

A Reprint from *Tierra Grande*, the Real Estate Center Journal

Recreation Makes Rural Land Hot Property

A Place in the Country

By Charles E. Gilliland, Joseph Biles
and Kelly Dryden

Buyers continued to flock to the Texas hills in 1999 in search of a place to hunt or a weekend retreat. The thriving economy expanded purchasers' incomes, leaving them with flush pocketbooks and the desire to own Texas land. This rising tide of prosperity overshadowed woes in the agricultural economy, including prolonged drought and low commodity prices.

Why Buyers Buy, Why Sellers Sell

Panelists responding to the Real Estate Center's land value survey reported that consumers (those who use land for recreation or other non-agricultural activities) dominated the 1999 rural land market. More than 40 percent of panelists ranked *recreation* as the dominant motive of Texas land buyers, a trend that began in spring 1995. Purchases for *agricultural production* continued declining, with less than 20 percent of the panel listing that as a dominant motive for land purchases.

Financial stress has declined as a motive driving sellers in Texas land markets. *Estate settlement* tops the list of primary motives for sellers as it has since spring 1994. *Retirement* ranks second in reasons for selling, according to the survey.

Land Prices Moving Toward Record

Because markets are driven by a limited seller population, rural land prices continue to rise. Statewide, Texas land prices

rose a healthy 9 percent from 1998 to 1999, climbing from \$720 per acre to \$786 per acre. Nominal price per acre reflects the cost of a typical acre of rural land sold each year. Year-to-year changes in this price reflect state-wide trends in land prices.

Texas nominal land prices have recovered much of the ground lost in the great land price decline of the 1980s. The 1999 price falls just \$79 short of the 1985 peak of \$865 per acre. A 10 percent increase next year would return prices to that 1985 record level. Continuing pressure on land markets promises to propel prices above that record level in the next year or two.

Lingering Drought, Low Crop Prices Dim Outlook

Texas land markets face a series of issues. The lingering drought promises to continue into the foreseeable future. Attendant poor growing conditions threaten to put production-oriented landowners and buyers under financial stress as another crop year begins with inadequate moisture. Adding to these concerns, prices for Texas field crops continue at low levels, while rising oil prices threaten to increase costs.

Continuation of poor weather and low prices could dampen demand for Texas farmland in the coming year. Insurance payments and government assistance have staved off financial catastrophe in recent years. Assuming such assistance continues, prices for farmland will probably remain steady in 2000.

Economists project recovering farm commodity prices in two or three years. Farmers who survive current difficulties

can expect brighter prospects as rainfall returns to the state. Still, smaller operators will face competitive pressures that likely will force them to expand or abandon production. Water rights and water quality will become increasingly important. Some landowners may reap substantial profits from the sale of water. In the long term, landowners should anticipate rising prices for good quality farmland but mixed prospects for average and marginal tracts.

The outlook for Texas rangeland prices is more positive for the coming year. Beef prices have risen to comfortable levels, and hunting revenues continue to support land prices throughout Texas. Further, rangeland generally attracts the recreational buyers prevalent in today's market. Drought continues to threaten these markets, but buyers and owners continue to view the current dry conditions as a departure from normal conditions.

Supplies of rangeland will continue to be tight in the face of strong demand. Look for Texas rangeland prices to rise, particularly in communities surrounding cities and in scenic areas. These markets should thrive as long as the economy continues to be strong.

Rangeland markets continue to experience the break up of large ranches into smaller units. By subdividing a large property, the seller appeals to a broader range of buyers. Enlarging the buyers' pool usually results in prices per acre that exceed

the price of the ranch as one large unit. Sales in scenic areas with recreational amenities reflect this trend, leading to a proliferation of relatively small properties.

Prosperity Brings Conflict

Challenges prompted by the growing population of rural land owners have sparked political and social changes in many areas of Texas. New stores open and existing establishments remake themselves to cater to the arrivals. Environmental groups lament the development of the countryside and seek to secure conservation easements. As prosperity continues and population expands, these kinds of conflicts will spread.

Texans are dealing with a difficult puzzle as they seek to accommodate competing visions of the future. No matter how these conflicts are resolved, demand for attractive rangeland will likely remain strong in the long term, pointing to higher prices across the state.

For more information, see data statistics and available publications at the Center's website, <http://recenter.tamu.edu>. Details on specific land market areas can be found in technical reports 1369, *Rural Land Values in the Southwest, Second Half 1999* and 1378, *Texas Rural Land Prices, 1999*. ♣

Dr. Gilliland is a research economist and Biles and Dryden are graduate research assistants with the Real Estate Center at Texas A&M University.



LOWRY MAYS COLLEGE & GRADUATE SCHOOL OF BUSINESS

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

<http://recenter.tamu.edu>
979-845-2031
800-244-2144 orders only

Director, Dr. R. Malcolm Richards; **Associate Director**, Gary Maler; **Chief Economist**, Dr. Mark G. Dotzour; **Senior Editor**, David S. Jones; **Associate Editor**, Nancy McQuiston; **Associate Editor**, Wendell E. Fuqua; **Assistant Editor**, Kammy Baumann; **Editorial Assistant**, Brandi Ballard; **Art Director**, Robert P. Beals II; **Circulation Manager**, Mark W. Baumann; **Typography**, Real Estate Center; **Lithography**, Wetmore & Company, Houston.

Advisory Committee

Gloria Van Zandt, Arlington, chairman; Joseph A. Adame, Corpus Christi, vice chairman; Celia Goode-Haddock, College Station; Carlos Madrid, Jr., San Antonio; Catherine Miller, Fort Worth; Angela S. Myres, Kingwood; Nick Nicholas, Dallas; Jerry L. Schaffner, Lubbock; Douglas A. Schwartz, El Paso; and Jay C. Brummett, Austin, ex-officio representing the Texas Real Estate Commission.

Tierra Grande (ISSN 1070-0234), formerly *Real Estate Center Journal*, 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, \$30 per year, including 12 issues of *Trends*.

Views expressed are those of the authors and do not imply endorsement by the Real Estate Center, the Lowry Mays College & Graduate School of Business or Texas A&M University.