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CROPLAND IN DEMAND But Large Tract Sales Wither

BY CHARLES E. GILLILAND, GERALD KLASSEN AND GABRIEL GARCIA

In 2011, Texas land markets reflected continuing demand for secure investments through sustained price increases for cropland. Market pressures were especially strong in irrigated cropland markets, helping to stabilize overall price levels statewide.

Prices increased in the Panhandle and South Plains, West Texas, and Wichita Falls regions. Panhandle and South Plains prices shot up 20 percent. However, the stability in these regions contrasted with falling prices in many other locales, where markets were challenged by slow volume. The more urban areas in the northeast and far south posted weaker prices. This mixed bag of results led to a statewide price per acre of \$2,150 (Figure 1), a 3 percent overall increase from 2010.

The real or inflation-adjusted price of \$396 per acre in 1966 dollars was still less than the record-setting 2008 level of \$424 but marked a 2 percent rise from the 2010 annual price.

Tract Size and Volume of Sales

Small-sized transactions continued to dominate the overall market as the 2011 median of 74 acres exactly matched the 2010 typical size (Figure 2). That size remains much smaller than the 100-acre levels seen from 2000 to 2005.

Large properties were mostly absent from the mix of sales. Brokers reported the impasse over pricing continued between potential buyers and sellers of larger tracts.

The 4,520 sales reported fell just short of the 2010 total of 4,747 (Figure 3). If reported sales were indicative of current market activity, sales volume had returned to late '90s levels. The year-to-date annualized trend toward stable volumes prevailed in virtually all of Texas. Statewide, the volume trailed 2010 levels by just 4.8 percent.

The decreased number of large transactions was reflected in the total acreage sold (Figure 4). Sales in 2011 transferred a total of 1,044,474 acres compared with 1,052,957 acres in 2010.

Texas Statewide Size-Adjusted Rural Land Index Price

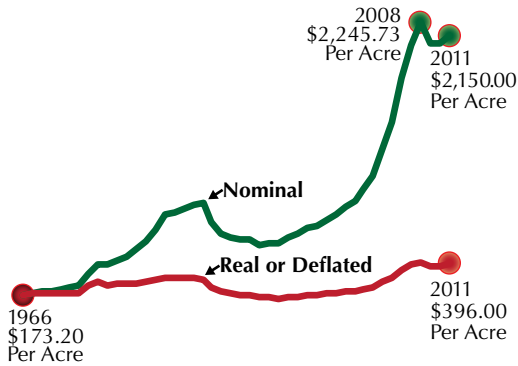
Year	Nominal			Real			Volume of Sales	Median Tract Size (acres)
	Weighted Average Index Price per Acre	Year-to-Year Percentage Change	Annual Compound 5-Year Growth Rate	Deflated Weighted Average Index Price per Acre*	Year-to-Year Percentage Change	Annual Compound Pretax Growth Rate		
1966	\$ 173	-	-	\$172		-	6,414	125
1967	184	6	-	177	3	-	5,672	118
1968	192	4	-	177	0	-	5,168	109
1969	201	5	-	177	0	-	5,302	101
1970	213	6	-	178	1	-	4,464	112
1971	230	8	6	184	3	1	5,251	113
1972	249	8	6	191	4	1	5,959	125
1973	324	30	11	236	23	6	5,208	157
1974	405	25	15	270	14	9	5,495	154
1975	410	1	14	250	-7	7	3,709	129
1976	441	8	14	254	2	7	4,389	131
1977	464	5	13	252	-1	6	4,535	124
1978	521	12	10	264	5	2	4,152	128
1979	584	12	8	273	3	0	3,873	135
1980	671	15	10	287	5	3	3,361	139
1981	780	16	12	305	6	4	3,699	125
1982	805	3	12	296	-3	3	3,285	106
1983	833	4	10	296	0	2	3,855	114
1984	865	4	8	296	0	2	4,017	128
1985	867	0	5	288	-3	0	3,957	119
1986	723	-17	-1	235	-18	-5	3,181	117
1987	634	-12	-5	201	-15	-8	3,072	130
1988	608	-4	-6	186	-7	-9	3,629	140
1989	596	-2	-7	175	-6	-10	3,679	140
1990	589	-1	-7	167	-5	-10	3,768	137
1991	546	-7	-5	149	-10	-9	3,773	138
1992	565	3	-2	151	1	-6	3,882	147
1993	560	-1	-2	147	-3	-5	4,101	140
1994	605	8	0	155	6	-2	4,762	132
1995	632	4	1	159	2	-1	3,921	122
1996	681	8	5	168	6	2	4,185	111
1997	695	2	4	168	0	2	4,424	141
1998	744	7	6	178	6	4	4,400	139
1999	788	6	5	186	4	4	4,854	120
2000	846	7	6	195	5	4	4,663	117
2001	886	5	5	200	3	4	4,685	101
2002	977	10	7	217	9	5	5,611	105
2003	1,075	10	8	235	8	6	6,871	100
2004	1,279	19	10	271	16	8	7,558	100
2005	1,491	16	12	305	12	9	8,005	100
2006	1,827	23	16	363	19	13	7,891	96
2007	2,077	14	16	402	11	13	7,344	80
2008	2,246	8	16	424	6	13	5,880	90
2009	2,085	-7	10	389	-8	7	4,139	73
2010	2,091	1	7	388	0	5	4,747	75
2011	2,150	3	3	396	2	2	4,520	74

*In 1966 dollars.

Note: 2011 volume of sales was estimated by annualizing the actual number of sales reported in the first three quarters. Nominal prices reflect actual prices paid. Real prices represent nominal prices adjusted for inflation.

Source: Real Estate Center at Texas A&M University

Figure 1. Texas Rural Land Prices



Source: Real Estate Center at Texas A&M University

By contrast, 3,086,339 acres sold in 2005. Subdued sales volumes began at the end of 2008 and continued through 2011.

Market Trends

In 2011, renewed interest in cropland combined with a fear of inflation to put upward pressure on cropland prices.

However, for the third straight year, large properties sold less frequently than in past years. Sales volumes lagged the transaction

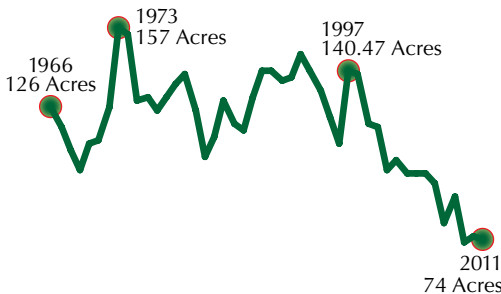
numbers from recent years and posted volumes last seen from 1990 to 2000.

These facts reinforce information gathered from appraisers and brokers who report potential buyers continue to make low

offers presuming that prices will drop eventually. Buyers are hesitant to pay current prices, but increasing numbers have grown weary of delaying their purchases.

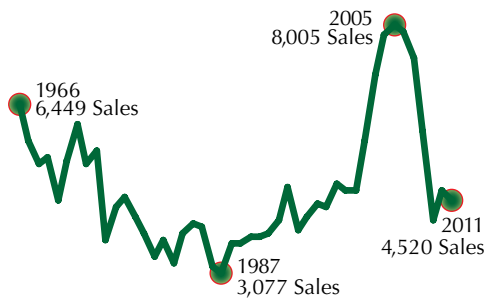
Lacking an external shock to the economy, market prices have firmed. However, transactions involving an unusually low number of acres continue for the third straight year.

Figure 2. Texas Typical Tract Size



Source: Real Estate Center at Texas A&M University

Figure 3. Texas Land Market Volume

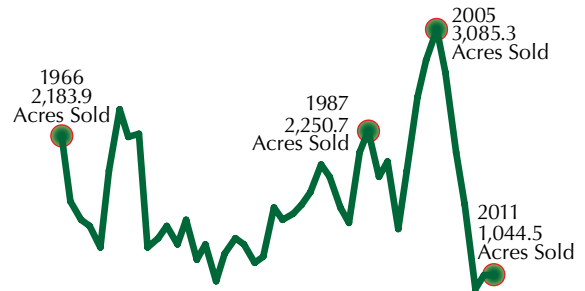


Source: Real Estate Center at Texas A&M University

These circumstances reflect the general discomfort in the economy as the world continues to grapple with the problem of excessive debt creating turmoil in financial markets. These disquieting forces create a heightened apprehension of risk and suggest buyers will continue to expect price erosion while sellers resist sales at prices below recent historical norms.

Anecdotal evidence suggests that cropland investors continue to actively seek land. However, dismal yields followed last year's historic drought, and the threat of substantial changes to government crop supports threaten the basic forces supporting demand. While these circumstances have not weakened

Figure 4. Number of Acres Sold in Texas



Source: Real Estate Center at Texas A&M University

demand for cropland, they have muddled prospects for the future.

Rangeland markets face formidable challenges as potential buyers anticipate lower prices and sellers refuse to accept low-priced bids. Transitional tracts near urban areas still face slack demand over the coming year. On the other hand, bustling activity in the oil patch continues to inject cash into Texas communities. Mineral producers and royalty owners have realized substantial profits with no end in sight.

Evidence is beginning to emerge indicating that some of this prosperity has begun to focus on land. Given these confusing trends, statewide prices may modestly increase in 2012. However, sales volume is not likely to expand in the near future. ➔

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THE TAKEAWAY

Texas markets struggled to post a small gain with a continuing dearth of large tract sales. Gains appeared to be concentrated in West Texas, the Panhandle and High Plains. Uncertainty and high commodity prices fueled strong demand for cropland. For the third straight year, fewer acres than historic patterns forecasted changed hands in Texas.



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The oil and gas reviews are in!



Colossal!*

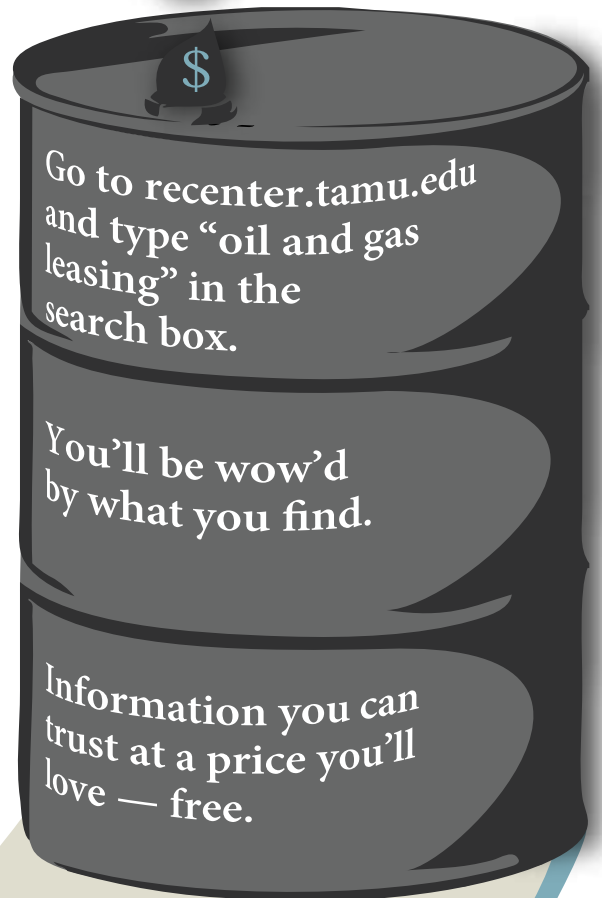
*Amount of oil and natural gas drilling in Texas.

Immense!**

**Amount of knowledge landowners need to negotiate an oil and gas lease.

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