Land Remains a Foundation of Wealth
By Curtis Seltzer
Creative Real Estate Magazine, January, 2008.

It used to be with land that you made money in one of two ways, and sometimes in combination.

First, you could buy a large tract wholesale where the price per acre was lower the more you bought. Then you cut it up and sold it retail at a much higher per-acre price. This was pushcart capitalism: buy a square yard of white cloth for $1, divide it into nine equal pieces, and sell them as handkerchiefs for two bits each. Zoning in rural counties was not a factor back then, or not much of one. You put in as little infrastructure as possible and flipped it as fast as you could.

The other way was to find a property whose merchantable timber covered the acquisition cost, or more. Often the seller was a farmer who had finally given up trying to beat out a living from marginal land. Some "timber pickers" read the obituaries in rural newspapers, looking for widows. You waved cash under the owner's nose, sold the timber as soon as you took possession and got much, if not all, of the land for free.

The old wheeler-dealers always looked for "steals," not investments. Several have described themselves to me unapologetically as "thieves." They took pride in their work. A long-dead anarchist once observed: "Property is theft." Many fortunes confirm this. Unfortunately. Times have changed.

Adding 100 million to America's population during the last 50 years has driven up the price of rural land within a four-hour drive of our big cities. None of it is dirt-cheap anymore…and rural sellers are smarter about their property's worth.

Urban/suburban Baby Boomers are behind the appreciation of country property.

About four million Boomers own vacation homes. And we also own farms (hobby ones and real ones), undeveloped land, conservation property, woods, investment land and second homes not classified as vacation property.

Demand for land within a reasonable drive of Big City affixed the label, Higher and Better Use (HBU), to much country property and re-priced it using the multiplication key.
HBU for outlying farms and timberland is often defined as a 20-acre "ette" (farm or ranch, depending on location). A lot of farmers with 50 years of honest manure on their boots now figure their pension plans will roll up from the City in a Volvo bearing a bumper-sticker, "Save the Groundhogs," ready to buy an ette.

And so it's not uncommon to find HBU-priced farmland too valuable for farming, and HBU-priced timberland too expensive to keep producing timber. HBU revaluations have raised seller expectations and have forced the "etting" of rural America.
It followed that the per-acre asking price on big investment tracts is now less discounted because of size, which has narrowed the divide-and-flip investor's profit opportunity. The pushcart peddler can sell his nine handkerchiefs for $2 each, but he now has to pay $15 for the starting square.

And smaller timber tracts—fewer than 1,500 acres, say--now rarely sell for less than their merchantable timber value.

What's a land investor to do?

First--whine and complain, both of which are free. The old days were easier.

Second, get smart and adapt. The difference between making money today as a land investor and making money as a land thief is complexity. Profit now comes to those who know both how to do the more complicated research deals involve and embrace the more complicated ways of making a profit.

Researching a land deal before making an offer lays out the knowledge base on which profit is built. Pre-offer research strips risk out of taking risk. It sets out your plan for making money, which now usually involves stepping through a number of “profit centers.” Pre-offer planning evaluates profit centers in uses such as these:

First-year cash potential, generated from:

• sale of severable (but marginal) assets, such as unwanted land, merchantable timber, minerals and unwanted improvement/facilities/equipment

• sale of future interest in crops, timber or land sale

• sale of conservation easement, other easements

Annual income potential, generated from sale of products from for-profit business, such as farming, wild items (nuts, berries, mushrooms), firewood

• sale of land-based service, such as stabling horses, B&B

• sale of excess water

• rental income from lease of natural resources, such as oil & gas, coal, rock, dirt, water, wind sites, etc.

• royalty income from production of leased natural resources

• rental income from hunting, horseback riding, other recreation

• rental income from leasing farmland for crops or pasture

• rental income from leasing land’s storage facilities or land for storage/disposal

• rental income from existing improvements, such as house

• payments for federal crop subsidies and conservation programs; cost-sharing on other federal programs

• monetization of carbon credits for planted and/or standing trees (work in progress)

Annual tax benefits (more if land investment is organized as a business for IRS purposes; fewer if land is simply personal recreation property or hobby farm; assumes the filing of an itemized return)

• Mortgage interest deduction

• Property tax deduction

• Deduction of business expenses

• Depreciation of improvements and equipment (not land)

• Land-business loss can be taken against other income

Other tax benefits

• Woodland enrolled in state managed-timberland program will qualify for property-tax break

• Agricultural land will qualify for property-tax break where county offers "land-use" valuation

• Donation of conservation-easement for areas of land—wetlands, habitat for endangered species, open land—that have environmental value. CEs carry benefits that protect income, lower property taxes and advantage estates.

• Land investment qualifies for tax-deferred 1031 exchange

• Capital-gains rate on sale after holding period

• Deferred tax on sale of property asset—such as merchantable timber—when asset is sold soon after purchase for basis established at time of acquisition

• Miscellaneous tax breaks offered on farmland, timberland, equipment, etc., county by county

Value as investment

• Long-term appreciation plus capital-gains rate

• HBU upgrade for eligible properties

• Low liability risk on undeveloped land; low insurance costs

• Comparatively low property taxes

• Flexible and multiple uses—income from changeable activities, personal recreation

• Piecemeal liquidity--can sell off-conveyance at more per-acre than paid

• Retain part of each deal to build the tax-free portion of your estate

• Leveraged investment

Land investing has risks. But they are almost always knowable. Speculation is risky; land investing is not about taking chances.

Land is not liquid in the way a share on the NYSE is. But selling land is usually a direct function of price. And I cannot think of a single example over the last two decades of anyone I know selling land for a net loss.

25 Largest Individual Landowners
Owner, Acres

1. Ted Turner, 2,000,000
2. Archie Aldis "Red" Emerson, 1,722,000*
3. Irving Family, 1,200,000*
4. Singleton Family, 1,000,000+
5. King Ranch Heirs, 850,000*
6. Pingree Heirs, 850,000*
7. Brad Kelley, 789,851
8. Reed Family, 770,000*

9. Ford Family, 740,000*
10. Huber Family, 600,000*
11. Lykes Brothers Heirs, 578,302*
12. Dolph Briscoe, Jr., 560,000*
13. W.T. Waggoner Estate, 520,000*
14. D.M. O'Connor Heirs, 500,000*
15. Robert Earl Holding, 400,000
16. J.R. Simplot, 335,746*
17. East Family, 350,000*
18. Anne Marion, 345,000*
19. Gerald Lyda, 320,035
20. Collins Family, 305,313*
21. Fasken Family, 300,000*
22. The Bell Ranch, 292,000*
23. Jeff Bezos, 290,000
24. Collier Family, 280,000*
25. Babbitt Ranches, 270,000*

* Indicates that the land was the basis of wealth, usually based on either timber or agriculture.
Source: The Land Report, August 1, 2007 at www.landreport.com.