#107 FOR IMMEDIATE RELEASE: October 7, 2010

Notes from the first Land Summit

By Curtis Seltzer

I represented the buyer's perspective at LandThink's Land Summit at the Gwinnett Center in Duluth, Ga., last week. The four buyer guidelines I wanted the audience to remember are:

1. Buyers should resist making land investments on the basis of first impressions and positive emotional reactions;

2. The key to controlling risk and understanding the assets and liabilities in a land investment is for a buyer to thoroughly research the property in all of its dimensions, a process I call "scoping," and which is commonly referred to as "due diligence";

3. Buyers should use a value approach to investing in land in which they look for cash or cash equivalents (such as, merchantable timber, depreciation, conservation easement potential for tax benefits, other ways to monetize environmental attributes, income potential and sale of an unwanted parcel, etc.) and ways that the property can finance its own acquisition to a significant degree;

4. Buyers should determine their "buyer's price," what the property is worth to them as an investor in terms of its assets, liabilities, risks and uncertainties and in light of their plans for the property and their financial and other resources. If the seller will sell for the buyer's price, the buyer is safe. If the seller will not sell for the buyer's price, the buyer should look for another property.

My answer to the question put to me -- Land Investment: Now or Later? -- was Now. It still is.

I say this for two reasons.

First, all properties can be researched broadly and deeply, though many aren't (which is how buyers get in trouble). States impose different disclosure requirements on sellers of land, but the general requirement across the country is minimal. Buyers must ask for disclosure and depend on their own resources to research their target property.

With a little money and some time, a buyer can thoroughly understand a land deal. When this occurs, non-systemic risk is removed from the investment, contained, minimized or otherwise provided for.

Second, individual buyers can't do much, if anything, about systemic risk affecting a land investment…or most other investments. Systemic risk involves the national and global aspects of finance, economics, trends, environmental issues and so on. It might be possible to predict a short-term move in commodity prices or interest rates, but mid-term and long-term predictions are souped-up guesses based on history and current circumstances. I think some significant part of economic history is no longer very predictive, particularly as it applies to the American economy. This means, I think, that land investments must be made in a context where systemic risk is largely unknowable and forecasts are probably highly uncertain.

The best that I think an investor can do with systemic risk is to price it in to the investment decision. Calculating a buyer's price that factors in systemic risk will help a buyer analyze a decision, but it won't protect against systemic catastrophe, such as a war or protracted drought.

The buyer's focus should be on non-systemic risk, that is, the property-specific risk that the buyer can deconstruct, understand and price in through research.

My reading of the last couple of years is that political systems in developed countries have come to an informal agreement that economic systemic risk should be managed when market forces push the trend line either below some scary bottom or above some scary top. Within a not-very-well-defined band of tolerance, trends will be allowed to fluctuate according to market forces. Whether this should is operationalized is anybody's guess, along with the details of putting it into effect.

I think we saw evidence that the American political system will not allow too much crash, a trend that goes below the bottom of the band of tolerance. Discussions are under way as to whether and how some managed cap might be applied to the bubbles and exuberance that push the trend above a much-harder-to-define top band. It may be that we end up with no limits on the top and some on the bottom.

If my reading is more or less correct, land investors may find themselves operating within a sort-of managed band of tolerated ups and downs. That, to me, is okay. Systemic risk is not eliminated, but the highest ups and the lowest downs will be subject to certain public, preventive interventions. It's probably politically easier to intervene on a downward trend than it will be to cap a line going up. The degree to which these interventions succeed cannot, of course, be predicted or even agreed on in hindsight.

There exist non-systemic risks that no amount of pre-purchase scoping can uncover. I can't guarantee that a 1,000 MW coal-fired power plant won't be built 15 years from now across the road from a 200-acre farm that I'm scoping today. But most non-systemic risks can be figured out.

Now is likely to be a better time to buy than later. Prices will move up eventually, even if they haven't bottomed yet. Interest rates are as low as they will ever be. Motivated sellers are as motivated as they're going to get. Buyers are hanging back, which means that a motivated buyer equipped with the will and skill to investigate a target property will do just fine buying a thoroughly scoped property today, bought at a buyer's price.

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