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Buying and holding rural land is a good strategy
By Curtis Seltzer

Two real-estate-investing strategies -- buy and hold, and buy low; sell high -- have worked well for many different types of investors in different types of markets over many years.

Of the two, buy and hold is the simpler and likely to be the more profitable for investors in most types of rural land, particularly low-maintenance tracts like open land and timberland. Buy and hold simply requires the investor to retain ownership for a long period of time, doing whatever maintenance is necessary. Time is the critical appreciation factor—more time held, more profit.

With buy low; sell high, the investor has to exercise judgment about when to buy and when to sell—both tricky calls. Is 2010, for example, a buy-low opportunity for timberland, or is it still overpriced? If you think it's overpriced today, do you think timberland prices will come down during the next five years? If you don't think they will fall, is timberland still overpriced for what it is, for its intrinsic timber-producing value? If you think it's overpriced, is now a good time to sell…or should you wait longer?

All of these questions raise complications that make answers harder and dependent on local factors.

Fortunately, if you hold land long enough, mistakes in judging when the price was low and when to sell tend to get corrected. At least, that's been the historical pattern. The only question with buy and hold has been, How long should I hold? There's no single answer, but 15 to 20 years generally turned an even above-market-price purchase into a healthy profit. A longer hold, more profit.

One other common advantage with buy and hold is to package the long-held land into the tax-free portion of your estate, thus avoiding the hit on long-term capital gains.

One of the basic books on buy-and-hold real estate is, David Schumacher and Steve Dexter's, Buy and Hold Forever: How to Build Wealth for the 21st Century (2010). The late Schumacher wrote The Buy & Hole Real Estate Strategy and Buy & Hold: 7 Steps to a Real Estate Fortune. Dexter updated and added his own perspectives to the current volume.

These books describe their investing strategy, primarily in near-to-the-beach real estate in Southern California since the 1960s. They seek to identify a property's growth potential by isolating the larger contextual factors -- such as family income, population growth and the projected longevity of that growth -- that will drive overall future real-estate appreciation. They concentrate on established neighborhoods.

The business of forecasting economic growth and property trends in a particular town is subject to the caveats inherent in all modeling—with some others thrown in. Schumacher and Dexter simplify modeling to the following rule: "The best way to project what a property is going to be worth 20 years from now is to find an area that had similar characteristics 20 years previously and research what happened to it from the standpoint of growth."

They go on to say that "…there is no way to make an exact forecast. The only thing you can be assured of is that if you buy in an area with growth potential, there will continue to be increases in land values because growth in a capitalistic economy cannot exist without inflation. …the overall trend inevitably will be up."

Both of these insights can be applied by even novice investors with some sense of confidence.

Nonetheless, each assumes a rising trend line for the U.S. national economy and a similar trend line from properties within high-growth-potential neighborhoods. They both assume a sustained political, economic and financial stability that could be problematic. It may be that Hermosa Beach and Southern California as a whole will not be replicated as often and as readily as we once thought. I think it was easier to make assumptions about rising trend lines and growth within stability during the last 60 years than it will be for the next 60.

With those systemic reservations in mind, I think it's a great deal easier to apply buy and hold to rural property than to metropolitan properties where neighborhoods can change unpredictably over time. The value of rural property can certainly be changed by unforeseen factors, both positively and negatively, but my sense is these changes generally take place more slowly than in metro areas. Investors have more time to respond to slower changes.

Absent an unprecedented deflation, an investor with a 20-year-plus horizon is likely to be both safe and profitable with rural real estate, illustrated by the examples below:
cropland that is not irrigation-dependent;
good, but less than prime, farmland in the Midwest, particularly land that can be upgraded through better management;
farmland that can be used to produce diverse crops, not just one;
pasture that can be adapted to rotational grazing;
tracts that can be converted to organic or semi-organic farming and are convenient to a university/college town or small city;
lots of fewer than 20 acres that are in small communities with diverse economies with growing population and family incomes;
small tracts that are currently just outside the HBU influence of wealthy enclaves;
land that is beyond the current ring of metropolitan HBU influence (because population-driven HBU valuations will keep extending outward);
hardwood timber tracts that have not been high-graded too badly or recently;
planted pine that hasn't been thinned yet on a 20-to-30 year rotation;
marginal farmland that might be planted to a short-rotation tree;
property whose assets are divisible, with a core that's a keeper;
tracts who uses are not likely to be constrained by the presence of ETS-species habitat or restrictive clean-water and wetlands rules; and
tracts that are not permanently and negatively discounted by environmental misuses, such as unusable reclaimed surface mines.

Others in the land business can add/subtract to this initial list, and customize selections to fit local conditions. These types of purchases are good candidates for rural buy-and-hold investors.

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