

## **Land with assets can help pay for itself**

By Curtis Seltzer

BLUE GRASS, Va.—Many years ago, I had no money. I did not think of myself as a land buyer. But I was intrigued with idea of buying land.

With pennies dug out of the couch, I came up with 25 cents for a used book at my local library book sale, George Bockl's, *How to Use Leverage to Make Money in Local Real Estate*, 1965. How wrong could I go, considering that it came in hardcover with a dust jacket.

This was my first real-estate book. Bockl described commercial real-estate deals he had done in Milwaukee.

Financing, he showed, was not the hard part; thinking out the elements and tactics of the deal was.

While I knew nothing about commercial and industrial buildings, I understood that if you kept turning a problem over, sooner or later you would probably find an angle of solution that would work.

About that time, a 430-acre farm was coming on the market. The seller was using a sealed-bid system with a \$350,000 minimum. (This was a long time ago.)

How could I buy this farm with no money? My wife, Melissa, a lawyer, said simply: "You're NUTS!"

Given her encouragement, I smoked a cheap cigar and started to think.

I would have to get money from somewhere other than my own pocket. That was simple enough.

The first pocket I looked into was the farm itself. I divided the entirety into core assets and severable assets, that is, pieces I wanted to keep and pieces I was willing to give up in order to keep what I wanted. I would part with the farmhouse and 30 acres, some or all of the merchantable hardwood timber 16" in diameter and larger and 100 acres on one side that we came to call the Secret Valley.

I figured I could get \$100,000 for the farmhouse and the same for the Valley. That would leave me with about 300 acres -- half good pasture, half woods -- and the need for about \$150,000.

A consulting forester cruised the woodland to determine the volume and value of the merchantable timber. If I cut it hard, I could find about \$125,000. The value was in hardwood sawtimber—sugar maple, oaks and cherry. The low-value species -- hickory, black birch, hemlock -- might have a little pulp value.

I learned two lessons.

First, buyers should value a potential acquisition of rural property in light of its component parts, both as to what they can be sold for immediately and what they can generate in yearly income.

Assets -- timber, improvements, spare houses, lots, minerals, wind rights, water rights, leaseholds, future rights, etc. -- that the buyer sees as marginal to the core property that is to be kept can be sold or rented to help finance the acquisition. To avoid extra taxes and transaction fees, sale of marginal land assets can be arranged during escrow and scheduled as a simultaneous closing.

In some cases, it is to the buyer's advantage to wait a year from the date of acquisition to effect the sale of a land asset so as to get capital-gains treatment on the gain realized over adjusted basis. But it depends, of course, on the amount of taxable gain involved. If the merchantable timber is sold for the value of its original basis as determined in a pre-acquisition cruise, there's no taxable gain at that time on its sale.

The companion tactic to selling merchantable timber to finance an acquisition is to sell some of the land. Smaller parcels always bring a higher per-acre price than what was just paid for the entirety.

Second, I started to learn how to use timber as an acquisition tool. A good consulting forester

provides the critical valuation and management information a buyer needs before the buyer submits an offer. Stumpage are always local and changing. Different timber buyers will value the same timber differently according to their individual inventories and needs. The buyer's consulting forester will be able to properly value the timber and assign a basis for tax purposes at the time of the buyer's acquisition.

Woodland brings other financial benefits. Many states offer property-tax breaks for timberland enrolled in their managed-timber programs. The requirements are usually minimal, and the reduction can cut annual property tax in half. Some states tax standing timber or timber sales.

Enrollment in a state's managed-timber program helps to establish that a taxpayer is engaged in the business of timberland management and production. A business is afforded more favorable federal tax treatment than an individual owner who is not organized as a profit-seeking business.

For woodland (or open land) with environmental value, a landowner can donate a development-limiting easement without affecting timber production. Such conservation easements can bring the taxpayer substantial federal, state and local tax savings.

One of George Bockl's sentences that I underlined many years ago was this: "Ideas create wealth."

Not one idea, several ideas harnessed toward a single objective. Ideas that are based on experience and coupled with tools and technique. The formula is always the same, whether it's science, literature, real estate or production of lollipops.

It even worked for me.

I bought the farm with no money in the deal, sold what I had to and kept a good chunk of it.

Now, when I return from the annual library book sale, Melissa asks if I've bought another 25-cent real-estate book.

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](http://www.curtis-seltzer.com) where his weekly columns are posted.