

# PURCHASE: Take time to do research to ensure that you make the right choice

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pensive (40 to 80 cents per foot), most land buyers make a rough check on acreage and live with the ambiguity. Examples of rough checks include plotting the boundary lines as indicated by the tax map on a topographic map or aerial photograph with known scale. Another example is pacing the boundary lines (assuming they are visible on the ground) which is also a good way to check for encroachments by your neighbor (a loss not covered by title insurance).

Your forester can help you do this and may have a GPS which also provides a good rough check. Sometimes a lender, seller or buyer will require a survey. But unless there is reason to suspect a problem, a rough check will find serious errors and save a lot of money if you can live with a little uncertainty.

## Confirm the timber value

Timber can be worth as much as \$4,000 per acre. Also, a property that looks clear-cut along the road may have excellent timber on the back side across the creek.

If a property is timbered, it's a good idea to have a consulting forester walk the property for a rough check on timber value. Testing the validity of the asking price of a property will require you to have some idea of the timber value. Many times, a walkover is enough of a check if the timber has unexceptional value. The cost of a walkover will be somewhere around \$400. However, most foresters will give credit of this cost

toward a formal appraisal if the walkover indicates a timber cruise is in order. A timber cruise is the process of counting and measuring the trees.

A timber cruise and appraisal will typically run \$4 to \$8 per acre, depending on circumstances. However, it's a small price to pay for peace of mind (and good info for establishing your timber tax basis).

## Test the asking price

It's not unusual for land sellers to have an unrealistic opinion of value. So independently testing the asking price is very important and having some facts makes your decision more certain.

Study actual sale data. Get an appraisal, retain a real estate professional or go to the courthouse yourself. Otherwise, your estimate of fair value will be shaped by coffee-shop talk or what an owner asks for their land — all poor guides for fair pricing.

Sale data is available at the county probate office if you know how to search. Be sure the sale data you consider is of property similar to the property you are looking at (similar size, location, timber value, access, land quality and use). If the property is listed with an agent, that agent should be able to provide you with comp sale data. However, some agents and most landowners don't look at this data before setting an asking price.

## Examine the title

A title exam is a written report on the legal history of the property. It identifies the claims of others in the land (for example, a long-lost cousin with a



Photo Metro

**When you buy** rural property, you are buying a part of a rural community, drive around the property you are interested in and see what the neighborhood looks like. Do the neighbors show pride of ownership? Also, the stronger the rural neighborhood, the better chance you have for real estate appreciation and less chance for devaluation.

1/64th interest) informs you of the limits to your rights as the new owner (for example, rights of the power company which has a transmission line across the property or a neighbor with a road-use easement). It can identify mineral interests or the legal condition of the road to the property (just because there is a road does not mean you have unrestricted use of it).

Many people take this step after a contract is signed. In our experience, a title exam is a cheap way to find a deal killer early, saving time and money. A title exam (also called a binder) can be purchased from a local attorney or title company, will take about

a week to complete and typically runs about \$300.

## Determine if you will use debt

Land and timber investments rarely earn the loan payment and your cash may be needed for other matters. Finding the right balance of cash and debt is important, so talk to your financial advisors early in the process.

## Contract negotiation

Once a price is agreed upon, there will still be things to work out between you and the seller. For example, who pays for title insurance, closing attorney, survey if needed, mineral inclusion, cost to get the deed recorded at the court-

house, loan costs, etc. It's good to address these issues early in the negotiating process.

## Setting up tax basis accounts

Once you buy the property, it's a good idea to set up two accounts for tax purposes (known as your basis).

Determine the value of your timber at the time of purchase (your timber basis), then the balance of the purchase price is allocated to land (your land basis). The purpose for this is to allow you to calculate capital gains tax should you sell some or all of your timber or land later on. Capital gains tax is only charged on the amount of gain from

a sale above the amount of your basis.

## Current use property tax status

Current use is a special property tax status that allows rural land to be taxed at a lower rate than other types of real property.

Current use can reduce your tax bill by 50% or more. The tax assessor's office in your county can verify the tax status and help you apply for current use if you do not already have it.

*The preceding article appeared in Treasured Forests, a magazine of the Alabama Forestry Commission and is an excerpt from Tom Brickman's e-book, "Buying Rural Land: Tips & How-To's."*



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