

Less is More

Small Parcels Yield Higher Prices

By Charles E. Gilliland and Harrison Hunt

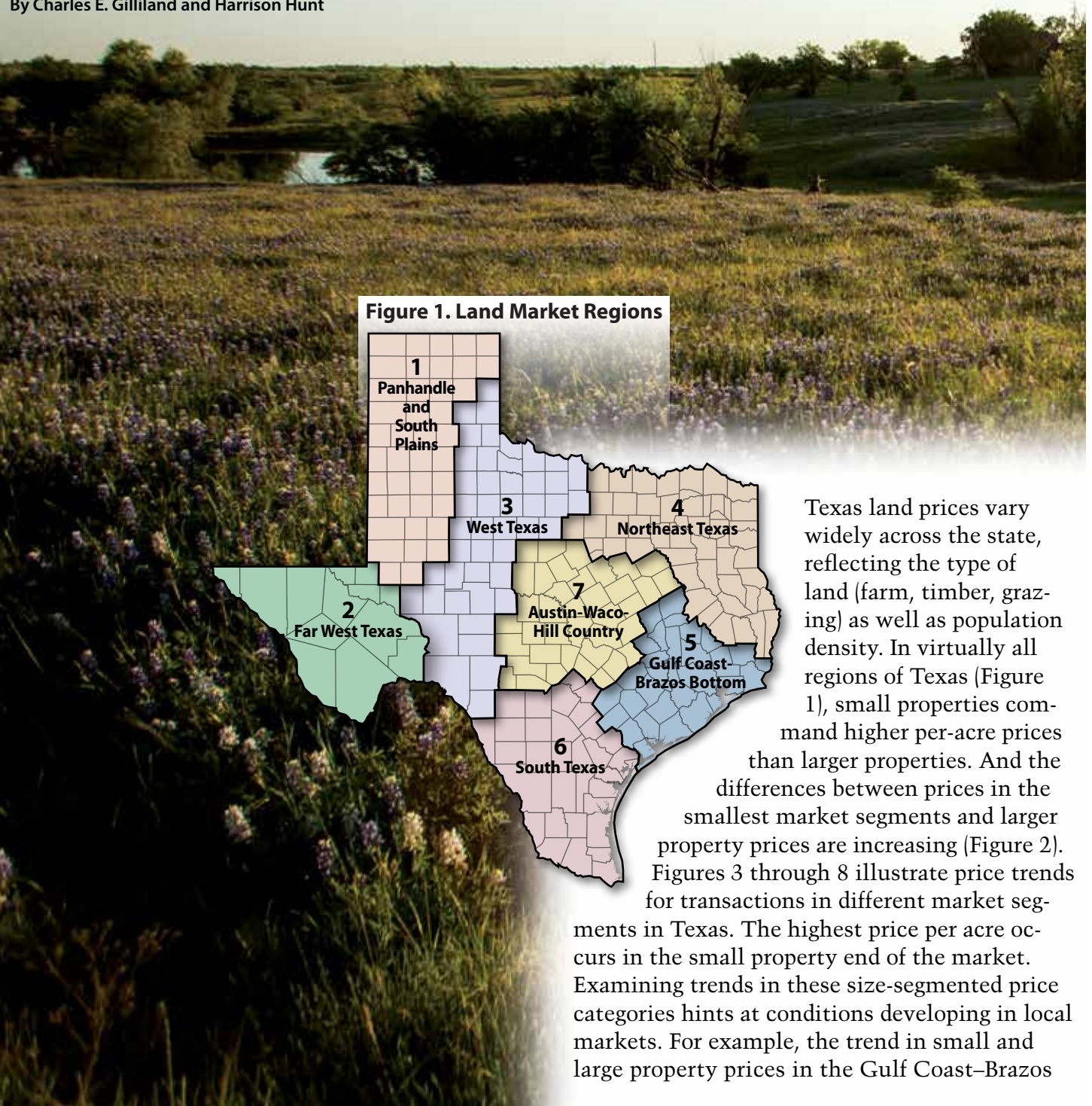
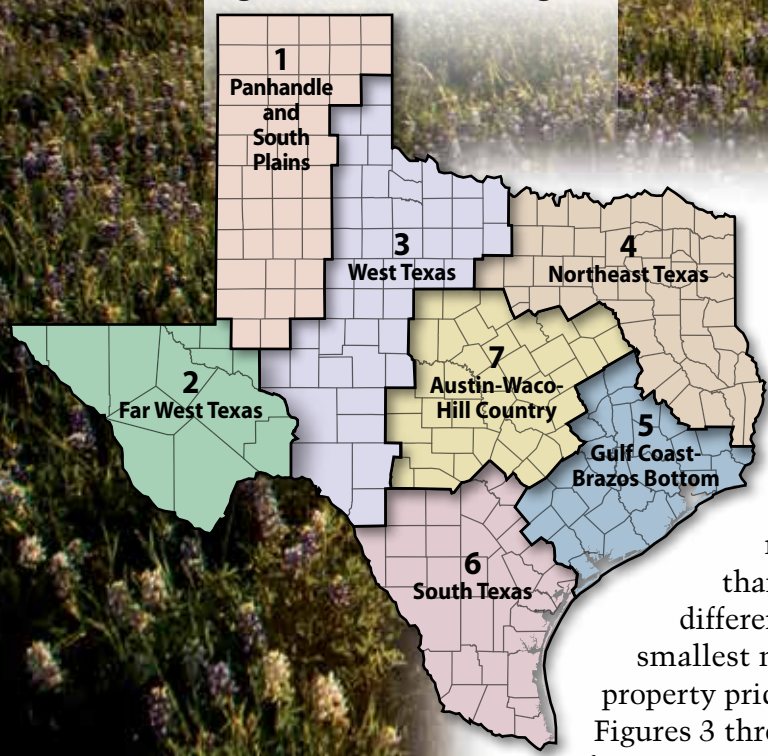
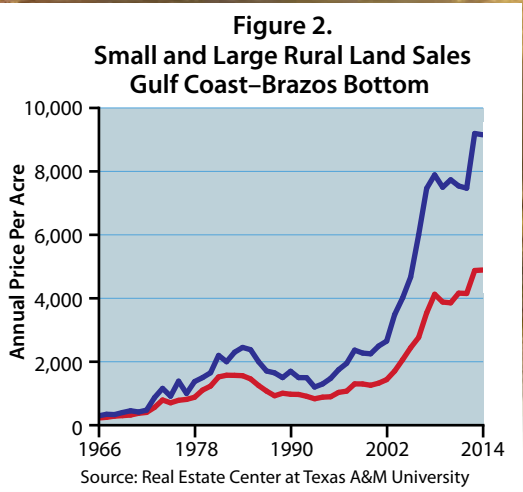


Figure 1. Land Market Regions



Texas land prices vary widely across the state, reflecting the type of land (farm, timber, grazing) as well as population density. In virtually all regions of Texas (Figure 1), small properties command higher per-acre prices than larger properties. And the differences between prices in the smallest market segments and larger property prices are increasing (Figure 2). Figures 3 through 8 illustrate price trends for transactions in different market segments in Texas. The highest price per acre occurs in the small property end of the market. Examining trends in these size-segmented price categories hints at conditions developing in local markets. For example, the trend in small and large property prices in the Gulf Coast-Brazos



Bottom region (Figure 3) registered no price change for either the small property market segment or the combined large market segments in 2014.

Some who monitor these developments might interpret them as a pullback from the 2013 market exuberance that drove prices sharply higher. However, information from professionals in that region suggests an alternative explanation. Buyers in 2013 flocked to a market with an abundance of top-quality properties commanding premium prices, while 2014 buyers found fewer top-quality options. Thus, the apparent price weakness actually results from buyers settling for lesser quality land. This phenomenon was largely confined to the two

smallest market segments (Figure 3) with the two largest market segments posting price increases.

Price trends traced out in the Gulf Coast–Brazos Bottom region (Figure 3) reveal that small property prices were flat, and there was a sizable drop in prices in the 43- to 66-acre market segment. Prices increased in the other three larger market segments. These dynamics appear to confirm that overall flat price performance results from changes in market composition rather than a general cooling of demand.

Another interesting dynamic has emerged in the Panhandle and South Plains market segments (Figure 4). That region reveals a curious phenomenon in the trends for the largest

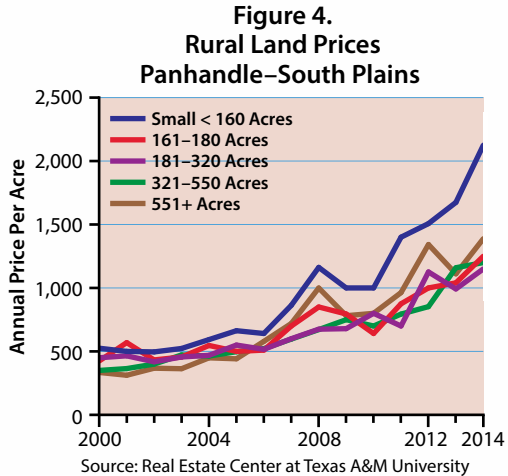
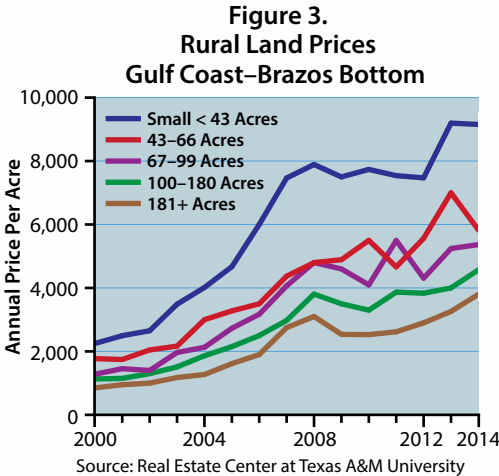


Figure 5.
Rural Land Prices
West Texas

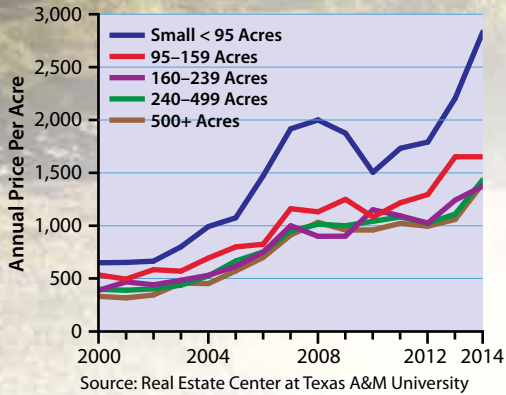


Figure 8.
Rural Land Prices
Austin-Waco-Hill Country

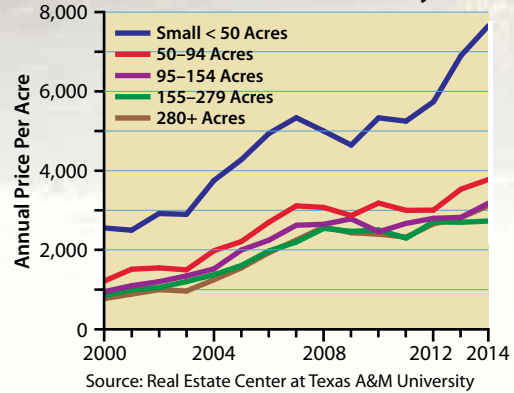


Figure 6.
Rural Land Prices
Northeast Texas

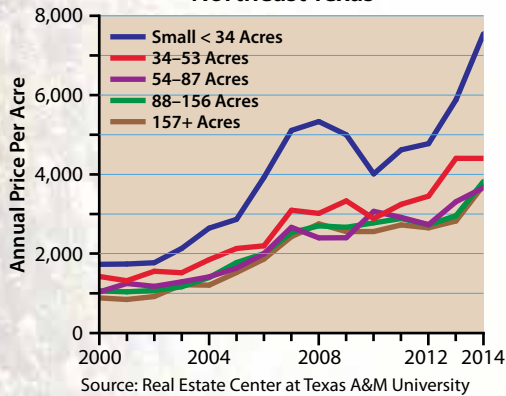
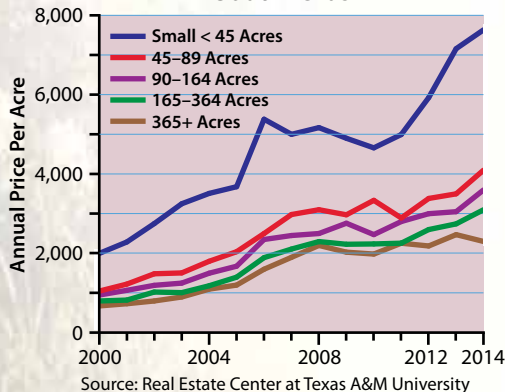


Figure 7.
Rural Land Prices
South Texas



properties in this area. Before 2006, per-acre prices in the 551-acre and larger market segment, the largest sales in the region, ranged lower than those in all of the other market segments. As expected, small property per-acre prices were highest in the region.

Beginning in 2006, however, large-sized property prices began to equal or exceed prices in the three 161- to 550-acre market segments. Price growth in large-sized markets even substantially closed the gap with the small property per-acre prices at times. Large property per-acre prices in 2014 continued to exceed prices in the intermediate markets.

From 2006 to 2014, strong demand for cropland produced numerous large transactions. In addition, investors recently have vied for large operating livestock properties. Owing to the scarcity of such large properties on the market, prevailing buyers must compete for available farms and ranches, driving up prices.

No other region in the state had such upward pressures on large-tract prices until 2013-14 in the Austin-Waco-Hill Country region (Figure 8). Large property prices, never far below the intermediate-sized markets, have begun to surpass the 155- to 279-acre market price and close in on prices in the 95- to 154-acre market segment. This development suggests that sizeable investments in larger Hill Country properties, perhaps fueled by newly wealthy Eagle Ford shale participants, may be bidding up prices for larger tracts.

Generally, the four largest land market segment trends track each other well within each region. The smallest market category tends to post much higher per-acre prices. Digging into the details can reveal market developments not readily seen in overall market indicators. ♣

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THE TAKEAWAY

Land prices vary across the state, but small tracts generally have higher per-acre prices than large properties.



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