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Investing in Land

It is sometimes surprising how the unexpected juxtaposition of events makes you think about things that you otherwise might ignore. The other day I was talking to a good friend of mine who’s in the land business. He buys, sells, and manages timberland mostly, and has done fairly well over the years. He was bemoaning the fact that business is off generally, presumably a spillover from the sharp downturn in the housing and credit markets. “I can’t really understand it,” he said. “There’re some real bargains out there, but no one’s buying.”

As things happen, I ran into another friend later the same day. The last time we’d talked—probably six or eight months before—he’d been scurrying about making preparations to quit his job and retire in the next year or two. He was anticipating a life of ease on the proceeds of his IRAs and 401-Ks. He said, “You know, I just took a hard look at my portfolio. I realized that I’m about where I was ten years ago. These financial advisors..., all the projections they make about how much I’m going to have when I retire. I just don’t know...”

I asked him if he’d ever considered investing in other things, like land. He said that he’d never thought about it. To him, having grown up in the city, land or timber or whatever I was suggesting was something he just didn’t understand. In response, I asked him if he *really* understood the investments that his brokers had bought for him over the years. After a moment of thoughtful reflection, he quietly said, “No,” and we talked.

I’m not a financial advisor, and never will be. I don’t pretend to know the secrets of successful investment, and wouldn’t dare tell someone how to spend their money. But I do like land. Perhaps it’s because I grew up in a family that always had a few acres where we raised cattle or timber. Over the years, I’ve bought and sold a few tracts, but mostly I’ve bought to hold for the long term. I’ve discovered that land is one of the few investments that is both profitable and fun to own. Let me tell you why I like land, especially timberland.

First, most of us who plan to retire at some point in the future need to make long-term investments to fund our non-working years. The stock market has its ups and downs. While historically it's followed an upward trend, the *Wall Street Journal* recently referred to the last ten years as the "Lost Decade," noting that the market is "trading right where it was nine years ago. Stocks, long touted as the best investment for the long term, have been one of the worst investments over the nine year period...." According to *USA Today*, \$1,000 invested on April 1, 2007 in stocks that track the S&P 500 would be worth \$951 at the end of March 2008. As a general statement, the value of land—especially timberland—does not follow the stock market. This is important for diversification of assets. According to the US Department of Agriculture, farm real estate in Georgia more than doubled in value between 2003 and 2007.

Second, productive land under current regulations is a tax-favored investment. Provided that it is held for an appropriate waiting period, profits on selling are taxed at a reduced capital gains rate. In fact, in many cases land that has increased in value can be exchanged tax-free for other similar assets under IRS Code Section 1031. While subject to property taxes, Georgia, like many other states, offers marked reductions in tax rates if the land is dedicated to agricultural or related uses including timber production. And property taxes are levied on the base value of the land itself, not the value of the growing timber (which is taxed only once at the time of harvest). One writer referred to investment in timberland as "the ultimate zero-coupon bond."

Thirdly, while offering long-term growth in value, productive land can produce reasonably good current income. For example, pine timberland produces substantial income every few years from periodic thinnings. There is the potential for the sale of pine straw, and income to be had from leasing the property to hunters. While the major payouts come with final sale of the mature timber and/or the sale of the land, the cash flow is usually more than enough to cover property taxes, insurance and any routine maintenance costs.

Finally, it's possible to find some good deals, especially now. Unlike the equities market, most land transactions are private sales. The price that one pays is the price the seller is willing to accept. Finding a bargain is not easy, to be sure, but they're out there. In my personal experience I've found that when I'm in the market to buy I'll look at 30 to 40 tracts before I find just the right one.

Land investments are not for everyone. They generally tend to be intermediate to longer term investments with a minimum ownership period of 5 to 10 years. There are significant downsides. Real estate of any sort is relatively illiquid, and may be on the market for months before it sells. If you're growing timber, prices fluctuate and the ability to choose the timing of your sale is important to realize maximum gains. There are risks of natural disasters such as hurricanes, fires and infestations of beetles that can kill growing trees. Generally speaking though, land investments are a very good way to diversify one's portfolio while yielding returns that over the past few decades have equaled or exceeded those in the stock market.

"But forget all that," I said to my friend. "Does your IRA have a lake in the middle of it, or a cabin in the woods where you can put up your feet and watch the sun set? Can you hear the sounds of birds or the soft whisper of the wind through the pine needles if you hold your monthly statement close to your ear?"

It's something to think about.

About the Author: William Rawlings is an author who lives in Sandersville, Georgia, located "about halfway between the Ogeechee and Oconee Rivers." Visit his website at www.williamrawlings.com