

Land ho! Now's the time to buy

If you act quickly, you can get into companies with hard real-estate assets before the coming herd of overseas investors does. Land also offers some protection against a bigger market downturn.

By Jim Jubak

There are bargains out there in real estate that you ought to buy right now.

No, no, stop laughing. I'm serious. All right, wipe that smirk off your face. Give me some credit. Of course, I don't mean shares of home builders. I still wouldn't touch them with a 10-foot pole. And I don't mean mortgage lenders, big banks or Wall Street mortgage traders. Those are toxic and likely to get more so.

No, the kind of real estate I mean is the kind you can walk on but can't bundle into a tranche and resell. Real assets that don't evaporate when the rocket scientists on Wall Street get it wrong. You know, the earthy stuff they're not making anymore, except in the Netherlands.

The stuff that overseas investors with U.S. dollars burning holes in their pockets will buy to diversify their portfolios away from U.S. Treasury bonds and to protect their holdings from any further decline in the dollar.

Land, I believe it's called.

Buy ahead of the herd

Today, you can find some great bargains on land in the U.S. stock market, if you know where to look. Buy now, and you'll collect a dividend in many cases that will give you some income while the stock market works its way through the current mess.

Land also offers some downside protection in case stocks as a whole head further south. Buy now, too, and you'll own these assets ahead of the herd of overseas investors that will discover this asset class, once panic passes in the wake of the meltdown in the U.S. market for mortgage-backed debt.

In my previous column, "5 ways to ride out the market's storm," I described how the falling dollar and the mortgage crisis make up a perfect storm that has left overseas investors in U.S. stocks and bonds facing unattractively low interest rates and unattractively low (or negative) returns on stocks. The dollar's fall will cause them to lose money in their home currencies even if U.S. stocks hold steady.

An increasing number of overseas investors are joining the global search for alternatives to dollar-denominated investments, looking to stocks in China, India and Brazil; real estate in Hong Kong; Australian dollars and Icelandic krónur; gold and silver; and commodities and commodity producers.

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- **Discuss with Jim Jubak:** Do you think land is a smart investment now?

At some point, though, those same overseas investors will realize that U.S. real estate is a great hedge against what they fear most: an attack of runaway inflation in the United States. A physical asset such as land goes up in value when inflation soars. At some point, those overseas investors will notice that land in the U.S. is cheap enough that any recovery in the American economy will produce windfall profits.

☞Jubak's Journal: Market moves to ignore

Wall Street has been rocked by short-term market volatility in recent weeks. But MSN Money's Jim Jubak suggests

that investors ignore these fluctuations and instead look at long-term trends: the aging world population, increasing inflation and the rise of developing economies.

And land is a particularly attractive investment for investors looking for long-lived assets to match long-lived obligations. That's a group that includes all of the world's pension funds, the entire insurance industry and the new sovereign investment funds set up by Russia, China and other developing economies with big foreign-exchange balances to invest. The group also includes anybody -- yours truly, for example -- who's planning for a retirement 10 years or more away and that, we all hope, is likely to stretch on for a decade or two or three.

In my Aug. 10 column, "How Wall Street got into this mess," I argued that the root of the crisis that has engulfed Wall Street was the global shortage of high-quality, long-term debt -- mostly bonds, which pay a relatively safe and steady stream of income:

"The global investment community wanted to believe that Wall Street and other centers of financial engineering could manufacture investment-grade, long-term debt to meet the huge demand of insurance companies, pension funds and central governments for predictable, long-lived and safe interest-paying investments. Because the need for this paper was so great, these investors were willing to suspend disbelief. They knew in their heads that you can't manufacture investment-grade debt. But in their hearts, they wanted to believe. They needed to believe. They had to believe."

Continued: A solution -- with a catch

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Back then, I summed up the reasons these otherwise sophisticated investors had abandoned common sense this way:

"You see, it's the only way out for an aging world that's running a huge shortage of the real stuff. Investors were all too willing to buy fake investment-grade paper -- at prices commanded by the real investment-grade stuff -- until finally the con was revealed and assets were marked to market at 50% or less of their assumed value."

A solution for retirement -- with a catch

Buying land won't solve the global problem created by a shrinking supply of long-term investment-grade paper when an aging global population is creating a soaring demand for that kind of asset. There isn't enough land to do that. But buying land at a time when global demand for this kind of asset is climbing could solve the long-term, investment-grade asset problem posed by your own retirement.

There is, however, a catch. There's always a catch. Although I believe buying land via the shares of land-rich U.S. companies is a great way to fund a long-term retirement, I can't tell you how long it will be before the market discovers the value in these stocks and bids them up in price.

- **Discuss with Jim Jubak:** Do you think land is a smart investment now?

It could be within the next six months, as investors stop shying away from everything remotely connected to the mortgage meltdown. Or it could be later in 2008, when investors begin to look past the still-developing U.S.

economic slowdown. Or it could be as far off as 2009, when I expect the home-building industry to show clear signs of recovery.

That uncertainty is why I'd prefer land stocks that pay a good dividend. That way I'd get paid every quarter to wait for the long-term gains to kick in.

So I'll continue to hold **Tejon Ranch** (TRC, news, msgs) in Jubak's Picks, even without a dividend, because at a stock price that I calculate is equivalent to less than \$6,000 an acre, this owner of 270,000 acres within 60 miles of Los Angeles is just too good to pass up.

But with the direction of the stock market so uncertain and the timing of a return to a "normal" bull market so uncertain, I'd rather own shares of a land stock such as **Rayonier** (RYN, news, msgs) that pays a healthy dividend (currently 4.35%). Rayonier owns, controls or leases about 2.7 million acres of timberland. Some of that - what's known as higher- and better-use land -- is more valuable for development than it is as timberland. I'd estimate that about 400,000 acres fall into that category.

Of this higher- and better-use land, Rayonier owns 200,000 acres in the Georgia-Florida coastal corridor. The company recently sold 3,100 acres of that for about \$15,000 an acre. At a recent stock price of \$47.71, my estimate of 400,000 higher- and better-use acres means that by buying Rayonier shares, you can buy an acre for \$9,300. See the potential for some real-estate appreciation here?

And the gains could be even better than that per-acre figure implies because I'm assuming the land-hungry investor cares only about the value of the company's land and thinks the rest of the company's business is worthless. Now that's certainly not true. In fact, it's the other businesses of Rayonier and two other companies I mention below that enable them to pay investors dividends while we wait for land values to rise. And those timber-to-wood-products businesses are themselves good plays on the rising demand for paper, wood products and timber as economies such as China's and India's accelerate. But my simplified calculations work well enough to show investors how undervalued land is at companies like these.

Some dividend-paying ideas

Let me give you two other dividend-paying land stocks:

- **Plum Creek Timber** (PCL, news, msgs) paid a dividend of 3.9% as of Nov. 13 and owns about 8.2 million acres of timberland in the U.S. The company estimates about 1.2 million of those acres qualify as higher- and better-use land. At a recent share price of \$44.46, those premium acres go for \$6,400 apiece.
- **Pope Resources** (POPEZ, news, msgs) paid a dividend of 4.05% as of Nov. 13. The company owns about 115,000 acres of timberland and 3,000 acres of developable land within 50 miles of Seattle. Using my estimate of 14,500 higher- and better-use acres, the current stock price works out to \$13,400 an acre. (Pope Resources operates as a master limited partnership. Talk to your accountant about the tax consequences before you buy shares.)

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How much of this stuff should you put in your portfolio right now? Easy does it, I think. In the current market, you would like to lower the risk of your portfolio, and dividend-paying stocks like these will do that for you. At the same time, I'd advise raising some cash right now by selling into rallies. That will also lower the downside risk of your portfolio and give you the cash to buy any deeper bargains that emerge as the mortgage crisis continues to work its way through the market and the economy over the next six to 18 months.

Following my own advice, I'm going to add Plum Creek Timber to Jubak's Picks with this column, but at the same time I'm going to sell two stocks out of the portfolio. The net result is that after the buy I'll have upped my cash position in the Picks portfolio to 9% from 6%.

Continued: Updates and developments

Buy Plum Creek Timber (PCL, news, msgs).

They're not making any more land, and someday soon I expect overseas investors to figure out that a long-lived asset such as land is exactly what their portfolios need. At a recent share price of \$44.46, an investor in Plum Creek Timber was buying the company's 1.2 million acres of higher- and better-use land -- acreage that will one day host houses and commercial buildings -- plus 7 million acres of other timberland. Timber operations and wood-products manufacturing accounted for 80% of the company's \$1.63 billion revenue in 2006.

Plum Creek, which is organized as a real-estate investment trust, paid a dividend of 3.9% as of Nov. 13. As of Nov. 16, I'm adding these shares of Jubak's Picks with a target price of \$49 a share by October 2008.