



TEXAS LAND MARKET DEVELOPMENTS Third Quarter 2008

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TECHNICAL REPORT

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Executive Summary

- Typical tract size increased to 95 acres, up from 80 acres in 2007 but still below the 100 acres posted between 2003 and 2006.
- The price increase moderated to 7 percent, up from \$2,174 per acre through the third quarter of 2007 to \$2,315 per acre in 2008, slightly more than a third of the 20 percent growth for all of 2007. The third-quarter price per acre increased 6 percent from the 2007 full-year price of \$2,190 per acre.
- Prices rose most strongly in Panhandle areas dominated by cropland.
- Volume of sales appears to have slowed in the first three quarters of 2008 with 4,841 completed sales reported compared with the 2007 third-quarter volume of 6,399 sales. That represents a 24 percent drop.
- Buoyed by high commodity prices and generous yields, the 2008 market saw continuing strong interest in cropland among investors and farmers. However, as the year progressed, commodity prices softened and investor interest appeared to be cooling.
- Some observers see weakness in sales of working live-stock operations because of high feed costs. Recreational demand seems to be waning in some areas.
- Regional median prices increased in all land market areas with statistically significant price changes, ranging from 7 percent in Hill Country–North (LMA 14) to 78 percent in Panhandle–North (LMA 1).

2008 Land Prices

Through 2007, Texas land prices soared to 224 percent of the 2002 price (see Figure 1). That change amounts to a compound growth rate of more than 17 percent annually. Early 2008 reports indicated that prices continued the upward trend but at a slower pace than from 2002 to 2007.

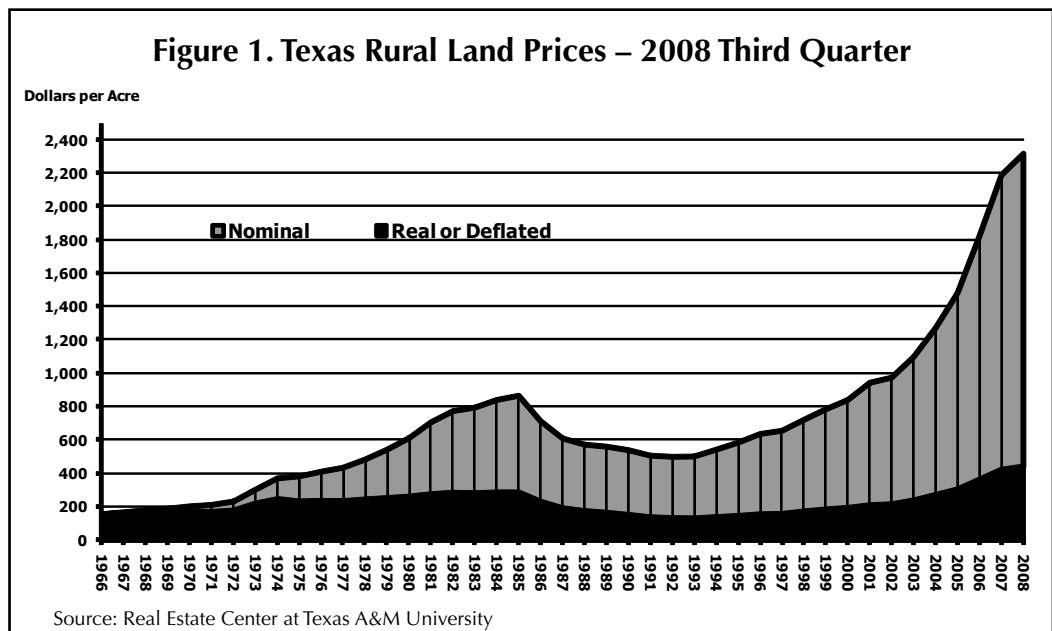
The 2008 statewide price moved 6 percent higher than the 2007 year-end overall price, rising from \$2,190 to \$2,315 per acre (See Table 1). The third quarter median price amounted to a 7 percent increase over the 2007 third quarter price of \$2,174 per acre.

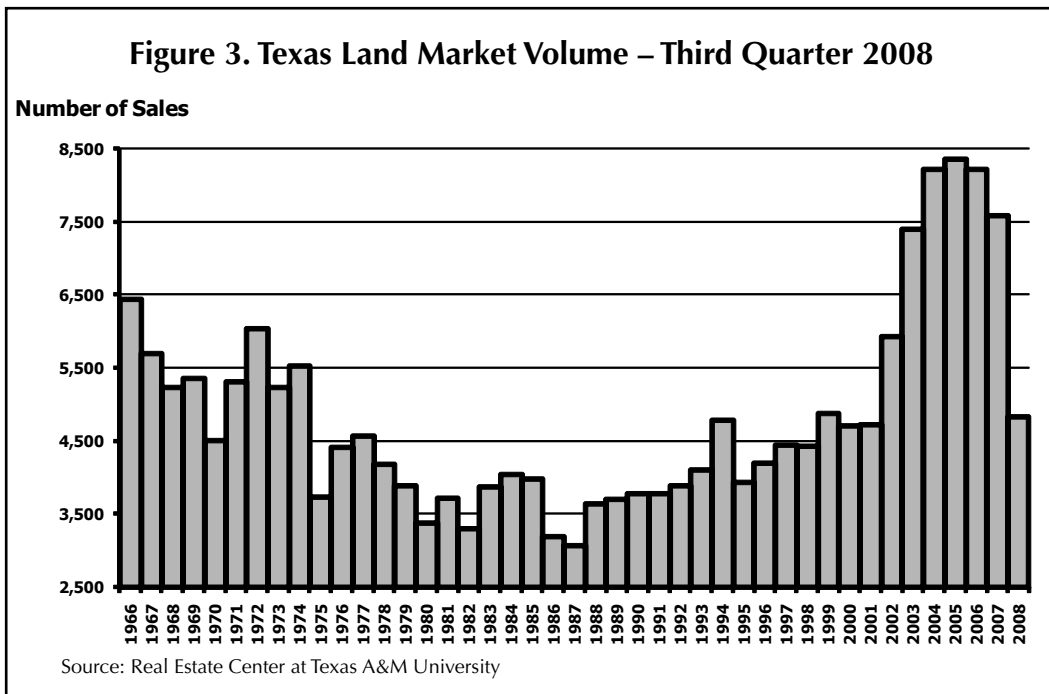
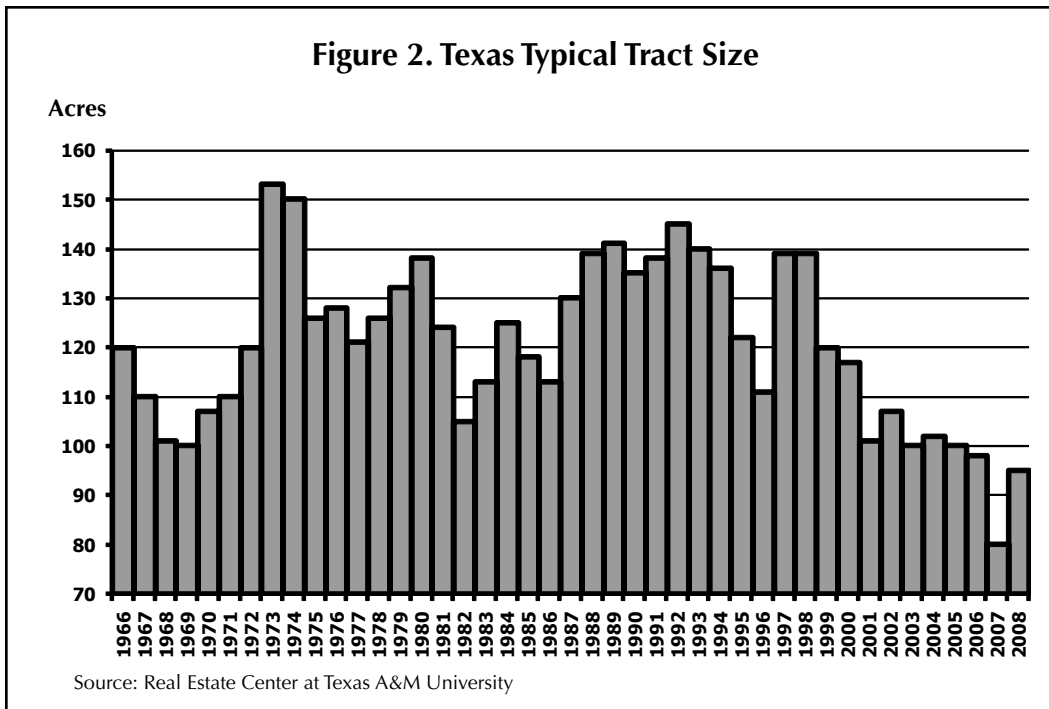
The fading growth rate suggests that 2008 price increases will likely be modest by year's end. In fact, the second quarter 2008 median price failed to exceed the second quarter 2007 median price, the first time quarterly medians have fallen short of previous quarterly prices in many years. Although the strong upsurge in the first quarter ensured an increase for 2008, the financial turmoil roiling the economy during the fall suggested growth would fall substantially short of the 20 percent posted in 2007. Still, regional markets continued to display increasing prices on a broad front.

The real or inflation-adjusted price of \$440 per acre in 1966 dollars pushed past the 2007 record level of \$424 marking a 4 percent increase over the 2007 annual price. Nominal prices shown in Figure 1 reflect actual prices paid while real prices are nominal prices adjusted for inflation.

Tract Size

Tract size rebounded to 95 acres in first half 2008 (see Figure 2) compared with the historic low of 80 acres in 2007. Although markets had hovered in the 100-acre range from 2000 through 2006, the 2007 median size indicated a market focused on smaller sales.





Sales Volume

Activity slowed in 2008 with sales volume dropping to 4,841 transactions during the first nine months of the year (see Figure 3). Volume through the third quarter of 2007 was 6,399, more than 24 percent greater than the 2008 level of activity. The current level of sales would return Texas to 2002 volume levels.

Future Trends

Land markets tend to change with a whimper, not a bang. The typical dynamic is a dwindling activity level with weakly

rising prices as buyers concentrate on fewer high-quality properties, leaving the more ordinary offerings to languish. Initial 2008 Texas sales reports revealed that those conditions held true in many areas of the state.

Overall, land prices continued to rise through the first three quarters of the year even as the number of transactions declined. In a quarter-to-quarter comparison, however, third quarter prices failed to exceed 2007 third quarter prices. That negative result caused the rate of increase in year-to-date price comparisons to slow from 14 percent in the first quarter to 7 percent in the third quarter. Volume of sales lagged 24 percent

behind 2007 levels. Land market professionals report the number of ranchland sales dropping 30 percent or more with commercial land sales in the some urban areas falling by even larger margins.

They also report buyer resistance to asking prices with some sellers seeing no activity despite marking prices down. Still, median prices are rising in many locales and across the state.

Traditionally, uncertainty in financial and investment markets compels individuals to seek a safe haven for their capital. Tangible assets have long been a preferred vehicle, so worried investors may consider land as an option in the current environment, just as they did after 9/11.

However, some of those buyers are beginning to suspect that they are buying in at the top of the market. Owners who harbor similar judgments about future land prices have listed their holdings at today's high prices.

Given past market dynamics, these market participants' concerns may be well founded. In the 40-year history of the Center's land market research, overall prices have tracked personal income very closely. A recession that stalls or reverses Texas personal income poses a substantial threat to land prices.

True, Texas is performing much better than the rest of the nation, and personal income is still increasing. But danger lies ahead. If the national recession drags Texas into its vortex of declining activity, land markets probably cannot avoid the painful realities already playing out in the residential market. The extent of exposure lies partly in the financial strength of current owners.

In the 1980s, the broad use of leverage made owners vulnerable to an economic downturn. Leveraged buyers defaulted on loans and new buyers abandoned the markets. Foreclosed land flooded into acquired property inventories at various financial institutions, and the rest is history. Prices dropped 30 percent from 1985 through 1987 and continued their lackluster performance for five more years, causing another 12 percent decline.

Conventional wisdom holds that today's buyers are using much less leverage, perhaps indicating that they are less apt to abandon their land. However, no reliable statistics exist to document the amount of leverage supporting current Texas land markets. One thing is certain: various Farm Credit Associations and a number of commercial banks have been active in the markets. Someone must have been borrowing those funds.

Ultimately, these factors have created an atmosphere more fraught with risk for land buyers than at any time in the past decade. The significant economic downturn suggests that at best prices may stagnate or at worst lose the remarkable gains made in the past few years. Analysis indicates that current land prices may be as much as 30 percent greater than the level suggested by extending the trend established during the 1992–2003 recovery.

It has been evident for quite some time that the unprecedented 17 percent annual appreciation rate in Texas

land markets from 2002 to 2007 cannot continue. Sales may halt or dwindle to a trickle with moderating or sliding prices.

Funds invested in land may become stranded if owners are unwilling to drop asking prices should this economic malaise maintain its grip for an extended period. Owners cannot expect to be able to extract their capital should they need funds for other investments and activities.

The potential for a long-term correction in land markets has increased substantially with the chaos in financial markets. Such a correction could eventually translate into stable or declining land values on a widespread basis.

Regional Land Market Developments

Market developments in the first three quarters of 2008 reflected buyers' continuing resistance to escalated asking prices (see Figures 4 and 5). This resistance appeared more pronounced for larger livestock properties early on as high feed prices squeezed returns. As the year progressed and economic troubles mounted, demand for recreational acreage began to cool.

Anecdotal evidence suggests that the supply of land for sale has begun to increase. Cropland markets in the Panhandle have boomed. Areas with feverish mineral production activity have also experienced increased demand. However, some local markets appear poised to take a breather from the rapid escalation of prices seen in recent years. These factors point to a muted 2008 rise in already historically high land prices.

Proper Use of Data

The tables included in this analysis contain statistics based on regional medians of prices paid for rural lands in Texas. Approximately 8,000 reported transactions form the foundation for this analysis of general trends in Texas land markets.

The median is the middle price in a ranked list of prices. Each individual Land Market Area listing in the tables relates to the median sale prices for the indicated region. Because medians are not unduly influenced by extremely high or low prices (outliers), these medians provide a stable indicator of typical properties over time using relatively small samples of sold properties.

The statewide trend analysis reflects changes in weighted average of regional median land prices. The weighting process reflects the percentage of Texas rural land found in each land market area as well as each regional median price.

Readers should use the statistics from the tables as an indicator of past general trends in prices in Texas land markets. The data are highly aggregated and do not represent land prices or values of any particular farm, ranch or tract. However, the statistics do provide a general guide to land market developments. Readers should not regard the reported statistics as a substitute for an appraisal or market study of current local sales regarding the value of any particular farm or ranch.

Figure 4. Texas Rural Land Prices First Three Quarters 2008

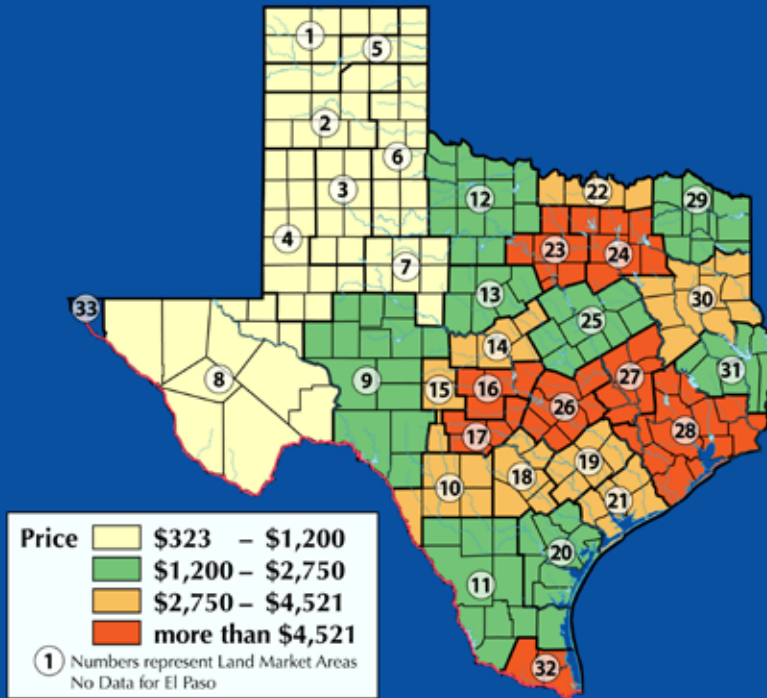


Figure 5. Texas Rural Land Price Change First Three Quarters 2008

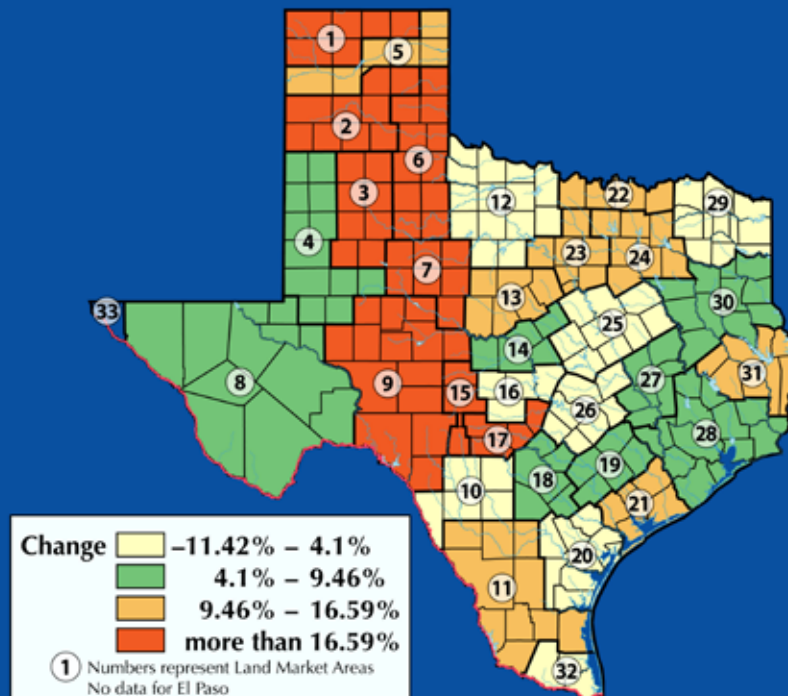


Table 1. Nominal and Real Changes in Weighted Average Price of Texas Rural Land, 1966–2008 Third Quarter

Year	Median Tract Size (acres)	Weighted Average Price per Acre	Nominal			Real	
			Year-to-Year Percentage Change	Annual Compound Pretax Growth Rate from 1966	Deflated Weighted Average Price per Acre*	Year-to-Year Percentage Change	Annual Compound Pretax Growth Rate from 1966
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	304	13	1.7
2006	98	1,825	23	6	363	19	2.1
2007	80	2,190	20	7	424	17	2.5
2008	95	2,315	6	7	440	4	2.5

*In 1966 dollars

Source: Real Estate Center at Texas A&M University

Table 2. Trends in Texas Rural Land Markets Through 3rd Quarter 2007 –08

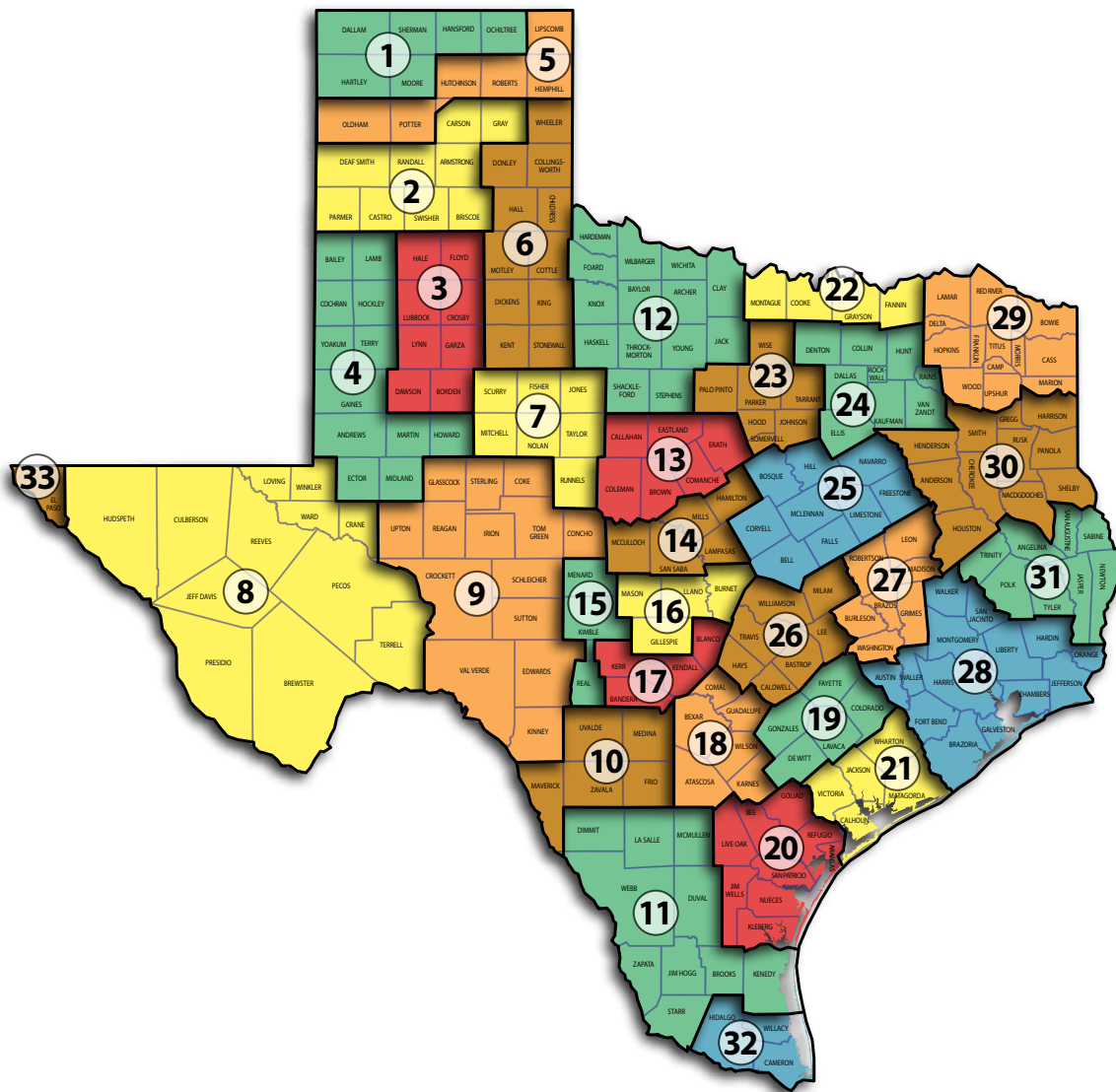
LMA	Land Market Area	Volume of Sales			Typical Size of Transaction				Typical Prices							
		2007	2008	Percentage	Acres per Sale		Change		Extremes		Dollar per Acre		Change		Extremes	
					2007	2008	2007	2008	Percentage	TEST	Minimum	Maximum	2007	2008	Percentage	TEST
1	Panhandle-North	70	89	27	640	640	0	95	4,839	674	1,200	78	**	300	2,375	
2	Panhandle-Central	161	182	13	320	320	0	14	4,629	652	900	38	**	156	10,402	
3	South Plains	134	199	49	192	196	2	10	2,488	666	891	34	**	300	19,361	
4	Permian-West	222	257	16	207	316	53	**	3,529	792	822	4	*	150	27,851	
5	Canadian Breaks	33	20	-39	630	500	-21	20	8,585	442	500	13	*	260	2,333	
6	Rolling Plains-North	145	122	-16	319	296	-7	15	6,703	750	875	17	**	357	2,000	
7	Rolling Plains-Central	229	141	-38	160	160	0	12	1,249	925	1,037	12	**	360	10,359	
8	Trans-Pecos	16	17	6	2,271	592	-74	11	14,500	307	323	5		131	4,500	
9	Edwards Plateau-West	241	158	-34	181	318	76	10	11,320	1,154	1,300	13	**	301	6,471	
10	Edwards Plateau-South	137	115	-16	107	100	-7	10	5,554	2,807	2,900	3		832	25,060	
11	Rio Grande Plains	135	101	-25	426	324	-24	15	14,465	1,725	1,883	9	*	588	3,988	
12	North Central Plains	425	333	-22	160	167	5	11	42,207	1,500	1,343	-10		400	10,222	
13	Crosstimbers	368	288	-22	114	96	-16	10	1,710	2,280	2,500	10	**	643	26,839	
14	Hill Country-North	272	182	-33	99	77	-23	10	1,421	3,006	3,222	7	*	1,335	21,006	
15	Hill Country-West	119	71	-40	115	72	-37	10	2,202	2,535	3,000	18		1,212	17,295	
16	Highland Lakes	271	157	-42	55	53	-3	10	1,694	5,640	5,692	1		1,892	27,329	
17	Hill Country-South	135	74	-45	52	42	-20	10	1,791	8,431	9,669	15	*	1,831	27,381	
18	San Antonio	280	207	-26	46	47	3	10	1,777	3,989	4,138	4		1,000	26,888	
19	Coastal Prairie-North	330	199	-40	47	51	9	10	957	4,544	4,521	-1		1,800	19,951	
20	Coastal Prairie-South	92	72	-22	89	100	13	10	5,793	2,376	2,215	-7		750	29,214	
21	Coastal Prairie-Middle	117	87	-26	90	67	-25	11	2,249	2,500	2,817	13	*	725	12,633	
22	Texoma	304	156	-49	50	42	-17	10	909	3,222	3,600	12		1,250	20,947	
23	Fort Worth Prairie	276	192	-30	26	41	56	10	2,022	6,580	7,500	14	**	550	28,000	
24	Dallas Prairie	146	90	-38	42	29	-31	10	807	4,876	5,067	4		989	25,930	
25	Blacklands-North	441	401	-9	54	72	34	10	2,797	2,770	2,750	-1		680	28,900	
26	Blacklands-South	343	204	-41	38	38	1	10	1,031	5,000	5,022	0		1,100	26,000	
27	Brazos	223	181	-19	38	39	3	10	1,657	5,011	5,300	6		161	26,692	
28	Houston	401	271	-32	32	30	-7	10	1,551	7,098	7,826	10	**	1,200	29,298	
29	North East	154	148	-4	59	65	11	11	1,598	1,541	1,500	-3		424	8,000	
30	Piney Woods-North	49	33	-33	69	81	18	14	1,294	2,625	2,836	8		1,361	12,999	
31	Piney Woods-South	55	29	-47	55	66	19	11	4,223	2,275	2,500	10		1,100	15,499	
32	Lower Rio Grande Valley	74	65	-12	35	25	-28	10	1,295	5,164	4,542	-12		1,350	22,487	
33	El Paso	1	-	-	12	-	-	-	-	10,852	-	-	-	-	-	-
	Texas	6,399	4,841	-24	80	95	18	10	42,207	2,174	2,315	7	**	131	29,298	

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.

Figure 6. 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 Land Market Areas (LMAs) and Counties

LMA 1

Dallam
Hansford
Hartley
Moore
Ochiltree
Sherman

LMA 2

Armstrong
Briscoe
Carson
Castro
Deaf Smith
Gray
Parmer
Randall
Swisher

LMA 3

Borden
Crosby
Dawson
Floyd
Garza
Hale
Lubbock
Lynn

LMA 4

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

LMA 5

Hemphill
Hutchinson
Lipscomb
Oldham
Potter
Roberts

LMA 6

Childress
Collingsworth
Cottle
Dickens
Donley
Hall
Kent
King
Motley
Stonewall
Wheeler

LMA 7

Fisher
Jones
Mitchell
Nolan
Runnels
Scurry
Taylor

LMA 8

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

LMA 9

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

LMA 10

Frio
Maverick
Medina
Uvalde
Zavala

LMA 11

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

LMA 12

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

LMA 13

Brown
Callahan
Coleman
Comanche
Eastland
Erath

LMA 14

Hamilton
McCulloch
Mills
Lampasas
San Saba

LMA 15

Kimble
Menard
Real

LMA 16

Burnet
 Gillespie
 Llano
 Mason

LMA 17

Bandera
 Blanco
 Kendall
 Kerr

LMA 18

Atascosa
 Bexar
 Comal
 Guadalupe
 Karnes
 Wilson

LMA 19

Colorado
 DeWitt
 Fayette
 Gonzales
 Lavaca

LMA 20

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

LMA 21

Calhoun
 Jackson
 Matagorda
 Victoria
 Wharton

LMA 22

Cooke
 Fannin
 Grayson
 Montague

LMA 23

Hood
 Johnson
 Palo Pinto
 Parker
 Somervell
 Tarrant
 Wise

LMA 24

Collin
 Dallas
 Denton
 Ellis
 Hunt
 Kaufman
 Rains
 Rockwall
 Van Zandt

LMA 25

Bell
 Bosque
 Coryell
 Falls
 Freestone
 Hill
 Limestone
 McLennan
 Navarro

LMA 26

Bastrop
 Caldwell
 Hays
 Lee
 Milam
 Travis
 Williamson

LMA 27

Brazos
 Burleson
 Grimes
 Leon
 Madison
 Robertson
 Washington

LMA 28

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

LMA 29

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

LMA 30

Anderson
 Cherokee
 Gregg
 Harrison
 Henderson
 Houston
 Nacogdoches
 Panola
 Rusk
 Shelby
 Smith

LMA 31

Angelina
 Jasper
 Newton
 Polk
 Sabine
 San Augustine
 Trinity
 Tyler

LMA 32

Cameron
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LMA 33

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