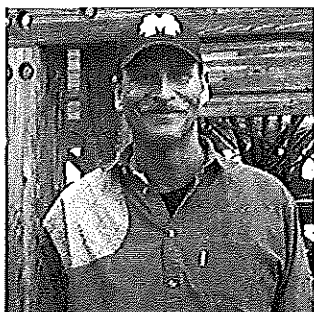


# TIPS FOR BUYING TIMBERLAND

By Steve Butler



Owning timberland can be one of the best investment decisions you can make. Not only can timberland investments earn attractive returns, they offer untold opportunities for family fun and involvement. The National Council of Real Estate Investment Fiduciaries (NCREIF)

has tracked timberland returns earned by institutional investors since 1978. For the past ten years (ending 12/31/13), NCREIF reports average annual returns of 8.63 percent. This outperforms most other classes of investments.

Returns from timber come from three primary sources: biological growth, product shifts, and timber price appreciation.

Biological growth makes up 61 percent of returns. It is independent of all other factors and is highly predictable. A well-managed forest can experience average growth rates of seven percent annually over the life of a rotation.

Product shifts also produce significant returns. When a pine tree shifts product classes from pulpwood to chip-n-saw to sawtimber, the value of a cubic foot of wood often doubles with each product shift. Assume you buy a 15-year-old pine plantation containing pulpwood and hold it five years. You not only earn growth rates of seven percent annually, but the value of the tree doubles when it grows into chip-n-saw from pulpwood.

Over the past 100 years, timber prices have outpaced inflation by one to three percent. While this trend has not been seen over the past decade, take solace knowing that 100-year trends will likely continue, even though there may be some dips and spikes along the way. With an ever increasing population and a fixed amount of land to provide food and fiber, demand for forest products should continue

to drive historical price trends. It is a safe assumption that timber prices, at the very least, will continue to keep pace with inflation.

Speaking of inflation, land has long been considered a hedge against inflation. In recent years, it seems that land prices have "sky rocketed," leading some to think that land now outpaces inflation. An analysis of historical values for farm real estate dispels that notion. The USDA National Agricultural Statistical Service publishes average values for farmland each year. For the period 1913 to 2010, US land values increased at 2.41 percent annually compared to an inflation rate of 3.24 percent for the same period. From 1980 to 2010, Mississippi land values increased at 3.36 percent annually compared to an inflation rate of 3.22 percent. It seems safe to assume that the underlying value of bareland will continue to appreciate at or around the inflation rate. This actually acts as a drag on the investment return, as the land value component often makes up about half of the investment. If half of your investment is only keeping up with inflation, it is a real testament to the earning power of a well-managed forest, since timber investments outperform most other investment vehicles.

Timberland investments also offer intangible (not to mention tax free) benefits to owners who enjoy the outdoors. Activities such as hunting, camping, hiking, four-wheeler riding, etc. offer fun and memories for a lifetime.



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So...how do you get started,  
and what factors should you consider?

### TRACT SIZE

There are economies of size that should be considered when buying timberland. A 10-acre tract is much less efficient than a 100-acre tract. You will have a difficult time attracting timber buyers to harvest timber on a 10-acre tract. Loggers cannot afford to spend two days moving equipment to harvest a tract that will only take one day to cut. If 10 acres are all you can afford, then buy it, but don't expect to earn the types of financial returned cited above. As a minimum, consider a purchase of 40 acres or more. That is large enough to attract most timber buyers, site prep vendors, etc. And, you don't need to buy 1,000 acres to have an efficient tract. Research indicates that once you reach a tract size of about 300 acres, no more significant economies of size are realized.

### SPECIES

In Mississippi, most institutional investors invest in loblolly pine plantations. Typically, planted stands substantially outperform natural stands.

On most soils, an optimal pine rotation length is between 25 to 35 years. Hardwoods require much longer rotations, on the order of 60 to 80 years.

Two to three crops of pine can be grown in the same period as one rotation of hardwoods. However, natural stands and hardwood stands do offer other benefits, such as aesthetics and biological diversity. If other goals outweigh the objective of maximizing financial returns, then purchase a tract to meet your objectives. If you choose to invest in hardwoods, you should hire a competent forester to examine the forest before you buy. All hardwoods are not the same. To make the most money growing hardwoods, you need to make sure the existing forest has trees of the right species and quality to develop into a valuable stand. Many hardwood tracts are for sale that may look "pretty," but most of the desirable trees have been cut in the past, leaving a hard-to-manage forest of "junk" trees.

### SITE INDEX

The productive potential of soil types is measured by a term called site index. A loblolly pine site index of 90 at base age 50 means that the average loblolly pine tree will grow to a height of 90 feet in 50 years. Site index data is also published for hardwoods, if the soil is suitable for hardwoods. Most soils in Mississippi are not well suited for growing quality hardwoods, except for sites along rivers and streams, the Mississippi Delta, or the loessial bluff region. Site index data can be obtained online from the USDA Web Soil Survey ([websoilsurvey.sc.egov.usda.gov](http://websoilsurvey.sc.egov.usda.gov)).

For loblolly pine, the site index (base *continued on pg. 28*)



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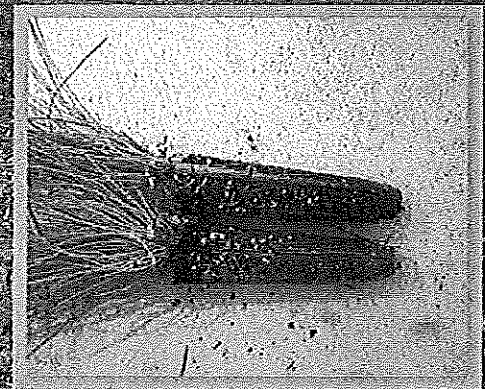
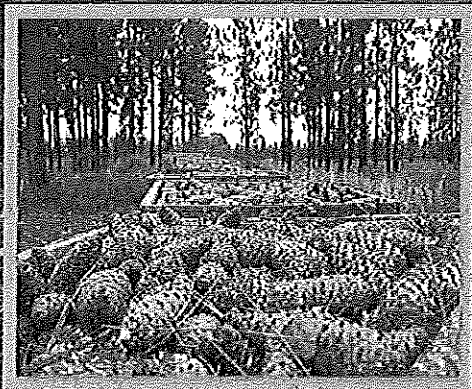
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*Tips for Buying Timberland continued from pg. 8*

age 50) should be at least 80, with 90 or higher preferred. For hardwoods, the site index should be 90 or better for your preferred species if the objective is to grow quality hardwood sawtimber.

#### ACCESS

Avoid tracts that do not have good access. Some tracts do not front public roads or have legal road easements across adjacent owners. These tracts are called "land locked." If a tract does not have legal access, it can be difficult to get to, especially if your neighbor is unwilling to grant access. If the tract has a recorded easement, does it provide access only, or will it allow you to run water lines and electricity to your future cabin? Mississippi provides a legal remedy to sue adjacent neighbors for access, but it is not easy, and it is not cheap. Plus, the route the court awards you may not be the route you prefer.

Even if your prospective purchase fronts a public road, look for low-weight bridges between your tract and the nearest state highway. If the county bridge will not handle an 80,000 pound log truck, that road may restrict logging.

#### MINERALS

The mineral interest in your prospective purchase may have been sold off in the past and no longer belongs to the surface owner. Mississippi law gives preference to the mineral owner. If you don't own all of the minerals, you cannot stop the mineral owner from doing seismic testing or even drilling a well in the middle of your tree farm. When buying a property, try to obtain at least some of the mineral rights, if available. That way you won't be singing Jerry Reed's divorce song, "She Got the Gold Mine, I Got the Shaft."

#### VALUES

Timber values vary greatly. One tract may look similar to another, when in reality one forest may be worth \$700 per acre and another \$2,500 per acre. That is why foresters perform timber inventories. Even most foresters can't "eyeball" a forest and accurately estimate its value. Sometimes the seller may provide you with his forester's cruise, but buyer beware. Before buying any timberland investment, consider hiring a forester to perform a timber inventory on your behalf. Not only will your forester estimate the timber value, he can also advise you on the investment potential of the tract. When submitting an offer to buy a tract, add a clause in

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the contract making the sale contingent on your getting an acceptable report from your forester. It is much better to pay a little up front for an inventory than to pay too much for a tract – or even worse – to buy a tract with poor soils and/or poor quality timber.

In summary, there are many factors to consider when buying your timberland investment. Having a good forester on your team can go a long way in helping you identify a property that meets your goals and is priced fairly.

Steve Butler is president of TimberCorp, Inc., a real estate broker with Timberland Sales, LLC, a Registered Forester, and a Certified General Real Estate Appraiser. He served as MFA president in 2000, chaired the Mississippi Forestry Foundation from 1999 to 2003, and has served for many years on MFA's board of directors. ♦



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### *Becoming a Beekeeper in MS continued from pg. 16*

colonies for winter, ensuring that the bees will not starve to death before the flowers begin to bloom again in the following spring. Good beekeepers learn how to protect their bees from the weather and how to locate their hives to get the most nutrition from the landscape. Most importantly, good beekeepers learn how to effectively manage diseases and parasites that threaten their colonies. All of this knowledge comes with time and enduring some failures.

A new beekeeper can expect to lose colonies from some kind of mismanagement. The key is to learn from your mistakes and keep trying. It sometimes takes years to muddle through all of the problems, but you will become a better beekeeper with experience. I have kept bees for more than 40 years, and I still lose colonies. Usually, this occurs when I get too busy and do not give adequate attention to my bees. In short, beekeeping is an interactive venture:

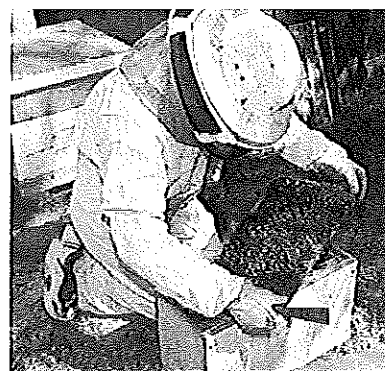
The best beekeepers are those that understand that keeping a hive of bees requires dedication and attention to details of the hive's condition.

It sounds like a lot of work, and it is. However, the benefits are astounding. I could rattle off the benefits of honey bees to U.S. agriculture (more than \$19 billion value from honey bee pollination of our crops), but the pure joy of opening a bee colony and being in their midst is beyond words. The experience has many textures. The bees smell good, especially when on a honey flow. I opened a colony the other day to the wonderful smell of grape. I am not sure what flowers the bees were visiting (my co-worker thought it was probably kudzu flowers), but the perfumed odor of grape mixed with the smell of bees was pleasant. Of course, the taste of the honey is something good that most of us understand. There is also the warmth of the broodnest where the baby bees are raised. You can feel the warmth by placing

your hands just above the combs. Then there are the sounds – so many thousands of bees buzzing as they fly in and out of the hive. Additionally, there is something magical about working with an animal that can hurt you with stings when you make mistakes. The trick is to keep your mistakes to a minimum. Good beekeepers learn how to do this with persistence and precious time.

Please feel free to consult me with your beekeeping issues and concerns. My office phone is (662) 325-2976, and my email is [JHarris@ext.msstate.edu](mailto:JHarris@ext.msstate.edu). I am currently developing my beekeeping website that will be available through MSUCares and the MSU Extension Service. Until I can post things to this website, I can supply lists of contacts for all of the beekeeping clubs in Mississippi and the MBA, suppliers of queens and bees available from Mississippi, beekeeping supply companies from throughout the U.S., and pamphlets about how to start in beekeeping. Send me an email, and I will respond with the desired information. ♦

*Local Beekeeping Associations of Mississippi on page 30.*





# SPRING 2014 Tree Talk

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Cover photo courtesy of  
Mississippi State University.  
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