#77 FOR IMMEDIATE RELEASE: March 26, 2010

How does a buyer protect against the future in a land investment?
By Curtis Seltzer

Some portion of successful land investing involves having future conditions work out more or less in your favor. By "conditions," I'm referring broadly to demographic and macro-economic realities, such as population and income growth, inflation, interest rates, credit availability, employment and systemic financial stability.

An individual investor can't do anything to shape either how or when favorable conditions emerge. Land investments can't be hedged in the way stocks and commodities can.

It's hard to know how to price risks like these into a land-investment decision. My guess is that most individual and small investors who are planning to hold and sell eventually just assume that favorable exit conditions will emerge at some future point. That's a defensible timing strategy, which has worked historically. Institutional investors probably follow this path more than they'd like to admit.

When I was involved years ago with economic and energy forecasting, a common approach was to develop three scenarios over some future time period: a high-growth case, mid-growth case, low-growth case. I can't remember when we ever developed a long-term losing-ground case that projected a sustained decline in something like GDP growth, energy usage or population. It was assumed that dips and recessions would work out and the long-term trend was up. That kind of confidence may no longer be warranted. Conditions have changed, because the underlying economic ground rules have changed.

These exercises were not forecasts in the sense of predictions. They estimated consequences of different future macro-realities without betting on one over all the others. They were also good for showing how a key variable, say various prices of oil, would drive various future scenarios.

Long-term forecasting is neither art nor science. It's mostly reasoned guessing. I think, in the main, it's not really possible to predict much about the future conditions beyond five or 10 years. Projections that extrapolate from current conditions are useful, but they're not predictive. And most efforts rarely anticipate the out-of-the-blue events and the extreme conditions -- such as market crashes, interest rates at 20 percent or the subprime mortgage mess -- that always seem to happen.

Land investors should spend time thinking about how land they own or are thinking of acquiring might be affected by a sustained reversal in what the land has traditionally produced or its likely market at sale time. If, for example, you're thinking about buying a loblolly pine plantation, it's worth evaluating the local long-term market for timber of that type. Is there a local competitive market for pine? Is the biggest mill likely to be shut down? What are the demand trends for the pine-based products local mills produce? Are there alternative uses for pine in the offing? If pine goes into surplus and stumpage prices fall, how will that affect your investment?

The forecasting needed for small land investments is local. A 10-year horizon is about as much as we are reasonably able to project. A land investor should bring to this pre-purchase exercise the following ideas:

Apply conservative assumptions to factors like future trends prices for stumpage and raw bare land. Conservative projections will protect you; optimistic one will expose your investment.

Look for land that is adaptable to different uses. This can be a pine plantation that is capable of providing timber for several different end uses—pulp, saw, biomass feedstock, etc. One parcel of land can also present different opportunities for making an investment work—open land for crops or pasture; development lots; timber; mineral development, conservation easement, and so on.

Contain risk by containing the term of the investment. I think 10 years for an investment that is scheduled to be sold or exchanged is at the far end of my comfort zone. Right now, I think few land investments should be approached as a flip. Three to five years is where I would concentrate

projections.

Develop an exit plan before purchasing. Exit plans can change, and often need to be changed. But they should be changed to take advantage of an opportunity, not as a scramble to avoid disaster.

Add time to your planning. It's hard to get things done within tight time frames. Sometimes "conditions" begin running against your schedule. Don't force sales of timber and land parcels into down markets. Your investment plan should give you some flexibility to adapt to things as they are in the future.

Buy low. Buying low in relation to the land's intrinsic value (which admittedly is always a little tricky to determine) protects the investor against future downturns. You don't need to sell high if you buy low.

Curtis Seltzer is a land consultant who works with buyers and helps sellers with marketing plans. He is author of How To Be a DIRT-SMART Buyer of Country Property at www.curtis-seltzer.com where his weekly columns are posted.

Contact: Curtis Seltzer, Ph.D.
Land Consultant
1467 Wimer Mountain Road
Blue Grass, VA 24413-2307
540-474-3297
curtisseltzer@htcnet.org
www.curtis-seltzer.com