



REAL ESTATE CENTER

# Exurban



# Residential Development in Texas

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## Contents

- |           |  |
|-----------|--|
| <b>1</b>  | Introduction<br>Defining Exurban Residential<br>Economics of Exurban Residential Development |
| <b>4</b>  | Market Characteristics   |
| <b>7</b>  | Development Considerations   |
| <b>11</b> | Conclusion   |
| <b>13</b> | Appendix   |

# Exurban Residential Development in Texas

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## Introduction

Many people dream of living in the country where they can enjoy fresh air, ride a horse, see the stars, relish the tranquility and leave city hustle and bustle behind. Today, Texans are making this dream come true. Construction of residential developments beyond city suburbs is occurring at a rapid rate across the state. Real estate licensees working in rural areas are increasingly finding opportunities to sell to customers who have never before lived in a rural area. This report examines the development process for exurban residential properties, including determining the demographics, market characteristics, prices and land planning process.

## Defining Exurban Residential

The term *exurban residential* can be broadly defined to include many forms of residential development in rural areas, from manufactured home parks to lake resort condominiums to ranchette developments. This report focuses on a rapidly growing form of exurban residential development — the restricted rural subdivision for site-built homes.

Rural subdivision development has been around for decades. Often, such developments were created in conjunction with the Veterans Land Board (VLB), which provided financing for military veterans who wanted rural home sites. Because many veterans had limited incomes, VLB projects tended to be characterized by manu-

factured housing or mobile homes. Another type of residential subdivision sprung up on the shores of Texas reservoirs built during the twentieth century and featured moderately restricted subdivisions appealing to buyers wanting second homes. Upscale resort developments along scenic lakes, such as Horseshoe Bay along Lake Travis outside Austin, featured second home or retirement-oriented residential uses.

In the 1990s, the increasing number of middle-aged, affluent homebuyers and the growth of employment on the fringes of metropolitan areas resulted in an increase in restricted rural subdivisions. These developments, which are the focus of this report, are generally characterized by residential lots from one-half to 20 acres and often include strict deed restrictions requiring site-built homes as opposed to manufactured homes. Such developments are sometimes located adjacent to natural attractions such as lakes, but often the locations are considered attractive simply because of their rural atmosphere. Most are located in unincorporated areas administered at the county level.

## Economics of Exurban Residential Development

### *Rural Land Prices*

In Texas, and throughout much of the nation, low agricultural commodity prices have dropped the value of rural land for agricultural uses. In certain areas of the state, land prices are now

being driven by other potential uses, such as hunting leases, ranchettes for weekenders from metropolitan areas and exurban residential subdivisions.

According to a study by the Agriculture Program at Texas A&M University, with assistance from the Real Estate Center, economic and demographic trends are also causing fragmentation of rural land ownership in the eastern half of Texas. The study states that since 1994 consumers, primarily from urban areas, have dominated the market for rural land. Most of these consumers want land for recreational purposes such as fishing, hunting or horseback riding. Sellers of rural land are often motivated to sell because of financial stress or because persons involved in farming or ranching businesses are retiring without younger family members to take over. Given these trends, the option of creating an exurban residential subdivision or selling to a developer is economically appealing for many rural landowners.

Figures 1 through 7 in the appendix summarize median price trends for rural land in areas of Texas where exurban residential development is popular. Texas statewide rural land prices rose 9 percent, from \$720 per acre to \$786 per acre, from 1998 to 1999. Nominal (noninflation adjusted) land prices have recovered from losses suffered after the mid-1980s. Current prices in many locations, such as North Texas, North Central Texas and parts of the Hill Country, are equal to or more than peak levels of the 1980s. Median

land prices can exceed \$2,000 per acre in subregions that are particularly popular because of their scenic or recreational appeal and proximity to major urban centers. Current and historic rural land prices are available for specific areas of Texas on the Real Estate Center's website at <http://recenter.tamu.edu>.

For some areas, Multiple Listing Service (MLS) data are available as an

indicator of price trends and sales activity. Tables 1 and 2 show MLS data for vacant land sales in rural areas outside Austin and Dallas-Fort Worth with at least 25 sales in 2000. Price-per-square-foot data were not available.

North Texas had increases over 1999 prices in all areas but the Celina ISD and part of Parker County. The data show mixed results for median sales

prices for the Austin area, however, with some areas appreciating, some unchanged and some declining. This could be because of generally increasing prices per unit of land, which would raise the median price, and an increasing number of smaller tracts being sold in certain areas, which would tend to lower the median price.

**Table 1. North Texas MLS Vacant Land Sales, 2000**

Area	Sales	Median Price	Percent Change in Price from Year Ago
Navarro County	97	\$31,440	26
Celina ISD	40	38,250	(10)
Fannin County	40	31,620	2
Wise County	129	35,090	28
Hood County	263	28,550	49
Parker County*	30	30,000	7
Parker County	38	29,950	(32)
Parker County	45	36,000	13
Parker County	34	35,000	17
Parker County	41	27,500	11
Parker County	59	97,190	70

\*MLS divides Parker County into 12 subareas.

Source: Real Estate Center at Texas A&M University

**Table 2. Austin MLS Vacant Land Sales, 2000**

Area	Sales	Median Price	Percent Change in Price from Year Ago
Bastrop County	216	\$10,500	-18%
Elgin	36	27,000	15%
Dripping Springs ISD	184	30,000	28%
Hays CSD	41	23,900	4%
Wimberley ISD	39	25,000	-17%

Source: Real Estate Center at Texas A&M University

Farm and ranch prices in these two areas show a general upward trend as well. Figures 8 through 10 in the appendix present these price trends graphically. While month-to-month price statistics vary considerably, there appears to be a slight upward trend in median price since 1998. The price-per-square-foot statistics for Austin area farm and ranch land (not available for North Texas) indicates more stagnant prices, however.

While price data for tracts the size typically sold as exurban residential

subdivision lots are limited or nonexistent, prices for rural land and agricultural properties in the 1990s generally increased. In some locations, the popularity of exurban residential development was partially responsible for these increases.

### **Rural Home Prices**

While data are also limited on rural housing price trends, a sample of MLS data indicates a general price rise. Tables 3 and 4 show 2000 MLS data for

a sample of houses sold in rural areas near Austin and the Dallas-Fort Worth Metroplex. A wider range of prices was found in North Texas, with median prices from about \$65,000 to \$70,000 in more remote subareas to more than \$200,000 in the Melissa Independent School District in northern Collin County. In the Austin area, median prices ranged from about \$85,000 around Taylor to \$224,000 in the Dripping Springs area.

**Table 3. North Texas MLS Single-family Home Sales, 2000**

Area	Sales	Percent Change in Price From Year Ago	Average Price	Percent Change in Price From Year Ago	Median Price	Percent Change in Price From Year Ago	Price per Sq Ft	Percent Change in Price From Year Ago
Navarro County	259	-14	77,196	-2	67,250	3	42	-2
Princeton ISD	78	-3	99,124	3	90,250	6	64	9
Farmersville ISD	35	6	87,656	-20	85,000	-7	54	-12
Prosper ISD	44	7	209,374	34	165,250	14	88	14
Celina ISD	49	36	221,736	30	180,000	20	87	9
Rains ISD	26	37	77,448	17	51,000	-25	48	-2
Van Alstyne ISD	40	-20	121,050	-10	113,750	-11	64	-6
Anna ISD	37	12	148,395	17	115,000	-1	74	13
Melissa ISD	38	19	195,216	9	205,500	47	80	6
Fannin County	106	12	81,565	10	75,500	12	46	8
Wise County	347	0	113,360	12	91,160	5	62	6
Hood County	643	5	133,720	8	120,000	9	70	5
Palo Pinto	89	147	195,467	44	159,000	78	114	38
Erath County	200	5	74,341	1	67,000	-3	47	5
Weatherford NE	29	-28	71,255	6	65,000	4	55	16
Weatherford SE	59	-17	91,517	2	92,500	5	59	2
Weatherford SW	66	20	105,925	33	89,950	13	61	13
Weatherford NW	44	16	65,494	3	62,750	0	48	5
Parker County*	35	17	137,144	8	128,500	-4	68	6
Parker County	62	3	174,921	24	153,000	21	79	14
Parker County	96	3	154,144	8	148,000	11	73	7
Parker County	68	-18	204,383	0	168,120	-5	86	5
Parker County	75	63	205,370	8	178,500	6	81	6
Parker County	45	41	110,313	0	90,000	11	60	-8
Parker County	26	24	125,086	15	110,000	-5	68	10
Parker County	29	12	91,578	-1	89,500	15	NA	NA
Parker County	52	63	101,225	11	87,750	8	65	16
Parker County	125	-4	94,911	-8	75,000	-14	60	-4

\*MLS divides Parker County into 12 subareas.

Sources: Multiple Listing Service and Real Estate Center at Texas A&M University

**Table 4. Austin MLS Single-family Home Sales, 2000**

Area	Sales	Percent Change in Price From Year Ago	Average Price	Percent Change in Price From Year Ago	Median Price	Percent Change in Price From Year Ago	Price per Sq Ft	Percent Change in Price From Year Ago
Bastrop County	293	-17	132,769	22	118,170	15	78	18
Burnet County	51	55	172,440	6	130,000	31	NA	NA
Elgin	141	8	124,438	13	107,500	13	77	13
Dripping Springs ISD	244	6	253,729	13	224,000	16	119	13
Hays CSD	401	8	133,523	12	115,000	7	76	10
Hutto ISD	173	151	118,591	10	112,120	5	78	17
Wimberley ISD	145	23	165,562	8	143,000	5	97	13
Manor	55	-29	131,016	-6	135,000	9	71	-1
Taylor ISD/Coupland ISD	179	-14	99,344	16	84,580	4	66	14

Sources: Multiple Listing Service and Real Estate Center at Texas A&M University

Prices per square foot also had a wider range in North Texas, from a low of \$42 per square foot in Navarro County to a high of \$114 per square foot in Palo Pinto County, where the popular Possum Kingdom Lake is located. In rural Austin, prices ranged from \$66 per square foot in the Taylor area to \$119 per square foot in Dripping Springs.

These MLS statistics are based on resales of existing homes. The older housing stock in some rural areas is likely the principal driver of these statistics. Many exurban residential developments, where buyers typically build their own homes, are too new to have a significant number of resales. Thus, many exurban residential subdivisions feature homes valued much higher than the area's median resale price.

**Market Characteristics**

***Popular Regions for Exurban Development***

While exurban residential subdivisions are occurring across the state, certain areas with attractive terrain and convenience to major urban areas have attracted a significant share of these projects.

**Hill Country.** Demand for exurban housing is especially high in the Hill Country. The rugged terrain, favorable climate, scenic reservoirs and historic, quaint towns have made the area popular for retirees and second homeowners for decades.

In the 1990s, residential demand from commuters working in San Antonio and Austin boomed. In areas such as Bandera, Kendall, Blanco, Comal and Hays counties, where drive times to these cities are less than an hour, exurban developments are proliferating. Comal County is one of the state's fastest-growing counties. According to Comal County officials, 13,000 acres of farm and ranch land went out of production between 1993 and 1997 (*San Antonio Express-News*, March 25, 2000). According to Jay Millikin, a Comal County commissioner, 8,000 lots are under development in Comal County. In Blanco County, the county judge's office reports that 475 subdivision lots have been platted since 1995.

Col. Lee Roy Roper, president of Rinco of Texas, has developed exurban residential subdivisions for 20 years in the Hill Country, mostly around the north shore of Canyon Lake. He has noticed a change in exurban development patterns in the Hill Country over the past several years. Whereas many Hill Country developments used to be located around the various reservoirs and other water features in the area, today subdivisions are appearing in a wider variety of locations. The U.S. 281 corridor north of San Antonio has recently experienced exurban residential growth, taking advantage of primary housing demand from commuters who work on the north side of San Antonio. Telecommuters and those working at home are also a source of

demand. Another factor influencing the market has been an influx of Houston area residents seeking second homes or retirement homes.

The Hill Country features large exurban developments not typically found in other areas of the state. One example is the Mystic Shores project, a recently approved subdivision at the northwest end of Canyon Lake. The 7,000-acre project, owned by developer Blue Green of Boca Raton, Florida, eventually will include about 2,000 homes. A Dallas company, Tecon Corp., is proposing an 824-lot project called Holiday Village of Medina near Lake Medina. The 315-acre subdivision is planned to have seven gated neighborhoods.

The Hill Country region also has many smaller subdivisions typical of exurban residential projects elsewhere in Texas. According to Roper, lot prices in such developments run from \$10,000 to close to \$100,000, with eight- to ten-acre lots bringing as much as \$80,000. The Polo Club, an upscale development west of Austin near Dripping Springs, features extensive equestrian facilities and lot prices from \$65,000 to \$130,000; per acre prices reach \$195,000.

Developers of rural subdivisions in the Hill Country face special concerns regarding water sources and waste disposal because of the unique geological and groundwater characteristics of the area. These concerns will be discussed in the government

regulations and infrastructure sections of this report.

**North Central Texas.** Two more hot spots of exurban residential development are the areas west and southwest of Fort Worth, which are characterized by scenic hilly terrain. In Palo Pinto County, upscale subdivisions are sprouting up around bluff-lined Possum Kingdom Lake. Somervell County, with its archaeological attractions and rocky hills of Glen Rose, is the site of a number of new exurban subdivisions.

Donna Hutchinson of Somervell Partners, L.L.C. has been involved in several exurban projects in the Glen Rose area. She comments that only since the late 1990s have residential lots become widely available in that area, and now there are not enough builders to meet demand. Land price appreciation in rural parts of Somervell County has been strong with good tracts selling for as much as \$5,500 to \$6,500 per acre. For platted lots in a gated rural subdivision with underground utilities and curb and gutters, prices are typically \$49,000 per acre.

**North Texas.** The prairies north of the Metroplex also are attracting numerous exurban subdivisions that are popular with commuters. Suburban employment centers, such as Alliance Airport outside Fort Worth and Legacy in Plano, have moved the "commute shed" out into rural portions of Wise, Denton and Collin counties. Defining exurban residential projects becomes difficult in this area, which is growing so rapidly that today's exurban projects may be considered suburban within a couple of years. Rural areas around Paradise and Decatur in Wise County and Prosper in Collin County near commuter highways feature new, large-lot, "country-style" exurban residential projects.

Jerry Campbell, developer of the gated residential community Canyon Springs Ranch outside Paradise, states that the Alliance Airport development, with its abundance of well-paying blue collar jobs, has created substantial demand for exurban homes. In early 2000, prices there started at \$30,000 for five-acre home sites and \$45,000 for ten-acre home sites.

Some North Texas incorporated cities have zoning regulations that promote exurban-style development. Amberwood, within the City of

Prosper, has one-acre minimums for residential lots and allows one horse per acre. Amberwood and other Prosper developments have benefited from the high-tech employers and high-income employment growth in the Plano and Richardson areas. The 43-lot development, which opened in 1998, has sold all but eight lots. Prices for three to six acres originally ranged from \$80,000 to \$90,000 but have jumped to \$105,000 to \$150,000 reflecting the growing demand for this type of residential lifestyle.

**East Texas.** The natural beauty of the woodlands and abundant reservoirs have made the Piney Woods of East Texas a popular second-home location for decades. Much of this area, such as Rains, Wood and Henderson counties, has easy access to the Dallas area. The late 1990s brought a new round of exurban subdivisions to the area, many of them more upscale than older projects. The Vista by Crestview Properties, near the small town of Chandler between Tyler and Athens, is a gated, hilltop community of 38 lots with extensive views. The first phase of 14 lots, ranging from one-half to three acres, sold out in eight months. Prices range from \$29,000 to \$59,000 for lots with the best views. Lot sizes range from one-half to one acre in the second phase, which is now preselling.

**South Central Texas.** The rolling countryside of South Central Texas between Houston and Austin has appealed to urban residents for many years. Much of the rural property in this area is owned by Houston residents who escape to their farms and ranches on weekends. Recently, exurban residential subdivisions have begun to sprout, especially in areas readily accessible to the two major highways, Interstate 10 and U.S. 290. Exurban development has accelerated with the growth of Houston's economy and the increase in high-paying jobs in the city's western suburbs.

Ken Bevers, a real estate agent in Chappell Hill, is marketing the Lakes of Chappell Hill project, a gated development of ten- to 14-acre lots fronting on U.S. 290 just west of the town. Prices range from \$99,500 to \$149,500. In late 1990, when the development opened, there was an initial flurry of sales followed by a slowdown. Bevers attributed the slowdown to high gas prices, the drought and summer

vacation distractions for potential family homebuyers. Interest in the development has again picked up with the construction of the first homes and with improvements to U.S. 290 in northwest Harris County, which enable commuters to reach jobs in suburban northwest Houston in less than 45 minutes.

**Other Houston metro.** Commuter-oriented exurban projects also have become popular in rural areas closer to Houston. In addition to the long-popular Lake Conroe area, a variety of large-lot subdivisions have opened several miles from the existing suburban fringe, including the heavily wooded area of southwest Montgomery County. The FM 1488 corridor, which runs from Magnolia eastward to The Woodlands, is lined with "country-style" subdivisions featuring large lots and, in some projects, equestrian facilities. Speculative homes by production builders in these developments typically cost from the upper \$200,000s to \$350,000.

Fort Bend County is another area attracting similar developments. Large-lot developments have become popular along the Brazos River in the northern part of the county and southeast of Rosenberg in the central part of the county. These exurban subdivisions may be considered suburban within a few years as Houston's fast-paced growth continues.

**Other areas.** Along the western portion of Copano Bay, north of Corpus Christi, an old exurban project is being redone as a large-lot subdivision. The development, Copano Bay Retreat, is sparking some interest from the Victoria area, but much of the demand for lots is coming from the San Antonio and Austin areas, which are several hours away. Copano Bay Retreat is one of the few exurban projects along the coast. Most residential projects in the area are within incorporated towns.

The scenic, higher-altitude parts of West Texas have also attracted some projects. Near Fort Davis, a 98-lot project that started in the mid-1980s but went dormant during the state's economic troubles has finally experienced an increase in demand over the last three years. Fort Davis Estates has one- to three-acre lots, currently priced about \$4,500 per acre; 18 have been

sold. Buyers are coming both from local towns and the state's major metropolitan areas. The long-distance buyers are attracted by the cooler, drier climate and mountain views.

### ***Common Features of New Exurban Communities***

While exurban residential developments show some variation in style and featured amenities from region to region, usually in response to natural features such as terrain, vegetation and bodies of water, several characteristics are generally common to the projects.

**Large lots, low density.** Because a major selling point of exurban residential projects is "elbow room," they almost always feature lots that are larger than a typical suburban lot. In general, exurban lots range from one-half to 20 acres. The lot sizes of an exurban project vary with several factors:

- desired market price and image positioning;
- county regulations regarding minimum lot sizes for various types of water sources and sewage disposal;
- existing roads and the financially supportable amount of new road construction within the project; and
- natural terrain that may dictate lot sizes to take advantage of views or work around floodplains or other features that may influence lot size and layout.

Some developments have higher densities, particularly resort-oriented projects for which market differentiation comes from recreational amenities such as golf courses or lakes as opposed to a "country-style" atmosphere.

**Appealing natural features, surroundings.** As might be expected, tracts with interesting terrain, extensive views, attractive trees and other vegetation and water features are more popular for residential development. Sites that are not likely to suffer negative impacts from adjacent uses are more marketable.

**Installed amenities.** Developers sometimes offer amenities to compensate for lack of naturally occurring features or to cater to a specific market

niche. Common installed amenities in Texas exurban developments include:

- entrance gates and perimeter fencing,
- lakes,
- equestrian facilities and
- greenbelts and natural restoration areas.

**Deed restrictions, architectural controls.** In ironic contrast to the image of rural living as the epitome of property-use freedom, deed restrictions and development controls are nearly universal features of exurban residential projects in Texas today. Past exurban projects often had few restrictions. Buyers generally could have site-built or manufactured homes, build immediately or hold the property vacant for years, add outbuildings and raise animals. Today, with many buyers of exurban lots coming from heavily restricted suburban environments, extensive deed restrictions have become the norm.

Deed restrictions in these projects address several topics to varying degrees.

- **Site-built vs. manufactured homes.** For most projects, a covenant preventing the installation of a manufactured or mobile home is necessary to assure prospective lot buyers of future value protection.
- **Minimum home size, exterior materials and other architectural features.** Most projects surveyed have a minimum required home size that varies from 1,200 to nearly 3,000 square feet, depending on the market positioning of the development. Many developments also specify a minimum coverage of exterior facades by certain materials, such as brick or stone. The most vague of these controls is the architectural review through which home plans must be approved by a review board. Homes frequently are required to be of a particular architectural "style," often "country style." In some projects, lot owners must choose from a preapproved list of builders for their home.
- **Landscaping, site planning and outbuildings.** Many developments restrict where homes may be

located on a site, what types of fencing and landscaping may be used, whether outbuildings such as shops or barns are allowed and if so, how many outbuildings.

- **Maximum lot holding period without home construction.** To prevent long-term neglect of lots and give a comforting physical image to prospective buyers, many subdivisions require that home construction begin within a prescribed time period after closing.
- **Property uses and agricultural (farm animal) controls.** Commercial uses and certain farm animals are typically restricted. Often, a specific number of eligible animals are allowed per acre.

Generally, the more upscale the development, the stricter the controls. Some controls, such as those on construction materials and home size, diminish as lot prices increase. This is because buyers in more upscale subdivisions are making a greater investment and are more likely to build homes that will maintain and enhance the value of the property.

### ***Market Demographics***

Demand for exurban residential housing is coming from more and more segments of the population, including retirees and pre-retirees, second home buyers, relocating local buyers and nonlocal working families.

**Retirees and pre-retirees.** The most traditional source of demand for exurban residential projects is retirees and those nearing retirement. Exurban residential developers around the state report continued demand from this group. In some projects, such as The Vista in Henderson County, out-of-state retirees have made up a significant percentage of buyers. Many buyers were raised in rural areas and want to retire away from the hustle and bustle of urban environments.

These buyers are typically concerned with issues such as access to medical care and security. In contrast to other buyers, however, they may be less concerned with distance to employment centers. According to The Vista's developer, Crestview Properties, many retirees purchase there because they have family nearby. Some pre-retirees

will use their exurban property as a second home prior to retirement.

**Relocating local buyers.** Existing area residents seeking to move up in home quality or downsize from farms or ranches create another source of demand for exurban residential properties. Many of these buyers are of working age and hold salaried positions in local government, schools, hospitals or industry. Housing quality and value protection are key features of exurban projects targeting this segment of the market.

**Nonlocal working families.** The key source of demand for exurban residential properties in many regions of Texas is the nonlocal, working-age buyer. Typically, these buyers live and work in the suburbs, though they may have been raised in rural areas or small towns. They seek to make lifestyle changes and, finding the suburbs to be too high density, desire greater distance from their neighbors. Many of these buyers have children and school quality is an important consideration.

This group typically has decided on an acceptable commuting drive time to their existing job. Anecdotal evidence from marketers of exurban projects suggests that acceptable drive times and distances are increasing. They also expect a level of security and local services similar to what they had in the suburbs. Thus, gated entrances and the response times of local emergency services are relevant subdivision features. Many also demand a level of deed restrictions and property controls similar to those in the suburbs to ensure long-term value retention.

**Employment patterns.** While many exurban subdivisions are within tolerable daily commuting distance to employment centers, others are suited to less traditional employment patterns. Projects in Somervell County are popular with firefighters, airline pilots and others in the Fort Worth-Arlington area who work multiday shifts and commute only once or twice a week. Telecommuting is reported to be significant in many of Texas' exurban communities.

**Buyer motivation.** Retirees and local move-up buyers have relatively clear-cut reasons for moving to exurban developments, primarily a desire to have quality homes in a country environment. As for formerly suburban families, exurban residential develop-

ers report that this group is generally seeking a lifestyle change. They are disenchanted with the suburbs, which they feel are too dense and "cookie cutter," with congested roads, dangerous schools and a too-complex quality of life. They want the country atmosphere and more space between homes. Many are looking for a home where they can have a horse on or near the property.

## Development Considerations

A number of market and regulatory factors affect the attractiveness of subdivision development to a rural landowner. They also affect the density, layout, timing and marketing of the project.

### Selecting Property

A rural tract's potential as an exurban residential development is influenced by a variety of physical and locational factors.

**Location.** If the target market for residential buyers will be employees commuting daily to a metropolitan area, the property must be located close enough to have a tolerable commute time. While there is no standard for drive time, a 45-minute drive is considered to be near the limits of tolerance. A strategic perspective for developers is to look for planned highway expansions or extensions that will decrease drive times to major employment centers and select tracts that are too distant now but will be brought within the tolerable "commute shed" as highway improvements are made.

**Physical assets.** Homebuyers are attracted to properties with undulating or hilly terrain, trees and water features such as creeks or lakes. Developers can get premium prices for lots by taking advantage of these features, especially when the terrain has good views or lot frontage on water features.

Sometimes physical deficiencies can be remedied through creative marketing. For example, to increase the attractiveness in the relatively treeless Lakes of Chappell Hill project, the developer offered tree allowances so that lot buyers could purchase and plant trees on their property.

While hilly terrain and views are appealing to potential buyers, such land features also can cause problems. Steep slopes can limit buildable home

sites. If views are a primary marketing point for the development, the subdivision planner will be restricted by the need to offer views from as many lots as possible and minimize potential view interference from future homes within the project.

**Road frontage.** Because road construction is perhaps the greatest single infrastructure cost to a developer in most exurban residential projects, the presence of existing roads within or adjacent to the property can make a substantial difference in the project's investment potential. In many counties, access to platted lots must be from roads that are built to existing county standards, so existing roads may be attractive only if they will not require upgrading. Lesser-used farm-to-market roads and well maintained county roads provide ideal road frontage. Heavily traveled roads such as U.S. or state highways may actually detract from property value because of traffic noise.

**Adjacent properties and property shape.** Obviously, undesirable uses on adjacent properties will negatively affect the residential value of a rural land tract. Because exurban residential subdivisions are typically located in unincorporated areas administered by counties, which do not have zoning powers, there is also little assurance that adjacent external properties could not harbor undesirable uses in the future. Therefore, properties whose shapes minimize frontage with adjacent private property and provide a large number of interior lots may be more desirable. Frontage on nonprivate uses, such as bodies of water, also helps to minimize this risk. Developers should conduct research on adjacent properties to determine the risk of undesirable land uses on adjacent tracts.

**Environmental concerns.** Properties with underlying geology that ensures long-term availability and safety of well water, if homeowners are drilling individual wells, and maximizes on-site sewage options per county regulations will likely appeal to homebuyers. Endangered species have not become a problem for exurban developers in most parts of Texas. However, in certain areas of the state such as the Hill Country, developers are becoming more aware of the financial and practical impacts of

habitat designation on their properties. Developers may be liable for habitat damage, even if the habitat was not previously mapped.

**Local services.** Most exurban homebuyers in Texas are coming from major metropolitan areas and are accustomed to the level of private and public services available in a typical middle- or upper-income suburb. Exurban developers report that buyers are concerned about security, access to emergency services and prestige. Many exurban developments have gated entrances, which address both security concerns and the desire for prestige (see Amenities section). Many other aspects of local services are out of the developer's control, but site selection criteria can include good emergency service response times, high-quality, nearby medical facilities, a reputable law enforcement organization, highly regarded school districts and at least a moderate level of community retail services.

### **Government Regulations**

The regulatory body Texas exurban residential developers deal with most is the county government, specifically the commissioners court. Because counties do not have zoning powers in Texas, they exert their greatest developmental control in subdivision ordinances. The exception occurs in unincorporated areas within the extraterritorial jurisdiction of an incorporated city, usually one-half mile to several miles from the city limits. Developments in these areas must conform to the city's subdivision regulations and plans must be submitted to the city's development review agency for approval.

In the 1990s, differing interpretations of state laws resulted in legal disputes over a county's right to require exurban residential developers to file subdivision plats. After court rulings limited counties' authority to require plats, the Texas legislature passed Senate Bill 710 (1999). This law elevated counties' authority by requiring the filing of a subdivision plat for most subdivisions. There are exceptions to the requirement, most notably subdivisions where all lots will be more than ten acres, but counties may now regulate essentially all exurban residential subdivisions of the type discussed in this report. For a more detailed description of the state

law, its history and exceptions to county regulation, see Real Estate Center Publication 1195, "County Regulation of Rural Subdivisions."

Developers must obtain approval from the county commissioners' court prior to filing the plat with the county clerk. The court's approval is based on satisfaction of county subdivision regulations, which is usually confirmed during a review by the county engineering office or an engineering consulting firm hired by the county. Regulations typically address three areas: roads, sewage disposal and water supply, although standards for drainage, flood zones and other environmental impacts may be included as well.

**Roads.** Most counties require subdivision developers who include public roads in projects to build those roads to county standards. For example, in Kendall County north of San Antonio, new public roads in an exurban subdivision are required to have a 60-foot right of way. In Hays County south of Austin, developers must build roads to certain engineering specifications for the road base and pavement. These standards are designed to create roads that will last five years without significant maintenance. Some counties have drainage or storm water regulations that must be satisfied as part of the subdivision's road plan.

Most of the counties contacted for this report also require new private roads within gated communities to satisfy county public road standards, unless all lots are in excess of ten acres (per SB 710). The counties require this because homeowner associations may choose to publicly dedicate roads in the future rather than pay the expense of major maintenance, and the counties do not want the added expense of the required upgrades if that occurs. At least one county, Collin County north of Dallas, requires all new roads to be publicly dedicated. This has effectively kept any gated subdivisions from developing in unincorporated areas.

**Sewage disposal.** Counties often base subdivision lot-size standards primarily on the type of sewage disposal system. County standards for on-site sewage disposal vary based on the geology and soil conditions of the region as well as groundwater sensitiv-

ity. Some areas where groundwater is a relatively low-profile issue may not specify a requirement. For example, Montgomery County, north of Houston, requires only that lot sizes be "adequate to accommodate the size of drain field as necessary because of soil type to effectively absorb the effluent without creating a health hazard or nuisance." The county requires that an engineering study be performed before a subdivision is approved to verify that use of private septic systems will not create a health hazard.

In Somervell County, southwest of Fort Worth, an "unsewered" subdivision lot may be as small as 20,000 square feet (approximately one-half acre). However, the subdivision code requires the subdivider or owner to "ascertain and certify" that an acceptable on-site sewage system can be installed on every "unsewered" lot.

Generally, areas of the state with more sensitive groundwater concerns, such as the Hill Country, require larger lot sizes for conventional septic systems, usually at least one acre. Hays, Kendall, and Comal counties all have a minimum one-acre lot size for any subdivision using private, conventional septic systems. Smaller lot sizes may be permitted in some counties if alternatives to conventional private septic systems are used. These alternatives include aerobic systems and community "package" plants. The package plants must obtain approval from the Texas Natural Resources Conservation Commission (TNRCC).

**Water supply.** The state legislature, in Senate Bill 1323 (1999), approved the use of groundwater availability as a basis for county subdivision regulations. Thus, counties may now require developers to obtain approval from TNRCC certifying that enough groundwater is available to serve the proposed project, if the project will supply water from wells, prior to the filing of a plat.

None of the counties contacted for this report have specifically required TNRCC groundwater certification in their subdivision approval process. In counties where groundwater availability is a major concern, subdivision regulations may include lot size standards for private wells (one well per lot). For example, in Comal County, between San Antonio and Austin, lot size standards are based jointly on water supply and sewage

disposal. Subdivisions with private homeowner wells have a minimum lot size of 5.01 acres.

In Kendall County, a minimum one-acre lot is required for projects with either on-site sewage or private wells and a minimum of three-acre lots for projects with both features. Hays County provides a chart detailing lot sizes for various combinations of water supply and sewage disposal options. Minimum lot sizes range from none for subdivisions with public sewer service and surface or rainwater collection to five acres for lots using conventional septic systems and private wells in the Edwards Aquifer Recharge Zone.

Some developers install a community water supply plant in their subdivisions. Examples of this include Hill Country projects by Rinco of Texas, such as Stallion Estates, Rancho del Lago and The Summit. The Fulbrook project by DHK Development near Fulshear, west of Houston, also has its own water plant. Counties with lot sizes based on water supply will usually allow higher densities for subdivisions with centralized water supply systems.

**Other regulations.** In addition to the subdivision regulations previously described, exurban residential developers may need to meet other governmental requirements at the county and other levels. Examples include:

- **Drainage and storm water runoff.** As mentioned previously, some counties may require drainage improvements as part of the road plan submitted with the plat. Others may require a separate drainage plan. Montgomery County requires a separate drainage plan prepared and sealed by a professional engineer.
- **Maintenance bonds.** Montgomery County also requires developers to purchase maintenance bonds to insure the quality of construction on publicly dedicated roads or other property for a specific period.
- **Floodplain development.** Counties may have specific wording in the subdivision ordinances concerning plans for and limitations on development on properties in designated floodplain areas.

- **Endangered species.** Developers may want to have a habitat field survey performed to conform to the U.S. Department of Fish and Wildlife requirements to determine whether the property to be developed is a habitat for an endangered species. While this exposes the developer to the risk of actually finding endangered species on the property, it may save money in the long run because developers are liable for harming habitat regardless of whether the existence of the habitat was known prior to development.

Many Texas county governments, especially in the Hill Country, are feeling enough pressure from exurban development to modify their subdivision regulations. Some counties are seeking expanded regulatory authority from the state legislature.

### **Infrastructure and Costs**

Although exurban residential subdivisions by nature require fewer up-front improvements than suburban developments, developers still must address several significant infrastructure factors and other costs when evaluating an exurban project.

**Roads.** In many if not most exurban residential projects, the most significant infrastructure investment is the internal road system. Estimates of road costs from surveyed developers range from \$25 to \$50 per linear foot for road construction that meets typical county standards. Construction costs vary depending on the terrain, drainage considerations and county standards. Road costs have a strong influence on lot platting. Construction costs sometimes drive the layout of lots to minimize the number of roads needed. Sometimes this results in oddly shaped parcels with a finger of property extending to the road and higher densities (smaller lots) to ensure adequate return to the developer after recovering construction costs.

**Water supply.** In most exurban subdivisions, homeowners are responsible for drilling their own wells. The Real Estate Center's *Manufactured Home Buyer's Guide* (Technical report 1300, 1999) estimates a water well to cost \$650 to \$1,800 for the pump and an additional \$8 to \$15 per foot of well

depth. Roper estimates that a private well in the Hill Country costs the homebuyer \$5,000 to \$6,000. He has found it more economical to build community water wells and plants at a cost of \$75,000 to \$100,000 for higher-density developments (one-half to one-acre lots). The cost to homeowners ends up at about \$1,400 to \$1,500 per lot. The homeowners pay an assessment for the construction of water lines six to seven months after they purchase their lots. In larger acreage projects, however, a central water plant may not be economically feasible.

Another option in areas close to an available supply of surface water or a public water supply system, such as a reservoir, is to obtain rights to use that surface water. Developers may work with a nearby municipality that has a public water supply system to have the subdivision fully annexed or to receive contract services from the municipality. Another option is to contract with a water supply corporation that has access to a surface water supply. Many counties allow higher density development if surface water, an installed central water system or a municipal water supply is used.

**Waste disposal.** Exurban developments usually require homeowners to install their own on-site sewage facilities (OSSF). A variety of OSSF options are available. Bruce Lesikar of the Department of Agricultural Engineering at Texas A&M University provided the summary of OSSF systems with associated costs shown in Table 5.

Homeowners should select OSSF systems based on topography, soil type, budget, desired landscape features and county regulations. Lesikar cautions that residents of the Hill Country or areas with similar rocky topography can expect to pay \$4,000 to \$5,000 or even more to install an OSSF system because of the rocky soil, a possible need to bring in topsoil and special drainage issues. According to estimates by Roper and in the Center's *Manufactured Home Buyer's Guide*, a conventional septic system will cost homeowners as much as \$7,000 in rocky terrain and \$1,400 to \$5,000 for sites with more topsoil. Further information about OSSF systems can be found at the Texas A&M agricultural

**Table 5. On-Site Sewage Facility Costs**

System Type	Costs	
	Up-front	Annual Maintenance
Conventional septic	\$1,800 – \$3,500	\$75
Aerobic with spray distribution	4,800 – 6,500	300 – 600
Aerobic with subsurface drip distribution	4,000 – 10,000	300 – 600
Low-pressure dosing	3,000 – 10,000	\$125
Sand filter	6,000 – 9,000	As low as \$0
Trickling filter	4,500 – 6,500	NA
Constructed wetlands	\$5,000 – \$9,000	NA

Source: Department of Agricultural Engineering at Texas A&M University

engineering web site, <http://ossf.tamu.edu>.

More centralized yet economically feasible disposal options also exist for higher-density exurban developments. Traditional centralized systems using large-diameter pipes are generally too expensive for a typical exurban subdivision. In contrast, cluster systems and small diameter gravity sewers (SDGS), which collect wastewater from a subdivision and use a common treatment and disposal facility, have annualized costs that are in an acceptable financial range, according to Lesikar.

Treatment and disposal options for these centralized systems include land-based systems and surface water discharge. Environmental conditions affect the cost-effectiveness of each option. Surface water discharge often requires more extensive wastewater treatment than do land-based systems. According to the Texas Agricultural Extension Service, adapting from EPA estimates, the capital cost for a 135-home community on one-acre lots would be \$598,100 for a cluster or alternative SDGS system, with annual operations and maintenance costs of \$3,720 (in 1995 dollars).

**Other.** An exurban residential subdivision requires varying levels of other capital expenditures or installation and service agreements for items that would be considered infrastructure or at least essential amenities for a broad range of the market. Such investments can include electrical and telephone utilities, broadband Internet access, cable television, perimeter fencing, buffer landscaping along busy highways or adjacent land uses and entry markers. The necessity and extent of these elements is dependent on proximity to metropolitan areas or

nearby towns and the target market for buyers.

Time is a significant investment that may not seem obvious to developers at first, especially the time needed to work with county governments and other relevant regulatory bodies. Because many counties are modifying their subdivision codes, primarily to include greater restrictions and higher standards, developers should anticipate extra time for governmental review and approval. In addition, because many rural counties do not have a full-time engineering staff, review of a proposed subdivision may be performed by engineering consultants who may be working for multiple counties. Exurban residential developers would be wise to add contingency time and associated costs during the review process to their economic evaluation of a project.

### **Amenities**

Exurban developers sometimes offer installed amenities in their projects to enhance differentiation, compete for a particular buyer income level or appeal to the interests of a specific market segment. Common amenities found in exurban residential projects include:

**Entrance gates.** By the late 1980s, gated entrances were becoming more popular in upscale suburban subdivisions. In the late 1990s, as homebuyers from the suburbs increasingly looked for exurban home sites, developers of upscale exurban projects added gates to match suburbanites' expectations. Gates serve both security and privacy needs and add an element of prestige. While some developers report that some buyers find gates unappealing, so many upscale exurban developments are including them that they may

become an essential element for attracting higher-income buyers.

**Lakes.** If the terrain and watersheds allow, some developers have added small lakes within their projects. Lakefront lots can command a price premium. Lakes can also be used within community open space so that an amenity premium is spread community-wide. For example, the Thousand Oaks development along FM 1488 north of Houston put in two lakes, one for water skiing and one for personal watercraft.

**Equestrian facilities.** An important segment of market demand is from buyers who want to keep horses either on their own homesite or within the community. Developers interested in appealing to this market segment can either allow on-site horses through deed restrictions or provide community equestrian facilities. The 329-acre Royal Lakes Estates development in Fort Bend County, southwest of Houston, includes an equestrian center and riding trails. Thousand Oaks, along FM 1488 north of Houston, includes an equestrian center with a riding arena, bridle path, horse walker and high-quality stalls.

**Community recreation, greenbelts, ecological preserves.** Many exurban projects provide community recreational space similar to that found in suburban communities. These types of amenities are more prevalent in the metropolitan fringe developments than in more isolated locations. Typical amenities can include athletic courts, picnic pavilions, walking and jogging trails and preserved open space. A relatively new version of community space is the ecological preserve, a prime example of which is Fulbrook, west of Houston. The development's

central marketing focus is highlighting the native flora of the area. Within the community, “conservation corridors” connect the various residential areas. These corridors are designed to allow reintroduction and nurturing of the area’s native grasses and wildflowers. The developer, DHK Development, brought in a professor from the Texas A&M Rangeland Ecology and Management program to direct the management of this open space. Including open-space amenities such as these obviously has a major effect on the land-planning orientation for the development.

### **Land Planning**

An exurban developer must work with topographical, financial and marketing constraints to develop the optimal land plan for a project. Topography is often the most obvious constraint, because the property’s terrain, soil and drainage characteristics may limit the number and placement of buildable home sites. However, it is only the first consideration in developing a project’s land plan. The costs of providing infrastructure, the potential revenue per square foot and lot price premiums also play into land plan development. A sufficient number of lots must be generated to allow the developer a satisfactory return, but increasing the number of lots can also increase infrastructure costs, especially if additional roads are required.

Marketing considerations are significant factors in the land plan. A developer must decide on a lot layout that aligns with the project’s marketing strategy. For example, if the subdivision is marketed as having lake views and frontage, the developer needs to provide enough lots that follow through on the promotional theme, even to the point of installing new lakes. If the project is promoted primarily as having common-area amenities such as greenbelt trails or central equestrian facilities, individual lot frontage on these amenities may not be all that important. However, if research indicates that greater market success will come from individual

views of open space, then it is important to provide such views from as many lots as possible and minimize interference from other home sites. In summary, the project’s land plan options should be developed in conjunction with the marketing strategy, and both should result from market research and selection of a targeted group of buyers.

One new approach to land planning takes advantage of the environmental conscious segment of the exurban homebuyer market. This approach is inspired by the work of environmental experts and rural land planners such as Randall Arendt, whose book, *Rural by Design*, outlines exurban land planning alternatives that maximize open space and preserve native habitats. DHK Development has prioritized open-space preservation in its Fulbrook development outside Houston, and developers Doug and Donna Hutchinson plan to create similar projects in the Glen Rose area of North Central Texas.

### **Deed Restrictions and Architectural Controls**

One of the most significant trends in exurban development in Texas over the last decade has been the inclusion of more stringent deed restrictions and architectural controls. This trend has sprung from the suburban expectations of most exurban homebuyers. While exurban homebuyers want a country atmosphere, they also want property value protection not normally associated with country living. They view their property not only as a home with a specific set of services and amenities but also as an investment, and they require deed restrictions to minimize the risk to that investment.

Deed restrictions and architectural controls must be carefully matched with the project’s target market and its marketing strategy. For example, restrictions against farm animals on the property will eliminate any potential buyers seeking to have a horse on site. Minimum home sizes of 3,000 square feet may eliminate retirees who may be

wanting smaller homes with less maintenance. Overly strict architectural controls will turn away buyers whose dream home does not fit within the guidelines, or whose image of country living centers around the idea of increased freedom of property usage.

However, such controls may be necessary to ensure that property use and home appearance fit the project’s market image. For example, the Fulbrook development west of Houston intends to maximize value in the project by creating a neighborhood architecture that reinforces its rural preservation theme. All proposed homes must be approved by a review board and fit into an architectural theme based on the styles of traditional farmhouses. Upscale exurban projects such as Fulbrook often have a developer-approved list of reputable home builders to ensure that every home is of acceptable quality and architecture.

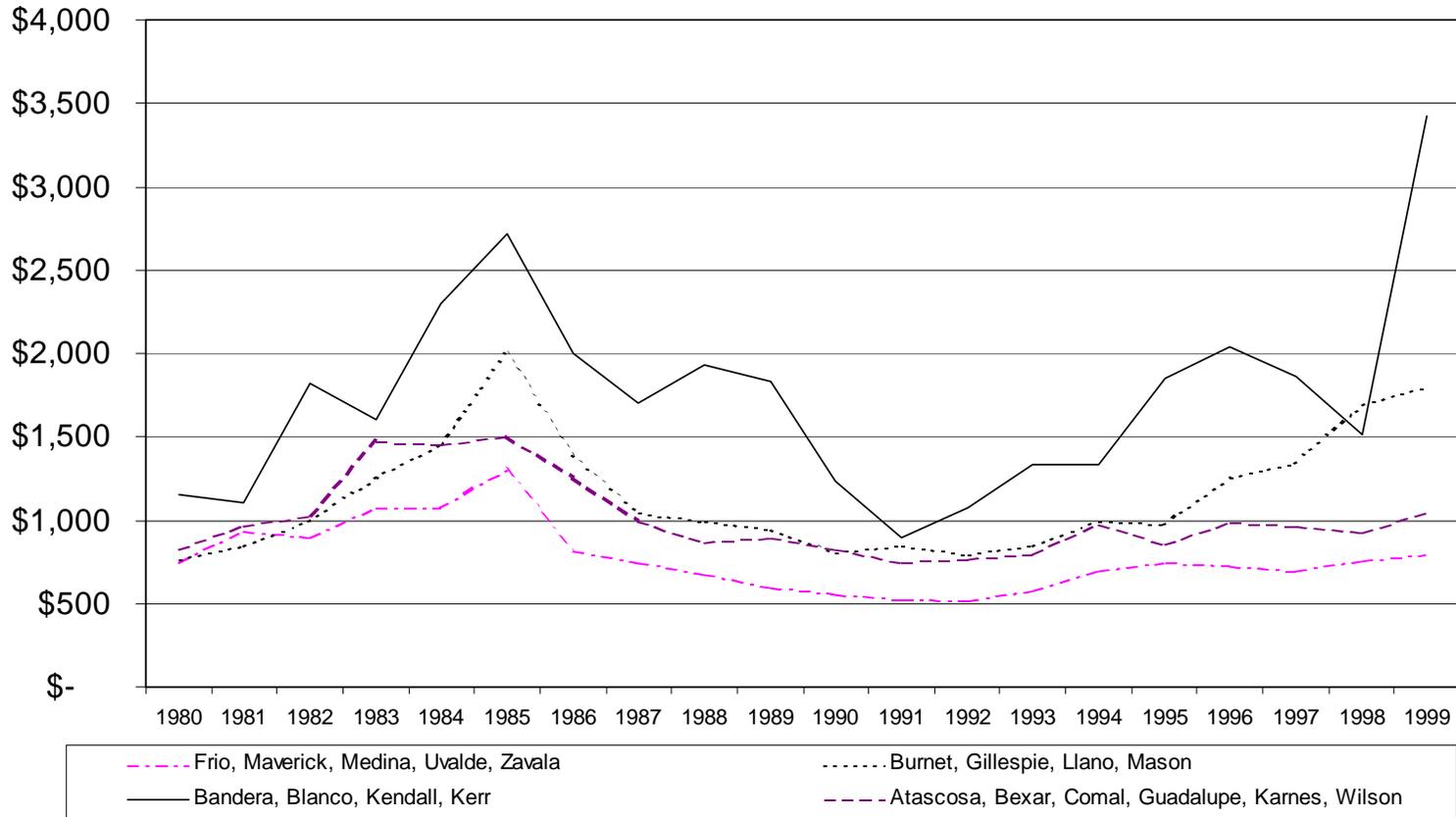
### **Conclusion**

As long as the Texas and national economies continue to prosper and housing consumers seek more “elbow room” and a rural atmosphere, demand for exurban residential developments is likely to remain strong. Developers of these projects need to be mindful of several factors that make exurban residential projects unique.

First, topography, regional location and access to metropolitan areas are among the key factors that merit special consideration in weighing the attractiveness of an exurban residential property. Second, developers need to maintain awareness of changes in legal regulatory powers and attitudes of rural county governments. Finally, not all exurban residential projects are alike, and great care must be taken to coordinate a project’s land plan, lot prices, deed restrictions and amenities with a chosen target market of consumers who are likely to be suburban residents.

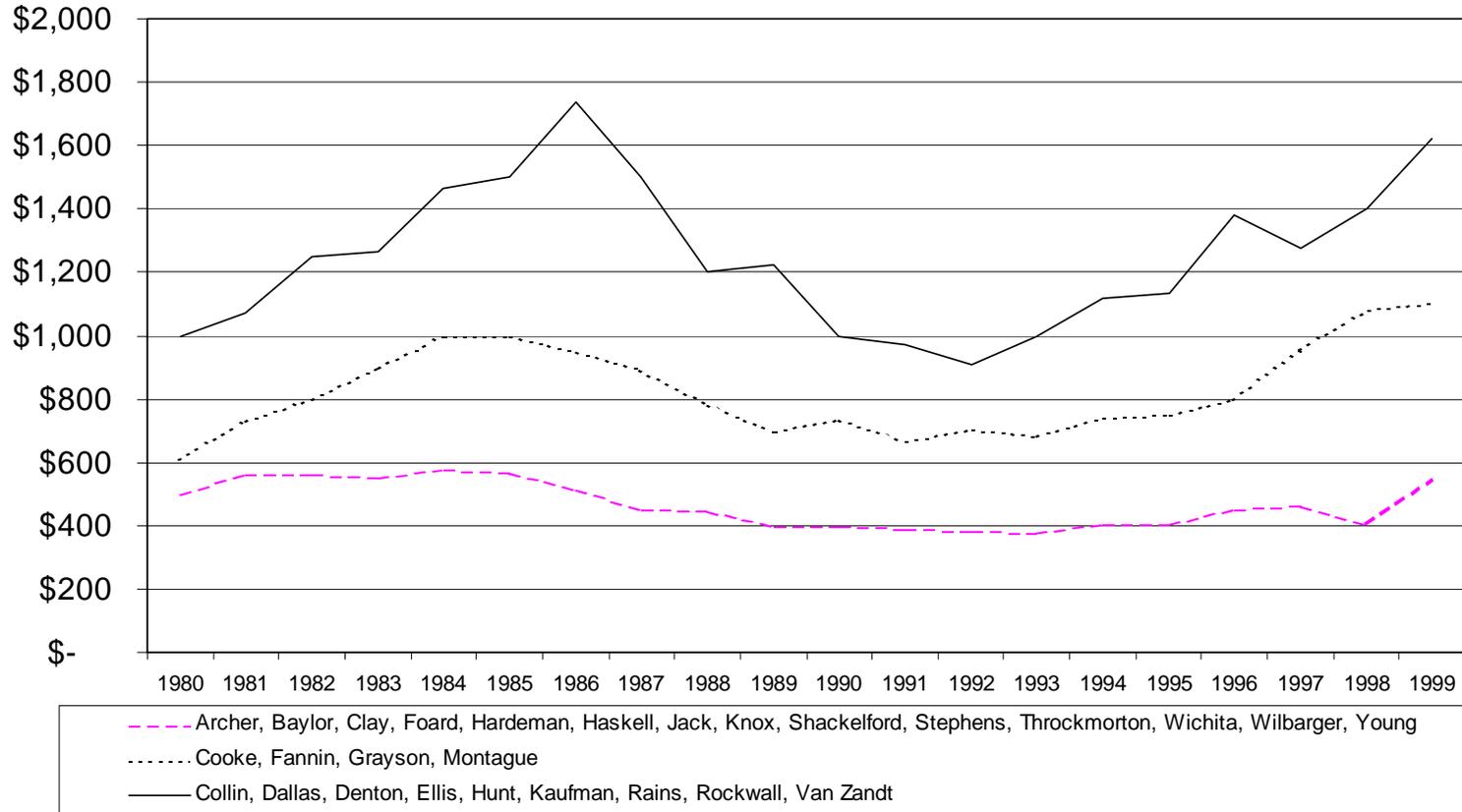
# Appendix

**Figure 1. Hill Country Median Rural Land Price per Acre**



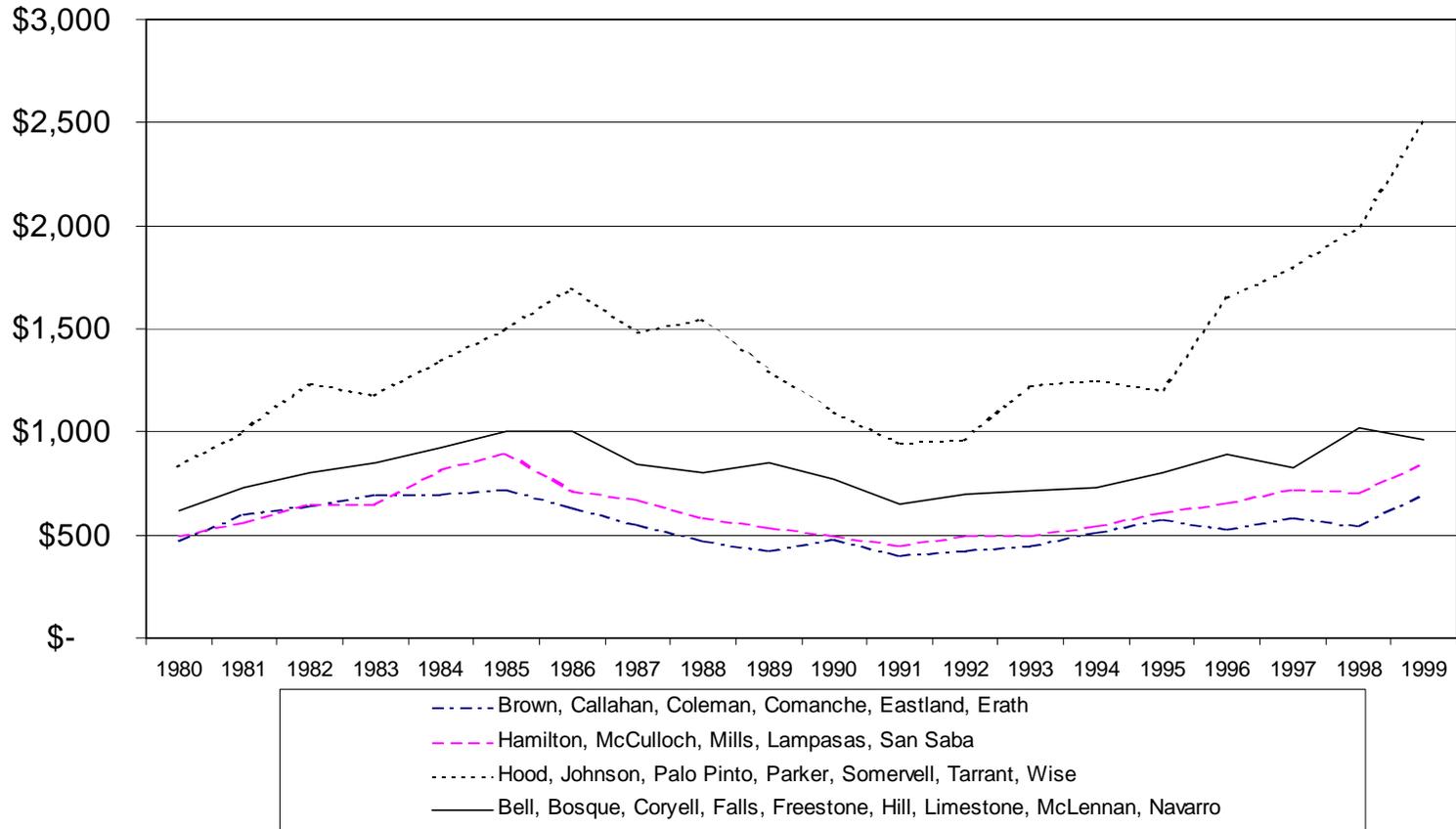
Source: Real Estate Center at Texas A&M University

**Figure 2. North Texas Median Rural Land Price per Acre**



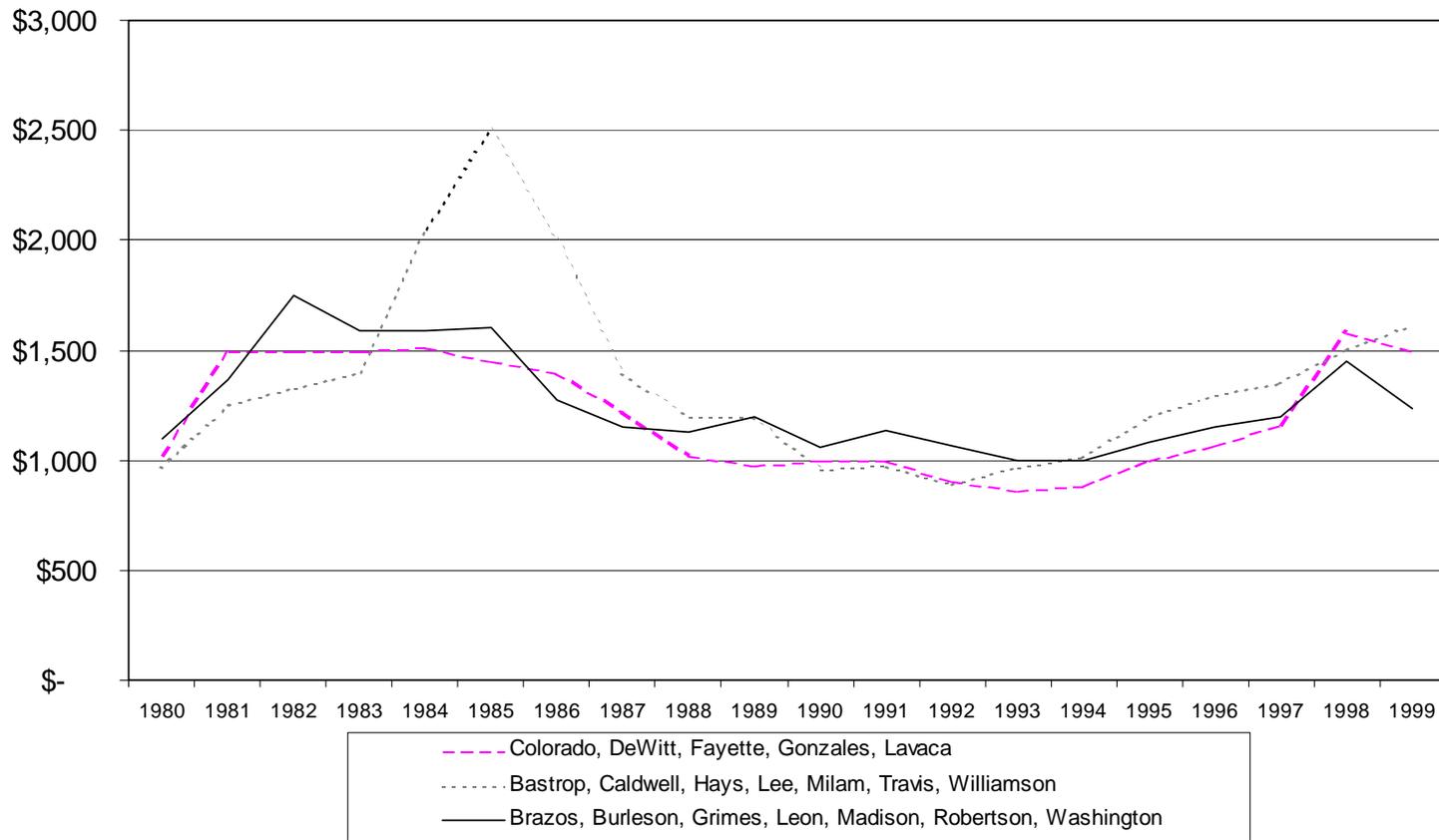
Source: Real Estate Center at Texas A&M University

**Figure 3. North Central Texas Median Rural Land Price per Acre**



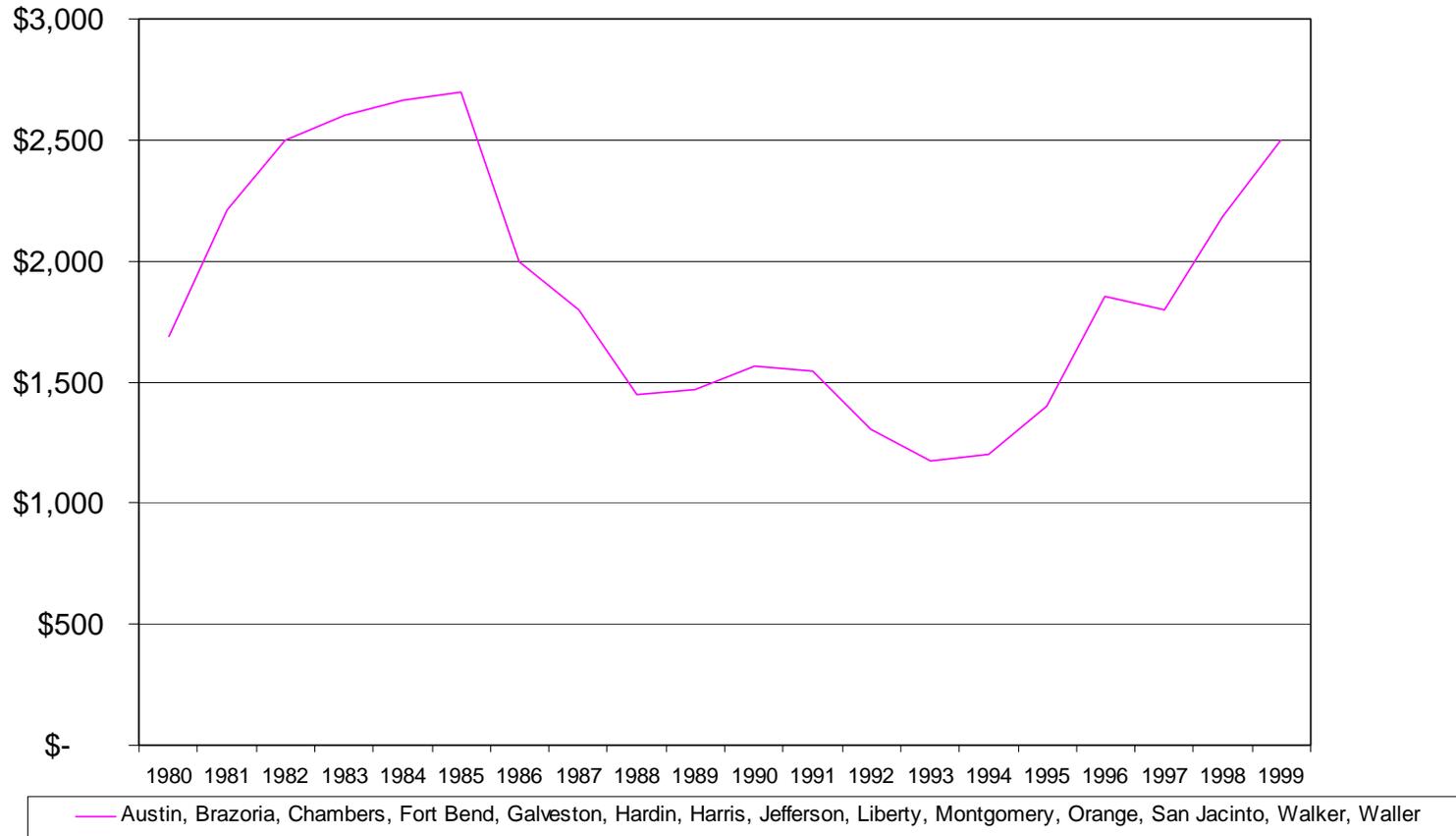
Source: Real Estate Center at Texas A&M University

**Figure 4. South Central Texas Median Rural Land Price per Acre**



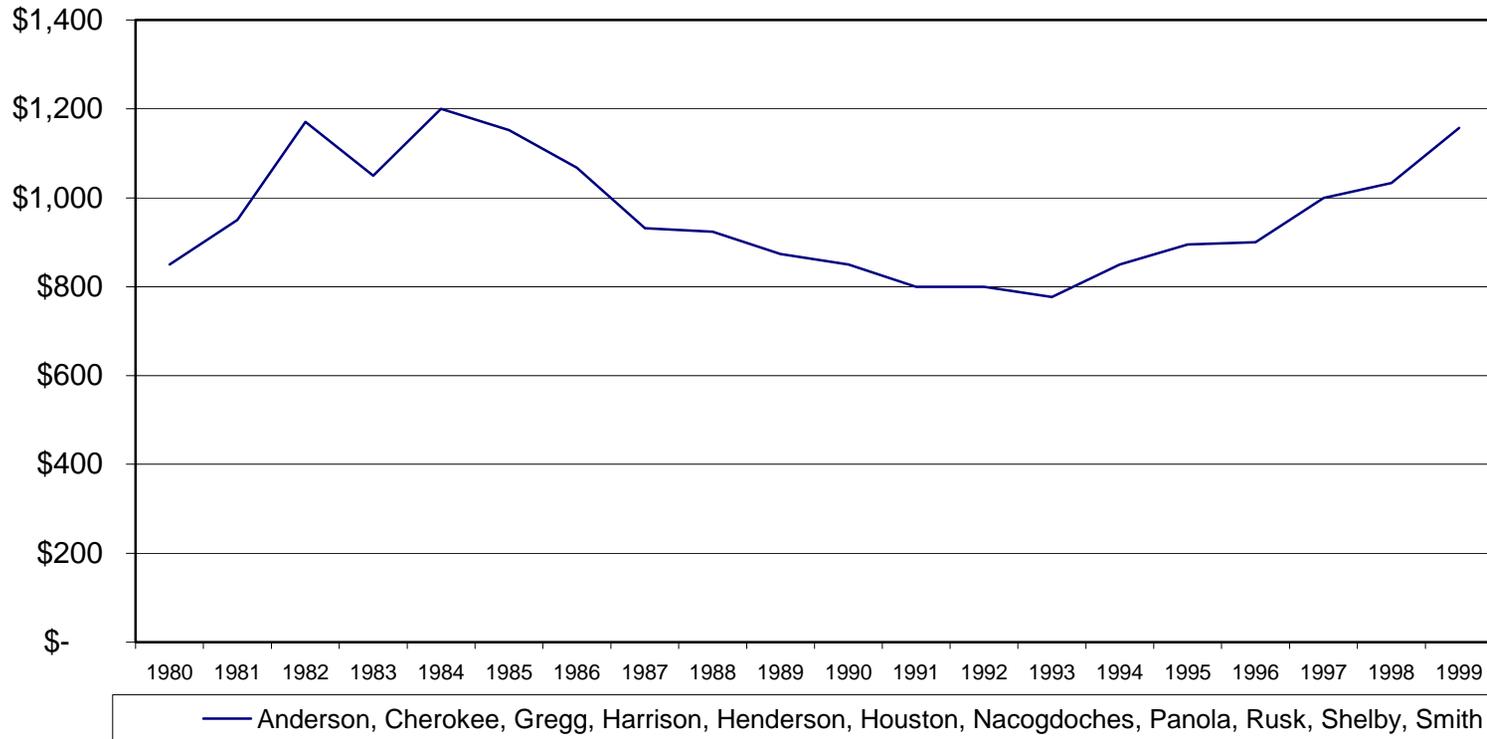
Source: Real Estate Center at Texas A&M University

**Figure 5. Southeast Texas Median Rural Land Price per Acre**



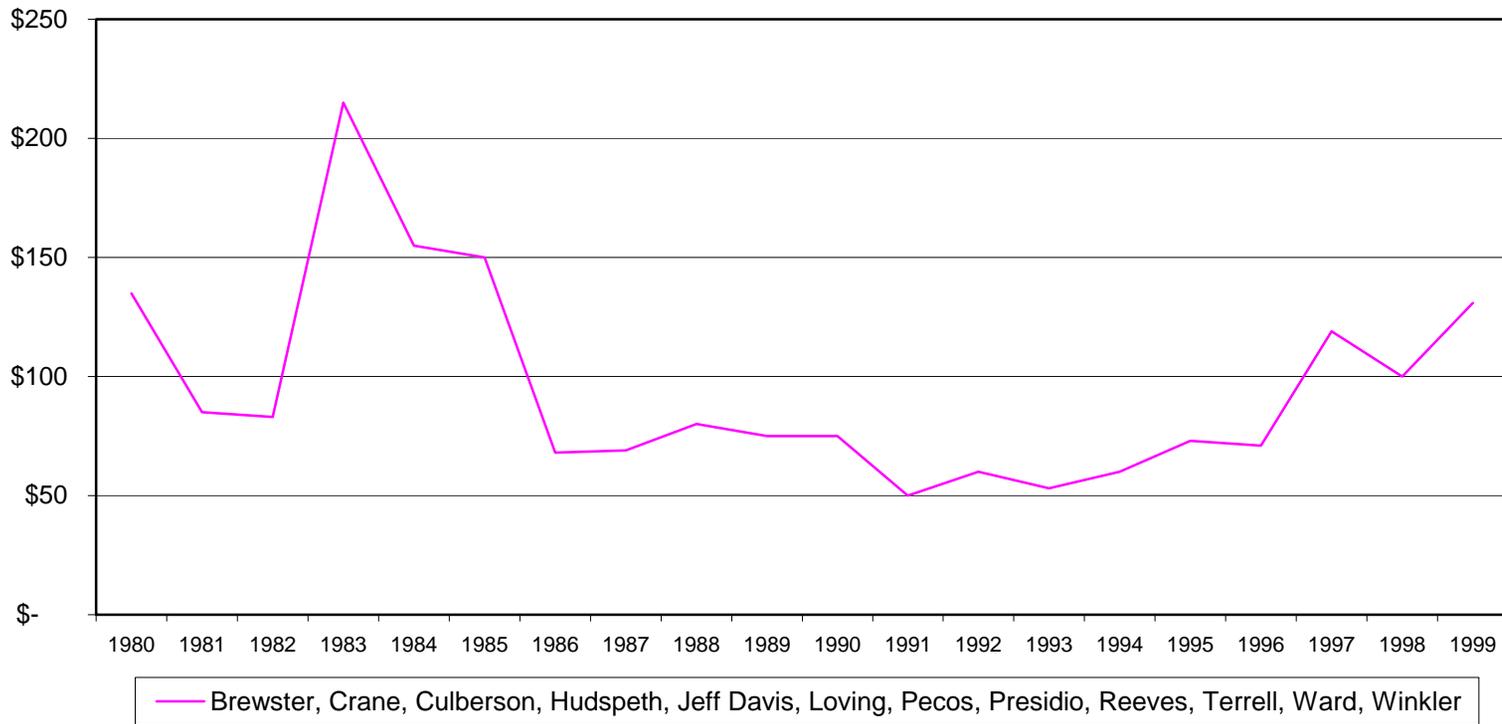
Source: Real Estate Center at Texas A&M University

**Figure 6. East Texas Median Rural Land Price per Acre**



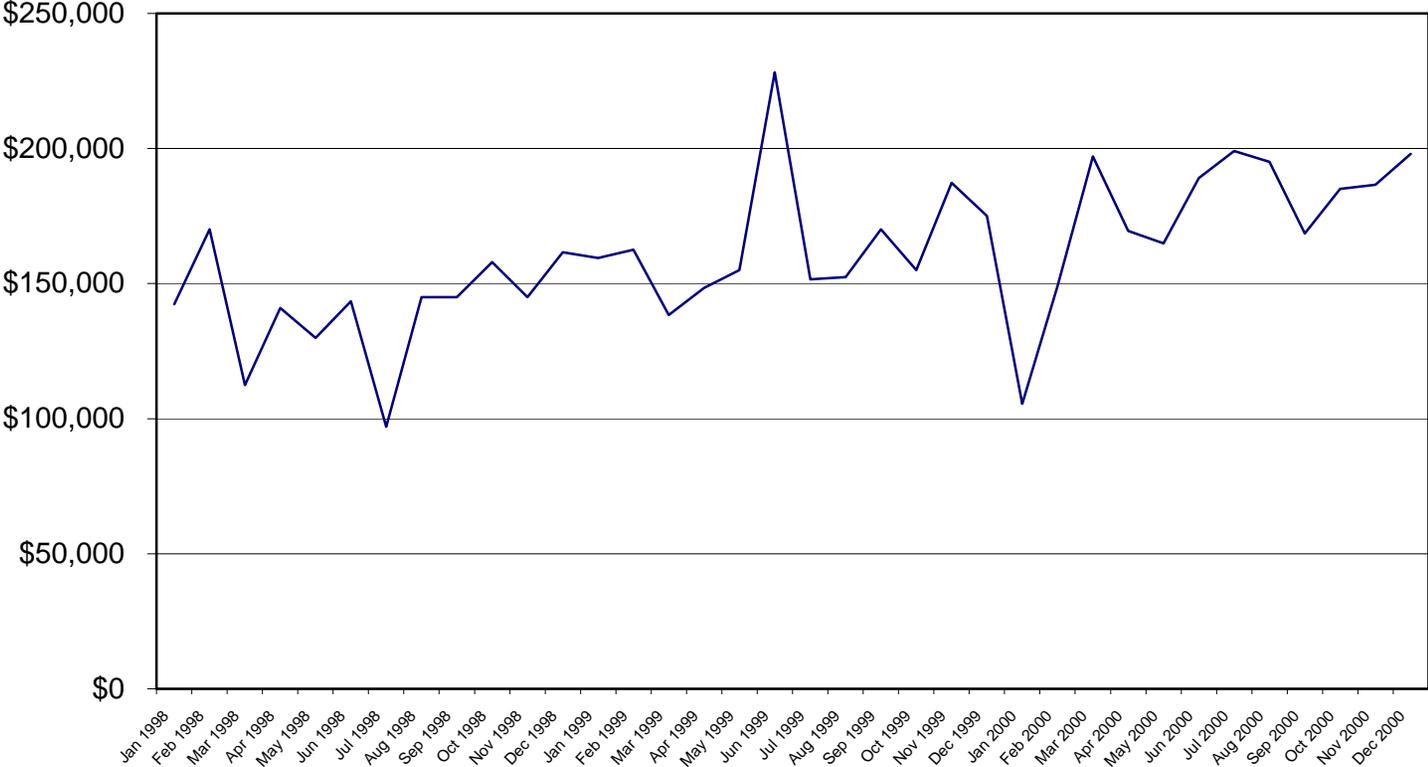
Source: The Real Estate Center at Texas A&M University

**Figure 7. West Texas Median Rural Land Price per Acre**



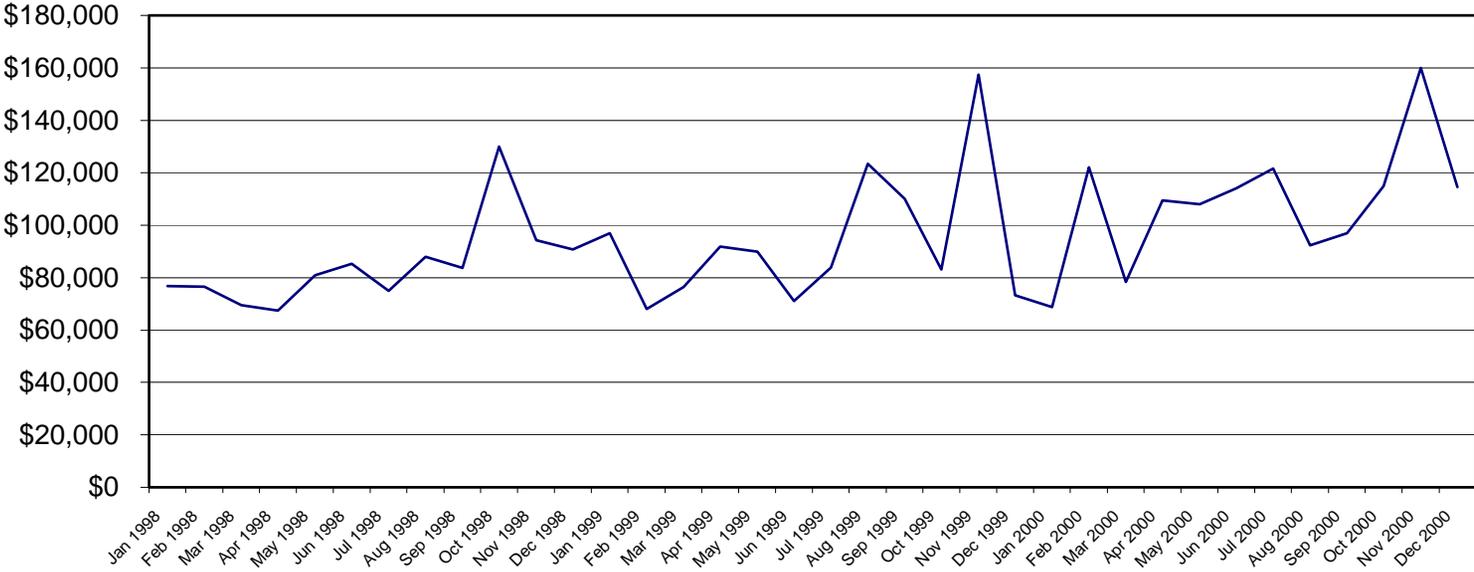
Source: Real Estate Center at Texas A&M University

**Figure 8. North Texas Farm and Ranch Median Prices  
January 1998 – August 2000**



Source: Multiple Listing Services

**Figure 9. Austin Farm and Ranch Median Price  
January 1998 – December 2000**



Source: Multiple Listing Services

**Figure 10. Austin Farm and Ranch Price per Square Foot  
January 1998 – December 2000**



Source: Multiple Listing Services