

## Kingwood Celebrates 40 Years!



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**WELCOME back to  
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newsletter.**

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Kingwood staff and families gathered in Little Rock in May to celebrate 40 years of service to our clients! We gathered at Cypress Social for dinner and an evening of celebration and fellowship. Retired founders Jim Foster and Pete Prutzman addressed everyone with a short history lesson on Kingwood, kind words to all the staff, and words of encouragement and congratulations.

Jim Foster shared a quote from an original Kingwood founding document. He read: “The purpose of Kingwood Forestry is to provide the opportunity for profitable and enjoyable careers for its staff and to create an environment that will allow each person on the staff to achieve personal goals and a high level of professional development.” For years, our Kingwood Vision has been “Personalized Service...Innovative Solutions...Enjoyable Careers”. We want our people to enjoy what they do and be thankful for a company that values them.

Pete Prutzman shared how proud he was of Kingwood for not just thinking about the next quarter, but the next quarter century, as well as for encouraging the professional development of our staff. He also shared, “In May 1983, Kingwood was a very different company than we are today. There were no computers, cell phones, no GPS, and no GIS. We would physically visit courthouses for ownership records and visit ASCS offices to look at black & white aerial photos. We began as a contracting company and with hard work, dedication, support of our families and clients, and some good luck, we evolved into a purely professional services company by 1998.”

Carl Herberg expressed sincere thanks to all employees for the level of personal and professional commitment towards Kingwood. Our employee actions underscore the sentiment that Kingwood is “we” not “they”. Carl also gave a special thanks to the wives of the present and retired owners: Wendy Herberg, Jamie McAlpine, Brittany Wright, Judy Foster, and Linda Prutzman. “Without their support,” he said, “there would be no Kingwood.” Thanks again, ladies. You are a class act!

In 1983, Kingwood began with six full-time staff and two offices. Today, we have twenty staff, three offices, and manage over a billion dollars of timberland. We have client relationships dating back to the 1960’s and have several clients who we have worked with for three or more generations. We transitioned from contracting services such as tree injecting, herbicide spraying and tree planting to our three core professional services today: Timberland Management, Real Estate Brokerage and Appraisal Services. The ownership of Kingwood has successfully transitioned completely, indicating the longevity of Kingwood, as our logo implies. To all our clients, timber buyers, contractors, and mills: We sincerely thank you for your continued support and loyalty. We treasure our relationships with each of you and look forward to many more years to come as we all work together to be successful!

# Market News

## Timber Markets

For those who were able to take advantage of strong pine log markets in the first part of 2023, you realized what our previous Market News indicated: that even with all the gloom and doom in the media, it was still a good time to sell timber. While signs point to a softening in log markets nationwide, we continue to see a good demand for quality pine logs. New construction and housing starts have begun to slow down or level off, mostly resulting from higher interest rates that began ticking up in mid-2022. As of this writing, 30-year fixed mortgage rates are over 8%. Housing starts have fluctuated slightly but seem to have balanced out near the 1.4 million/year range. One change we've observed is that paper mills appear to have eliminated zone pricing. Simply put, mills used to pay more for wood farther away through "zone pricing" to offset the higher transportation costs. However, the oversupply of pulpwood has mostly diminished that opportunity for landowners. This means timber farther from a paper mill is worth less. In many of our market areas, selling first thinnings with pine pulpwood will continue to present challenges. Significant declines in pulpwood product orders occurred this summer from recognizable names like McDonald's, Amazon, Starbucks, Kimberly Clark, and Proctor & Gamble. This is the single largest shift in demand for pine pulpwood Kingwood has seen in the past 25 years. To offset delayed thinnings, Kingwood is revising thinning and planting practices to incorporate these market changes into our timber management. The relationship between timber management and markets is a fluid one, so as always, consult with your Kingwood Forester about the best course of action for your timber and timberland.



## After the Storm

Tornadoes and other severe storms have always been a risk to timber ownership. Unfortunately, there is no affordable insurance program for timberland owners of less than 100,000 acres. So, when timber damage occurs, owners are often left with three options; do nothing, salvage the timber, or take a loss. As much as we hate to see timber go to waste, in many cases, there isn't enough damaged timber to justify a salvage operation. If that's the case, is there any mechanism to lessen the financial blow from lost timber? Fortunately, there is. Kingwood has performed numerous timber damage appraisals for clients. These damage appraisals are used by accountants to compute a loss on federal taxes. Here is what CPA Belinda Baker with Grier Reeves and Lawley, PC in Texarkana tells us about timber loss: "Casualty loss amounts are the lesser of the adjusted basis of the property or the decrease in Fair Market Value (FMV) comparing before and after the event.

**Example:** XYZ Company owns timberland with a \$30,000 adjusted basis in timber. The property is struck by a tornado leaving much of the timber severely damaged. XYZ Company is reimbursed \$4,000 from their insurance provider. Kingwood assesses that the FMV of the timber has dropped from \$70,000 before the tornado to \$50,000 afterwards for a \$20,000 decrease in FMV.

1. Adjusted Basis Prior to Tornado	\$30,000
2. Decrease in Fair Market Value	\$20,000
3. Amount of Loss (Lesser of Line 1 or 2)	\$20,000
4. Less Insurance Reimbursement	\$0
5. Loss Reported (Line 3 Minus Line 4)	\$20,000



## ***AFTER THE STORM cont.***

For property treated as personal, the casualty loss deduction has been suspended through 2026 unless it is part of a federally declared disaster area.

**Example:** Mr. Green owns 40 acres of land (not in a federally declared disaster area) that suffers from storm damage. Mr. Green holds the property for personal enjoyment as it is used exclusively for recreational hunting. The loss is nondeductible.

For property treated as investment, the casualty loss is reported as an itemized deduction on Schedule A. This would only be a benefit if itemized deductions are more than the standard deduction.

**Example:** Mrs. Johnson owns 800 acres of timberland that suffers from storm damage. Mrs. Johnson holds the property primarily for timber revenue and property appreciation. The loss is deductible as another itemized deduction.

For property treated as business, the casualty loss is reported as an ordinary loss on Form 4797.

**Example:** XYZ Company owns timberland for the purpose of generating a profit and forestry activities are conducted in a business-like manner. The \$20,000 loss computed above is deductible as an ordinary loss.”

The Disaster Reforestation Act (DRA) has received bipartisan support in U.S. Congress and will provide much-needed relief for owners who sustain casualty losses greatly exceeding their basis. The Forest Landowners Association has formulated this legislation and it is hoped that DRA will be included in the upcoming Farm Bill. Kingwood’s Pete Prutzman (retired) is a long-time Board member of the Forest Landowners Association.



More information on DRA (HR655 & S217) is on [www.forestlandowners.com](http://www.forestlandowners.com).

If you have any further questions about casualty losses, be sure to contact an accountant knowledgeable about timberland or contact Kingwood for a referral.

## **S T A F F N E W S**

**Phil Wright** is our newest Certified General Appraiser (Arkansas) after recently passing an arduous test and compiling over 3,000 hours of experience. The CG designation is the highest level of appraisal certification and requires a five-year process, at minimum. Please congratulate Phil on obtaining this certification. We are extremely proud of him.

**David Stanton** is our newest real estate agent in Texas. He recently passed the state and national exams to accomplish this, and he will help service real estate clients in Texas under broker Carl Herberg.

**Carl Herberg** coordinated the third meeting of the Texas Leaders Emerging Across Forestry (LEAF) sponsored by the Texas Forestry Association, Rob Hughes, Executive Director. Attendees heard about carbon credit programs, toured the West Fraser mill in Jefferson, Texas, were introduced to private forestry consulting, visited an active logging job and toured the Graphic Packaging mill in Domino, Texas.

Arkansas Forestry Commissioners **John McAlpine** and **Pete Prutzman**, and ACF Chapter Chair **Phil Wright** have been appointed to a committee that oversees forestry registration in Arkansas.



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### *Up Close & Personal*

David Stanton graduated from Southern Illinois University-Carbondale with a Bachelor of Science in Forestry-Wildlife Habitat Management and Conservation in 2020. He joined Kingwood's Texarkana staff in August 2021 as a full-time forester. His primary focus is working with our institutional clients for timber management but will be taking on more private land responsibility in the coming years. He is a United States Army veteran and served from 2013 to 2017. He was stationed in Qatar where he worked in Operation Enduring Freedom and Freedom's Sentinel. After the Army, he obtained his forestry degree and gained experience working all over the Eastern and Southern United States on inventory projects. If you haven't met David yet, drop by the Texarkana office for a visit or give him a call.



Don't forget to check us out online at [www.kingwoodforestry.com](http://www.kingwoodforestry.com)