



LEVEL LAND

TEXAS RURAL LAND MARKETS 2010

Texas land markets were nearly flat statewide in 2010. The size-adjusted price per acre inched up 1 percent to \$2,098 from \$2,074 per acre in 2009 (see table). Data suggests an overall firming of prices in a relatively slow land market.

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The real or inflation-adjusted price of \$389 per acre in 1966 dollars stayed below 2008's record \$424 and marked only a \$1 rise in real prices over 2009 (Figure 1). Nominal prices reflect actual prices paid while real prices represent those nominal prices adjusted for inflation.

The 2010 market was focused on the smaller end of the tract size range. Median tract size expanded to 75 acres in 2010 but remained well below the 100-acre levels seen in recent years (Figure 2). This trend shows the numbers of large properties in the market are continuing to drop. Brokers in the field report pricing impasses between potential buyers

and large tract sellers in 2010. Large property transactions remain rare in most markets.

At 4,747 sales, 2010 market volume surpassed the 2009 total of 4,321 by 10 percent (Figure 3). Much of that increase came in the fourth quarter. The 2009–10 market volumes roughly approached sales volumes posted in the 1996–2001 era. However, the Hill Country–West area through San Antonio and Fredericksburg led the trend, posting increases ranging from 27 to 55 percent above 2009 levels. Volume varied in other areas, rising in some regions while dropping in others. The modest increase suggests that the pronounced falloff in activity that began in 2007 may have stabilized in 2010.

Rising commodity prices and fears of inflation sparked continued interest in cropland. Fourth quarter 2010 saw an increase in prices and volume after third quarter declines. However, at the local level, price trends varied widely. Sales

volumes continued to be weak by recent standards, but began to approach 1990–2000 volumes.

Appraisers and brokers report that potential buyers continued to make low offers, assuming prices will eventually drop. Buyers still resisted paying current prices, but some, weary of delaying purchases, completed their transactions.

If there is no further external shock to the economy, markets may escape the wrenching declines posted during the 1986–1992 downturn. Back then, an abundance of leverage made markets vulnerable to the economic downturn. When buyers could no longer make debt service payments, they tried to sell to settle their debt. Many defaulted and watched helplessly as lenders foreclosed. Land flooded the market. Prices plunged.

Current markets could face a similar fate if current owners depended on borrowing to finance acquisitions. If markets

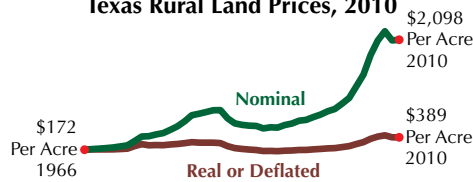
escape further erosion, it will be in part thanks to the prevalence of all-cash purchases from 2001 to 2007, which undoubtedly softened the blow of economic turmoil.

Cropland investors are looking for land to purchase. They are in competition with farmers, flush with profits from burgeoning commodity prices and good crop yields. The result: strong demand is facing restricted supply as current owners opt to keep their land.

Despite the threat of production shortfalls caused by drought, cropland prospects appear to be positive in the near term. Soaring commodity prices, record low interest rates, a weakened dollar, production shortfalls, and expanding use of food crops to manufacture biofuels have combined to create a frenzied rush to buy farmland.

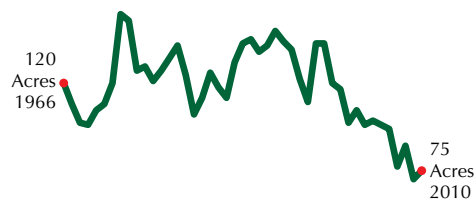
However, growing numbers of observers fear that cropland prices have become overheated. They believe a reversal of one or more of the supporting factors is highly likely. Those changes could

Figure 1. Size-Adjusted Texas Rural Land Prices, 2010



Source: Real Estate Center at Texas A&M University

Figure 2. Texas Typical Tract Size



Source: Real Estate Center at Texas A&M University

Figure 3. Texas Land Market Volume, 2010



Source: Real Estate Center at Texas A&M University

Year	Nominal			Real			Volume of Sales	Median Tract Size (acres)
	Weighted Average Price per Acre	Year-to-Year Percentage Change	Annual Compound Pretax Growth Rate from 1966	Deflated Weighted Average Price per Acre*	Year-to-Year Percentage Change	Annual Compound Pretax Growth Rate from 1966		
1966	\$ 172	–	–	\$172		–	6,449	320
1967	183	6	–	180	5	–	5,695	110
1968	191	4	–	181	1	–	5,219	101
1969	200	5	–	177	–2	–	5,360	100
1970	212	6	–	176	–1	–	4,504	107
1971	230	8	6	197	12	3	5,290	110
1972	248	8	6	189	–4	1	6,014	120
1973	323	30	12	232	23	6	5,227	153
1974	404	25	15	268	16	9	5,516	150
1975	409	1	15	248	–7	8	3,722	126
1976	440	8	14	252	2	6	4,405	128
1977	464	5	14	251	0	6	4,566	121
1978	520	12	10	263	5	3	4,171	126
1979	582	12	8	271	3	0	3,889	132
1980	670	15	10	285	5	3	3,374	138
1981	776	16	12	310	9	4	3,721	124
1982	802	3	12	295	–5	3	3,299	105
1983	832	4	10	317	7	4	3,869	113
1984	863	4	8	293	–8	2	4,037	125
1985	866	0	5	285	–3	0	3,972	118
1986	722	–17	–1	234	–18	–5	3,191	113
1987	634	–12	–4	201	–14	–7	3,077	130
1988	608	–4	–6	185	–8	–10	3,637	139
1989	594	–2	–7	173	–6	–10	3,691	141
1990	588	–1	–7	167	–3	–10	3,777	135
1991	545	–7	–5	148	–11	–9	3,780	138
1992	564	4	–2	149	1	–6	3,891	145
1993	560	–1	–2	145	–3	–5	4,109	140
1994	605	8	0	155	7	–2	4,770	136
1995	631	4	2	159	3	–1	3,929	122
1996	680	8	5	168	6	3	4,193	111
1997	695	2	4	168	0	2	4,433	139
1998	744	7	6	178	6	4	4,412	139
1999	787	6	5	186	4	4	4,862	120
2000	845	7	6	195	5	4	4,691	117
2001	886	5	5	200	3	4	4,721	101
2002	977	10	7	217	9	5	5,700	107
2003	1,077	10	8	235	8	6	7,000	100
2004	1,281	19	10	271	15	8	7,770	102
2005	1,487	16	12	305	13	9	8,005	100
2006	1,830	23	16	363	19	13	7,891	98
2007	2,083	14	16	402	11	13	7,344	80
2008	2,247	8	16	424	5	13	5,880	90
2009	2,074	–8	11	388	–8	8	4,138	73
2010	2,098	1	7	389	0	5	4,747	75

*In terms of 1966 dollars

Source: Real Estate Center at Texas A&M University

incite a precipitous decline in cropland prices when they occur.

Because of the cessation of development in urban areas, transitional tracts near urban areas still face slack demand over the coming year. 🍀

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THE TAKEAWAY

Farmland was in demand in 2010 thanks to rising commodity prices and low interest rates. Investors had stiff competition from farmers whose good crop yields gave them plenty of cash to spend. Overall, 2010 land markets were flat statewide.



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