

SMALL WOODLAND OWNERSHIP MANAGEMENT

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Small woodlot ownerships are a commodity on the real estate market which have cycled through a supply and demand curve on a somewhat irregular basis. In order to have some understanding of what it is we are talking about, it is necessary to define what a small woodlot is, and where it may be found. In size these parcels can range from ten acres to fifteen acres on up to fifteen hundred acres to two thousand acres. Geographic locations encompass the entire Northeast. Most of our our larger communities encompass a few forest production parcels within their municipal boundaries, and these are the properties that we see being developed yearly for commercial and residential purposes. The outlying urban and rural areas of the organized communities have their land base created almost entirely by these tracts. The magnitude of this forested area is startlingly apparent when you fly over the Northeast and see the relatively small amount of land intensively developed as opposed to woodland acres.

If we have all of this forest land on the face of the earth, then who owns it and what are they doing with it? At this point we enter into the real problems and address the challenge to the managing forester. Land ownership patterns have been changing since Columbus made a right turn at the Azores and landed on our shore. From that time forward the scribes, lending merchants, lawyers, and real estate brokers have done a tremendous job in complicating the management of our small woodland parcels. In recent years probably no faction has had more influence on the existing ownership pattern than real estate brokers and entrepreneurs, with considerable help from environmental groups along with the declining stock and bond market.

The real estate brokers and entrepreneurs have tracts of land in all sizes for a variety of reasons. While most statistical surveys use a so called average buyer or average real estate owner, I have yet to see or truly identify with that individual. In our business

the average land owner does not exist and each property owner is an individual in his own right with individual motivations and opinions. A forester who thinks otherwise may be headed for a real public relations problem, to say nothing of managerial and legal problems. Some consistent characteristics of small woodland owners do appear quite frequently such as: 1) principal employment is of the skilled or professional field, 2) woodland properties are acquired primarily for investment either on a short term or long term basis, 3) initial acquisition is generally made during a period of time when the owner's personal financial situation is optimistic, 4) typically there is no comparative investment analysis made by the buyer with other forms of investment prior to acquisition. Again, it should be pointed out that these are only characteristics frequently seen or discussed with small woodlot owners and are not a statistical conclusion, but rather an observation.

With all of this as background we can now discuss management philosophy and goals. A basic philosophy for the management forester must come primarily from the owner's attitude and reasons for ownership and ultimate objectives to be accomplished through land management. The most frequently discussed objectives of ownership include conservation, generation of periodic income, or capital gains to be derived through real estate appreciation and ultimate sale of the property in gross. An individual who owns property for conservation purposes offers an opportunity to manage a parcel of land on a relatively long term basis, with the least probability of disruption through sale of the property. The second form of ownership objective, namely the generation of an income stream, is probably one of the most tenuous because the income that can be derived from a small woodlot is going to be periodic at best. In most cases it will not offset actual cash carrying charges if the property was acquired at current fair market value with a debt service requirement and return on equity desired. This is not to say that a small woodlot parcel cannot be managed on a profitable basis when long term appreciation and capital gains are considered, but rather that foresters managing lands owned primarily for their income generation potential should be cautious in their goal setting procedures and not extend them out over a long period of time.

Quite frequently owners who are looking to an income from the land for repayment of debt or purchase monies may find themselves in a position where sale of the property is necessary due to a change in their own

personal finances. This can be caused by a change in other financial circles that has nothing to do with the land on which the forester is working. The third category of land ownership is the objective of a capital gain to be received by the owner at some future date when the land is sold in gross. This form of ownership objective offers some variables to the general management scheme. The forester must be aware of changing land uses in order to orient his harvesting and management practices toward a form of use that will increase the overall property value as required by the owner. Again, we must be prepared to recognize that management of lands held for this purpose could quite reasonably be of relatively short duration and that probably a conversion of use is anticipated at some future date.

After considering the various objectives of the land owner a forester must then examine his property for development of the management policy and method of achieving the basic goals. Properties owned for conservation purposes lend themselves to the standard silvicultural practices where TSI (Timber Stand Improvement) or harvesting of merchantable timber is indicated. Here in the Northeast it is extremely difficult to justify TSI on all but the highest quality species and stands if the economics and financial requirements are considered on an investment basis. A managing forester must have a working knowledge of cost accounting to include calculation of debt service on the land, return to equity investment, and the incremental additional charges for interest on invested capital for supplemental improvements. TSI is a capital improvement to the land and should be treated as such for capital gain accounting purposes as well as the need to know what your actual costs are to produce a given volume of work.

In cases where a capital gains objective is the purpose for ownership, the forester must be aware of short range costs deferral methods. His management plan must be geared to abstract from the land the maximum goods or services on a short run basis without diminishing the owners potential for profit at some future date. This form of planning requires a rather extensive knowledge of general land uses in the immediate area of your management property and should include a general knowledge of regional and national affairs affecting the real estate market.

It is wise to be prepared for the unexpected, and hence a "bust" program should be devised for each such parcel

in the event that the owner becomes financially shaky. This event may require immediate working capital derived through the sale of the managed property. In order to be prepared for such an event, and to properly prepare a medium to long range management plan, it is necessary that the forester be familiar with marketing strategy for both products and the land itself. Real estate, which is the item a forester is managing, is not classically known as a liquid asset. In other words, you cannot predict with any degree of certainty the exact length of time it will take to sell a particular parcel of land at its market value. It is even difficult to predict how long it will take to sell a parcel of land at liquidation prices. In order that a forester be relatively familiar with time segments required for marketing, a constant vigil must be kept on the activity of the general real estate market and who is dealing in it.

Another relatively recent problem which confronts the managing forester is the changing environmental and zoning codes initiated by all levels of federal and state government. These codes not only affect the way and procedures by which the land can be managed, but also has a decided effect on the economics of forest land ownership. In recent years we have seen productive timber land removed from the productivity classifications without any reimbursement to the land owner, merely on the basis of environmental safeguards. This form of zoning and loss of revenue production property may, at some future date, be pronounced an environmental taking similar to the eminent domain proceedings commonly used throughout the land. However, today we must live with, and manage, the small woodlots under an ever-increasing restrictive public policy. An awareness of land law and environmental law is an absolute must for the professional forester in order to advise his client on the affect of such law, and to explain why his income producing base has diminished. With the unquestioned fact that real estate taxes, carrying costs, and demand for forest land for other purposes is on the rise will unquestionably make the managing forester's job more challenging and more profitable to himself. Small woodland management is merely the implementation of what is commonly called the Six "P" rule, i.e., "Prior Planning Prevents Piss Poor Performance."