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Forest Reserve Tax Exemption



An August 17, 2004 article in *The Des Moines Register* about the forest reserve property tax exemption reveals some interesting information:

- Iowa, Delaware and Alaska are the only states that offer complete tax exemption for land classified as a forest.
- The exemption is claimed on only about half of the Iowa acres that are eligible.
- About 92% of Iowa’s 2.7 million acres of forests are privately owned.
- The number of acres exempted for forest or fruit trees in each Iowa county last year ranged from none in Osceola County to 33,186 acres in Allamakee County.

To qualify for the forest tax exemption the land must meet the following criteria: At least two acres with 200 trees on each acre; No livestock or anything other than trees that could result in economic gain; One acre is excluded if any buildings are on the property; No more than 20 percent of the trees can be removed in one year except through natural death; Orchards of at least 40 apple or 70 other fruit trees per acre are also exempt from property taxes for up to eight years. Forests can remain tax-exempt as long as they meet the law’s criteria. The *Register* article reports that Polk County alone has more than \$17 million of property exempt land through the forest reserve. Des Moines city leaders, who first learned about the exemption from *The Des Moines Register* as part of the reporting for this article, expressed outrage. “This is why we can’t pay our bills,” Councilman Michael Kiernan said. “It’s exactly why we’re short of revenue.” The 98 year old law designed to protect wildlife and preserve soil has its critics. Some state lawmakers plan to address the exemption in next year’s legislative session.

Will the Current Increase in Land Prices Continue?

The opinion of many experts is that the current increase in land values is not sustainable due to the specter of higher interest rates. Demand and prices will be strong – just not what we’ve seen in the last year. There are a number of factors to support and refute such a view. The time allowed between when a tax-free exchange is made and an alternative property is found may extend the rally beyond the initial interest rate increases. A shortage of land for sale is another problem in some areas. When a property does become available, buyers are willing to pay top dollar. Also, developers who receive a return for their land several times over what they paid are less concerned about paying a higher than average price for land in another area. Since USDA statistics categorize 19% of all farmland as lying within a Standard Metropolitan Statistical Area (SMSA), a recovering economy should lead to higher demand for development and replacement land. The lack of attractive investment alternatives is another positive for land. Inflation resulting from higher energy costs and an improving economy make land an attractive inflation hedge. The negatives include higher interest rates and lower than expected crop prices and exports.

Average Price Per Acre			
<u>District</u>	<u>2003</u>	<u>2004</u>	<u>% Increase</u>
NW	\$2,422	\$2,631	8.6 %
NC	2,402	2,521	5.0
NE	2,092	2,260	8.0
WC	2,191	2,285	4.3
CT	2,466	2,611	5.9
EC	2,383	2,432	2.0
SW	1,518	1,677	10.5
SC	988	1,113	12.6
SE	<u>1,616</u>	<u>1,669</u>	<u>3.2</u>
State	1,918	2,027	5.7

The table at the right outlines Iowa land price increases for the first seven months of this year compared to 2003.