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# GEORGIA Landowners NEWS

A Newsletter from Southern Plantations Group, Inc.

*Spring 2006*

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## Reflections on South Georgia Land Prices

South Georgia land prices continue to reach new highs with prices being driven primarily by Florida land sales and 1031 tax deferred exchanges.

**How long will it continue and how high will the prices go?** Prices will remain high as long as Florida land sales continue. Indications are land sales in Florida may be cooling off, with some land options not being exercised. As with most markets, the land market will have changed before we realize it.

**Anecdotal evidence of land market cycles** suggests a 25 - 30 year time frame from high point to high point.

The last high point was 25 years ago in 1981. Land sales in our area were then

driven by high commodity prices and western European investors seeking asset protection. Changes in the world political situation contributed to this market reversal.

The previous market high and reversal occurred in the mid 1950's. In southwest Georgia, land prices were pushed upward by Midwestern and Northern investors and the continuing recovery from World War II.

The market reversal that occurred prior to the mid 1950's was in the 1930's, during the Great Depression. According to historical accounts, farmland prices in the US fell during the decade of the 1890's, again about a 25 to 30 year cycle.

**What does all of this prove?** It proves that farmland prices, or rural land prices, behave in a cyclical fashion, as do many other prices. Underlying explanations may vary from peak to peak, but the cycle remains.

**Factors affecting price:** In the past, land prices tended to reflect the productive capacity of the land, rather than aesthetic features and recreational uses. Today, land prices for rural land offering aesthetics, wildlife habitat, and water can be as high as or higher than prices for productive cropland. One underlying reason is more country land is acquired with Sec 1031 exchanges or non-farm income for recreational non-economic reasons, rather than for long term asset appreciation and annual income.

*By: Joe Marshall*



### Reasons for Selling Your Land

1. Land prices are at a cyclical high;
2. Increasing Ad valorem taxes;
3. Divide the inheritance, treat all equitably;
4. Bank CD rates outperform net farm rents;
5. It's easier to manage money than land.

### Reasons for Not Selling Your Land

1. Daddy said to never sell the farm;
2. Family enjoys recreational value;
3. Owners (family members) have a long range professionally designed farm and forest management program.

visit our website at [www.splantations.com](http://www.splantations.com)

# Essentials of a Good Lease Agreement By Jeff Peterson

The number one essential of any agreement is to deal with a good honest person. Agreements are only as good as the people who sign them. You may be able to sue to enforce an agreement in court, but no one really wins in a lawsuit due to the time lost to your normal business and mental aggravation.

**Written Lease Agreement:** To avoid misunderstandings, all agreements should be in writing and in clear, plain English. Not too long, but long enough to cover the essential points of the agreement. Before signing the agreement, read the entire document, and be sure you understand everything in it.

**Description of the Leased Premises:** Clearly describe what is being leased: the entire farm, or only the irrigated cropland, dry cropland, woodland, certain buildings, etc. Are all FSA crop bases being leased? If so, who receives the payments? Are the hunting or fishing rights being leased?

**Term of Lease:** Most of SPG's leases are for a one year term. The cropland leases terminate on December 31 or when all the crops are harvested, whichever occurs first. Leases typically grant the lessee (farmer-operator, hunter) the first right of refusal to lease the property for the next year on terms offered by the lessor (landowner) if the relationship has been satisfactory. This arrangement gives the lessee incentive to take good care of the premises. In most cases, multi year leases are not a good idea for the landowner. In reality they are option leases for the lessee, in that they continue as long as the lessee pays rent. Never make a lease agreement for longer than five years, and always have a termination clause in the event of sale of the property or death of one of the parties.

**Rent Payments:** State the amount of the lease payments, when they are due, and how they are calculated. Try to avoid adjustment clauses for planted acres.

Landowners should look for long-term relationships with farm operators and hunters. Having your property well-maintained is more important than squeezing the top dollar out of the rental market each year.

**Expenses:** List the expenses each party is responsible for, especially if irrigation equipment is involved. Typically SPG's leases require the farm operator to pay all irrigation repairs up to \$1,000 per occurrence with the landowner paying all over \$1,000 as long as the repair is not due to the farm operator's negligence.

**Maintaining the Premises:** This section is one of the most important parts of the lease and the most difficult to enforce. Required service on the irrigation equipment should be spelled out in the lease, and the operator should be required to keep a service log. Yearly soil samples should be taken with results furnished to the landowner along with the farm operator's fertility plan. Soil erosion is



a big problem on many farms. Specify that crop residue or cover crops be maintained on the cropland as long as possible. If your property has considerable slope, you may be better off taking less rent if the farm operator will employ conservation tillage methods. Require all trash, chemical cans, bags, and containers be removed from the premises. Specify crop rotations to ensure disease and pests don't build up in your soils.

**Condition of Premises:** The lease should state the lessee accepts the premises in "as is" condition, and will return the premises at the end of the lease in as good or better condition, less normal wear and tear. The landowner should make no warranty to the productive capacity of the lease premises or the sufficiency of the irrigation water supply.

**Liability Insurance:** The lease should contain a statement with both parties holding harmless the other party from its actions under the lease agreement. The landowner should obtain proof of at least \$100,000 of liability insurance (\$1,000,000 in the case of a hunting lease) from the lessee and the landowner should be named additional insured under the lessee liability insurance policy.

**Default Provision:** In the event either party fails to perform the requirements under the lease, there should be a provision to notify the other party within a reasonable time (15-30 days) to cure the default. If the default is not cured, the lease should clearly state the course of action available to the non-defaulting party.

**Summary:** Landowners should look for long-term relationships with farm operators and hunters. Having your property well-maintained is more important than squeezing the top dollar out of the rental market each year. Farm operators must make a profit, so they can stay in business, and reinvest in your property. I have seen landowners lease their properties to the high bidder each year, and watch their properties erode away, soil fertility decrease, and irrigation equipment deteriorate. When that type of property is eventually sold, it brings \$300-\$500 per acre less than a well-maintained property. A good lease agreement is one that is fair for both parties.

# Managing Planted Pine Stands

By Gary Phillips and Babe McGowan, Georgia Registered Foresters

## Recent Sales

### Calhoun Co., Ga, Nov 2005

6,005 acre Magnolia Plantation sold at public auction for \$2,866 per acre. The property consisted of 1,400 acres of center pivot irrigated cropland, 848 acres dry cropland, 578 acres planted pines, 687 acres upland woodland, 1,990 acres mostly cut over bottomland hardwoods, 92 acres in ponds, 12 acres in buildings area, and 398 acres very productive irrigated pecans. Building value was estimated at \$110,000 and timber value at \$885,000 or \$272 per wooded acre.

### Mitchell Co., Ga, Jan 2006

581 acres sold for \$2,009 per acre. The property consisted of 437 acres planted pines (98 acres 20 year old, 87 acres 12 year old, 252 acres 1 year old), 84 acres dry cropland, 60 acres of bottomland hardwoods. Timber value was estimated at \$103,000.

### Randolph Co., Ga, Jan 2006

1,054 acres sold for \$2,600 per acre. The property consisted of 475 acres center pivot irrigated cropland, 124 acres dry cropland, 100 acres pasture, 25 acres 9 year old planted pines, 30 acre pond, and 300 acres of bottomland hardwoods with no significant timber value. Quality of the property was fair to poor with sandy rolling soils.

### Baker Co., Ga, Jan 2006

495 acres sold for \$3,097 per acre. The property consisted of 356 acres center pivot irrigated cropland, 17 acres dry cropland, 46 acres wet crop/pastureland, and 76 acres of woods /other. Property was of fair quality.

### Mitchell Co., Ga, Jan 2006

232 acres sold for \$2,802 per acre. The property consisted of 163 acres center pivot irrigated cropland, 23 acres dry cropland, and 46 acres 8 year old planted pines. Property was of fair quality.

A wealth of scientific knowledge surrounds the planting of pine trees; however the science deteriorates greatly as we approach the first thinning and then is almost nonexistent beyond. Optimally, the forest landowner should map out a long-term plan to maximize the timber investment or provide wildlife habitat.

**Importance of Thinning:** Trees are biological growing organisms and their management must be based on maintaining the forest's health, rather than waiting for better timber prices. Stands managed by a professional forester and thinned



Using a professional forester and maintaining the proper density of sawtimber quality trees by thinning can maximize the landowner's investment.

regardless of prices are more likely to maintain the proper density of dominant trees and yield a greater financial income over time. A timely first thinning, properly done, dictates the success of the rest of the rotation. Although the first thinning usually nets the least amount of income, it is the most crucial operation in a plantation's life. You literally cannot afford not to do it right.

**Thinning Rotations:** A stand of planted pines is typically thinned as few as two times or as many as five. A normal planted pine rotation is 35 years depending on soil quality, climate, hardwood completion, and management. The progression over time yields a pulpwood thinning about age 12-15, a chip-n-saw thinning at age 19-21, a sawtimber thinning at age 25-27, and a clear cut at age 33-35. For most stands, this timber rotation maximizes the timber investment.

**Cleanup Thinnings:** Many of the first thinnings in South Georgia were done by

pulp companies using the operator select method (timber was not marked). This method left stands too dense and removed too many dominant trees from the stands, leaving stands stagnant and unhealthy. An earlier second thinning may be in order to correct the density, to remove the poor quality trees, and to release the stand to grow. Delaying a cleanup thinning is detrimental to the health and productivity of your forest.

**Timber Prices:** Currently pulpwood is \$8 per ton, chip-n-saw \$26 per ton and sawtimber \$53 per ton. The key to maximizing the timber investment is to maximize the amount of quality sawtimber produced from the stand by removing diseased, crooked non-dominant trees during the thinning process. A professional forester carefully selects the best trees, marking them with paint.

**Registered Foresters:** Forest landowners have the best chance of maximizing their timber investment profit by employing an experienced, registered forester to carefully select the highest quality trees capable of growing into a more valuable product (chip-n-saw or sawtimber).

Consulting foresters typically charge a 10% commission for a turnkey service. This involves marking the stand and supervising the harvesting operation. Most foresters will gladly visit your stand, advise you on steps to take and make a proposal at no charge. If the 10% commission results in a 40% increase in profit, this may be a worthwhile relationship.

**Summary:** To obtain maximum timber income, the stand must be healthy and growing in balance. With this in mind, walk your stand of planted pines and look around. If you see small spindly trees that are struggling for sunlight or find that there is little or no sunlight hitting the ground at mid-day, then it is very likely a further evaluation is necessary.

Professional foresters strive to leave a 40% live crown ratio on the desirable trees post thinning.

A properly marked stand that is maintained at the best density can easily double the value of the timber investment.

Gary Phillips and Babe McGowan are  
Georgia Registered Foresters

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Southern Plantations Group, Inc. (SPG) is a professional agricultural consulting firm specializing in real estate sales, farm management, farm and timberland appraisals, long term fixed interest rate lending, and farm accounting. For more than 25 years SPG has provided services to farm and timberland owners, lenders, and operators.

### Current Listings



**Long Leaf Pine Quail Hunting Tract:** 1,208± acre first quality quail, deer, duck hunting property located in the heart of SW GA plantation country 65 miles north of Tallahassee, FL. Paved road, Big Cypress Creek frontage, over \$800,000 in timber value, 360 acres of long leaf pine, 326 ac. hardwood pines, 12 acre cypress pond, 447 acres of cropland generating \$57,000 yearly cash rent.  
**\$4,181,800 (\$3,462 per acre)**



**Irrigated Crop Farm:** 483 ± acres in Sumter County with 370 acres of class I center pivot irrigated cropland, 68 acres of CRP pines, 45 acres of woodland, good deer hunting. \$73,500 yearly cash rent possible.

**\$1,700,000 (\$3,520 per acre)**



Call Joe Marshall or Jeff Peterson with questions about these and other properties.  
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**We have investors** who want to purchase recreational timber tracts and center pivot irrigated cropland with or without a lease back from the owner. If you are thinking about selling your property within the next few years, this may be the best time with such an active market.

**Please call for a confidential consultation.**

### COMMODITY PRICES

Futures	March 06	March 05
Corn	2.30	2.20
Wheat	3.60	3.48
Soybeans	5.80	6.40
Cotton	.55	.52

Commodity prices are stable and in the low end of the range for the past 5 years.

### Long Term Interest Rates

SPG offers low-interest fixed rate loans up to 30 years amortization to landowners. Lower rates with excellent credit. Rates change daily. Call for more information on our long term loans.

**5 Year 6.95%**  
**7 Year 6.84%**  
**10 Year 6.84%**  
**15 Year 6.84%**

### LOCAL TIMBER PRICES

Pine Pulpwood	\$7 - 9/ton
Pine Chip-N-Saw	\$25 - 27/ton
Pine Sawtimber	\$50 - 55/ton
Hardwood Pulpwood	\$8 - 10/ton
Hardwood Sawtimber	\$22 - 35/ton

Timber prices are rising and are in the upper end of the range for the past 5 years.