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The Forest Focus

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Industry Updates & Trends

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Expo Richmond | East Cost Logging and Equipment Distribution
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Four Ideas to Consider for Your Next Small Woodland Purchase

Thad Taylor, Vice President and Forest Products Specialist

Over the past few months, I cataloged some great rules of thumb I've learned from working with AgChoice clients during the past 14 years. I thought I'd share four of them with you.

1. Never fall in love with a property until AFTER the deed is in your hand.

Approach every purchase-price negotiation with the same objective, cold, sober and analytical approach. The time to fall in love with a property is *after* departing from the settlement table. This stance allows for a good business/investment decision, lessens or avoids buyer's remorse and reduces the likelihood of over-paying.

Look at dozens of properties to overcome the potential emotion of the acquisition process. Gaining experience in the art of "walking away from unrealistic sellers" will make you more comfortable with timberland purchase-price negotiation.

2. Buy quality. Buy site index. Consider real estate tax rates.

Seek areas with excellent timber species composition and high-quality timber fiber characteristics *within* key local species. Avoid properties overflowing with undesirable species or abundant defects. Reason: Excess time and money spent to rehabilitate prior owners' mistakes will create a heavy financial burden that drives down return on investment.

Land (soil) with a high growing-site quality is better than low growing-site quality. A given soil's "site index" is the average height of co-dominant and dominant trees of a given species, at a given "base age." For example, "80 feet" is a terrific northern Pennsylvania "age 50 site index" (SI50) for northern red oak. A red oak 70 (SI50) soil is certainly respectable, but isn't as strong as a red oak 80 (SI50) soil. Small differentials in site indices (between two otherwise comparable properties) will produce substantial differences in timber growth and yield over the course of a 110-year rotation – not to mention over the course of six generations of your family's ownership!

Depending on a woodland property's state, county or municipality, annual combined county and school taxes can range from as low as \$2.00/ac/yr all the way up to \$31.00/ac/yr. Keep that tax burden in mind as you consider an offering price, otherwise the annual tax bill can eat all the potential investment returns.

3. Spend appropriate time and money on experienced, professional due diligence.

None of us would seek discount dental care or do-it-yourself surgery. Similarly, we want to avoid due diligence shortcuts on a timberland property acquisition strategy. A good real estate attorney and a title policy are worth every penny before you invest your treasure in a woodland property. The counsel and cost of an experienced forestry professional can improve your timberland investment performance.

4. Prepare to spend money on proper site preparation, regeneration and pest protection.

Be ready to invest the money necessary to spray and manage cyclical or periodic insect infestations. Reason: A \$45/ac, spray treatment is the right medicine to preserve a \$1,875/ac oak timber crop which is nearing (but not quite at) financial maturity. Engage a forestry professional early in the ownership tenure. Plan two on-site inspections on your property each year to detect and react quickly to insect events or wind, ice or fire damage.

Regeneration is important. The best way to maximize growth per acre per year is to ensure full site occupancy by healthy vigorously-growing trees of desirable species. Open, un-regenerated forest areas can succumb to fern or diseased beech brush and leave your forest unhealthy and underperforming. The proper solution is to invest in regeneration, after considering several options that may include herbicide application or planting.

Please don't fall prey to the suggestion to "cut the big trees and let the little ones grow." Seek to keep the best-quality trees in the stand, and remove the smallest and lowest-potential trees first. Given our region's history (vast forest-renewing clear-cuts between 1880 and 1910), a one stand's small trees are the same age as its large trees. Within a stand and species, the difference in stem diameter is a result of genetic potential and fitness – not a result of age.

Bonus: Seek out highly-stocked and larger properties. They generally offer a lower purchase price per acre. An analysis of historic woodland property transactions bears this out, and can allow a savvy investor to minimize the "dirt purchase price per acre," which can help enhance returns over time. **If you'd like to discuss timberland ownership or a timberland price trend study in your area, call me, Rod or one of our experienced AgChoice appraisal team members today. We'd love a chance to help!**



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Thad and Rod are loan officers and forest products specialists.



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