

The Big Plan for Small Land

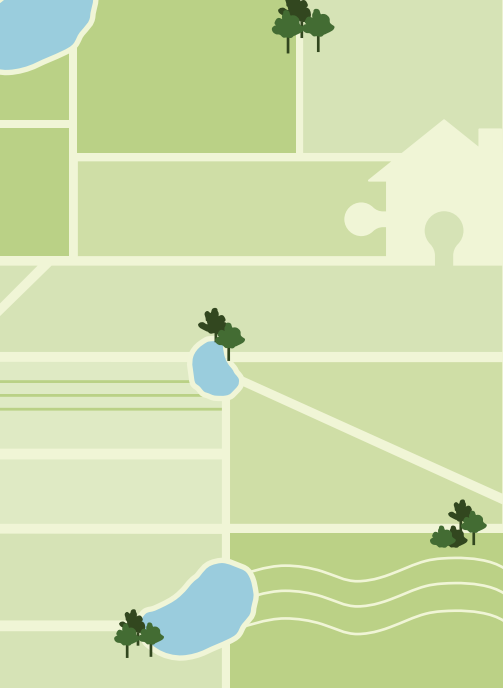
As the Texas rural land market trends smaller, a new forecasting model is needed to tell the story.

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As the Texas rural land market trends smaller, a new forecasting model is needed to tell the story.

Today's Texas rural land market looks different than it did 50 or even 25 years ago. While large properties still get much of the public's attention, a shift has been reshaping the market. Small rural land tracts are now driving far more of the market's momentum.

The Texas Real Estate Research Center's prior forecasting work showed large rural land markets don't move with traditional agricultural or farm-finance indicators. Instead, they behave more like markets for investment assets, responding to broad economic forces such as statewide personal income, interest rates, and energy-sector volatility.

The small land market, however, serves very different buyers and purposes, so it's reasonable to question whether those same economic drivers apply in the same way. The Center has been investigating this for a while now and has developed a unique forecasting model for small tracts.

To begin with, the Center defines "small" land tracts by establishing a maximum acreage by region (see table). The minimum tract size for each region is 10.01 acres.

Across the state, these small parcels, mostly 50 acres or fewer, have become a major part of rural land activity. They attract a wide mix of buyers (e.g., families looking for a place to build, people wanting recreational property, and investors who prefer smaller, more flexible holdings). In many counties, especially around major metro areas, these small parcels have become more than just the entry point for many wanting a piece of rural Texas.

The numbers tell the story clearly. According to the Center, small tracts used to make up only about 20 percent of all rural land sales by number. Today, they account for over half of all transactions statewide (Figure 1).

Not only have small tracts become more common since 2000, but their average size has steadily declined, signaling growing demand for accessible, lower-acreage properties. The increasing proportion of sales represented by these tracts reflects structural forces rather than short-run fluctuations.

These trends raise several important questions: If small parcels now dominate

Small Land Tract Size by Region

Region	Max Acres
1. Panhandle and South Plains	160
2. Far West Texas	499
3. West Texas	95
4. Northeast Texas	34
5. Gulf Coast-Brazos Bottom	43
6. South Texas	45
7. Austin-Waco-Hill Country	50

so much of the market, how does one understand and forecast their behavior? Do the variables that worked well in the large-tract model still matter when the buyers are families, recreational users, or small-scale investors? And how should the data range and variables be adjusted when studying small land sales? These are just a few of the questions we asked as we attempted to accurately model small land market trends.

Where the Analysis Begins

Even though small tracts represent a very different part of the rural land market, the Center’s analysis begins with the same economic fundamentals that shaped the large-tract model. Because these forces remain part of the economic backdrop for all land transactions, they serve as a natural starting point for the small-tract model as well. For example, Texas’ total personal income reflects changes in purchasing power, Federal Funds Rate influences whether borrowing costs are rising or falling, and crude oil prices indicate how volatility in the energy sector is influencing local economies, including those outside the oil patch, in which energy plays a vital role.

What Is Different

Of course, carrying over the same indicators is only the first step. The most important task is adapting the model structure so that it accurately reflects how small-tract markets actually behave. This led to three major design changes in the small-tract study.

Study Area Refinement

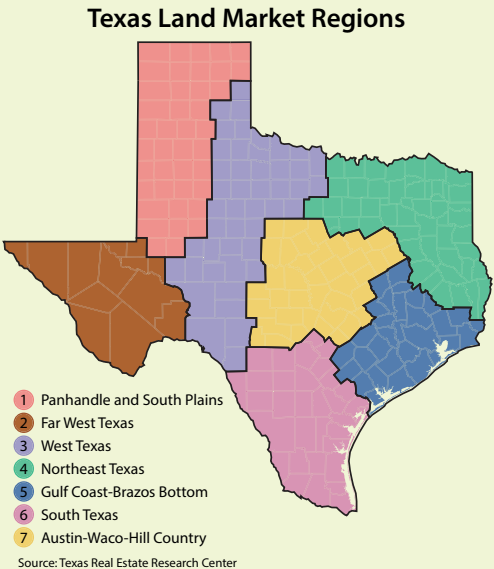
First, the geographic scope had to be narrowed. While the large-tract model used sales data from all seven regions of the

state, the small-tract study focuses only on Regions 3 through 7. This decision is important as the Center prefers to focus its forecast efforts on regions where small land activity is not directly tied to agricultural or energy markets. This gives a “cleaner” view of what is truly driving small-tract dynamics.

With that in mind, it quickly becomes clear why some regions simply do not fit the purpose of this study. Region 1, for example, is dominated by agriculture production, which does not reflect the type of small-parcel activity the Center is trying to understand. Often, small tracts in Region 1 are purchased to expand existing agricultural operations. Similarly, Region 2 has too few transactions, and most of its land use is agriculture or tied to energy extraction.

By concentrating on Regions 3–7, the study captures the areas where smaller parcels are more active, where buyers are more diverse, and where market behavior isn’t overshadowed by agricultural or energy cycles. Additionally, the size ranges of small tracts in Regions 3 through 7 are narrower than those of Regions 1 and 2, as shown in the table.

Within these regions, the database provides quarterly observations of annualized prices and acreage statistics dating back to 1967. Each quarter’s numbers are built from individual land sales and then statistically adjusted to account for differences in tract sizes and other structural features across regions. The result is a clean, transaction-weighted time series that reflects how small parcels truly behave in each of the five selected regions. Compared to the large land model, which focuses on transactions involving tracts above the

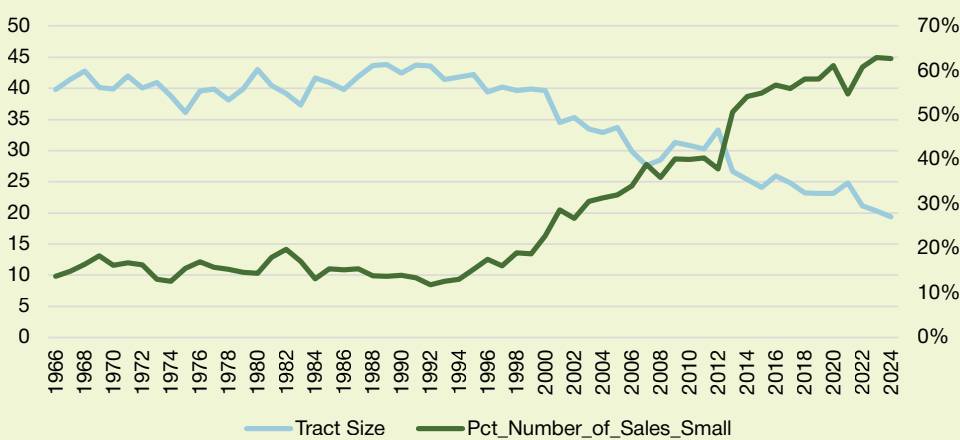


region-specific acreage threshold (see table), this study shifts its emphasis to small land sales. Despite the change in scale, the study maintains consistency with the original data framework in terms of definitions and methodology.

Pandemic Shock Adjustment

A second important adjustment involves the period surrounding the COVID-19 pandemic. The pandemic produced a sudden change in rural land demand, leading to price movements that cannot be explained by normal economic indicators alone. To avoid letting this temporary shock distort the long-run relationships in the model, a pandemic variable was added. This allows the analysis to separate the one-time effects

Figure 1. Small Tract Trends in Texas 1966-2024



Source: Texas Real Estate Research Center

Figure 2. Key Drivers of Land Supply and Land Demand



Note: The arrows indicate the direction of the relationship estimated by the model (positive or negative), not the size of the effect. “+” indicates a positive effect, and “-” indicates a negative effect. Sub bullets represent the effects of statistically significant interaction terms.

Source: Texas Real Estate Research Center

of the pandemic from the underlying trends that matter for forecasting. By controlling for the pandemic period, the model can provide cleaner estimates of what drives small-tract markets during more typical economic environments.

Structural Change in Demand Equation

While this small land modeling system retains the general structure of the large land model, it incorporates interaction terms into the second equation in the system to better explain demand-side behavior. The interaction terms simply allow the model to say, “the effect of one factor depends on the level of another factor.” In practical terms, this matters because buyers do not respond to land prices or economic conditions in a fixed, one-size-fits-all way. For example, higher land prices may discourage demand more strongly when household incomes are low, but have a smaller impact when incomes are rising.

By adding interaction terms, the model can capture these conditional effects, (i.e., how price, income, and the temporary shock of the pandemic work together) rather than treating each factor as acting independently. This helps the model better reflect real decision-making patterns in small land markets where buyers’ motivations and constraints can shift depending on broader economic conditions.

What the Model Tells Us

The Center’s analysis of small-tract land in Regions 3 through 7 reveals several clear patterns in how supply, demand, and external factors influence prices and sales.

While the technical model is complex, the main findings can be summarized in straightforward terms:

Supply side:

• Past demand and oil price influence prices

Two variables have a positive effect on land supply (Figure 2). If more land was sold a few months ago, it tends to push prices up today. This reflects basic supply-demand dynamics. Because rural land is not commonly held for less than a year or two, higher past demand reduces available parcels, which puts upward pressure on current prices. Oil prices also matter. When oil prices rise, land values tend to increase slightly, likely reflecting higher regional income or development pressure in energy-producing areas.

Demand side:

• Buyers respond to prices—but income softens the effect

As expected, higher land prices reduce demand. However, the effect depends on household income growth rate. When Texas’ personal income is higher, buyers can better afford land, so demand is less sensitive to price increases. During lower-income growth periods, higher prices discourage buyers more. In short, price still matters, but income growth helps cushion its impact.

• The pandemic effect

The pandemic temporarily changed the small-tract market. Holding prices constant, demand was higher during the pandemic than before, reflecting factors like remote work, lifestyle migration, and increased interest in rural living. But buyers also became more price-sensitive during this period: high prices could offset the usual boost in demand. In other words, the pandemic shifted demand levels upward but also made buyers pay closer attention to costs.

• Interest rates affect demand with a lag

Higher borrowing costs reduce land demand. A one-percentage-point increase in the federal funds rate from a year ago is associated with a small decline in current purchases. This lag reflects the time it takes for financing decisions and transaction plans to adjust to changes in interest rates.

Together, these results paint a picture of a small-tract market that is responsive but moderated: Supply constraints and oil prices influence land prices, income growth helps buyers absorb cost changes, and short-term shocks like the pandemic or rising interest rates can reshape demand patterns.

What’s to Come

The median tract size of rural land across Texas has been in decline for decades, and there is no reason to expect this trend to reverse. In addition to large land forecasting, the Center will begin using this small land forecasting model by the end of 2026 and introduce a new technical report.

Additionally, while small land will continue to be reported as a separate market statewide and regionally, the Center will discuss forecast outputs for small tracts across Regions 3-7 in future rural land reports and presentations. **TG**

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