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The ongoing recession took a toll on Texas land markets in 2009. Most rural land markets throughout the state saw remarkable face-offs between bargain-seeking buyers and unmotivated sellers. Fearing further financial turmoil and a retreat in land values, bidders submitted offers well below asking prices.

On the other side of the equation, sellers accustomed to the preceding four years of soaring prices resisted reduced price offers. Many sellers who needed to cash out of their land holdings had to take sizable discounts. The resulting series of transactions indicated a profound drop in sales volume as well as a smaller proportion of large properties in the mix.

Dynamics differed depending on the type of land in the market. Most Texas acreage is grazing land with a strong recreational usage element. Markets for that kind of property weakened in 2009 while cropland markets generally continued to

prosper. Because pasture and rangeland make up more than 80 percent of the land in Texas, overall market indicators largely reflect conditions in the market for those property types.

The year-end 2009 price per acre (\$2,086), adjusted to reflect a normalized mixture of sizes, fell 7 percent from the record-high 2008 year-end overall price (\$2,247; see figure). Sales volume dropped to 4,138, the lowest number of transactions recorded since 1995 and well below the 2005 high of 8,005.

The real or inflation-adjusted price of \$389 per acre in 1966 dollars dropped 8 percent from the 2008 record level of \$425. Nominal prices shown in Figure 1 reflect the actual prices paid while real prices represent those nominal prices adjusted for inflation.

Market tract size plummeted to 73 acres in 2009, the smallest overall size ever recorded, compared with 90 acres in 2008 (Figure 2). The small size reflected an acute absence of large property sales. Market participants universally reported lack of property sales of more than \$1 million. This suggests that prospective buyers with

Figure 1. Size-Adjusted Texas Rural Land Prices, 2009

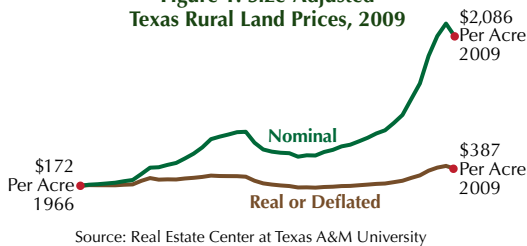
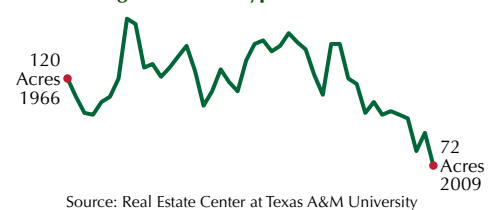


Figure 2. Texas Typical Tract Size



Rural Land
Texas Statewide Trends in Size and Location Adjusted Weighted Price Per Acre
1966–2009

Year	Nominal			Real			Volume of Sales	Median Tract Size (acres)
	Weighted Average Price per Acre	Percentage Change (Year-over-Year)	Annual Compound Five-Year Growth Rate	Deflated Average Price per Acre (in 1966 Dollars)	Percentage Change (Year-over-Year)	Annual Compound Five-Year Growth Rate		
1966	\$ 172	-	-	\$172	-	-	6,449	125
1967	183	6	-	177	3	-	5,695	118
1968	191	4	-	177	0	-	5,219	109
1969	200	5	-	177	0	-	5,360	101
1970	212	6	-	178	0	-	4,504	112
1971	230	8	6	184	3	1	5,290	113
1972	248	8	6	191	4	1	6,014	125
1973	323	30	11	235	23	6	5,227	157
1974	404	25	15	269	14	9	5,516	154
1975	409	1	14	249	-7	7	3,722	129
1976	440	8	14	254	2	7	4,405	131
1977	464	5	13	251	-1	6	4,566	124
1978	520	12	10	264	5	2	4,171	128
1979	582	12	8	272	3	0	3,889	135
1980	670	15	10	287	5	3	3,374	139
1981	776	16	12	304	6	4	3,721	125
1982	802	3	12	296	-3	3	3,299	106
1983	832	4	10	296	0	2	3,869	114
1984	863	4	8	296	0	2	4,307	128
1985	866	0	5	288	-3	0	3,972	119
1986	722	-17	-1	235	-18	-5	3,191	117
1987	634	-12	-5	201	-15	-7	3,077	130
1988	608	-4	-6	186	-7	-9	3,637	140
1989	594	-2	-7	175	-6	-10	3,691	140
1990	588	-1	-7	167	-5	-10	3,777	137
1991	545	-7	-5	150	-10	-9	3,780	138
1992	564	4	-2	151	1	-5	3,891	147
1993	560	-1	-2	147	-3	-5	4,109	140
1994	605	8	0	155	6	-2	4,770	132
1995	631	4	1	159	2	-1	3,929	122
1996	680	8	5	168	6	2	4,193	111
1997	695	2	4	169	1	2	4,433	141
1998	744	7	6	179	6	4	4,412	139
1999	787	6	5	186	4	4	4,862	120
2000	845	7	6	196	5	4	4,691	117
2001	886	5	5	200	2	4	4,721	101
2002	977	10	7	218	9	5	5,700	105
2003	1,077	10	8	235	8	6	7,000	100
2004	1,281	19	10	271	16	8	7,770	100
2005	1,487	16	12	306	13	9	8,005	100
2006	1,830	23	16	363	19	13	7,891	96
2007	2,083	14	16	403	11	13	7,344	80
2008	2,247	8	16	425	6	13	5,880	90
2009	2,086	-7	10	389	-8	7	4,138	73

Source: Real Estate Center at Texas A&M University

ample resources are unwilling to risk losses if prices weaken further.

Prospects for the future are mixed. Cropland is enjoying strong demand, with institutional buyers competing with farmers to buy available properties. Currently, buyers interested in cropland report a shortage of listings. The market appears to be robust throughout the nation. Strong prices for the commodities produced on the land are driving that market. Prices for this type of land will depend on the fundamentals driving those crop prices.

For the remainder of the market, conditions remain clouded. The impasse between buyers and sellers indicates strong differences of opinion regarding future market clearing prices. Buyers anticipate falling prices, while sellers are hoping for a turnaround in the near future. Only time will tell who is right.

Figure 3. Texas Land Market Volume, 2009



Source: Real Estate Center at Texas A&M University

The pronounced drop-off in sales volume is unprecedented in this decade (Figure 3). However, the 2009 activity level approximates levels posted in most years between 1974 and 2001. This number of sales may be the new “normal” for the next few years. The market is now waiting to see whether buyers will gain the confidence to step up and pay a higher percentage of asking prices or if sellers will blink first. ➡

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THE TAKEAWAY

Land prices and sales volume both dropped in 2009. Price per acre fell 7 percent to \$2,086 and transactions numbered only 4,138, the lowest since 1995. Typical tract size dropped to 73 acres, the smallest size ever recorded.



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Tierra Grande (ISSN 1070-0234) is published quarterly by the Real Estate Center at Texas A&M University, College Station, Texas 77843-2115. Subscriptions are free to Texas real estate licensees. Other subscribers, \$20 per year. Views expressed are those of the authors and do not imply endorsement by the Real Estate Center, Mays Business School or Texas A&M University. The Texas A&M University System serves people of all ages, regardless of socioeconomic level, race, color, sex, religion, disability or national origin. Photography/Illustrations: Robert Bealls II, pp. 1, 2.