Will we experience an economy-wide recession or dislocation severe enough to induce a substantial decrease in land prices? Purchasing power in the economy has eroded, with fuel and food prices increasing dramatically during 2007. The subprime mortgage crisis continues to snarl financial markets, with no resolution in sight.

A chorus of market observers fret that a substantial economic adjustment lies just ahead. A pronounced economic downturn would undoubtedly result in an exodus of potential buyers from the market. There is no question that this scenario is possible. However, powerful political and economic forces are grappling with the problems and may be able to stave off the worst-case scenario.

Will markets moderate to a sustainable level of increase? The past five years have seen conditions that produced an almost frenzied appetite for land. Rising incomes, inflationary fears, relatively low land prices and a host of other factors combined to boost prices to unprecedented levels.

With investment markets still in turmoil and uncertainty about future economic events, land prices will likely continue

to climb. When the investing environment settles into a more predictable pattern, the rate of increase seen in recent years will slow. As Texas land prices, which are low compared with those in many states, begin to rise, the lure of Texas markets will wane. But do not look for this to happen in the near term.

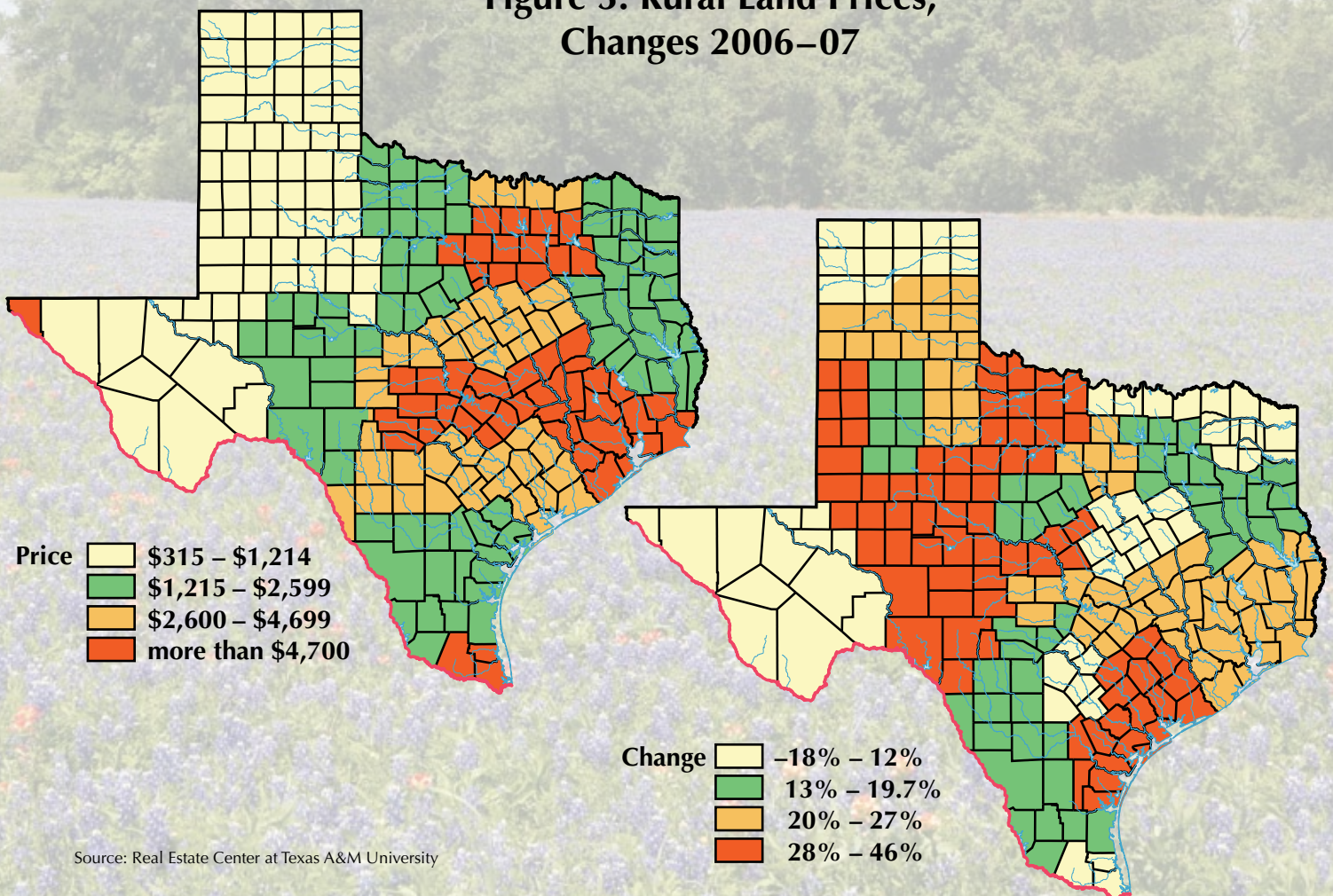
Based on early 2008 data, continued growth at a lower level seems the most likely short-term prospect. Over the longer term, prices will probably moderate to growth rates more typically seen over the past 40 years. 📍

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### THE TAKEAWAY

Statewide per-acre prices for Texas land rose to \$2,190 in 2007, topping the \$2,000 mark for the first time. Prices for small- to medium-sized properties climbed the most. Large acreage prices rose but at a much slower rate than in previous years, reflecting reduced interest in development properties. The size of tract per transaction dropped from 98 acres in 2006 to 80 acres in 2007.

**Figure 3. Rural Land Prices, Changes 2006–07**





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