

Texas Land

Rural land offers real estate investors a rare opportunity: to buy property for investment and run it for recreation.

by Kelly Ferguson, CCIM

May 2011

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We hear the same story frequently: “We lost our hunting lease; we have to find another one.” Many lease (and improve) acreage for hunting or other recreational purposes for years, only to lose it because of changes in the landlord’s situation or a change in ownership. The idea of land ownership may be daunting, but thoughtful and creative consideration may reveal that there are a number of investment and ownership options to make owning land attainable--and quite profitable.

Acquisition

In addition to working with individual investors to purchase land, we have also advised investors in structuring groups to acquire large land tracts. Acquisitions by such groups can be structured for either shared or partitioned ownership.

Shared-ownership structures have some of the same attributes of hunting leases and provide economy of scale. For example, they could provide the ability to acquire a better piece of property than one might afford individually, and land improvements and facilities (lakes, lodging, etc.) may be on a larger scale. They could also involve hiring a ranch manager and be run in the same manner as a hunting club on leased land.

Partitioned land tracts have individual ownership. The original land parcel is partitioned among owners at closing. Owners can choose to run their properties entirely separately or they can pool certain aspects of the property with neighbors. For example, Bud Friedman structured a purchase of 1100 acres in Gonzales County. He brought together three investors who purchased the property, which was partitioned into separate tracts at closing.

Advantageous “pooling” aspects adopted by the owners include joint efforts in a wildlife management program and rights of first refusal when an owner decides to sell.

Holding Costs

Texas ranch land with agricultural exemptions in place is taxed with only a fraction of normal property-tax rates. Farming and ranching provide means to generate income on land and obtain property-tax exemptions. However, these “ag” tax exemptions are not limited to farming and ranching; more and more ranches are obtaining wildlife exemptions by providing intentional habitat for

certain species. This can be a rewarding experience, both financially and through personal enjoyment.

Maintenance of and improvements to land can be tax deductible. The extent that holding costs can be offset by exemptions, income and deductions can be surprising.



Investment

History demonstrates that land offers a stable investment and hedge against inflation. Texas is the fastest-growing state in the nation, and investors have the opportunity to purchase land within or around the powerful Houston-San Antonio-DFW triangle.

Through the Great Recession Texas land transaction volume declined, but prices remained relatively firm. Bob Roy, Manager of the Rosenberg branch of Capital Farm Credit, reported that quality, well-located ranches maintained their value through our recent recession. Many of them actually appreciated during this time.

A tremendous advantage to purchasing land in today’s environment is the fact that favorable financing terms are available. Lending programs created specifically for agricultural and recreational land offer flexible terms that may not be available from other lenders. 80% financing is available with a variety of interest rates and terms to meet borrowers’ requirements. Further, many cooperatively owned lenders pay sizable patronage refunds (similar to dividends). Rural land can also qualify for a 1031 tax-deferred exchange.

As with any real estate investment, the same principles hold true for land: buy quality, well-located properties for long-term value...but there’s an additional principle of investing in ranch land: enjoy it!

Kelly Ferguson, CCIM is a principal of Fort Bend Real Estate Corporation (www.fbre.net), a boutique firm that has offered specialty services in commercial and residential real estate since 1974. Call Bud Friedman or Kelly at 281.242.2200 for more information on ranches and other real estate investments.