

2015 Texas Land Markets Taking a Breather?

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March 12, 2015

Publication 2095



In 2014, commodity prices retreated. From a February 2013 high, corn prices dropped 51 percent by September 2014. By year's end, cotton prices fell 29 percent from an August 2013 high. In October, oil prices began a slide that continued into 2015.

Despite these headwinds, Texas land buyers shrugged off negative sentiments to propel land prices to record highs. Fueled by strong demand for recreational properties and cropland, buyers dismissed bearish farm income forecasts. Statewide land prices soared 9 percent, settling at \$2,354 per acre (Figure 1 and table).

That was a five-year increase of 33 percent and a ten-year appreciation of 125 percent. From 1966, Texas land prices took 38 years to top \$1,000 per acre. By 2013, a mere nine years later, the statewide per-acre price exceeded \$2,000 for the first time, reaching \$2,160. The 2014 price was a new record. The median size for a Texas rural tract sold was 118 acres, down from 120 acres in 2013.

With the exception of the West Texas and Far West Texas areas (Figure 2), regional market prices moved up, mirroring the statewide trend. South Texas posted the greatest percentage increase with a regional price nearly 16 percent higher than 2013. The Northeast Texas region followed closely with a more than 12 percent increase.

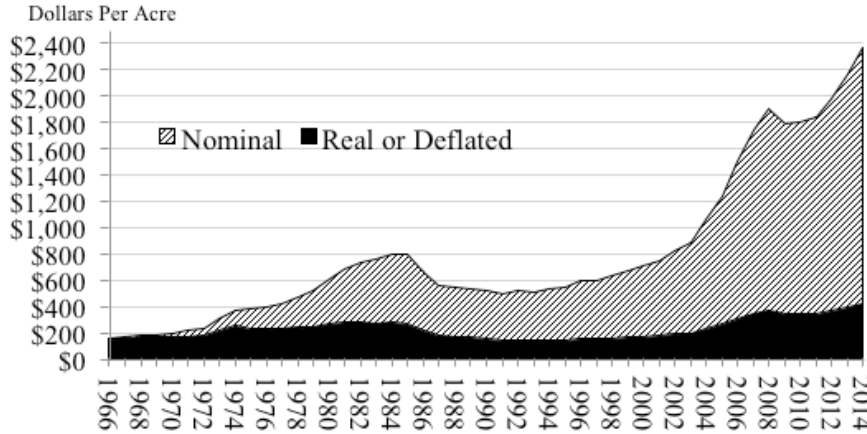
The Gulf Coast–Brazos Bottom and Panhandle and South Plains each rose approximately 10 percent. The Austin–Waco–Hill Country region expanded by 9 percent. However, the West Texas region contracted more than 2 percent from 2013 price levels.

Far West Texas sales registered a sizable decline. However, because that region frequently sees a limited number of highly individualized transactions, this price drop does not accurately reflect broad market realities. In this case,

The Takeaway

Statewide per-acre prices set a record high in 2014, with all regions except West Texas and Far West Texas registering price increases.

Figure 1. Texas Rural Land Prices



Note: Real prices in 1966 dollars
 Source: Real Estate Center at Texas A&M University

observers indicated that few good-quality properties reached the market in 2014, hinting that the price change resulted from an unusually large number of lesser-quality land sales in the lowest priced locales of the region.

With 4,546 reported sales, the 2014 Texas land market finally exceeded the level of activity posted in 2007, amounting to a 10 percent increase over 2013. However, the median tract size dropped from 120 acres to 118 acres with an overall volume of 1,446,827 acres, 65 percent

greater than the 2009 total of 875,536 acres and 6 percent more acres than 2013.

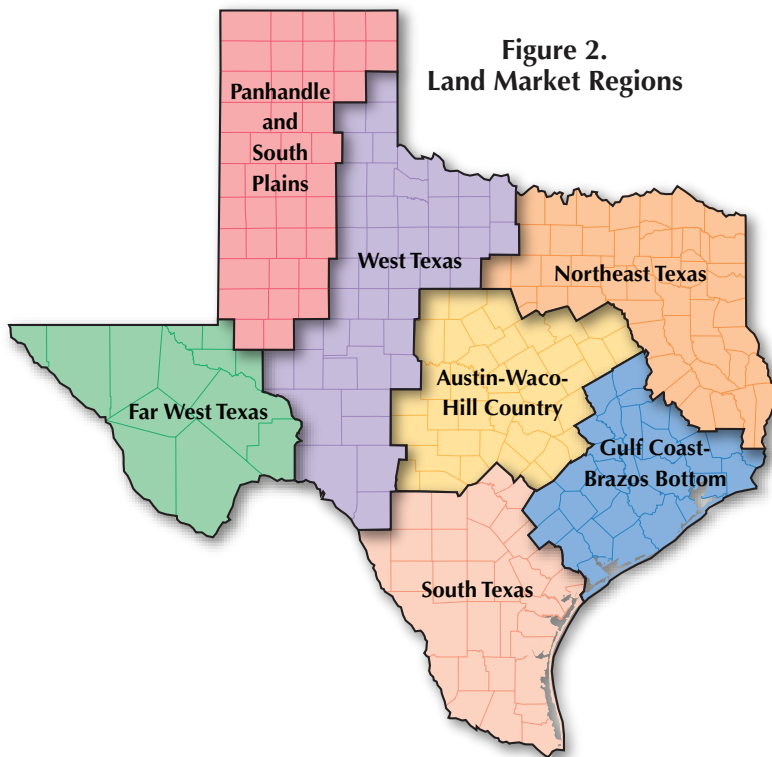
Separately, rural markets for small properties recorded a price increase of 4 percent after a 19 percent growth in 2013 (Figure 3). The 2014 price for small tracts was \$5,018 per acre, surpassing the 2008 peak price by 23 percent. This was an all-time high for Texas small property prices.

Taken together, these indicators paint a portrait of an active 2014 market with robust prices in all segments. Prices surged ahead as investors competed with recreational buyers and agricultural producers. The explosion of wealth from Eagle Ford Shale production spurred a wave of buyers seeking ranches. Developments in urban areas spiked upward as the Texas economy expanded, prompting land purchases for future housing subdivisions. In short, 2014 was a robust land market.

As the fall progressed and turned the corner into 2015, prospects for continuing market progress dimmed. Weakened commodity prices finally caused would-be cropland investors to pull back, and brokers reported a growing inventory of listings. Some farmers have begun to demand rent reductions or threaten to drop leased property altogether. In addition, the dramatic reversal of oil prices cooled recreational buyers, especially those with income from the energy industry.

Deals in the works ground to a halt in December and January as potential buyers waited for oil prices to settle, ending the uncertainty gripping the market. As potential buyers brace for possible negative impacts on oil-based incomes, this apprehensive mindset clouds prospects for market activity in the coming months. Oil field service suppliers are likely going to reduce

Figure 2. Land Market Regions



Source: Real Estate Center at Texas A&M University

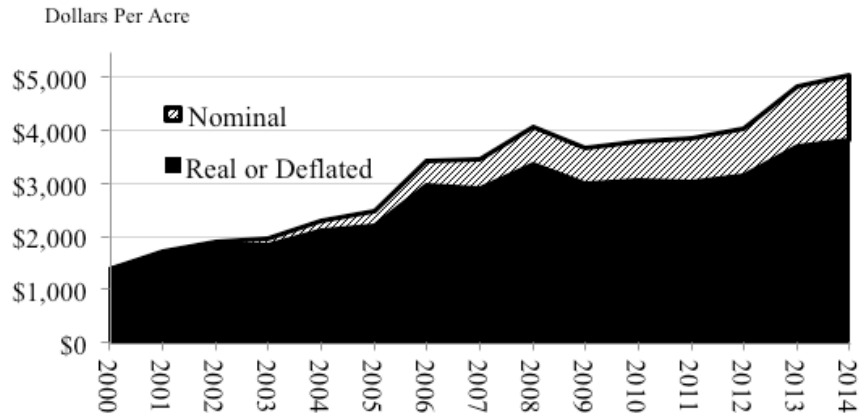
Texas Statewide Size-Adjusted Rural Land Index Price

Year	Nominal			Real			Volume of Sales	Median Size
	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 5-Year Growth Rate		
1966	151		–	151		–	5,397	160
1967	161	6.62	–	156	3.31	–	4,677	152
1968	171	6.21	–	159	1.92	–	4,203	150
1969	180	5.26	–	160	0.63	–	4,216	144
1970	186	3.33	–	157	–1.88	–	3,639	160
1971	209	12.37	6.72	168	7.01	2.16	4,188	160
1972	228	9.09	7.21	175	4.17	2.33	4,803	160
1973	297	30.26	11.67	217	24.00	6.42	4,338	171
1974	370	24.58	15.50	247	13.82	9.07	4,548	164
1975	373	0.81	14.93	229	–7.29	7.84	2,968	160
1976	393	5.36	13.46	228	–0.44	6.30	3,447	160
1977	420	6.87	13.00	230	0.88	5.62	3,662	160
1978	461	9.76	9.19	236	2.61	1.69	3,377	160
1979	518	12.36	6.96	244	3.39	–0.24	3,199	160
1980	605	16.80	10.16	262	7.38	2.73	2,804	160
1981	684	13.06	11.72	271	3.44	3.52	2,951	160
1982	729	6.58	11.66	272	0.37	3.41	2,593	152
1983	753	3.29	10.31	270	–0.74	2.73	3,111	158
1984	789	4.78	8.78	273	1.11	2.27	3,415	160
1985	790	0.13	5.48	265	–2.93	0.23	3,271	153
1986	649	–17.85	–1.05	214	–19.25	–4.61	2,634	158
1987	552	–14.95	–5.41	177	–17.29	–8.23	2,513	160
1988	539	–2.36	–6.47	167	–5.65	–9.16	3,031	160
1989	528	–2.04	–7.72	158	–5.39	–10.36	3,094	160
1990	518	–1.89	–8.09	149	–5.70	–10.88	3,163	160
1991	486	–6.18	–5.62	135	–9.40	–8.80	3,174	161
1992	509	4.73	–1.61	139	2.96	–4.72	3,371	161
1993	499	–1.96	–1.53	133	–4.32	–4.45	3,511	160
1994	524	5.01	–0.15	137	3.01	–2.81	4,074	160
1995	542	3.44	0.91	138	0.73	–1.52	3,266	158
1996	591	9.04	3.99	148	7.25	1.86	3,407	152
1997	592	0.17	3.07	146	–1.35	0.99	3,636	166
1998	629	6.25	4.74	153	4.79	2.84	3,498	169
1999	667	6.04	4.94	160	4.58	3.15	3,852	160
2000	705	5.70	5.40	166	3.75	3.76	3,529	160
2001	741	5.11	4.63	170	2.41	2.81	3,325	160
2002	815	9.99	6.60	184	8.24	4.74	4,115	160
2003	877	7.61	6.87	195	5.98	4.97	4,822	160
2004	1,053	20.07	9.56	227	16.41	7.25	5,323	164
2005	1,236	17.38	11.88	258	13.66	9.22	5,434	172
2006	1,495	20.95	15.07	303	17.44	12.25	5,186	170
2007	1,737	16.19	16.34	344	13.53	13.33	4,465	161
2008	1,899	9.33	16.71	368	6.98	13.54	3,724	172
2009	1,779	–6.32	11.06	342	–7.07	8.54	2,430	160
2010	1,794	0.84	7.74	341	–0.29	5.74	2,804	160
2011	1,836	2.34	4.19	342	0.29	2.45	2,686	160
2012	1,973	7.46	2.58	362	5.85	1.03	3,152	160
2013	2,160	9.48	2.61	390	7.73	1.17	4,135	120
2014	2,354	8.98	5.76	418	7.18	4.10	4,546	118

Note: Real values are in 1966 dollars

Source: Real Estate Center at Texas A&M University

Figure 3. Small Property Texas Rural Land Prices



Note: Real price in 2000 dollars
 Source: Real Estate Center at Texas A&M University

prices for their services to avoid widespread layoffs. Companies may announce plans to curtail drilling in the coming year until oil prices stabilize.

As Texas faces a reversal of oil prices, two possibilities emerge for the path of future economic development. Some prognosticators, recalling the carnage in 1986, foresee challenging times ahead for the entire economy. Others, citing diversification of the Texas economy and less vulnerable financial institutions, insist that this time is different from the 1980s. These observers

expect a modest slowdown, but they do not foresee major challenges ahead. The prospects for land markets in 2015 critically depend on which of these scenarios emerges in the coming months.

Analyses of past land price developments suggest that a 50 percent cut in the Texas personal income growth rate will result in a sizable but noncatastrophic drop in overall land prices over the coming two years. A downturn inflicting greater declines in Texas personal income with weak oil prices will obviously inflict a more painful retreat in land prices. The uncertainty about which path the economy will likely follow has many potential buyers adopting a wait-and-see attitude. 🇺🇸

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