

PURPOSE: To compare forestry investments with similar investments and provide information on price trends.

Forestry investments in Alabama and throughout the southeastern United States have been and should continue to be a profitable investment for years to come. Often, people do not fully understand forestry investments and prefer to invest elsewhere. Although most forestry investments are long-term, they typically yield an 8% to 16% return. Return on other investments may be considerably higher but the chance of loss is greater.

QUALITY OF LAND: The main component of a forestry investment is land. The quality of the bare land determines the type and amount of timber that can be grown, and how long it will take to grow it. In short, if you pay a premium price for low quality land, you will never realize the investment potential you may desire. Determine what the land is worth and what price you are willing to invest to conclude your exposure to risk.



LOCATION OF LAND: Location, location. Location is important in forestry investments as well as other real estate investments. The Internal Revenue Service views bare land and the timber growing there as two separate entities of real estate. In order to make a profit on your investment, understand that land and timber are no different from any other commodity and are subject to supply and demand.

Land is a given, there is no more being made, so its price will be dictated by the economy and demand. Pay what the land is worth for your individual motives and economic situation. You cannot grow timber and make a profit on just the timber if you buy \$10,000 per acre real estate zoned for commercial use. In general, most land will appreciate over time and a profit can be made.

TIMBER PRODUCTS: Timber resources are subject to market conditions on a worldwide scale as well as local. The type of timber used by local markets will determine if you sell yours and how much you will be paid. For an idea of the value of your stumpage, and to see updated charts of historic and current Alabama timber prices, please visit the TimberMart-South website at <http://www.timbermart-south.com/alprices.html> . A variety of products may be grown on a tract of land over time. The smallest and cheapest product to be grown is pulpwood; you will not get rich growing pulpwood. However, steady demand has remained over time. Although it takes longer to grow and was once considered worthless, hardwood pulpwood has held its own in the marketplace, wavering only to the seasonal and yearly cyclic markets.

The ultimate goal of any timber investor should be to grow the sawtimber category of product. For pine this usually takes 35 years minimum and for hardwood 65 years minimum. Value for sawtimber stumpage is strongly related to demand for new housing. In periods of weak housing demand, expect sawtimber stumpage prices to fall, before recovering with a recovery in the housing market.

SUPPLY AND DEMAND: Timber is a commodity subject to supply and demand. If you buy a tract of land with established timber, you will have to pay today's price for each product. If the price of timber goes down after you purchase it, you will have to watch the market for the next cycle increase if liquidation is immediate. This is a long-term investment. Just as you use a stockbroker for stock investments and advice, use a registered forester for advice on your timber investments.

TAX TREATMENTS: Tax treatments for Alabama timber investors are currently favorable. Ad valorem taxes are low due to the current use statute in Alabama. There is pressure to amend this statute, which may not be as favorable in the future. Some southern states have a reforestation tax credit; Alabama does not. An investor can take advantage of some federal statutes favorable to Alabama timber investors:

- 1) Capital gains treatment of timber sale income
- 2) Reforestation tax credit and amortization
- 3) Management costs may be deducted

To take full advantage of your investment, **KEEP GOOD RECORDS.**

DEFINITION:

- Land Basis** Price paid for bare land or fair market value of inherited land.
- Timber Basis** Price paid for standing timber at purchase or cost of establishing the timber.
- Delivered Price** Price timber buyer receives for a load of wood delivered to a given market.
- Logging Price** Price logger gets for delivering the load of wood.
- Stumpage Price** Sum left after logging price and other fees are deducted from the delivered price. The landowner receives this price.



This information is provided by the Alabama Forestry Commission
For more information please visit: www.forestry.alabama.gov