

IOWA HARDWOODS – THE PERFECT “IRA”

Iowa woodlands are stocked with investments that can be enjoyed everyday. Unlike a piece of paper that you receive from your investment company, you can walk through this investment with your family, enjoy its beauty, and hunt mushrooms, turkey, squirrel, and deer. Forget checking the paper everyday to see if you are in a “bull” or a “bear” market. Hardwood timber has increased in value every year above the rate of inflation and all indications are that it will continue to do so well into the future.

Iowa grows the finest hardwood trees in the world. Because of our deep soils and moderate climate, the best quality walnut, oak, and maple are grown in the “corn state”.



The highest quality trees are shipped to China, Japan, and Germany. Iowa is one of the leading states in the nation in the export of walnut veneer.

I have worked with several people who have purchased woodland not only for their enjoyment, but as an investment. These people knew what some of us are just now realizing – woodland is a great investment. Ed and Bobbi Gross from Eldorado purchased tracts of

woodland throughout the years for their retirement. They are now going through each tract of timber, harvesting the mature trees, and conducting forest stand improvement work and planting. Ed has said the timber is producing more income than he ever anticipated, so now he is concentrating on upgrading the timber through forest stand improvement practices. Walking the woods with Ed and Bobbi, it is obvious that the income is only a small part of their “returns” from their property. They are identifying birds, noting wildflowers, and absorbing the peacefulness of the woods.



Bobbie & Ed Gross

How Your Woodland Gains Value -

Woodland gains value in several ways –

- Tree Growth
- Increase In Wood Value
- Increase In Land Value

It is this diversity of the woodland that makes it such a sound, long term investment.

Tree Growth -

Trees gain an average of 2-3% per year in growth. If you have a tree with 200 board feet, it will add 4 to 6 board feet in one year. In addition, as the tree grows larger in diameter, each board foot becomes more valuable. For example, a veneer quality walnut tree that is 18 inches in diameter and has a 16 foot veneer log will contain 122 board feet. At 18 inches in diameter, the average veneer price may be \$3 per board foot, or \$366 for the tree. Over a 12 year period, the tree would be 22 inches in diameter and now contain 194 board feet. But now because of the increased size, average veneer price can be \$6 to \$7 per board foot, or \$1,164 to \$1,358. Over a 12 year period, the tree increased in value 3 to 4 fold! This trend will continue until the tree shows signs of deteriorating. On good soils, high quality walnut should be grown to 28-30 inches in diameter.



18" Dia. Walnut Tree



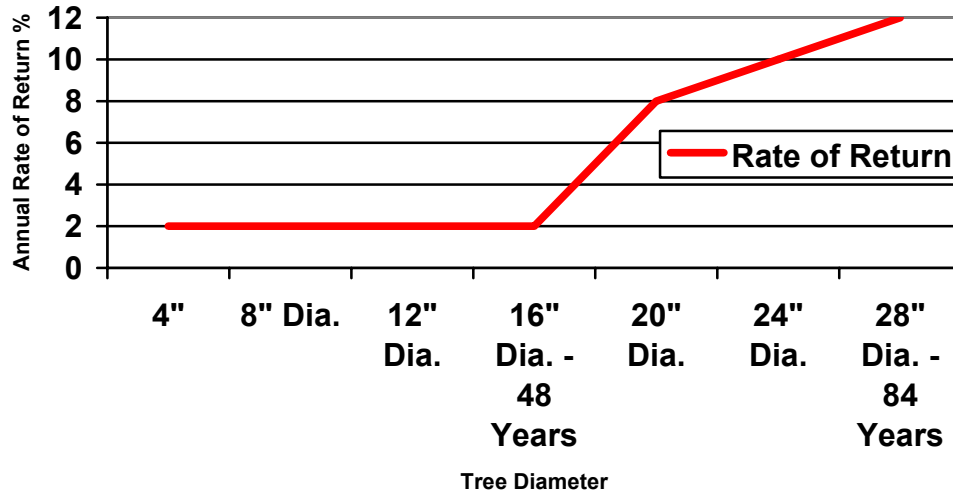
22" Dia. Walnut Tree

Increase in Value of Wood -

Historically, the value of hardwood lumber has increased an average of 2-4% above inflation each year. As people in our society and other countries improve their standard of living, they demand wood. The recent surge in the walnut market is a result of China demanding walnut lumber and veneer. Larger houses are being built in this country and other countries and they require more hardwood trim, flooring, cabinets, and furniture.

As the chart below illustrates, in the early years, trees gain growth, which is 2-3% per year. Once the trees reach 16 inches in diameter, they are merchantable. On high quality trees, from 16 inches in diameter to 28-30 inches in diameter, the trees can increase in value 8-12% per year. People who plant trees or improve young stands of timber are building the foundation of a great investment for their children. Their children can acquire the investment when the trees are at the stage of rapidly gaining value.

Iowa Hardwoods - The Perfect IRA



Increase in Land Values -

I remember 10 years ago thinking that folks were crazy for paying \$500 per acre for forest land. Now that same land is bringing \$1,500 to \$2,000 per acre. As one gentleman said, "They aren't making any more land, and lots of people want it". I asked one investor at what point is woodland no longer a good investment with the high land prices. He replied, "That's like asking if ocean front property in Florida is going to lose its value". One of the main reasons for the high price of forest land is recreation. People want a place to recreate on their own property without the intrusion of others.

Tax Advantages -

You are not taxed on tree growth. Each year, your woodland is gaining value, but you are not taxed until you sell your trees. At that point, timber is eligible for capital gains treatment. Capital gains are capped at 15% and you do not have to pay self employment tax. If you had a timber inventory at the time of purchase to establish the basis for your property, you can deduct the value of the trees at the time you purchased the property from the actual price you sold the trees. This all adds up to tremendous tax savings and a great way to accumulate value without a heavy tax burden.

Forest land that is at least 2 acres in size, has a minimum of 200 trees per acre, and is not grazed will qualify for the Forest Reserve Law. This law exempts your land from property taxes.

Manage Your Investment -

Your woodland will be a good investment



only with management. Like any crop, you must manage your woodland to realize its full potential. It is important to periodically conduct forest stand improvement work to “weed out” undesirable trees and provide more growing space for your best trees. Plant trees to fully stock areas lacking high quality trees. When it is time to harvest your investment, market your timber wisely to insure a fair price, and harvest with the next crop of trees in mind. Like a stock broker, your District Forester or a Consultant Forester is a valuable source for guidance.

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