



Cooperative Extension Service  
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## Why Invest in Timber Production<sup>1</sup>

Michael Jacobson<sup>2</sup>

### Why Invest in Timber Production

What should a landowner do with his or her land? There are a number of alternatives. The choices include growing fruit or food crops, establishing a pasture for livestock, growing trees, selling it for development, or leaving it idle. This publication discusses the costs and benefits of growing timber. Understanding some basic information on environmental and economic factors can help a landowner make an informed decision.

#### Financial Perspective

Timber production is unlike most investments. A timber investor does not see any revenues until the trees are harvested. This can range from 10-40 years depending on the species and product. What makes such a long-term investment worthwhile? There are a number of reasons landowners grow trees instead of using it for other uses. From a purely financial perspective, the landowner will invest in timber if:

- a) the revenues received at harvest exceed the costs of establishing and maintaining the trees until harvest time; and
- b) timber provides a better rate of return than other investments, for example, growing agricultural crops or a bank CD.

### Other Perspectives

However, financial considerations are not the only factors a landowner can take into account before investing in timber. These factors are discussed under three broad categories.

#### Landowner's personal considerations and objectives

Is timber one of your forest management objectives? Timber production is one of multiple uses from managing forest land. Depending on the intensity and type of tree planting, timber production can be carried out concurrently with other objectives such as pine straw production, hunting and recreation.

#### Environmental, biological and legal conditions

Simply saying you want to grow trees is not enough. There may be certain conditions on the land that further encourage or prevent a landowner from producing timber. For example, what are the environmental impacts on soil, water, or wildlife from growing timber? Trees usually help reduce soil erosion and water runoff. Trees also provide suitable habitat for a variety of wildlife species. Timber production can enhance these attributes if they are important considerations. A landowner should also know whether the land is physically capable of producing trees. Soil quality should be analyzed to determine its capability to produce

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2. Michael Jacobson, assistant professor, School of Forest Resources and Conservation, Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida, Gainesville, 32611.

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trees. Also, legal restrictions or regulations may limit the use of the land for timber production. For example, in wet areas or along rivers there are restrictions on harvesting.

### **Economic and financial viability**

A landowner should consider the costs and returns associated with the timber production. There are a variety of analytical tools available for assessing costs and benefits. In some instances, benefits may be realized from non-monetary terms. Examples include the benefit a landowner enjoys from merely walking on the land.

### **Potential Costs (risks)**

All investments have costs and returns. In some cases the costs and benefits can be quantified in dollars. Quantifiable costs of timber production include preparing the site, planting the seedlings, managing the land, property taxes, and harvesting expenses. Quantifiable returns to the landowner include payments from harvesting the trees and other income from enterprises such as hunting or recreation leases or pine straw production. There are other costs (risks) and benefits associated with timber production that a landowner may wish to consider. The following is a checklist of potential risks (costs) and benefits from investing in timber production.

#### **Long wait until payment**

A landowner may need income annually. In timber production you receive timber after each harvest which can be many years. Depending on a landowner's income needs, annual hunting leases or periodic income from thinnings or pine straw may suffice in between harvests.

#### **Natural disturbances**

Hurricanes, wildfires, pest or disease outbreaks can destroy or damage trees.

#### **Higher financial returns**

Higher financial returns can result from alternative uses such as livestock or agricultural crop production. This depends on the markets for these products.

## **Potential Benefits**

### **Wider choice of markets for products**

In agriculture or livestock there is one product. When you grow timber you have a diversity of products ranging from pulpwood to sawtimber. A landowner can delay harvest until the market prices are favorable.

### **Multiple products**

In addition to timber, a landowner can receive income from hunting or other enterprises such as pine straw. Livestock production is also an option on timber land.

### **Intangible benefits**

Forests provide clean water, prevent soil erosion, and provide habitat for a number of wildlife species.

### **Value**

Trees can increase the underlying land value.

### **Time consumption**

Managing timber lands requires less time and labor compared to other land uses such as crops. After planting, the land needs only occasional maintenance such as firebreaks.

### **Cost-share funds**

Landowners can receive cost-share payments from the government for site preparation, tree planting and forest management. Most of the cost-share funds in government programs pay for a percentage of management costs such as reforestation or stand improvement. The Conservation Reserve Program provides annual rental payments for growing trees.

### **Tax credits**

Landowners can also receive reforestation tax credits for reforestation expenses.

### **Preferable tax treatment**

Landowners can receive preferable tax treatment for timber sales. Harvesting sales can be reported as capital gains rather than ordinary income.

## Comparisons

Table 1 compares the costs and benefits mentioned above among three alternative uses:

- 1) Do nothing -- leave it alone;
- 2) Convert to crops or livestock production;
- 3) Plant trees (reforestation).

## Summary

This paper is not intended to influence a landowner's decision but to provide information. It is shown that timber receipts are not the only benefit from investing in timber. Timber investments can be profitable for a landowner if they are willing to accept the long investment period. The keys to successful timber investment planning are understanding the potential risks and benefits of tree planting, gathering pertinent information, and then using the appropriate tools to make the wisest decision possible.

**Table 1.** A comparison of the benefits and costs for uses of your land.

<b>Benefit/Cost</b>	<b>Do nothing</b>	<b>Convert to crops/livestock</b>	<b>Reforest with trees</b>
Costs	none	high	moderate
Income	none	yes, annual	yes, periodic
Tax credits/deductions	possibly	moderate	good
Cost-share funds	none	none	yes
Increased land value	some	yes	yes
Wildlife enhancement	possibly	generally no	yes
Soil conservation	possibly	generally no	yes
Financial risk	no	yes	moderate