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2010 Investment Guide

Buying Woodland for Fun and Profit

Christopher Steiner, 12.14.09, 12:00 AM ET

Frank Morris made his living fixing teeth. For many years now, however, the dentist has directed his real passion to tending 40 acres of woodland in Oregon's Benton County, a fertile tract sandwiched between the Cascades and the Pacific Ocean. There the trees grow thick and tall and the forest floor is as dim as a basement.

For four decades Morris has spent his free time thinning, logging, chopping and sawing. A resident of Corvallis, 25 miles away, the 88-year-old makes the trip to his timberland 30 times a year.

"It's my cathedral," he explains. "And it's better than going to mass."

Paul Bunyan Syndrome, you might call it. Some people have a visceral attraction to the woods, the curve of an ax handle and the life of logger. Ten million Americans own small stands of forest. They are happy to hold them at a time when many forest product companies would rather be asset light. The U.S. Department of Agriculture estimates the nation has 500 million acres of timberland. The ownership breakdown is as follows: government, 27%; wood and paper companies, 17%; institutional investors like college endowments, 4%; individuals, 54%, up from 45% two decades ago.

The individuals get a mix of recreation and asset appreciation, says Yaoqi Zhang, a forestry professor at Alabama's Auburn University. They get a nice tax break, too: Dividends from a forest (the sale of logs to sawmills, that is) are treated as a capital gain. With a stock, moreover, you have to report the income when the corporation decides to send it to you. With your own forest, you choose the timing. If you can afford to be patient, you cut only when the price of logs is high and/or you have investment losses from your stock portfolio that will absorb the taxable gain.

Helping along the forest fad: the History Channel's *Ax Men*, a testosterone-filled program profiling lumberjacks who spend their days felling giant trees and narrowly escaping disaster.

No such harrowing plots for Morris, who spends most days in the woods with his son Bruce. Together they look for leaning, sick and dead trees, and loose soil that could muck up their stretch of Baker Creek, a nursery stream for coho salmon and steelhead. When they decide to harvest a few trees, they meander through a section of woods, blue paint buckets in hand, and mark the trees to be cut.

"It's an art, not a science," says Morris, a certified master woodland manager. "Sometimes you pick a tree simply based on where it will fall when it's cut or because it's blocking half a dozen adolescents ready to take off. It's fun to debate which ones go and which ones stay."

The Morrises rev up their chain saws to tidy newer stands that have gotten too thick and to clear out brush that might kindle forest fires. They burn the excess, called slash, after a rain or grind it up for mulch. They scour their woods for signs of trespassing marijuana farmers. Morris regularly spots coyotes, deer and grouse, but he leaves the hunting to mountain lions, one of which, he proudly notes, he spotted recently for the first time in his 43 years on the land.

Morris got into forestry on the advice of a dental patient named Stonewall Andrew Jackson long before most people had ever heard of a spotted owl. He discovered his tract while browsing classified ads a few weeks later and bought it for \$4,000. Its value today is \$100,000, figures Morris. That represents an annualized price gain of 7.8% (3.4%, net of inflation). Revenue from timber sales (net of logging costs) has averaged \$11,000 a year over the past 15 years; property taxes and other costs, a few hundred dollars a year.

Morris' fairly random selection turned out to be a valuable chunk of woodland. A better bet is to enlist the help of a professional forester. The first thing to consider is an area's soil grade on the U.S. Department of Agriculture's online maps. They provide a

tree site index, which is a function of how high trees in the area grow over time. Deep valley soil, for instance, will grow trees much faster than rocky and inconsistent alpine soil. Morris' land, with Honeygrove-Previne soil, can grow Douglas firs 124 feet tall in 50 years.

If moving logs to market is ultimately part of their plan, buyers also need to consider how close land is to sawmills. In Morris' case several competing mills in the Eugene area can process his product.

"If there's only one mill in your area, you're stuck with the price they give you," says Mark Miller, a partner at Trout Mountain Forestry, a consultancy in Portland. "Those with property in eastern Oregon or the Rockies won't have many options."

Would-be lumberjacks should expect to pay \$1,000 to \$2,000 per acre, plus the value of the timber growing on it, which can add anything from zero to up to \$15,000 an acre to the price for stands averaging 50 years of age. Calculating timber values is best done by a firm like Trout Mountain, which performs what is called a timber cruise. For tracts of 20 to 100 acres, such surveys cost around \$50 an acre.

Existing timber is like money in the bank; it can be left to grow or cashed in. Morris made a withdrawal a year ago when he had several acres professionally thinned and two more clear-cut to make room for new saplings.

The best 16,500 board feet from the harvest was mostly steel-straight, knot-free Douglas fir. Weyerhaeuser exported it to Japan, where prices for premium wood are relatively high. That sale fetched \$690 per 1,000 board feet (or \$11,400), not much more than half the price of logs Morris sold in the midst of the building craze a decade ago. The remaining 55,000 board feet from the cut went to nearby mills for \$350 per 1,000 board feet (or \$19,250). "The market has gone to hell," Morris says, "I won't be doing any more cutting until it gets better."

In the recent sales Morris gave up half the value of the logs to the logger who took the trees down. David Eisler, 64, a retired anthropologist with 80 acres near Eugene, fells alder himself, pulling the logs through stands of hemlock and fir with a horse to minimize the impact. A minimill operator cuts the logs into planks on-site and air-dries the wood in a covered area. Eisler eventually will sell the wood for use in cabinets, flooring and tables. Not long ago he found a maple that had been blown over in a storm. With a 24-inch base and a quilted pattern in its grain, it went for \$10,000 to a Seattle resident who used it to make a 2-inch slab table.

"A person can make a return on land like this just by keeping his eyes open," Eisler says.

That return can be enhanced with some education. Most states with timber industries offer low-cost classes for timberland owners through public school extension programs. Topics start with chain-saw safety and tree identification and run through advanced forestry management. The nice thing about paying a logger to do the dirty work is that he can deal with the profession's high fatality rate (87 per 100,000 workers per year versus 3.7 deaths per 100,000 workers in all industries).

As Morris eased toward retirement, he took more than 100 hours of forestry courses at Oregon State University to earn his master woodland manager credentials. Even so, he says, classroom instruction can get a true master only so far. On a lark Morris planted 200 coastal redwoods on the slope of Old Blue Mountain four years ago. Redwoods, conventional wisdom has it, need consistent coastal fog, like that found in California's Marin and Humboldt counties. Fog or not, Morris' trees now stand 18 feet tall.

"A hundred years from now my great-great-grandkids might wander up there and say, 'What the hell are these doing up here? They're growing like crazy!'" smiles Morris.

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