

Gaining Ground

Texas Land Markets Larger, Active, Efficient

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 August 21, 2019

Publication 2240



Texas' rural land markets have changed.

For decades, agrarian interests dominated the state with farmers and ranchers ruling land markets. As Texas grew with the developing oil industry and expanding nonfarm population, other potential land users began to invade the market. Recreational activities across Texas grew in importance, and investors, relying on rising values, appeared in increasing numbers. Through the years, this influx of buyers led to a growing and changing land market. What had been a decentralized and fragmented market began to develop into more organized trading as the number of participants grew.

Reflecting these developments, the total dollar volume of sales of large properties in Texas land markets reported to the Real Estate Center expanded from \$80.7 million in 1966 to \$1.3 billion in 2018 (Figure 1). Adding small rural land sales swells the total to almost \$1.6 billion in 2018. However, this represents only the sales reported to the Center, so statistics for the entire market would range even higher.

The Takeaway

Texas' decentralized rural land market has become more organized and efficient with numerous participants. Although many of those participants look to year-to-year price changes to identify trends, changes in the total number of acres sold and total dollar volume provide a better leading indicator of land market health. Persistent declines in total dollar volume may presage a decline in prices.

These totals indicate nominal price growth of more than 1,492 percent since 1966. Adjusting for differences in the value of money, the 1966 total of \$80.7 million was \$492 million in 2019 dollars (Figure 2). The real growth amounted to 161 percent. Total dollar volume ranged between \$400 million and \$500 million in 2019 dollars for most years prior to 2002. Since 2003, land market activity has exploded, more than doubling that sum between 2005 and 2007 and again in 2017 and 2018. After 2003, the dollar volume dropped back to the long-term

Figure 1. Texas Rural Land Sales, Total Dollar Volume

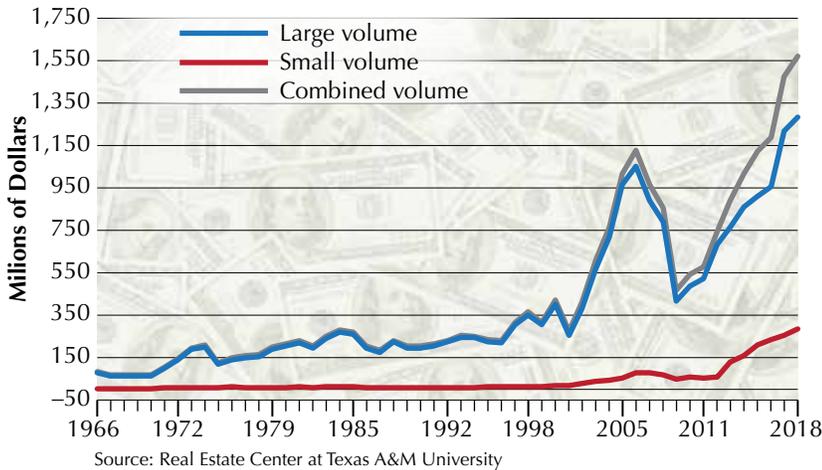
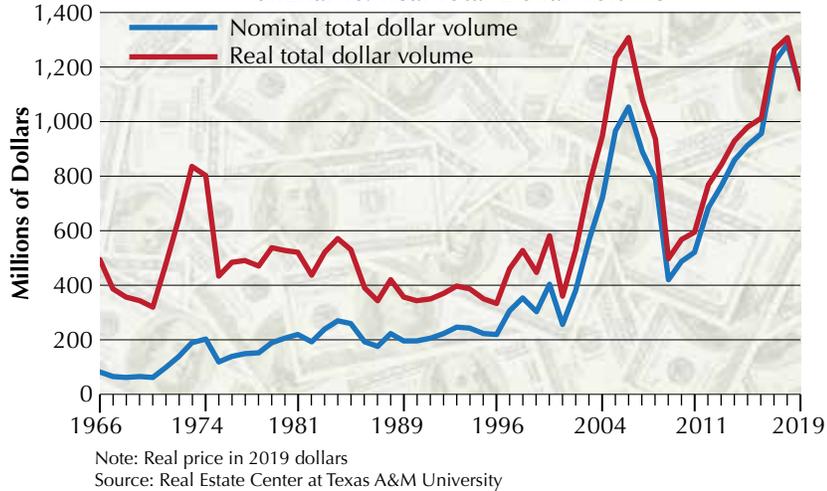


Figure 2. Texas Rural Land Sales, Nominal vs. Real Total Dollar Volume



range only during the Great Recession and its aftermath in 2009 and 2010. Since then, it has eclipsed the previous maximum.

New Way to Track Market Developments

Texas land market observers tend to focus on price movements to identify market developments. Price levels from last year influence current market prices, and rising prices frequently portend future robust activity. Stagnant or falling prices lead in the opposite direction. Falling prices imply the potential erosion of all land values and signal danger of declining wealth. Consequently, many focus on price trends as a leading indicator of market trends, seeing weakening prices as the harbinger of lean times ahead.

However, Center research reveals a possible alternative indicator that could signal price movements well before

they appear in transactions. Analysis of Texas land market data suggests the total volume of dollars invested in land begins to recede before prices start to drop. This decline results primarily from a falloff in the number of acres traded when potential sellers stick with their asking prices despite weakening demand.

The market dynamics suggest that as buyers become resistant to current asking prices, potential sellers resist cutting their asking prices. Looking at recent prices paid for comparable land, sellers resist pressures to accept less. They remember the price they paid and recall expecting appreciation during their tenure. Instead of seeking a deal at a lower price, landowners either remain steadfast in their asking price or withdraw their land from the market. Motivated sellers must cut their price to get a deal.

Meanwhile potential buyers begin to realize they can buy more than they had anticipated. As listings expand, they can pick among higher quality offerings with little fear of missing a deal. This situation often leaves lesser properties to languish unsold. Total acreage moving through the market falls in the declining number of transactions, but typical prices move up, reflecting the increased volume of higher quality properties sold. Prices,

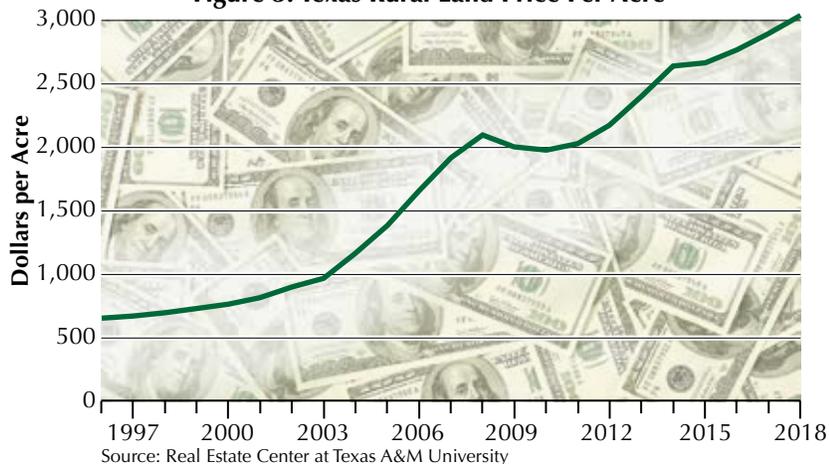
measured by a median or mean, appear to remain strong. However, declines in total acreage and total dollar volume indicate markets have softened.

Here's an example. In the aftermath of the Great Recession, land prices declined in 2009 and again in 2010. Those declines reflected difficult markets where potential buyers made low offers anticipating declining prices. Meanwhile, would-be sellers, many under no impetus to sell, refused those lower offers and withdrew their land from the market. The result was a market standoff. The number of sales dropped dramatically from 5,362 in 2005 to 2,407 in 2009 (see the annual sales analysis at the Center's rural land data website: www.recenter.tamu.edu/data/rural-land/#!/state/Texas). Total acres traded collapsed from 763,851 in 2005 to only 228,505 in 2009. Brokers suffered, and the 2009 price drop confirmed the widely acknowledged market turmoil.

Reported prices increased substantially every year during that period, rising from \$1,263 per acre in 2005 to \$1,914 per acre in 2008 (Figure 3). Focusing on prices seemed to indicate that all was well in the market. However, the number of sales and total dollar volume told another story.

buyers refused to purchase at market prices, leaving land inventories “on the shelf.” As the subprime fiasco unfolded, further reticence gripped more market participants until motivated sellers cut asking prices in 2009 and 2010. Total dollar volume and total acres provided an early warning of troubled waters ahead.

Figure 3. Texas Rural Land Price Per Acre



Sales began to dwindle in 2006, then fell dramatically the following two years before collapsing in 2009. Combining the price dynamics with the acreage trends by multiplying the indicated price by the total acreage (total dollar volume) was troubling. The huge price increase in 2006 compensated for the small acreage decline to register a modest increase that year. However, the large acreage drop-off in 2007 overwhelmed the sizable price increase and posted a 15.4 percent decrease in total dollar volume. Dollar volume skidded -11.4 percent in 2008 followed by a collapse of -46.8 percent in 2009.

Price changes looked fine through 2008, but the volume side of the market had flashed warning signals as early as 2006 with declining numbers of sales and again in 2007 with the large drop in total dollar volume. Those numbers suggest a large number of market participants had individually decided that current prices were too high given economic circumstances. Those would-be

Total Dollar Volume Not Infallible

A downturn in total dollar volume does not necessarily portend carnage in the market. For example, in 2001 total dollar volume turned down. That year included the 9/11 attacks, which brought markets to a standstill for a time. However, that disruption lasted only one year with 2002 posting a return to increasing totals. In 1985, a year before Texas’ economic meltdown erased a great deal of rural land value, weakening prices primarily contributed to a 4.7 percent retreat of total dollar

volume. A 25 percent drop followed in 1986 with an additional 10 percent decline in 1987. Land prices declined 31.2 percent over those two years. Total acres did not noticeably decline until 1986, but total dollar volume declined earlier.

While total dollar volume does not infallibly foretell future land market trends, it does provide a powerful summary of market developments. Preliminary studies at the Center show a strong link between total dollar volume in the past and current land price levels. All of this suggests that land professionals would do well to note trends in market volume as an indicator of the overall health of Texas land markets. ➦

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