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RUNNING WITH SCISSORS

# Wealthy Investors Discover Timberland

By JEFF D. OPDYKE



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Timberland Investment Resources manages this 93-acre tract in Lancaster County, S.C., for its investors. *Timber Investment Resources*

For some people, money does grow on trees.

Whipsawed by gyrating markets in recent years, some investors are taking root in a little-understood asset class that since 1987 has handily beaten stocks—timberland. A dollar invested in the National Council of Real Estate Investment Fiduciaries' Timberland Index then was worth nearly \$21 at the end of 2009, a compounded annual return of more than 14%. That same dollar invested in the Standard & Poor's 500-stock index was, with dividends included, worth \$7.83, a return of about 9.4% a year.

Returns aren't the only attraction. Timber historically has tracked the consumer-price index, thus serving as an effective inflation hedge. And aside from timber sales, timberland can generate income through hunting leases, watershed rights, energy-exploration easements and other uses.

For these reasons, forestry consultant Warren Peters, in Baton Rouge, La., says he is seeing increasing business from wealthy people "looking for timberland for purely investment—rather than recreational—purposes."

Despite all the positives, however, the timber business has so many quirks that the asset class makes sense only for ultrawealthy, ultralong-term investors.

Timber isn't lumber, the commodity that trades as relatively short-term futures contracts. Timberland is the farm from which lumber ultimately comes, and is a long-term holding. We are talking decades.

Timberland investing works best at scale, making it a difficult investment for people of lesser means. Small plots don't have the muscle to generate meaningful income, since only a fraction of the trees are culled at any one time. The average timber tract is about 400 acres in the Southeast, the country's wood basket. At roughly \$2,000 an acre, that is an \$800,000 ante just to play.

Wealthy individual investors typically put their money in timber investment-management organizations, or TIMOs, which cater largely to institutions, but which

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often accept individuals investing a minimum of between \$1 million to \$5 million. Some TIMOs do allow individuals to pool money into a single account to meet the minimum.

But that still is a lot of money to devote to an illiquid investment that can't be unloaded easily and must be held for eight to 10 years just to begin to pay off.

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Though investors routinely buy mature timberland, trees must be replaced as they are culled, and saplings take time to grow. Timber is sold either for pulp used in paper processes or as saw-timber for construction. Pine, the most commonly farmed tree in the U.S., reaches pulp stage in 10 to 14 years, is ready for saw

mills near age 20, and by age 25 to 27 is fully mature and usable for framing lumber, plywood and telephone poles. As the trees grow, the wood gains value. Where pulp wood sells for about \$10 a ton these days, mature saw-timber can fetch \$30 or more. More than anything, timber investing is an exercise in patience.

Timber is high-maintenance, too. "You can't just plant trees, walk away and let them grow," says Tom Johnson, a managing director at Timberland Investment Resources, an Atlanta TIMO. Timber generally requires professional management to analyze tracts in which to invest and then manage the land for income. That is accomplished either through a TIMO or via independent forestry consultants who work for individual landowners.

Trees are susceptible to natural disasters, too. After a hurricane, for example, large trees that are snapped or sheared often become pulp wood rather than saw-timber, reducing their value by two-thirds or more.

Timberland prices also are susceptible to market dynamics. They have fallen from about \$40 a ton to less than \$30 during the housing slump, for example.

For small investors keen on buying timberland now, the best option might be a timber real-estate investment trust that trades on the New York Stock Exchange, such as [Potlatch](#), [Plum Creek Timber](#) and [Rayonier](#). They generally offer decent yields, currently between 3.8% and 5%, and are diversified across multiple regions and species. They are susceptible to timber-industry dynamics; they all tanked amid the housing crash.

But be warned: This is much less of a pure play than a direct timberland purchase. Corporate dynamics are involved. With timber REITs you trade the risk of fire, water and bugs for the risk of company mismanagement. Also, for financial reasons, REITs might be forced to sell trees into a weak market to maintain the healthy payouts investors expect, cutting into future returns.

In the markets, as in the forest, when someone yells "timber" it always is wise to exercise caution.

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