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June 15, 2012, 4:09 P.M. ET

# Investing in Timber and Farmland

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By Richard C. Morais

With debased currencies seemingly everywhere but in Switzerland headed to the trash heap, the race to convert paper to hard assets that will retain value over time is going on full throttle all across the globe. Perhaps that is why the canny peasant buried deep within Penta's Brooks Brothers suit is clamoring that I better understand timber and farmland.

So I had a chat with R. Dennis Moon, the Dallas-based managing director of [U.S. Trust's](#) specialty asset management division. Moon's unit at U.S. Trust, owned by Bank of America ([BAC](#)), doesn't sell funds with lock-ups, but creates bespoke farm and timber opportunities for clients with fortunes greater than \$50 million. The minimum investment is \$5 million, most commitments come in \$10 million to \$20 million tranches, and clients put anything from 2% to 15% of their total portfolio into this Mother Nature pure play.

In total, Moon manages for clients \$140 million in farmland, \$60 million in timber. But that mix should change soon, he says, as a client in Long Island invests \$50 million purely in timberland.

"We've seen an uptick in clients wanting hard assets," says Moon, even though he also agrees "this is not for everybody." Families that need reserves accessible and don't like illiquid investments should stay well clear of this wooded path.

But for families with the long view and wanting historically-proven hedges against anything and everything between depression and inflation, there's a strong case to be made for a farmland and timber position. "Our clients are looking for something that is stable and they can stay in for ten or fifteen years," Moon says. "We're buying real dirt here."

The U.S. Trust specialty manager says one of the first things he asks prospective clients is whether they need income on a regular basis from the investment, or whether they can afford to sit tight for some years before getting a big payday. If it is the former, he steers them towards farmland, because the land is leased to a farmer who regularly generates a cash stream for the client.



Moon says the return on farmland and timber comes from two sources. The gross-cash return from farmland is around 5.5% or 6%. Costs such as insurance, maintenance and U.S. Trusts' management fee typically eat up 1% to 2%, leaving a net-cash return of around 4%. But to that return you have to add in the long-term appreciation of the underlying land values. Moon claims that once you add in both components, the total annual return over 20 or 25 years is in the "low double-digits."

Timber is a little different. Timber's return has taken a hit because of the housing crisis,

## About Penta

Written with Barron's wit and often contrarian perspective, Penta provides the affluent with advice on how to navigate the world of wealth management, how to make savvy acquisitions ranging from vintage watches to second homes, and how to smartly manage family dynamics.

Richard C. Morais, Penta's editor, was Forbes magazine's longest serving foreign correspondent, has won multiple Business Journalist Of The Year Awards, and is the author of two novels: *The Hundred-Foot Journey* and *Buddhaland*, Brooklyn. Robert Milburn is Penta's reporter, both online and for the quarterly magazine. He reviews everything from family office regulations to obscure jazz recordings.

producing in recent years a net-cash return of around 2%. But Moon claims that over the long term, when you add in the land appreciation values, the total return for timber is similar to farmland's low double-digits.

The main difference is that there is no annual cash payout for the first years, as there is in farmland, and investors must be content that during that time their trees are growing at 4% to 8% a year in what Moon calls a "biological return." Look at it as Mother Nature's answer to compound interest. When the trees are harvested, returns are realized and amortized over the period of holding.



A typical \$10 million timberland commitment, Moon says, will be invested 60% in fast-growing pine in the Southeast, 20% in slow growing but more valuable hardwood in the Northeast, with a mirror 20% over in the Northwest, close to the voracious Chinese market. Moon confesses U.S. Trust does not have the capabilities to acquire and manage properties overseas, such as in Brazil or other emerging nations.

That's a pity. Landholdings in an agri-giant like Brazil can be a valuable way to further diversify your landholding assets by currency and risk. But it's a very tough business to run from the U.S. ([Hertz Farm Management](#) is one domestic player with experience investing clients' money in Brazilian farmland.)

And there are still plenty of sweet cuttings to be taken from American timberland. For investors with a taste for hunting, for example, it's often possible to ring an extra return out of the holding through selling hunting rights. "In parts of Arkansas, they'll flood a pine field. It's great for duck hunting," Moon says.

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**negvex** wrote:

Some other fund options in the farmland space:

- Chess Partners - US
- Agrifirma - Brazil
- Agcapita - Canada
- Landkom - Ukraine
- Black Earth - Russia
- Hancock - US
- UBS Agrinvest - US

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JUNE 20, 2012 6:47 P.M.

**Tom** wrote:

No, they do not flood pine trees in Arkansas or anywhere else for duck hunting. It is hardwood bottoms, naturally wet, that are flooded. It would be nice if Mr Moon would make a duck hunt in AR!

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