

Real Estate Cycle Points to Land Development Returning

“Intellectual property has the shelf life of a banana.” - Bill Gates

Even land, which can be transformed from native pastures to skyscrapers and even epic buildings have ‘shelf lives’ that require renovation or even demolition. The core asset, land, will be the next acquisition target in the major Texas markets. Employment, population and housing growth, driving continued urban sprawl and revitalization of urban cores, is pushing the land development ‘button’. But as every real estate professional has been told, “The three most important factors in buying are: location, location, location.”

Texas

- ♦ Rural land prices in 2011 reported a 3% increase from 2010 levels, but volumes continued at a tepid pace. To give this some perspective, 2005 saw roughly three times more transactions than currently monitored. Initial reports for year end 2012 appear to reflect 2011 levels, but expect 2013 to see above average increases in both pricing and sales volumes.
- ♦ Agricultural land activity continues to drive demand, while recreational acquisitions remain limited.
- ♦ Fracking expansion is keeping gas prices low, but the affect on land and home prices over the long term remains to be seen. There is the contention that homes requiring groundwater usage may see a loss in value, while those with ‘piped in’ water tend to experience appreciation. Regardless, land pricing in those areas is influenced by the competition to obtain drilling leases. And leases are even being contracted with homeowners in tract subdivisions.

Houston

- ♦ Tax assessors are gearing up for increasing assessments at above average inflationary rates; preliminary indications are for a 5% to 7% increase. Average home prices increased about 9% in December 2012, from a year earlier.
- ♦ Apartment construction is occurring in many areas for the metropolitan area, resulting in strengthening land prices in a market that does not have zoning.
- ♦ Leading the U.S. in housing starts in 2012 has caused diminished finished home supply; January 2013’s inventory of homes is only 3.7 months, the lowest level since 1999. According to Houston Association of Realtors (HAR), continued positive home sales in December gave 2012 a 23 percent boost in dollar volume over 2011 and plunged inventory to pre-millennial levels.
- ♦ OConnorcomps.com reports 22 agricultural land sales in size to 765 acres, 24 commercial land sales in size to 85 acres, and a total of 3 land sales over 100 acres each have occurred in the first eight weeks of 2013.
- ♦ Finished lot inventory has virtually ‘dried up’:
 - ◇ Builders report a shortage of finished lots available to purchase.
 - ◇ At the end of 2012, The Woodlands had 2,750 residential lots remaining, but with over 10,000 new direct jobs to ExxonMobil’s 385-acre campus to the south, the scarcity and value of these remaining lots is evidenced.
 - ◇ Bridgeland experienced land sale increases of 31% and finished lot sale numbers at record levels.
 - ◇ 2012 ended up at 7,981 starts; Eldon and Metrostudy are projecting 9,000 starts in 2013.

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Next Month

March 2013 will have a stock market at all-time highs. Will an eventual pullback put REITs and other real estate investment opportunities on the forefront of investment advisors’ recommendations?

TEXAS REAL ESTATE UPDATE

Expect Increased Land Development

Dallas - Fort Worth

- ◆ Single family building permits reached 12,741 in 2012, the highest annual level since 2002, but still well below the 22,000 to 32,000 permits annually from 1998 to 2006.
- ◆ Dallas has 2.9 months of finished home inventory and Fort Worth at 4.0 months is not far behind; the lowest level since reporting in 1990. However, neither market has seen measurable home price appreciation over the last year.
- ◆ Homes in Dallas priced above \$500,000 make up 6% of the market and the percentage has increased each year since 2009.
- ◆ OConnorcomps.com reports 44 commercial land sales in size to 25 acres occurred during the first eight weeks of 2013.

Austin

- ◆ Average house prices increased 14% in December 2012, from a year earlier.
- ◆ Single family permits of 7,970 exceed any year since 2008.
- ◆ Homes priced above \$500,000 make up 9% of the market and the percentage has increased each year since 2009.
- ◆ This market will see increasing home starts in 2013, coming into a market with only 2.6 months supply of finished homes and little in the development pipeline.
- ◆ OConnorcomps.com reports 7 commercial land sales in size to 25 acres occurred in the first eight weeks of 2013.

San Antonio

- ◆ Advocacy groups suggest that the Barnett Shale area could be responsible for generating 108,000 jobs by 2015, transitioning the incredible hotel demand we are now seeing, to long term housing inventory.
- ◆ This market has 5.2 months of finished residential inventory, the lowest level since 2005.
- ◆ Average house prices increased 5% in December 2012, from a year earlier.
- ◆ Home permits in 2012 of 4,778 exceeded 2011 levels by a small margin and are a long way from reaching the 10,000+ annual levels seen in 2002 to 2006.

In summary, employment growth will spur additional home demand and that will spur new construction. As it takes about one to two years to buy a piece of land, get it entitled, establish utility districts and start construction of homes or mixed use development; a shortage of home inventory in Austin and Houston, and possibly Dallas, will be very evident as we go through 2013. This will spur demand for land, both developable and pre-developable land.

Funding for land development will be strictly limited to well capitalized developers, particularly those with significant equity. Highway expansions will pave the way for new submarket locations and retail development will follow new rooftops. Existing planned unit developments touted as live/work/play environments will see increased residential, commercial and business park land demand, if any vacant inventory remains.

And the success of new projects will be driven by, what else, location!

— About Sage Group —

We are a group of appraisal professionals working together to provide a single source of information and analysis for commercial real estate professionals across the country. Our team is managed by John Fisher, CCRA, LEED AP, W. F. "Buddy" Trotter, Jr., MAI, Michael L. Miller, MAI, Andre Suissa, MAI, Greg Zachary, Senior Appraiser and H. E. "Skip" Preble MAI, CCIM. For more information about us or to sign up to receive our newsletter, contact Michael L. Miller, MAI at 713.358.8450 or mmiller@sageappraisalnetwork.com.