

SpotLight

Farm Real Estate Values Texas Holds Steady in 2008, Bucking U.S. Trend

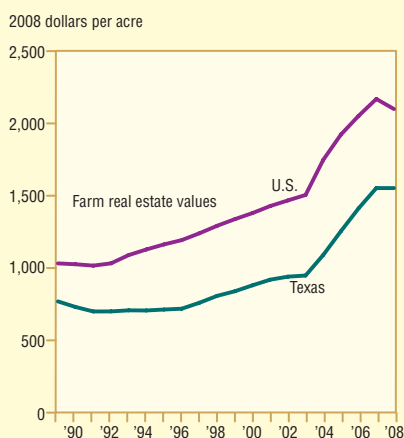
The value of Texas agricultural land has followed national trends since the early 1990s. Last year, however, the state's average price per acre remained unchanged, a sharp contrast to the nation's first decline in 17 years. Texas was one of only eight states that didn't see falling farm values in 2008.

The most recent Department of Agriculture report shows U.S. farm real estate, adjusted for inflation, was worth an average of \$2,100 an acre in 2008, down 3.2 percent from the previous year (*Chart 1*). Farm real estate values include land and buildings.

The average value of Texas agricultural land remained at \$1,550 an acre in 2008. Texas trails the nation because much of its farmland is arid with poor soil, so it can't match other states' crop yields. Some states, like California, have good growing conditions for high-value permanent crops like fruits and nuts.

Nearly 80 percent of Texas' land is devoted to agriculture. Pastureland accounts for two-thirds of the total, supporting a livestock industry that ranked No. 1 in the nation with more than \$10.5 billion in sales in 2007. Cropland takes up most of the rest of Texas' rural acreage, with corn, cotton and hay—the top three crops—combining for production of more than \$3.3 billion in 2008. Texas trails only California in total agricultural production.

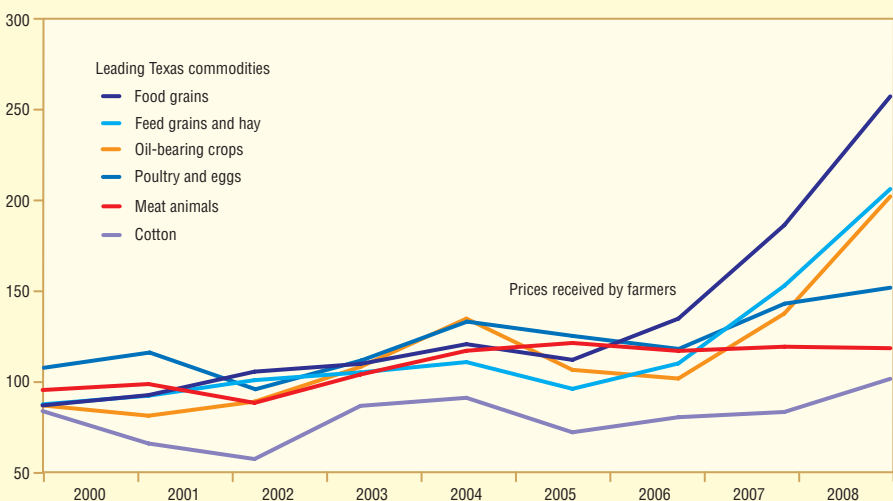
Chart 1
Texas Farmland Values Flat in 2008



SOURCE: U.S. Department of Agriculture.

Chart 2
Rising Agricultural Prices Support Texas Land Values

Indexes, 1990–92 = 100



SOURCE: U.S. Department of Agriculture.

Several factors most likely contributed to the resiliency of Texas farm values in 2008. First, the Texas economy performed better than the national average, and it wasn't hurt as badly by a residential real estate crisis that elsewhere slowed the conversion of farmland into nonagricultural development.

Second, prices for Texas' most important agricultural products have held up better than the prices for the leading farm products in other states. Livestock prices remained steady in 2008 and grain prices increased, supporting land values by providing healthy incomes for Texas ranchers and farmers (*Chart 2*). Meanwhile, prices dropped for dairy products and vegetables, harming the farm sectors in states heavily invested in those commodities.

Hunters a Plus

A third factor bolstering farm real estate values arises from Texans' passion for hunting, a source of lucrative lease income for many landowners. From 1996 to 2006, the number of hunters fell 10 percent nationally but rose 21 percent in Texas, according to a U.S. Fish and Wildlife Service survey. Over the decade, spending by Texas hunters increased 22 percent.

Federal Reserve Bank of Kansas City research found that for each 4 percent increase in hunting lease rates, Texas land values rise 1 percent. In comparison, livestock receipt increases of the same magnitude lead to a 0.56 percent increase in land values. For crop receipts, the gain is only 0.11 percent.

Looking ahead, it's likely that farmland values will be flat to slightly down this year. Several factors are putting downward pressure on land values—a sharp weakening of the Texas economy, tighter credit conditions, weaker commodity prices and severe drought conditions in much of the state.

The Dallas Fed's third quarter agricultural survey found that farmland sales continued to weaken. More than a third of agricultural lenders responding to the survey expected a continued decline in farm real estate loans in the near term. "The trend in farmland prices remains negative, with nearly all respondents expecting either no change or a decline in farmland values over the next three months," the survey reported.

—Emily Kerr and Keith R. Phillips