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Stocks vs. land: Which is the better investment?

By Curtis Seltzer

BLUE GRASS, Va.—Many more Americans own corporate stock than rural land. Why do we invest in stock, which is risky, rather than land, which is not?

Based on a statistically valid opinion survey that I conducted with the reflection on my computer screen, I offer six reasons.

First, stocks are easy to buy and sell. Second, they're easy to follow up and down. Third, each company provides information, the quality of which, it may be said, varies.

Fourth, the numbers and ratios associated with companies and stock lend a certainty to forecasts that gives investors confidence in their crystal balls. Quantitative analysis can always be confirmed by the guy on the next barstool who says he plays the market. Fifth, much investing wisdom is free for the listening, such as Buy and Hold. All such wisdom is true, except when it isn't. Finally, some ordinary people occasionally win, just like in Vegas.

These reasons don't bear much weight, though I am personally attached to each and every one.

I'm now inclined to follow a new rule: if it seems sensible to me, do the opposite.

I thought oil stocks would rise with crude surging past \$90 a barrel. Nope, look at Exxon and Chevron—both down during the last four months. Given the lack of demand for new housing and tight credit, I figured home builders would fall. Nope, Pulte, Toll Brothers and the others have gone up. Warren Buffet should hire me immediately.

It is certainly true that had anyone who bought the broadest possible basket of stocks many decades ago would have done okay.

As a whole, Professor Jeremy Siegel of the University of Pennsylvania's Wharton School says that stocks show an average gain of seven percent a year when the data are controlled for inflation. This average works when looking at many stocks over many years. It may or may not work for any individual stock; it doesn't work for the three lousy decades in our memory—the 1930s, 1970s and this one.

Adjusted for inflation, a dollar invested in the S&P 500 in April, 1999

produced no gain at the end of March, 2008. The performance of big U.S. stocks amounts to an average annual rise of 1.3 percent during the past decade after dividends and inflation are counted in. (E.S. Browning, "Stocks Tarnished By 'Lost Decade,'" Wall Street Journal, March 26, 2008.)

If you bought any individual stock, it could have gone up, down or disappeared over time. From my perspective, buy and hold makes sense only with a very broad basket and a 20-year-plus horizon. The rule for the stock market seems to be ten years or more of good is followed by ten years of bad.

During this most recent stock-market malaise, Treasury bonds, commodities, real-estate investment trusts (REITS), gold and foreign equities have beaten U.S. stocks. These alternatives can be as difficult to understand as American equities, often more so. But stocks are easy to buy and sell, watch go up and down, etc.

Ordinary cash-strapped, middle Americans usually do better investing in rural land.

Unlike stocks, land investments can be deciphered. Documents and numbers are reasonably transparent. Buyers can learn how to evaluate assets and liabilities. Professional help -- lawyers, surveyors, foresters, consultants -- are available to help research property prior to submitting an offer.

Scoping a land purchase is not like groping for Braille in corporate reports. It's more like checking things off a to-do list.

The market for rural land in most areas is transparent. Land of all types is a finite resource. Good land -- however defined -- is even more finite.

Demand for land grows because America's population is increasing and the top one-third of our income distribution has discretionary cash.

To get one handle on land appreciation, look at farmland. Values of agricultural land -- cropland and pasture -- have increased steadily since the mid-1980s.

Farm value in current dollars averaged \$2,160 per acre nationwide on January 1, 2007, up from \$974 in 1998, a 13.5 percent average annual gain according to the U.S. Department of Agriculture. Cropland during that period rose from \$1,340 to \$2,700; pasture rose from \$489 to \$1,160.

The current bubble in prices for corn, wheat and soybeans jacked up average cropland price during 2007. I doubt that corn-based ethanol will sustain the high prices for crops and cropland. Increasing global food consumption should prove to be a reliable driver of American farmland prices.

Timberland has increased in value in almost every part of the country since 2001.

Late in 2005, GMO head Jeremy Grantham, who manages about \$100 billion, said that timberland will be the best-performing asset through 2012. His timberland investments have done exceedingly well. Timberland prices are being driven by investors, pension funds, university endowments, developers and managers of Big Money.

In 2007, timberland showed a total return (income plus capital appreciation) of 17.45 percent, according to the National Council of Real Estate Investment Fiduciaries (www.ncreif.com), which tracks farmland, timberland and other real-estate returns.

One study by the James W. Sewall Company shows timberland beating the stock market since 1960, up an annual average of 12 percent for stocks but nearly 14 percent for timberland.

Timberland also gets tax benefits -- deductions, property-tax help and possible eligibility for a conservation easement or 1031 exchange -- that stockowners don't.

Both farmland and timberland are now running counter to the slumping stock market. But the value of vacation homes -- which are usually more home than land -- have weakened slightly along with the decline in price and market for primary residential property.

While sales of both new and existing vacation homes dropped to 740,000 units in 2007, down from the record of 1.07 million in 2006, they still accounted for about 12 percent of all home sales, according to a March report from the National Association of Realtors. The median price of a vacation home in 2007 was \$195,000.

One problem in tracking rural land values is that "rural land" is a term that covers a lot of ground—cropland, pasture, hobby/lifestyle "farms" with no significant cropland or pasture, timberland, undeveloped land (non-agricultural land with no timber value), land suitable for residential development, mineral land, existing second-home land, recreational land, environmentally sensitive land and so on.

No one collects property-sales data for all land types from the more than 2,000 county courthouses that serve a significant number of rural landowners. This is a big data-collection and analysis job that a land-grant university should take on.

Texas A&M's Real Estate Center tracks Texas land values, county by county.

That's the closest we come.

For the individual buyer, the county courthouse offers a quick way to measure local land appreciation.

Spend an hour in the office where property assessments are kept. Identify a parcel of land and go back 25 years to locate a baseline tax-assessed value. Stick with the value of the land alone; forget about improvements, such as houses.

Then dig out the succeeding reassessment values for that parcel coming forward. Reassessment periods vary among states, but all property is usually reassessed every three to five years. The five or more reassessment values will show how one particular parcel has appreciated over time.

Its actual rate of appreciation may be significantly higher than the rate calculated from tax-assessed values, because the latter usually understate current market values in rural counties.

Calculate an annual average appreciation rate, then compare that rate to the seven percent norm for stocks. Track the value of the county's total land over 25 years to determine how your parcel of interest compares with the appreciation of all county land.

My best guess is that land nearly everywhere will exceed an average annual appreciation rate of more than seven percent since the mid-1980s.

So my hot stock-market tip of the week is this: Buy land.

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