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Land ho! Now's the time to buy

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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.

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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.

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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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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.

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%.

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