If a maiden aunt left you an inheritance of $100,000, how many of you would invest it in timberland at today's prices? Raise your hand if this appeals to you. (Three out of 75 raised hands!). How many might invest part of it in timberland? (Three more were added!).

I can see that it is not forest economists who are putting pressure on the timberland market. This group is a unique population, as the statisticians would say. We know too much about timber and its return on investment. We're conservative. Most of us would rather make our fortunes in some other investment than timber.

Let's take a few minutes and try to discover what populations are interested in timberland as an investment. Time Magazine had an issue some time back devoted to land. The key statement made by the Time editors was that in their view the brisk market in real estate was created by the fact that speculators could usually sell for a profit to the next idiot.

I prefer to call Time's idiots "uninformed bidders" - but are they so uninformed? In any auction of forest land there are several or many bidders, each with his own objective for the new ownership, each with his own discount rate (which he may not recognize as such) and each with a different mix or portfolio of investments. It's no wonder that bids are so disparate and that the winner often "leaves a bundle on the table". But he may not be an idiot - or even uninformed.

We might put populations of forest owners in several broad categories. First is forest industry which uses the timberland as a direct source of raw material. Second are the myriads of other private owners who have owned the land for years, have a low basis, are pleased by appreciating values but have no intention of moving out of land ownership. Third are those private owners who do intend to sell and may be keeping an eye on the next wave of appreciation. Finally, there is the much smaller category of those who have just purchased land. You can think of others I'm sure but these four give us good coverage. Then, within these four groups there are as many management objectives as there are owners. This is the reason there is really no simple answer to the question raised in our title - Forest Land - To Own or Not to Own.

As background for a few predictions let me give you some facts and figures from my own experience.

In 1940 in Arkansas, Les Pomeroy had to be careful in purchasing timber deeds or the landowner would also slip in the fee land. This was when taxes were a burdensome 5¢ per acre and certain people made a living buying parcels of land which were tax delinquent. In the same year we cruised the 100,000 acres of Natalbany Lumber Company in the Florida Parishes of Louisiana. Much of it had just been redeemed from the State by payment of back taxes and hundreds of acres were occupied by squatters who were growing strawberries and other crops on this "free" land. It is understandable why the owners seven years later leased it to a paper company for 99 years. The only consideration they asked for the lease was payment for the timber then on the 100,000 acres.

In the late 1930's and early 40's the Purchase Units of the U. S. Forest Service bought large tracts of land for $1.50 per acre and owners were standing in line to try to unload.

Going back a little earlier than that, is the story of 36,000 acres in Escambia County, Alabama just north of here. Bill Nalty from Hammond had an option on the tract for its fine stands of longleaf. Bagdad Lumber Co. of Milton, Fla. in the late '20's persuaded him to sell them the option for $150,000 and they would give him the land as it was cut over. During the depression he tried desperately to sell the land for $1.00 per acre to be included in the Conecuh National Forest - but to no avail. Imagine its sale value today - it has a well-stocked longleaf forest of small sawlogs and poles.

In the early 1950's I assisted Kay Dexter in putting together much of the land base of Tennessee River Pulp & Paper Co. We were hunting for well-stocked land for $10 per acre and turned down many tracts that were not well-stocked. Our average cost for the first 70 M acres was about $19. per acre.

A few years later Les Pomeroy offered me five shares of the Wilmar Company, a land-holding company whose objective was to buy 10,000 acres of forest land and manage it. I paid $500 ($100 per share) in 1956. In the next 16 years the timber cut paid all expenses, bought more land and even paid a few small dividends. In 1972, the land was sold and I received $10,500 - 21 times in 16 years! That's an ROI of about 21%.

With these few examples I have painted a picture that says timberland has been an excellent investment. You all know that it has. In the past 40 years any one of us could have purchased timberland almost anywhere in the south at the asking price and come out with anything from a reasonably good to a fabulous investment.
In what other investment does the inventory increase at 5% or 6% and the values keep up with inflation and even appreciate in real dollars? In what other investment does the inventory change into a higher value product as it gets older? In what other investment has advancing technology added substantial values to the inventory? What other investment practically manages itself? Where else can you put your money where the income accrues tax free till you want it and then is treated as a capital gain?

Do any of you want to change your mind about your maiden aunt's $100,000?

The curve of rising forest land values probably reflects all of this. And yet today your own lack of enthusiasm for a forest investment says that we think the curve is flattening out. Your economic calculations usually show that the yield (in dollars, based on current prices) will not compare favorably with some or many other investments. Now if the rate of growth (that is, appreciation in dollar value) is also beginning to slacken, then forestry just doesn't seem attractive. Let me tell you that this same old trap has led me personally down the wrong path. We were saying the same things in 1947 and 1957 and 1967. Forest land and timber in our area of Louisiana has more than doubled in price in the last five years. That's 15% compounded. (But I have not yet bought those timberland equities!)

What is the ultimate outcome? What will happen in the next 10 years? I'd like to come up with a few ideas and then ask some of you to stand up and tell us what you see in your crystal ball.

I want to inject something here which is hot off the press - Dr. Moak's latest study of costs of forest practices, just published in Forest Farmer Manual. There has been this very desirable escalation in stumpage prices for timber BUT the costs of doing business in forestry have risen commensurately.

From 1952 to 1976, cost/prescribed burning increased by a factor of 18, cull tree removal times five, site preparation times 14 and machine planting times 5. If 1967 is taken as base year, wholesale commodities rose 83% to 1976, wholesale price of southern pine lumber rose 118%, and the costs of the forest practices just listed rose even more, as follows: Burning 128%, cull tree removal 130%, site prep 212% and machine planting 142%. Much of that increase has come in the last two years.

Mechanization was to be the solution to high-priced labor, but now the cost of machines and of their fuel presents us with another round of serious cost escalation, and the cost-price squeeze on forest production does not improve the future outlook for profits.
What can we expect in the future from the owners of private timberlands?

I cannot improve much on what the scholars have been telling us all these years. Charles Stoddard laid it all out in 1961. We quoted his classic study in the Third Forest Report - and I'll read a couple of his appropriate statements:

Continuous forestry on small ownerships has been unfavorably influenced by the rate of return on invested capital, the lack of liquidity of the forest investment, the property tax, current interest rates, and unavailability of credit. Other detrimental factors include absence of systematic marketing channels, limited price and market knowledge, frequent changes in ownership, and the lack of insurance programs. Many tracts are too small to justify forestry as a business venture.

"It is, therefore, not reasonable to expect that most owners will respond any more rapidly in the future than they have in the past to the variety of technical advisory facilities, economic inducements and risk-ameliorating efforts unless some important changes are made to bring about lowered unit costs of operation and management."

Our own Jack Muench, after studying thousands of landowners in North Carolina in 1964 had this to say:

"The return on forest investment when figured as a percentage of current liquidation value is, in general, poorer than most people realize. . . . Perhaps the poor participation rate from low income groups is a good clue that the low income forest landowner has been more rational in rejecting ACP forestry practices than society has been in recommending them".

Participation in programs involving conservative cutting methods and investments in forest practices appears to be related to one common factor -- the asset position of the landowner".

Phil Wheeler judged that owners of less than 10% of private forest land would practice intensive forestry by year 2000 - and another 20% would practice no forestry. The 70% of acreage owned by the balance would be subject to average forest management.

A large part of that 70% will do nothing unless persuaded or assisted or led or pushed. A large part of them will not put their own capital into forest regeneration or development. And
a considerable portion of them would think nothing of liquidating their growing stock.

Keville Larson, a consultant in Mobile, has long been an outspoken advocate for natural forest regeneration and his article in the new Forest Farmer Manual speaks well to that objective.

If private lands are to continue to be a viable source of timber in the decades to come, I believe as Larson does that we must save their growing stock. We professionals must get off of the kick that the only way to grow timber is intensively and quickly. Industry can do that, and a few private owners, but for the great majority of the acreage there is no way to get it done intensively and quickly. Our next best objective is to insure that all forest land is kept as productive as possible and is regenerated in some way at time of harvest.

Here is the real economic challenge of the next 10 years: At the same time that we are installing high yield forestry wherever we (or they) can justify it, apply common sense and professional know-how to all the rest of the acreage and keep it productive for a minimum cost. Use systems for natural regeneration, or direct seed, or plant. Above all, do not liquidate growing stock at the wrong time and lose that seed source and the control of the succession. If we manipulate well the forest we have, we may save ourselves those exhorbitant front-end costs for a new stand.

To this point we have been assuming that domestic and world demand will be steadily increasing and we will need more and more timber from the South. Or at least the land which remains in forest will be required to be more productive. I am convinced of this and the speakers this morning seemed to confirm it. And we also assume that we must attempt to hold at least our present ratio of pine and hardwood acreage.

Forest industry has been far in the lead in investing capital in forest productivity. To the extent that industry already owns the land, probably with a low basis, the incremental expenditures for intensive forestry have been bearable or justifiable up to this time. We are obviously going to be challenged to find ways to keep those costs down. To the extent that industry must buy land now to provide its forest production, it is difficult to see the pay-out. Large land owners might fill in small niches with high-priced land or justify additions for other reasons. Although industry never expects to sell its land to the next idiot, it must always be in competition with those who do.

For industry the big alternative is to grow timber on someone else's land - perhaps with some kind of long-term control, perhaps just to improve a given timbershed. Phil Wheeler
has said for a long time that maybe all the private landowner should contribute is his land - industry and the public should then help him make it productive.

In my own view of today's forest economics - that's the way we need to go in the next 10 years.