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Acreage: What's the relationship between price and size?

By Curtis Seltzer

I've been watching several local tracts for a while, because they puzzle me. Each tract is broadly similar—mostly woods, some open.

They range in size from about 100 acres to 1,700. And each is priced at between \$3,000 and \$4,000 per acre. A few of the larger tracts are priced at the upper end of the range, and a few of the smaller ones are priced closer to \$3,000/acre.

None of the big ones, of course, have moved for several years. And the sellers have stuck with their original prices.

The common expectation for a long time among both buyers and sellers of land was that as the size of the tract increased its price-per-acre should decrease. No rule or formula seemed to exist, but small tracts were typically priced at something like five to ten times higher than large tracts on a per-acre basis. (Many exceptions exist to that generalization.)

That pattern held more or less until the last 15-20 years. It still holds in some places and on some tracts, but I've seen it increasingly weaken—which I think is a bad development from a market perspective.

The relationship between size and price is not consistent in commercial matters. Larger diamonds -- other things being equal -- command higher per-carat prices, where carat is a unit of weight that is also expressed as size (mass). In gems, big is rarer than little, so big costs more. In cattle, heavier animals, which are also larger than lighter animals, fetch a lower per-pound price for the same breed and frame quality. Large quantities of common retail products -- soap, hamburger, ice cream -- are almost always sold for less per ounce in the same brand than small quantities. Packaging expenses may sometimes explain the higher cost for smaller quantities, but my guess is that it's mostly about manufacturers wanting to move as much product as possible.

Size, as distinct from weight, is also not consistent. Larger suits (for larger men) generally cost more than smaller suits, owing to more material and workmanship. Larger cars may or may not be more expensive per unit of mass. Size alone in cars is not necessarily the definition of value.

In land, large tracts are, with local exceptions, rarer than small tracts. On that dimension alone, larger tracts -- like big diamonds -- should carry a higher per-unit price.

On the other hand, large tracts usually package in liabilities, uncertainties and costs that small tracts usually don't. That may explain some of the historic discount in per-acre price for larger tracts. Another historic factor, I think, has been that fewer buyers exist for large tracts, so sellers have to discount to get their large tracts sold. Larger tracts also may have been price-discounted because they are far away from high-priced metropolitan and suburban real estate. Big tracts may be price-discounted owing to the remoteness or inconvenience of their locations.

Finally, it may be that large-tract price discounting came partly out of American historical habit. Until fairly recently, American land was relatively plentiful and cheaply valued. Much of it was originally given away to speculators, Revolutionary war vets, railroads, local and state governments, homesteaders and farmers. Cheap land was the inducement to western settlement.

In recent years, sellers added some portion of the increase in per-acre prices for large tracts onto the backs of their higher-and-better-use hopes.

Some degree of the trend in per-acre price inflation, of course, may be entirely justified by local and market conditions. Two hundred acres of quality corn-growing land should be worth the same amount on a per-acre basis as 2,000, other things being equal, since a bushel of corn earns the same money per unit of production regardless of the size of its field. While I think this particular type of farmland is an ethanol-dependent bubble, I don't see any reason why large tracts should be bubbled less than small tracts.

My concern is that some, if not many, large tracts have had their per-acre price inflated for not-very-defensible reasons, such as: 1) sellers paid too much for them in 2000-2007; 2) sellers impute HBU value where none, or not much, exists; 3) sellers are over-valuing what they own because they own it; 4) sellers are misreading the market; and 5) sellers are confusing the past with the present.

One reason that the market for large tracts of rural land is largely stuck tight in many places has to do with the resistance of sellers to sufficiently discount per-acre price in light of size. I'm certainly willing to admit that not all such properties should be steeply discounted on a per-acre basis, but I do think the market expects it.

In my small corner of the world, buyers of larger tracts are not valuing 1,500 acres at the same per-acre price as 100 acres. Maybe they're right, or maybe they're not. But that's where they are.

If the market is going to move, per-acre price for big and small will have to be uncoupled.

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