

Considering Leasing Contracts for CRP Trees

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Introduction

At expiration of the CRP contract the forest landowner may be interested in long term management of his/her timber resources by leasing their timber land. An individual or company that specializes in timber leases can ensure adequate growth, protection, and productivity through knowledgeable management skills. However, a word of caution is due. **BE SURE THAT YOU KNOW WHAT YOU ARE GETTING INTO BEFORE SIGNING ANY TIMBER LEASE.**

There are usually two types of leases available to the owner: (1) single, up front lump sum payment, and (2) annual increment payment. The owner should determine, in consultation with his lawyer and forester, which type lease is most beneficial to his individual needs. Stipulations and responsibilities within the lease should be examined carefully to be sure that they are clear and understandable. The following information can help you examine common assumptions to consider for these:

Some timber lease assumptions

Landowner may:

- Retain land ownership.
- Pay annual land ad valorem taxes.
- Retain hunting lease rights.
- Retain pine straw lease rights.

- Control ingress and egress.

Lessee may:

- Pay lump sum or annual lease payment to landowner.
- Assume fire protection responsibility.
- Develop prescribed fire program.
- Assume general tree management.
- Use best management practices (BMP's), including roads and streams.
- Assume risk of loss from: flood, wildfire, insects, disease, storms, etc.
- Pay ad valorem tax on trees at harvest.
- Pay all marketing and harvesting related costs.
- Maintain legal boundaries at lease end.
- Clearcut stand at end of lease.
- Regenerate trees after clearcut.
- Control ingress and egress.

Reasons for landowners to lease timber stands:

- Earn annual income from tree crops.
- Lease rate based on your trees: stand conditions, tree species, market area, site index, etc.
- Benefit from high level of management knowledge of lessee.
- Transfer risks of tree production loss and marketing to lessee.

Reasons for landowner not to lease timber:

- Leasing company reputation is questionable.
- Wants to ensure greatest freedom and flexibility.
- Has adequate timber management ability.
- Seeks to earn all returns from trees (management, risk, labor, capital, etc.).
- A binding, legal contract is difficult to break if unforeseen circumstances develop.

Landowner options without timber lease:

- Provide own timber management/marketing expertise.
- Hire high quality timber management/marketing expertise through professional forestry consultant.
- Assumes all risks of profit or loss from growing trees.
- Freedom of unencumbered land ownership.

Implications for the CRP landowner

Keeping these lands planted in trees will reduce soil erosion losses while increasing the future supply of timber in Georgia. Other benefits of keeping CRP land in trees include improved water quality, enhanced fish and wildlife habitat, reduced stream and road-side sediment, and reduced production of surplus agricultural commodities. In addition, pesticide application on forest land is greatly reduced relative to row-crop land.

Landowners can earn their greatest monetary returns by growing their own trees from planting to financial maturity. But, more landowner inputs are required to grow their own trees. Generally, fewer dollars are earned by landowners leasing their trees. Also, realize that less landowner inputs are required when leasing. However, with leasing, cash-flow is greatly improved for the landowner. Leasing remains an important option and can be a win/win experience for landowners and lessees. When examining any lease option, landowners should consider the following:

- Leasing trees is a new option -- Go Slowly.
- Check-out leasing company.
- Consider leasing only part of timberland.
- Consult a lawyer before signing any lease agreement.
- Lease only the specific resource (growing trees), not full use of the land.