

A Reprint from *Tierra Grande*


BOOM WITH A VIEW LAND PRICES REACH NEW HIGH

BY CHARLES E. GILLILAND AND GERALD KLASSEN

Texas land prices hit an all-time high in 2005. The median of \$1,483 per acre was up 16 percent from the \$1,274 median in 2004.

That milestone marked the fourth double-digit, year-to-year increase posted in the past five years (Figure 1). The 16 percent gain matched the 2004 increase and was the third highest annual gain in the past 40 years. Only 1973 and 1974 had larger year-to-year percentage price increases. This strong trend has produced a 76 percent, five-year gain in nominal prices.

The real or inflation-adjusted 2005 price of \$306 per acre surpassed the previous record of \$288 set in 1984–85. Nominal prices reflect the actual prices paid while real prices reflect the nominal prices adjusted for inflation (Figure 1).

Fueled by high levels of activity, the 2005 markets recorded 8,368 sales, exceeding the 2004 record volume of 8,073 sales.

Figure 2 shows an explosion in activity level following 2002 that continues unabated.

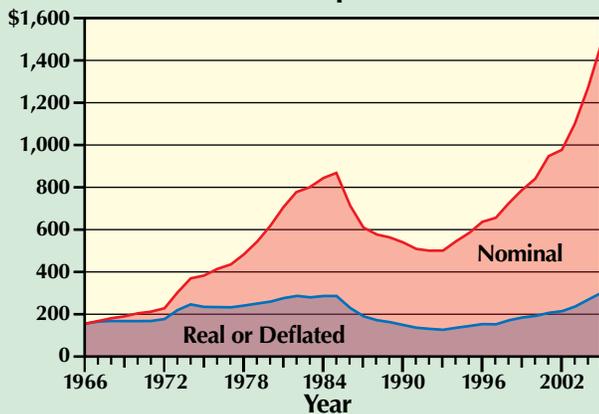
1031 Exchange Motivation

Nonagricultural buyers continue to dominate market activity. Desire to avoid capital gain taxes has prompted an increasing number of investors to take advantage of the 1031 exchange opportunities in the IRS regulations.

The 1031 exchange allows an owner to convert one real estate investment into another without the gain being taxed. Many market participants now say that 1031 exchanges involving buyers from outside Texas represent a growing number of Texas land market transactions.

In response, Texans have accelerated their plans to purchase land before prices move too high. Together, these forces have

Figure 1. Texas Rural Land Prices in Dollars per Acre



Source: Real Estate Center at Texas A&M University

generated a fever to identify attractive properties and convince owners to sell.

Regional Land Market Developments

In 2005, the geographic distribution of land prices continued to reflect both population density and the draw of scenic amenities (Figure 3). The highest priced land surrounded Dallas–Fort Worth, Houston, El Paso, Austin and the Lower Rio Grande Valley.

The scenic appeal of the Hill Country is responsible for the high prices stretching westward from Austin through Fredericksburg to Kerrville. The lowest priced land is in West Texas from Amarillo through the Trans-Pecos area to the Rio Grande.

The highest percentage price gains were in a strip from San Antonio through Gonzales to the coastal bend (Figure 4). The second highest percentage price jumps were from the Stephenville region through Wichita Falls, Lake Texoma, to Texarkana. The South Texas brush country also posted large price increases. Much of the remainder of the state saw sizable escalation of prices with only the Highland Lakes, Trans-Pecos and Muleshoe areas cooling in 2005 following their hot markets in 2004.

Market anomalies accounted for the only regions exhibiting lower prices and did not signal a general weakening market-wide trend. Those regions will likely rebound in 2006.

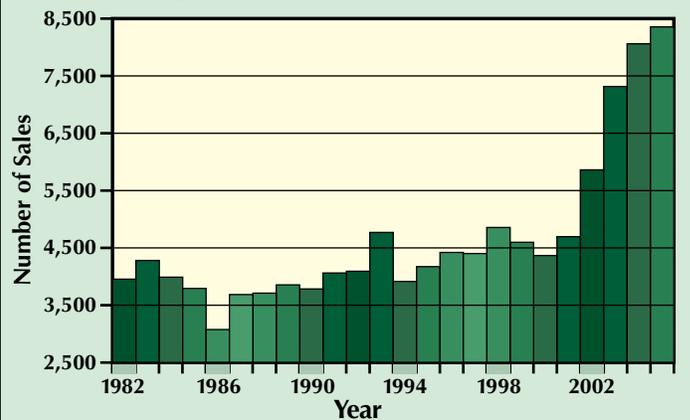
Prospects for 2006

Forces propelling prices upward accelerated in 2006, pushing markets even higher. Investors seem to be anticipating inflation and plowing funds into tangible assets like land.

Despite high energy price levels, recession does not appear to be on the immediate horizon, and the economy continues to thrive. Higher incomes support the demand for recreational property.

Buyers buy now to avoid being priced out of the market as increasing demand drives prices up. These circumstances have

Figure 2. Texas Land Market Volume



Source: Real Estate Center at Texas A&M University

led market participants to repeatedly note a dearth of quality listings and long lists of potential buyers.

Troubling market influences include high energy prices and rising interest rates. At some point, continued high oil prices will sabotage economic activity. However, they have not derailed the recovery yet. Further interest rate hikes may take a toll.

Farm policy is in complete disarray so no one can realistically predict operating conditions for farmers in the near



future. And drought stalks Texas, weakening both farming and ranching. Despite these potential problems, current activity suggests that by 2007, land prices should post another sizable increase.

The complete technical report, *Texas Land Market Developments — 2005*, is available at recenter.tamu.edu/pdf/1788.pdf. ↴

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Figure 3. 2005 Price Distribution, Texas Rural Land

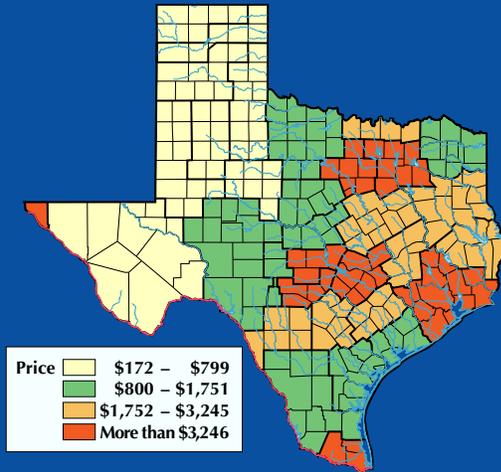
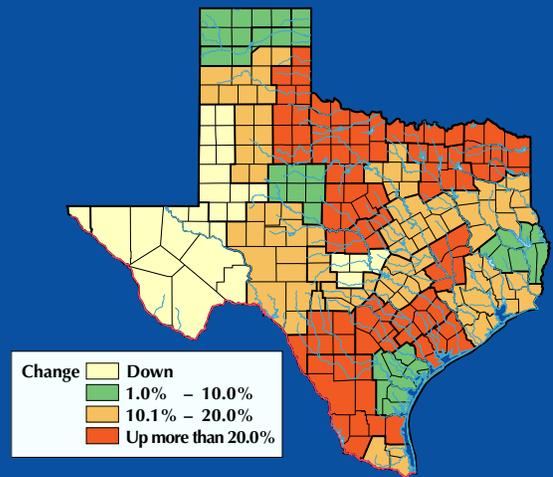


Figure 4. Texas Rural Land Prices 2004–05



THE TAKEAWAY

Texas land prices set another record at \$1,483 per acre in 2005. Texas land prices were up 16 percent from 2004 and 76 percent over 2000 prices. Nonagricultural demand continued to drive markets, and 2006 promises to be another banner year for Texas land markets.



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