

BARE TIMBERLAND VALUES DECLINE FOR LARGE TRACTS, INCREASE FOR THOSE LESS THAN 5,000 ACRES

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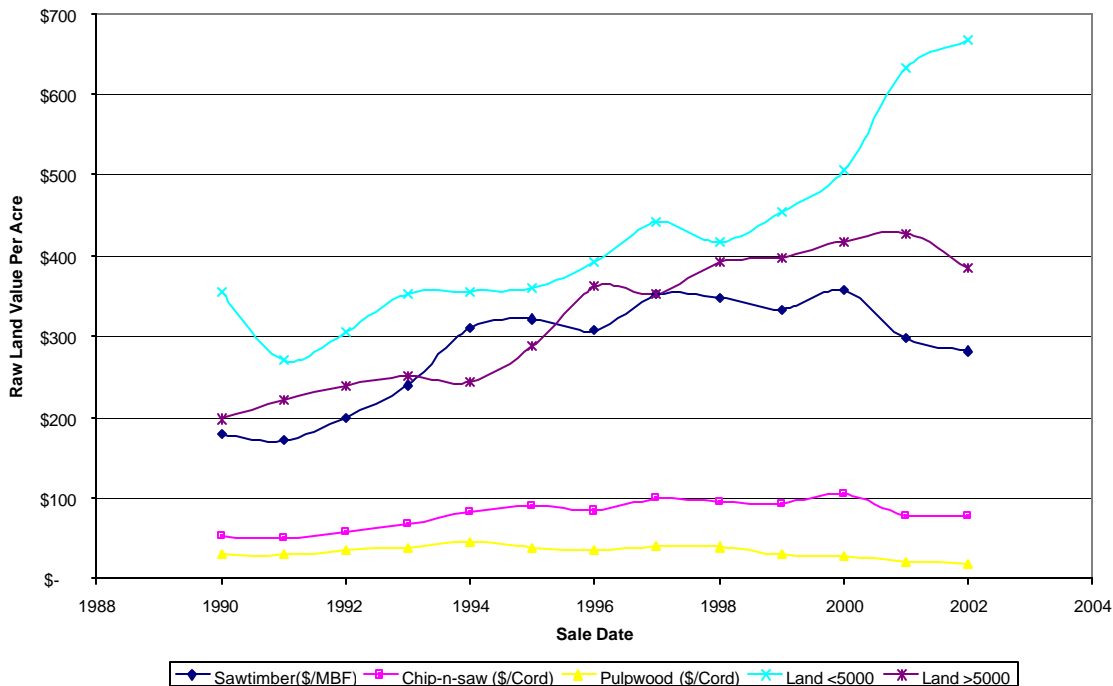
Since 1984, when F&W Forestry Services began monitoring bare timberland values in the Southeastern United States as part of our forest appraisal business, we have documented a distinct correlation between increases in timber stumpage prices and increases in underlying bare land value. This correlation was logical and consistent with forest economic theory.

Historically, land prices have fluctuated with timber prices with a two to three year lag. Consequently, during the decade of the 1990s—generally a period of rising stumpage prices for all tree products—we saw a significant increase in the value and price of bare timberland. However, beginning in 2000, a change in this familiar pattern began to emerge. In the late 1990s through the present, timber prices have shown a significant decline while during the same period bare timberland prices overall have shown a steadily increasing trend.

But a more detailed analysis indicates that the market for bare timberland in the Southeast has become segmented into two distinct markets that are responding to different forces. Our analysis of sales data shows that the bare land value of tracts larger than 5,000 acres—those typically associated with industrial and institutional land transactions—has declined about 10 percent over the past year from an average of \$428 to \$385 per acre. In contrast, bare land value of tracts of less than 5,000 acres—those more likely to be transactions involving private, non-industrial forestland—has continued to increase despite declining stumpage prices. The average bare land value of tracts of fewer than 5,000 acres this year is \$629 per acre, an increase of 1.4 percent over 2001.

As illustrated in the graph above, bare land value of large and small timberland properties

Graph of Raw Land Prices and Timber Stumpage Prices By Date



exhibited similar trends until about 1999. At that time, land prices paid for properties less than 5,000 acres increased significantly while prices for properties over 5,000 acres leveled off and eventually declined, closely following pine sawtimber prices.

In recent years there has been a substantial transition of ownership of rural timberlands in the Southeast from forest products companies and institutional investors to private individuals. Some of the large sell-offs by forest products companies have been purchased by middlemen who quickly subdivide and sell timberland tracts to non-industrial private landowners.

Whereas the commercial class of timberland owners had a common objective in the ownership and management of forested lands, and therefore their value, the private individuals that continue to move into the market place have different ideas about what contributes value to a timberland property. Many of these purchasers are first time forestland buyers and have limited expertise in timberland investments. They are also placing more value on recreational and environmental amenities than previous owners. As a result, land values are being driven up in rural areas to levels that in many cases may not be supported by their timber related income.

This has long been the case with transitional properties that are moving through the continuum from timber production to developmental uses. With the growth of many rural communities and large urban centers, the rural nature of lands in between them is in a transitional stage. Lands once thought to be remote are becoming more accessible to those looking for recreational investment properties. The prosperity of the 1990's has created an increase in the purchasing power of many people in the South and the recent mass withdrawal of funds from the stock market has sent many looking for a safe haven for their money. Timberland has long been seen as a safe investment and has undoubtedly attracted a large number of these first-time buyers.

Purchasers of timberland properties that are too large for the recreational market continue to be driven by timber income. Land prices in this market continue to follow the historical correlation with timber stumpage prices. Interestingly, this correlation appears to be more closely tied to sawtimber prices than to pulpwood prices.

As a result of the land ownership changes and the changing demographic profile of the typical small timberland buyer, I believe the highest and best use of many forest properties in the Southeast is in transition from timber production as a primary use to recreation with timber production as a secondary use. Therefore, the values placed on the bare land of smaller properties will not track timber prices. As long as this price gap exists between small and large properties, markets for larger properties with a potential to be subdivided and resold should remain strong. Land prices for large properties that are not suited for liquidation on the retail market over a relatively short time frame will remain conservative and continue to follow stumpage prices with some period of lag time.

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