



*A Horse
is a Horse,
of Course,
of Course*

... Unless It Can Predict Land Prices

By Charles E. Gilliland and Abhijeet Gunadekar

As the nineteenth century drew to a close, Thorstein Veblen, an academic economist, observed the expansion of affluence in the maturing economy. He identified this burgeoning wealth as the root of expanding appetites for a host of luxury goods.

His book *Theory of the Leisure Class* posited that rising prosperity sparks a desire for “conspicuous consumption.” As individuals’ wealth grows, they are able to enjoy the finer things. They acquire luxuries like racehorses, fine art and land to use for leisure activities. Flush with resources and anticipating continued economic expansion, they participate in spirited competition with other wealthy people who also enjoy the trappings of success.

When financial reversals occur, expenditures on luxury items are the first to be cut back. Clearly, hard times can send shock waves through the markets for luxury items and services.

When the financial meltdown struck in the 1980s, various asset prices declined on a broad front. Land investors watched helplessly as land prices dropped. Horse owners, too, saw average horse prices slide to startling lows.

These coincidental events suggest that weakened prices for horses, which are now primarily a luxury rather than working livestock, may presage drops in land prices or vice versa. Analysis of historical prices for horses at the fabled Keeneland September Yearling Sale suggests that price trends for these select thoroughbreds may indeed provide a guide to future Texas land prices.

The Keeneland yearling auction is the premier sale of prospective race horses in the world. During the annual sale, bidders from all corners of the globe flock to Lexington, Ky., in hope of acquiring a champion thoroughbred.

During the two-week sale, buyers spend hundreds of millions of dollars. In 2009, they expended \$191,859,200 on 3,159 yearlings. This suggests that buyers possessed a sizable pool of discretionary funds to support the market.

Similarly, land buyers scour the Texas countryside in search

of properties that offer trophy animals, scenic surroundings and recreational activities. City dwellers dedicate substantial resources to acquire rural "getaways."

During prosperous times, their reservoir of

discretionary cash expands. During tougher periods, it conversely contracts.

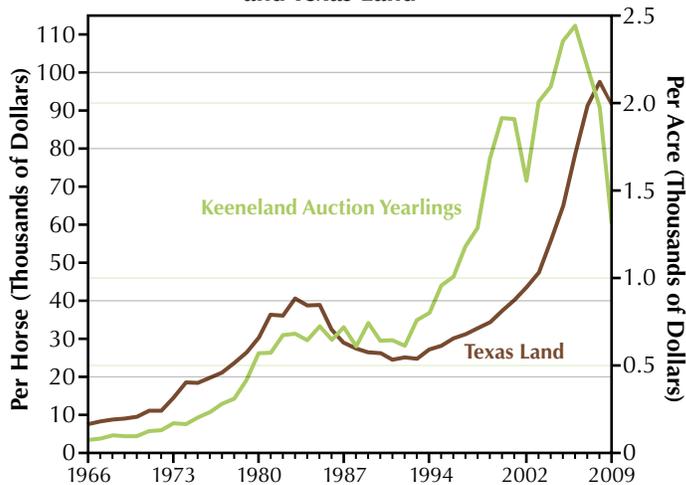
Because land sales are scattered throughout the countryside and are tracked over months or years, it is difficult to identify trends as they unfold. But the Keeneland September Yearling Sale occurs over two weeks each fall, providing an instant reading of the impact of economic conditions on amounts available to support discretionary purchases.

The trends reflected in time series for the size-adjusted price index for Texas land and the average price at the September Keeneland Yearling auction from 1966 through 2009 display remarkably similar overall patterns (see figure). They rise steadily through the sixties and seventies and retreat in the mid-eighties. Both series rapidly increased during the past decade with the notable anomalous precipitous drop in thoroughbred



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Average Price of Thoroughbred Yearlings and Texas Land



Source: Real Estate Center at Texas A&M University

Trends in Texas Land and Thoroughbred Yearling Prices 1966–2009

Year	Keeneland September Yearling Sale Average Price		Size-Adjusted Index Price of Texas Rural Land	
	Dollars	Percent Change	Dollars per Acre	Percent Change
1966	3,616		\$ 172	-
1967	3,905	8.0	183	6
1968	4,671	19.6	191	4
1969	4,448	-4.8	200	5
1970	4,530	1.8	212	6
1971	5,740	26.7	230	8
1972	6,140	7.0	248	8
1973	8,163	32.9	323	30
1974	7,692	-5.8	404	25
1975	9,518	23.7	409	1
1976	10,739	12.8	440	8
1977	13,009	21.1	464	5
1978	14,081	8.2	520	12
1979	19,089	35.6	582	12
1980	26,276	37.6	670	15
1981	26,348	0.3	776	16
1982	31,134	18.2	802	3
1983	31,321	0.6	832	4
1984	29,673	-5.3	863	4
1985	33,324	12.3	866	0
1986	29,776	-10.6	722	-17
1987	33,073	11.1	634	-12
1988	28,150	-14.9	608	-4
1989	34,312	21.9	594	-2
1990	29,694	-13.5	588	-1
1991	29,589	-0.4	545	-7
1992	28,438	-3.9	564	4
1993	35,168	23.7	560	-1
1994	37,171	5.7	605	8
1995	43,990	18.3	631	4
1996	46,578	5.9	680	8
1997	54,384	16.8	695	2
1998	59,375	9.2	744	7
1999	77,390	30.3	787	6
2000	88,085	13.8	845	7
2001	87,803	-0.3	886	5
2002	71,850	-18.2	977	10
2003	92,329	28.5	1,077	10
2004	96,411	4.4	1,281	19
2005	108,420	12.5	1,487	16
2006	112,427	3.7	1,830	23
2007	101,347	-9.9	2,083	14
2008	90,984	-10.2	2,247	8
2009	60,734	-33.2	2,086	-7

Sources: Keeneland Association Inc. and Real Estate Center at Texas A&M University

prices following the 9-11 attacks, which occurred just prior to the 2001 Keeneland auction.

Calculating a correlation of thoroughbred prices versus land prices reveals a strong statistical relationship between these two series (see table). They exhibit a positive correlation of 0.820, which means that the two tend to move in the same direction. The relationship becomes even stronger when horse

prices are lagged, with a two-year lagged thoroughbred price posting a 0.916 correlation with current land prices. This suggests that current land price trends tend to track horse price trends registered two years ago.

Further statistical analysis confirms that the average yearling price is a consistent predictor of trends in Texas land prices. For example, the 2007 drop in average thoroughbred yearling prices foreshadowed the 2009 downturn in Texas land prices.

As the yearling auction average continued to slide (see table), more challenges could well lie ahead for land markets.

This analysis does not suggest that horse auction prices *cause* changes in land prices. The strong relationship likely exists because both respond to general economic conditions and depend heavily on expanding wealth of participants in both markets. When that wealth is eroded as a result of economic turmoil, buyers become cautious and curb their outlays.

Apprehension caused by political and economic uncertainty clearly impacts purchase decisions. People purchase less art, less land and fewer horses. That commonality of caution is the link between trends in demand for race horses and recreational land.

As land market participants look for signs of things to come, a quick check of the Keeneland September Yearling Sale prices may provide a clue. 🐾

Dr. Gilliland (c.gilliland@tamu.edu) is a research economist and Gunadekar is a research assistant with the Real Estate Center at Texas A&M University.

THE TAKEAWAY

Center research revealed a strong relationship between the price of thoroughbred horses and Texas land prices. A positive correlation suggests that current land price trends follow horse price trends recorded two years ago.



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

<http://recenter.tamu.edu>
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