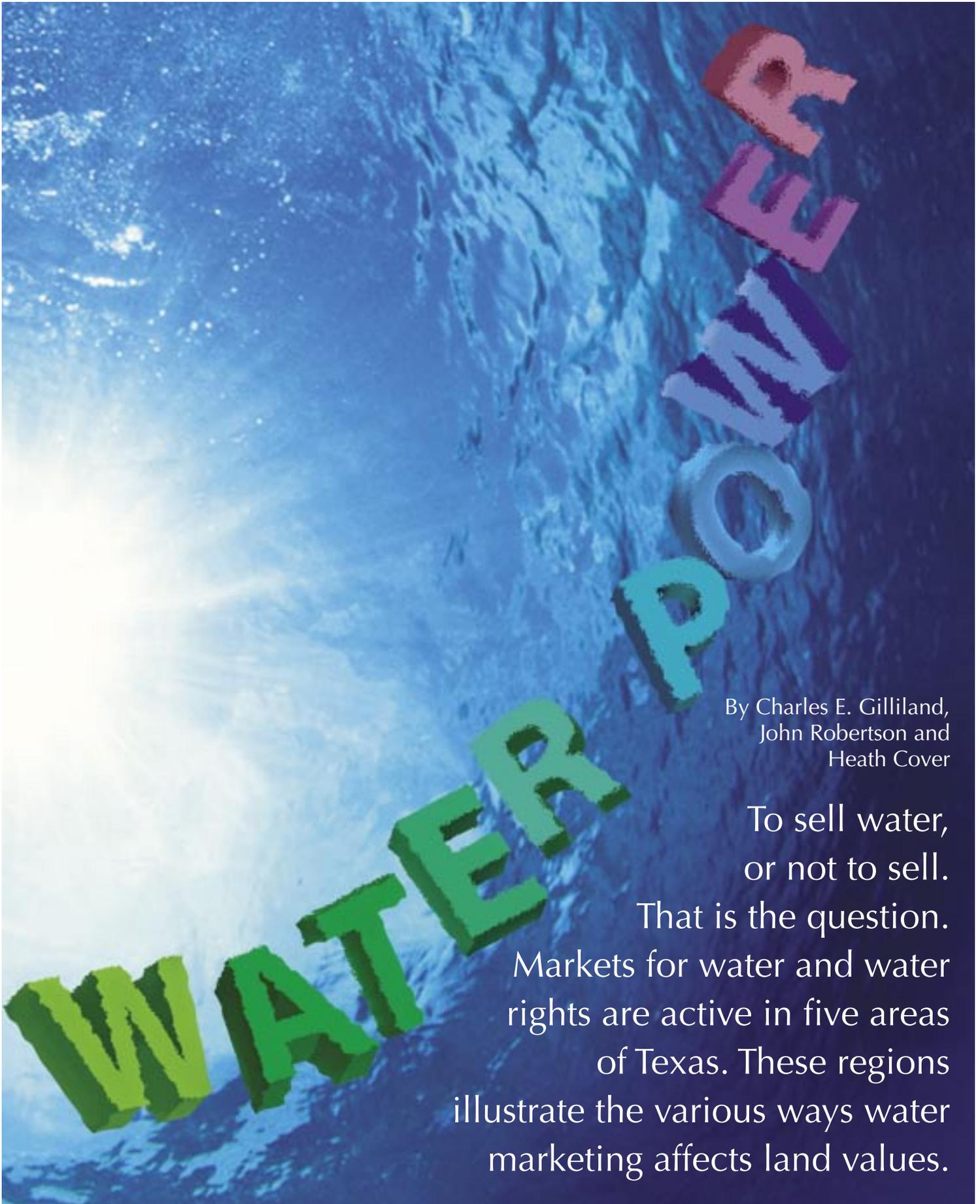


A Reprint from *Tierra Grande*



By Charles E. Gilliland,
John Robertson and
Heath Cover

To sell water,
or not to sell.
That is the question.
Markets for water and water
rights are active in five areas
of Texas. These regions
illustrate the various ways water
marketing affects land values.

Bexar County

Bexar County is a high-growth area, as San Antonio continues to expand and absorb the surrounding “bedroom” communities. The market in this area is development-dominated, with water rights playing a minimal role in land transactions.

End users of newly developed land in this area rely on municipal water sources, so water rights generally have little or no impact on land values.

Medina and Uvalde Counties

Agricultural production on irrigated land remains the most common use of land with water in Medina and Uvalde counties. Here, land with intact water rights normally commands a higher price than property without water rights.

Irrigated cropland, where 50 percent of the surface is irrigated, sells in the \$3,000- to \$4,000-per-acre range when water rights are included. Land without water rights sells for considerably less. Native rangeland, for example, sells for \$800 to \$1,500 per acre depending on location. Improved pasture or dry cropland without water rights normally brings \$700 to \$1,200 per acre.

For land over the Edwards Aquifer, whether it is best to separate water rights or preserve them intact depends on the market value generated by alternate uses allowed by regulations. Owners of qualified irrigated land in this region were allocated two acre-feet of water per acre by the Edwards Aquifer Authority, based on proven historical use. The first or “top” acre-foot can be leased or sold for any end use. The second or “bottom” acre-foot must remain with the land in agricultural use.

Although some extremely small sales have ranged higher, typical prices paid for unrestricted water rights to the top acre-foot range from \$1,750 to \$2,500 per acre-foot. Despite the restrictions on the bottom acre-foot, observers estimate sales prices of \$600 per acre-foot.

Landowners in Medina and Uvalde counties have several options. They can leave land and water rights intact and continue their current operations. They can sell the top acre-foot of water and retain the bottom acre-foot, irrigating less acreage than before while converting the remaining land to dry cropland.

They can sell the top acre-foot and, because of higher relative values, convert the property to rangeland using the bottom acre-foot, which must remain with the land, for supplemental irrigation. Finally, owners can lease the water while retaining ownership.

Comparing land prices that include water rights with dry cropland prices reveals that water rights raise sales prices from \$2,300 to as much as \$3,300 per acre. Owners may or may not find it beneficial to sell the rights to the top acre-foot. Because

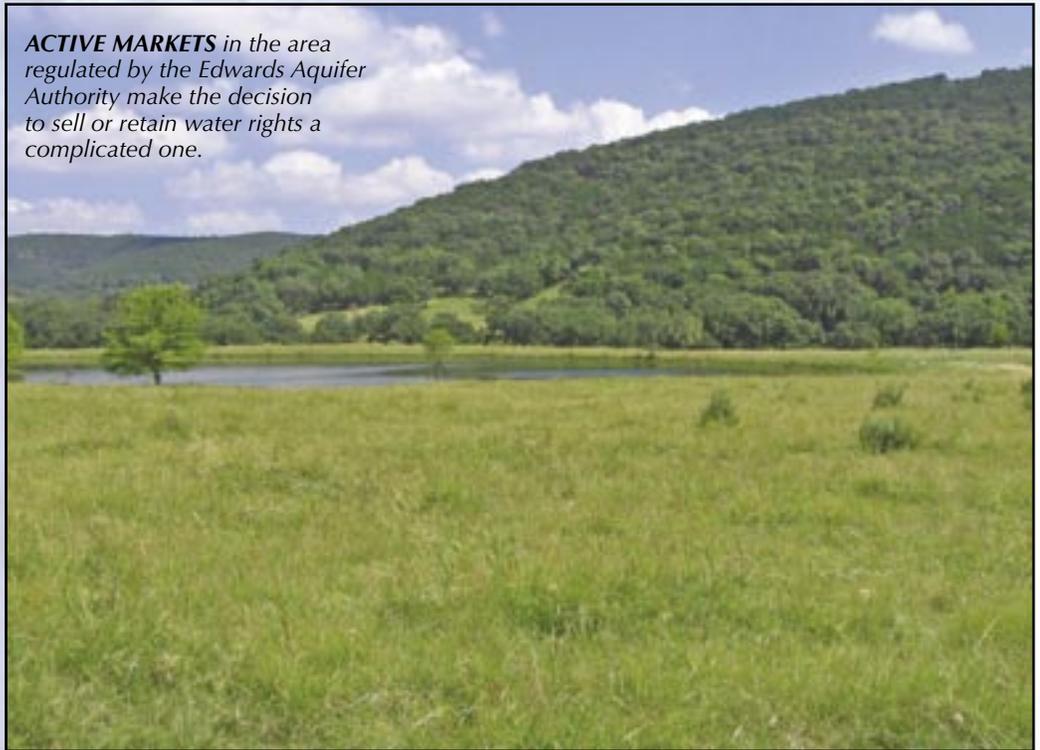
prices for top acre-foot rights range higher than \$2,300 but lower than \$3,300, it would be possible to gain from the water sale but see the remaining land value fall by a corresponding amount. Even adding the \$600 bottom acre-foot price does not conclusively tip the scales in favor of a sale.

Rio Grande Valley

Most land in the Rio Grande Valley is in an irrigation district where water rights are controlled by the district, and therefore not readily severable from the land. The land must be purchased to obtain water rights.

Prices for cropland with water rights in a water district where 75 percent of the surface is irrigated range from \$1,000 to \$1,800 per acre. Native rangeland without water rights typically sells for \$750 to \$2,500 per acre, depending on location.

***ACTIVE MARKETS** in the area regulated by the Edwards Aquifer Authority make the decision to sell or retain water rights a complicated one.*



Improved pasture or dry cropland without water rights sells in the \$600- to \$1,200-per-acre range.

In the Lower Rio Grande Valley, Texas law recognizes two categories of irrigation water rights, Class A and Class B. When Class A irrigation water rights are changed from agricultural use to municipal or industrial use, the amount of water associated with those rights is cut by 50 percent. Class B water rights would be reduced to 40 percent of the original allocation in the same situation.

Some landowners have obtained control of their water rights from the water districts and have subsequently sold those rights to investors or municipalities. Typically, Class A rights sell for \$2,000 to \$2,500 per acre.

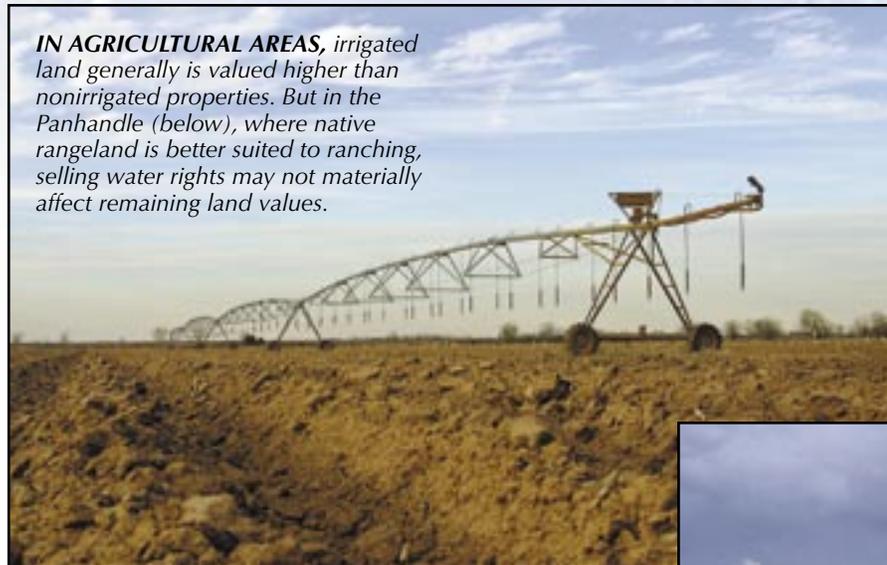
In the Valley, water rights are priced by the acre. An acre of water rights is equivalent to 2.5 acre-feet of water annually, or \$800 to \$1,000 per acre-foot of Class A water rights. Class B rights bring \$1,750 to \$2,500 per acre, which equates to \$700 to \$1,000 per acre-foot of water rights.

In the Lower Rio Grande Valley, landowners can lease their allotted water to other irrigators who have used up their allotted water. If they can obtain control over their water rights

from the irrigation district, owners can sell the water rights and reduce their agricultural operations to dry cropland or rangeland. However, most irrigation districts have policies against conveying water rights to individual landowners, so this option is not always available. Transactions involving rights transferred from districts to individuals generally involve conditions such as a municipality needing to augment its water supply.

San Angelo, Concho River

It comes as no surprise that San Angelo, an area plagued with severe drought and brush overgrowth, is the site of an emerging water market. Land with water rights on the North and Main



IN AGRICULTURAL AREAS, irrigated land generally is valued higher than nonirrigated properties. But in the Panhandle (below), where native rangeland is better suited to ranching, selling water rights may not materially affect remaining land values.

Concho River that is 75 percent irrigated sells for \$1,250 to \$1,800 per acre. Similar land on the South Concho River sells for \$2,500 to \$4,000 per acre.

Land without water rights on the North and Main Concho River sells for \$600 to \$1,500 per acre, while similar land on the South Concho River commands \$1,000 to \$3,500 per acre.

The location-related difference between the North and Main Concho and the South Concho persists in determining the value of water rights. Water rights on the North and Main Concho sell for \$800 to \$1,000 per acre-foot. Water rights on the South Concho sell for \$1,000 to \$1,500 per acre-foot.

The combined value of dry land and proceeds from a water sale ranges from \$1,400 to \$2,500 per acre on the North and Middle Concho, assuming one acre-foot of water per acre of water rights. The corresponding figures on the South Concho are \$2,000 to \$5,000 per acre, again assuming one acre-foot of water per acre of water rights.

Given the value of irrigated farmland, some owners clearly would increase their net worth by selling their water rights. Just as clearly, others would not improve their situations because the combined proceeds of the water sale and remaining land value would fall short of the value of irrigated cropland.

Roberts County

In much of this region of the Texas Panhandle, soil conditions are not conducive to farming, making native rangeland

the most practical land use. Because ranching does not use large quantities of water, severing water rights while retaining a provision to retain domestic water rights probably has little or no effect on highest and best use.

Without demand from nonagricultural users, water plays a minimal role in overall land value. However, when nonagricultural users actively compete for water rights, water assumes a separate value. After water rights for native rangeland property are sold, the remaining land value is likely to stay at its original level.

A 2003 water rights sale in this area reportedly brought in more than \$300 per acre. The transaction included provisions allowing landowners to continue using water for livestock and domestic purposes. If landowners in this predominantly rangeland area can find a buyer, selling water rights is probably a prudent decision.

West Texas

The market for water rights in West Texas has not developed past the speculative stage, so there have not been enough current transactions to gauge price levels. Beyond a pending sale of surface water rights in the Rio Grande River, most activity in this area centers on proposed groundwater projects that remain in their infancy.



Emerging markets for Texas water are reshaping land use decisions in many regions. As municipal and industrial demand for water escalates the value of water rights, farmers and ranchers may forgo irrigated farming and sell their water rights.

In markets where water-intensive agricultural uses are not economical, such as the rangeland areas in Roberts County, leasing and selling water rights promises to increase landowners' wealth with little or no impact on current land use and value.

For many landowners, the decision to market water is complex. When weighing alternatives, landowners may benefit from the services of an experienced advisor. This is especially true in regions where water marketing is in its infancy. ♣

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