

Timberland as a Long-term Financial Asset

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The 19th Century American humorist and writer Mark Twain once pronounced that buying land was a good investment because they're not making any more of it. While the amount of timberland increases and decreases as land use changes—increasing population and the dynamics of urban expansion or the conversion of timberland to cropland when one or the other is price advantaged—the amount of timberland is ultimately limited by the overall availability of land.

In the southern United States, much of the timberland is still privately owned. Many private owners of small timberland tracts are thought to retain ownership as part of a family legacy or to provide recreational opportunities. More and more, however, small landowners are beginning to view timberland ownership as an attractive long-term financial investment vehicle.

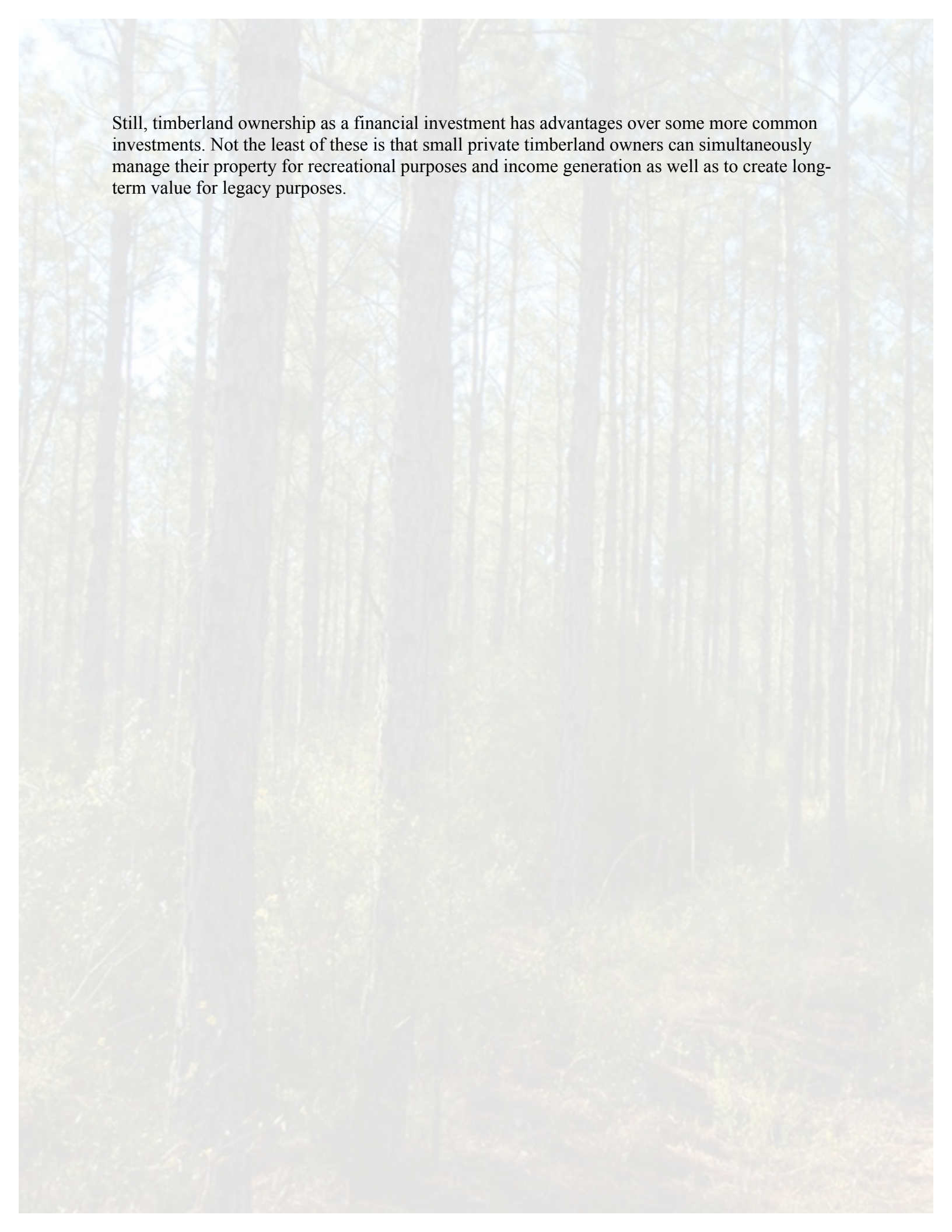
In the past thirty-five to forty years, pension funds, banks, universities, and insurance companies have helped push institutional timberland investment to over \$80-90 billion worldwide, with a significant portion of that investment occurring in the southern United States.

Timberland is an attractive investment, providing favorable returns, low volatility and diversification. Returns consistently beat those of the stock market and compare well against the low volatility of the bond market. Because timber continues to grow on the stump regardless of economic and political turmoil, returns have historically been stable. The fact that timberland is somewhat immune to the same volatility as the stock market makes it a good candidate for diversifying an investment portfolio.

Timberland investment has other benefits as well. Periodic cash flow revenue is realized from periodic thinning and land use payments from hunting and mineral rights leases. Standing timber is also viewed as a working factory creating value on the stump. Timberland owners also have a degree of flexibility when planning harvests. With access to the right pricing and market information, landowners can “time the market” to determine the best opportunity to sell their product.

Nonetheless, timberland investment is a long-term investment that does have its associated risks. Forest fires, storm and damage from insect infestations and disease are always of concern as well. These risks can be minimized by timberland owners, through proper long-term planning and management. Natural occurrences, such as Hurricane Katrina, can destroy half a human lifetime of timber growth.

A lack of certainty regarding stumpage prices contributes to risk as well, as timberland returns are a function of current and future timber market prices and the market principles that govern them. As the housing crisis that began in 2008 showed us, markets for timber products fluctuate. A difference of \$1/ton can cost a landowner tens of thousands of dollars over the course of a timberland investment.

A background image of a dense forest with tall, thin trees and sunlight filtering through the canopy. The text is overlaid on the upper left portion of the image.

Still, timberland ownership as a financial investment has advantages over some more common investments. Not the least of these is that small private timberland owners can simultaneously manage their property for recreational purposes and income generation as well as to create long-term value for legacy purposes.