Land Utilization C

1975

FROM FARM TO PLAYGROUND -- CHANGING LAND USES AND COMMUNITY IMPACTS DUE TO RECREATIONAL SUBDIVISION DEVELOPMENT

by

Bart Eleveld

Research Associate

and

Roger P. Sindt

Assistant Research Economist

TEXAS REAL ESTATE RESEARCH CENTER
Texas A&M University
College Station, Texas 77843

Paper presented at AAEA meeting, Columbus, Aug. 10-13, 1975.

Abstract

Session Number XXXIII Session Title Rural Policy and Recreational Development

From Farm to Playground -- Changing Land Uses and Community Impacts Due to Recreational Subdivision Development

Bart Eleveld and Roger P. Sindt, Texas Real Estate Research Center, Texas A&M University

Recreational and scenic amenities attract rural subdivision developers in many areas. The effects on the rural community are both economic and sociological in nature. Planning and research in both disciplines can help prevent potential problems and make subdivisions an asset to the original rural population.

FROM FARM TO PLAYGROUND --
CHANGING LAND USES AND COMMUNITY IMPACTS
DUE TO RURAL RECREATIONAL SUBDIVISION DEVELOPMENT

Since the early sixties, land subdivision and its marketing have been growing in scope -- both geographically and economically. The psychological appeal and hence the advertising appeal for subdivision sales in rural areas has always had recreational overtones combined with generous doses of investment and escapism attractions. As a result (or more likely by design), the greatest percentage of buyers of lots have been residents of urban and suburban areas. But while the buyers have been from the city, the land involved has been almost exclusively rural.

While buyers of rural recreational properties are directly affected by their purchases, the development of rural subdivisions also has impacts on those who live and work in the area before, during and after the subdivisions are created. These effects on the original, permanent population are of interest to agricultural economists, rural development specialists, rural sociologists, governmental planners and resource economists.

The purpose of this paper is to discuss social and economic effects of rural recreational subdivision development on farmers and other members of the rural community. Information on these effects should be useful at the local level and, as such, research on many problems will be unique for each local area. Other problems, such as land use, are similar in all rural areas experiencing subdivision development. It is hoped that this paper will be a catalyst causing more specific research to be accomplished on the effects on community developments and land use problems associated with rural subdivision

development.

Impressions and data sources used for this paper were primarily obtained from personal interviews conducted with recreational land developers during the summer of 1974. While the area sampled was limited to within Texas and the number of developers interviewed was small, the findings can be generalized to most other areas of the U.S.

Statewide Magnitude and Scope of Recreational Subdivision

The term "recreational subdivisions" in this paper refers to subdivisions located primarily in rural areas. Often these subdivisions are influenced or inspired by a lake or other "natural" recreational amenity and are developed to accommodate leisure living, use as retirement property, second homes or other nonurban residential or speculative uses.

Since 1968 developers of subdivisions with 50 or more lots, any of which are less than 5 acres in size, have been required to register their offerings with HUD's office of Interstate Land Sales Registration (OILSR). The preponderance of OILSR filings is of the general type listed in the previous paragraph. By January 10, 1974, there were a total of 656 registered filings in Texas, including over 717,000 lots in over 876,000 acres (Ragatz, p. 502). Many recreational subdivisions were developed and sold out prior to the Interstate Land Sales Full Disclosure Act (ILSFDA) of 1968.[1/] Many subsequent subdivision developments have escaped the registration requirements through either legal exemptions or by illegal evasion. Ragatz (p. 62A) estimates the total number of recreational lots in the nation may actually exceed 5 times the number of registered ones. Applying this proportion to Texas suggests that there may be as many as 3.5 million recreational lots in this state. (To emphasize the significance

of this estimate it implies that nearly one recreational subdivision lot exists for each household in Texas (using 1970 U.S. Census of Population figures).

The size of individual developments ranges from under 50 acres to almost 200,000 acres. The degree to which these rural subdivisions have been built out for residential purposes is highly variable. Aggregating all lots in our sample of 38 subdivisions showed that only 6.56% of the lots have residences built or placed on them. For individually sampled subdivisions the percentage of lots with a home or mobile home placed on the lot ranged from zero to 57%. The higher build-out rates were generally those subdivisions which allowed placement of mobile homes.

Usually it is the presence of a recreational and/or scenic amenity which attracts the development of recreational subdivisions. Thus the majority of Texas' recreational subdivisions can be found in close proximity to either the Gulf Coast, the major man-made reservoirs[2/] or the Hill Country of Central Texas.

While the recreational or scenic amenity may be directly responsible for the effects which we discuss in this paper, it is the development of subdivisions which generally makes these effects tangible to the local communities. Thus, when a recreational attraction is created, this concurrently creates a potential supply of subdivisions in the area. When land is actually purchased for this purpose, the existing demand is satisfied and the potential effects begin to be realized.

Potential Effects on Farmers and Rural Communities

The major potential impacts which subdivision development is likely to

bring to rural communities can be grouped into the following categories:

a. rising land values;

b. changing land uses;

c. rising property tax base;

d. increased demand for public and private services; and

e. changing population mix.

While the above changes are obviously interrelated parts of a more complex process of change in the nature of the community, we will separate them for discussion purposes.

Rising Land Values

The most obvious change which accompanies rural recreational subdivision development is a rise in land values. Basic location theory suggests that the distribution, rate and magnitude at which prices may rise is largely dependent upon the distance of the land from the largest market for subdivision lots. Although recreational lots may have a limited market among local residents, the majority of the buyers (in Texas) come from large urban-metropolitan areas (such as Dallas, Ft. Worth, Houston, San Antonio, Austin). Closer proximity to these large markets means that a potential user would have a lesser transportation cost in both dollars and time; therefore, the demand would be greater than for a similar lot further away from the primary market.

Within any local recreational subdivision area the highest land prices will generally be for parcels immediately adjacent to the particular scenic or recreational attraction which the location possesses and will decline substantially away from the attraction. In a more general statement, this would

mean that land value for recreational subdivisions is a function of distance from the nearest large population center and distance from the scenic or recreational attraction.

Figure 1 illustrates this land value relationship based on proximity to a large population center and a scenic or recreational amenity in an ordinal sense (for convenience in illustration lakes are used). It suggests that land values are higher around a recreational or scenic attraction and that this "ring" of higher land values is both higher and wider the closer the "lake" is to a large city.

Changing Land Uses

The impact of rising land values on local land use has a range of possible outcomes including:

1. local land sales to subdivision developer -- rapid land use change from current use to recreational;
2. local land sales to speculator -- land idled for speculative appreciation in value; and
3. no immediate land use change -- may or may not involve ownership changes.

Except for land immediately converted to subdivision use, the economical course for other potentially affected land would be to maximize net returns over the holding period. This would indicate keeping the land in productive use to offset at least part of the fixed costs of holding. However, much of the land which is held for speculative purposes is removed from production. One reason is that the expectation of large speculative gains, coupled with the marginal costs of keeping the land in production (in terms of time, money and management) may exceed the marginal return. Another, and possibly more

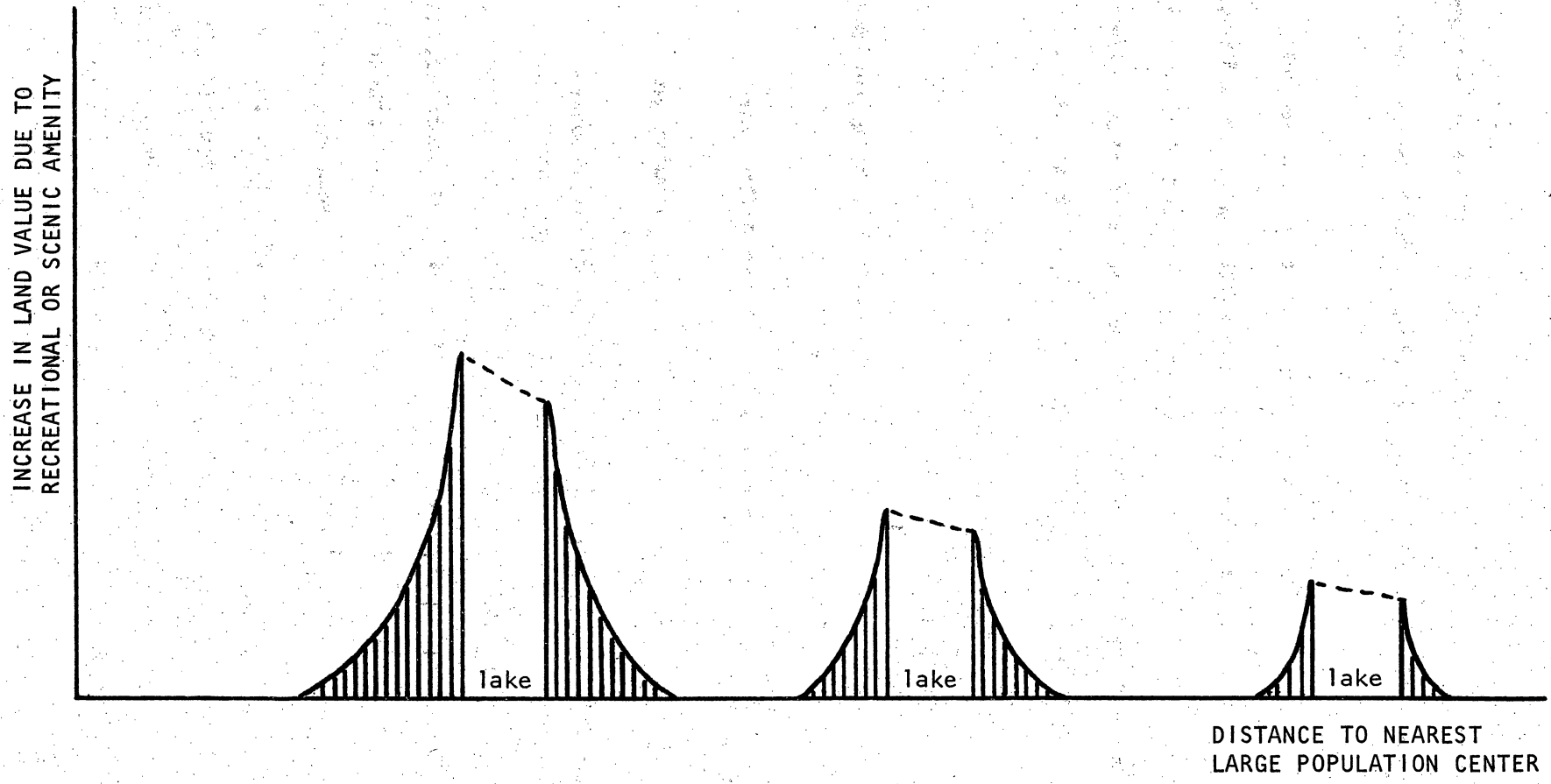

Figure 1. Relationship of increased land values to distance from nearest large population center and distance from a recreational or scenic amenity

important reason, is that some forms of ownership, such as a limited partnership, may preclude receiving a "passive" income stream to be eligible for taxation as a partnership (Levi, 1975).

Another important land use implication is the relative irreversibility of subdivision development. Paulson (1972) describes many remote recreational subdivisions which, despite a large proportion of sold lots, have few residents. Should another land use (either public or private) become feasible, assembling innumerable lots would be extremely difficult through ordinary market purchase. (See A. M. Woodruff (1974) for a discussion of urban assembly problems.)

Rising Property Tax Base

Closely associated with rising land values influenced by subdivision development are rising property tax bases. How closely the tax revenue increase is correlated with land value increases is tempered by several factors. First, the degree to which assessed valuations reflect market values will have much to do with the growth of the tax base. Assessed valuations often do not approach market values of property. Second, and related to the first point, frequent reevaluations of assessed values are necessary to capitalize on rising land values if tax revenues are to keep up with rising land prices.

The largest potential revenue gains are to be found in the subdivisions rather than on land around the subdivisions. Even after only minimal improvements have been made, the value of a given amount of land in subdivided lots would generally be higher than an equivalent area of raw land. Generally land is assessed at or near the market value for raw land until lots have been platted for record. At that time assessment may be made based on the value of

the land as subdivision lots.

One of the greatest criticisms of ad valorem property taxes in rural areas with rising land values is that it forces farmers out of business. Whether it is the higher tax or the expectation of appreciation and associated higher opportunity costs that prevent the owner from keeping the land in agricultural production is open to much debate.

A measure of the role that taxes play in causing land use changes might well be the success that differential assessment has in keeping land in its farming use. Hady and Sibold (1974, pp. 10-11) argue that differential assessment will have little effect when farmers are offered prices which far exceed the value of their land in its agricultural use. Reiss (1975) also presents some convincing arguments against the effectiveness of property tax relief measures alone as a deterrent to land use changes.

Increased Demand for Public and Private Services

Recreational subdivision development can increase the demand for both public and private services in the local areas. The increased demand for public services will be affected by the following conditioning factors.

1. Increased use of property for either permanent or secondary homes will change the mix of demand and may increase it.
2. Public type services provided by subdivision developers will ameliorate the demand.
3. The age distribution, family makeup and utilization patterns of new residents in recreational subdivisions will determine which services experience an increase in demand.

The public services which experience an increase in demand are: road maintenance, schools (primary, secondary and junior colleges), hospital and

other health services, fire protection and police protection. Some of these services are funded by taxing authorities and others are not. Although additional tax revenues are brought in by the subdivisions, the additional services demanded may exceed the revenues. Each local area needs to make a unique determination in this regard. Tillson et.al. (1972) and Brown (1970) have demonstrated case study approaches to evaluating whether recreational subdivisions will pay for the additional services they will need. To the extent that providing some of the public services above is optional, local taxing authorities may be able to minimize added cost effects on the original local population.

Demands for private services create somewhat different questions for the local community. The problem for local areas is one of maximizing the amount of economic benefits which accrue to the local areas. The degree to which outside money spent by new primary and secondary residents stays in the local area depends in part on the aggressiveness of local merchants and builders in satisfying their demands for private services. A lack of initiative by local businessmen will eventually lead to outsiders establishing the necessary service facilities and consequently many of the potential economic benefits will flow back out of the area. One potential problem that the authors foresee is that new residents may compete for limited loanable funds in local lending institutions. This is partially caused by large city lending institutions' reticence to loan funds for home construction in localities outside of their normal business area.

Changing Population Mix

One last area of concern to rural populations is the effect of recreational subdivision development on the composition of the local population mix. This

becomes increasingly important when primary residential settlement begins to occur at a significant rate. If a subdivision does evolve into a permanent residence area of some proportion, it can be safely assumed that most of these new residents will be urbanites who may have different demographic characteristics than the local population. One reason that the change in population is important is that different representation by elected officials may be demanded or initiated. Urbanites may vote differently on local issues than rural or small town residents.

Buyers of recreational subdivision lots are generally more affluent than the surrounding rural population. Some, particularly those who can afford to build homes in these subdivisons, might even be called super affluent. It is possible that exposure to these affluent and changed lifestyles could have an effect on the expectations of the original rural residents, especially the young people. There may, therfore, be some very important long-term sociological effects on the local community and its development.

Summary

Recreational subdivision development has been an important influence on the rural scene in the U.S. and Texas for the last 10 to 15 years. Significant amounts of land have been converted from agricultural, forest and other extensive uses to residential, speculative or other intensive uses. Although residential use of some kind seems implied when land is subdivided, only a small percentage of lots in recreational subdivisions are so utilized. Some areas, however, do have a high build-out rate and a significant population of both part-time and full-time residents who use their properties in these locations.

The presence of the subdivisions have many effects -- some potential, others already manifest -- on the original local population and land area. The most important conditioning factor on the effects of subdivision development is location -- proximity to large population centers. A particular subdivision may have a greater effect on the local area if the developer makes it attractive enough for higher than usual usage by the lot owners. Thus, there are examples of subdivisions which, despite being far distant from a major population center, still may have a greater effect on the surrounding local area than those which are closer in.

Discussion of effects of recreational subdivisions was grouped into five major classifications: rising land values, changing land uses, rising property tax base, increased demand for public and private services, and a changing population mix. It was noted that these effects have different manifestations in any given local area. The purpose of this paper was to suggest areas of interest for local planners and officials and to identify subjects which may lend themselves to further, more detailed research in specific locations.

Land value effects were postulated to be influenced strongly by two locational factors: distance (in terms of time and transportation costs) from the nearest large urban population center and distance from the recreational and/or scenic attraction. The closer to either one, the higher would be the land values. Higher land values may result in land use changes even before land is converted to subdivision uses due to financial characteristics of the farmers in close proximity to the scenic or recreational attraction.

Closely related to the land values are the ad valorem taxes levied against

the owners of land. While it is not completely clear whether increased taxes accelerate land use changes, it can at least be said that they coincide with them. As land uses change and land values increase, however, local taxing authorities experience an increasing property tax base and can expect higher revenues.

Concurrent with increasing tax revenues, however, may be an increase in demand for public services. Road maintenance and additional school children are the biggest potential drain on local taxing authorities. Whether the additional costs will exceed the additional revenues depends mostly on the number of lot owners who build residences for primary home use and the efficiency of the taxing jurisdiction to discover, assess and tax the value added by the recreational improvements.

Demands for private services are also likely to increase when residences are built in subdivisions, creating economic opportunities for the original local population. New residents may, however, be in competition with local farmers and merchants for credit from local lending institutions. New residents will also be in competition for a given amount of available services which, to the extent that adjustments can't be made in the short run, may cause the entire area's cost of living to escalate.

Increased residential use of subdivisions will also change the population mix of local communities. Demographic characteristics of new residents may be different as well as political and social expectations. This has obvious significance for representation by elected officials. Exposure to the relative affluence of these newcomers may have undetermined but significant sociological

impact on the original population.

Implications

Probably the effect that causes the most public concern among farmers and the remainder of the rural community is the rising taxes associated with the increases in land values. Whether farmers are prematurely forced to sell their land because of increased taxes or not, the fact that the two events often coincide is worthy of considerable attention. Proponents of land use measures often cite disappearing farmland due to high taxes as a justification for one measure or another. It seems logical that causality should be more firmly established before programs are initiated. If land is being sold before it is ready for development for reasons other than the high taxes (because of additional wealth for instance), then efforts to defer or relieve taxation on agricultural land wouldn't have much effect on land use changes.

School officials in districts with recreational subdivisions need to remain knowledgeable of the age composition of the new permanent population in these areas to be prepared for additional school enrollments. Timely reappraisal of property assessments within these subdivisions can help to offset the costs of additional students. The same holds true for other local government services as well. Before accepting dedicated property, county officials should carefully budget the expected additional costs and balance them against additional revenues.

Although recreational subdivision development in rural areas has many effects on the local community, the effects needn't necessarily be entirely negative or disruptive. By knowing the potential changes which can occur, by

planning for them and taking advantage of them, even directing and guiding them in some instances, members of the local community can do much to turn events to their advantage and can at least minimize some of the potential pitfalls of extensive subdivision development.

Footnotes

1/ Title XIV of Public Law 90-448, 82 Stat. 590, 15 U.S.C. 1701. The Act was substantively revised effective December 1,1973. See Federal Register, Vol. 38, Number 170, Part II, September 4, 1974.

2/ Only one of the major Texas lakes (Caddo Lake) is a "natural" lake. The remainder are man-made.

References

Brown, Richard N., "Economic Impact of Second Home Communities: A Case Study of Lake Latonka, Pennsylvania," U.S. Department of Agriculture, Economic Research Service, ERS-452, November 1970.

Hady, Thomas F. and Ann Gordon Sibold, "State Programs for the Differential Assessment of Farm and Open Space Land," United States Department of Agriculture, Economic Research Service, Agricultural Economic Report No. 256, April 1974.

Levi, Donald R., "Real Estate Syndication," Texas Real Estate Research Center, RealEstateMent, Technical Series Vol. 3, No. 1, 1975.

Paulson, Morton C., The Great Land Hustle, Henry Regnery Co., Chicago, Illinois, 1972.

Ragatz, Richard L., "Recreational Properties: An Analysis of the Markets for Privately Owned Recreational Lots and Leisure Homes," Richard L. Ragatz Associates, Inc., Eugene, Oregon, May 1974.

Reiss, Franklin Y., "Taxation Land Use Relationships," Illinois Agricultural Economics, Department of Agricultural Economics, University of Illinois, Agricultural Experiment Station, 15:1, 1975.

Tillson, Gregory D., Russell C. Youmans and Marion D. Thomas, "Local Tax Impact of Recreational Subdivisions: A Case Study," Oregon State University Extension Service, Special Report 365, July 1972.

Woodruff, Archibald M., "Recycling Urban Land," The Good Earth of America, Planning Our Land Use, Ed. by C. Lowell Harriss, The American Assembly, Columbia University, Prentice-Hall, Inc., Englewood Cliffs, N.Y., 1974.