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MARKET NEWS

With the election behind us and more business-friendly policies on the horizon, we hope for stability with a cautiously optimistic outlook for timber markets. Federal Reserve Chairman Powell recently addressed federal economic policy and the economic outlook. One of his comments was that new presidential mandates will take a full year, and likely two, before the impacts are felt. The implication is to expect relative stability for some time and to be patient for any new presidential mandates to be impactful.

There are concerns that tariffs that are sure to be imposed on imports will have a negative impact on consumer costs, and this may prevent housing construction demand from ticking up. There have also been some rumblings of a market correction as it relates to the stock market. One analyst likened the stock market's growth to a tree stating, "A tree, like our economy, can only grow so high before it has to put on some girth to support all that height." The implication is that our economy has been growing beyond its ability to support it long term, but we hope more business-friendly policies will bolster the economy for the longer haul.



Want to build a snowman at the Arkadelphia office?

Housing starts 3rd quarter 2024 were 1.35 million while the target for long-term stability is 1.5 million. We hope this means there is some room for growth and improvement in the market that will trickle down to our timber prices.

The national economy is the backbone for timber markets, but local markets are what we see and feel more. Locally, we've seen improved pine pulpwood markets in our western region, or at least a return to normal pulpwood demand when compared to 2023 demand. Paper Excellence Group recently acquired Domtar and Resolute Forest Products. Both will be operated as Domtar and will be referred to as Domtar-Ashdown and Domtar-Glenwood. Each will continue to purchase the same forest products as before. Pine pulpwood markets in central and east Arkansas are almost non-existent due to oversupply, limited markets, and distance to mills. We encourage taking any opportunity to thin and promote growth into sawtimber size stems. There are some alternative methods for thinning stands that we are examining to determine if they are feasible.

In November, Weyerhaeuser announced the planned construction of a new \$500 million TimberStrand® facility between Monticello and Warren, Arkansas. Construction is expected to begin in 2025 with the goal of starting operations in 2027. TimberStrand® is an oriented strand engineered wood product. Once operational, it is anticipated the mill will utilize smaller diameter fiber logs. Most of the feedstock will likely come from Weyerhaeuser lands but could relieve some pressure on existing markets serving Kingwood clients. It is very promising to see such a significant investment in a new facility in south Arkansas.

LITHIUM: THE NEXT “WEST TEXAS OIL BOOM”?

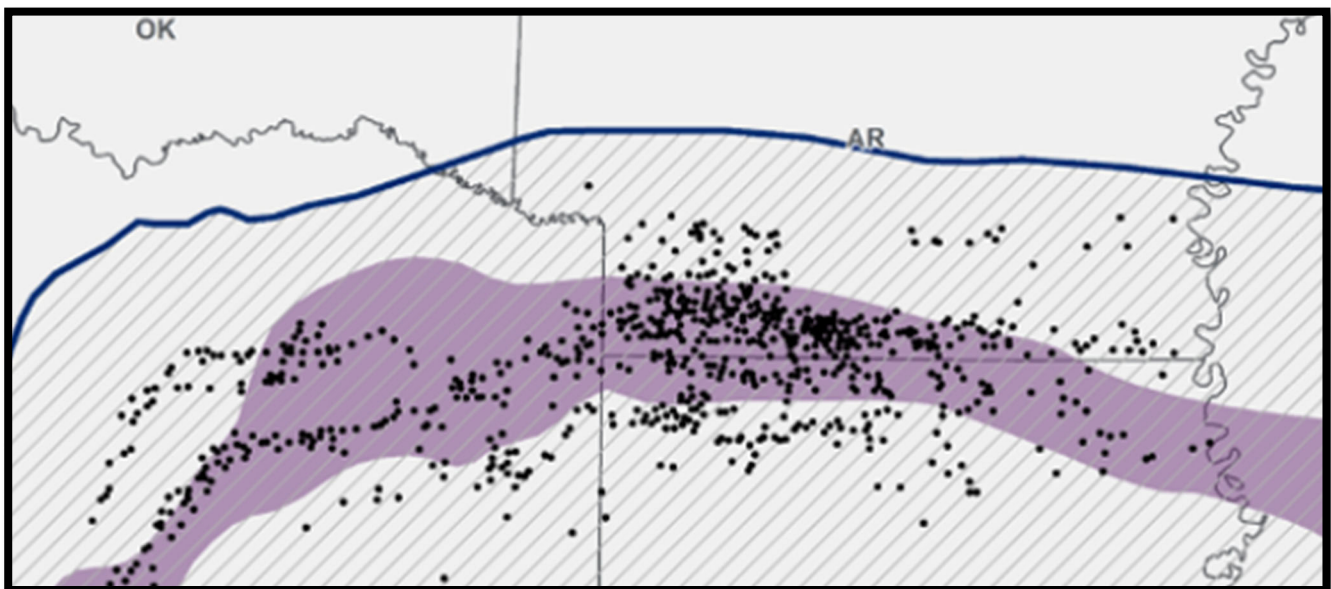
There’s gold in them thar hills! Well maybe not gold, but lithium. The big news of 2024 in Northeast Texas and Southwest Arkansas is the discovery of lithium; lots of it. The U.S. Geological Society announced in October that the Smackover geological formation may contain enough lithium to support the entire U.S. demand for lithium by 2030. Several test operations have been used from El Dorado, Arkansas, west through Mt. Pleasant, Texas. The amount of lithium discovered in this region increases the farther west you travel with reportedly about three times the lithium found in Texas compared to Arkansas.

This is a nascent industry for us that still has a lot of financial and chemical hurdles to overcome. Effectiveness of the process to extract lithium from the brine is a concern. Whoever cracks the code for the extraction process will be the leader of the pack. Concerns of the corrosiveness of the brine will need to be overcome. Some feel it’s too big a hurdle to allow this nascent industry to mature. The chemists have a challenge ahead of them.

Expect to do some research regarding lease rates paid and royalties offered. Initial lease rates offered by companies are typically anemic when compared to fair market values being paid. There are several companies attempting to secure these leases, so you are not tied into a single company. Royalties have not been set in Arkansas at this time and there is a current lawsuit with Arkansas Minerals Association and Oil and Gas Commission to set these rates. The royalty being negotiated through the lawsuit in Arkansas ranges from 1.82% to 12.5%.

So, what does this mean for timberland owners in this region? Lithium extraction requires a relatively small footprint. We expect surface damage acreage to be minimal when compared to the west Texas “pockmark” look with a well located every 40 acres. Be alert to the need to recoup surface damages for lost timberland and to protect your interests. Your local Kingwood forester can help you with the surface damage appraisals and a good attorney will protect your interests legally.

Your local Kingwood forester can be a good repository of information to share your experience so we can help more of our clients navigate the potential lithium boom. We are learning too.



ARE MY SEEDLINGS OK?

Tree planting season is upon us once again. Machine planting is underway and will be followed closely by hand planting. Each year, we field numerous phone calls throughout the winter from clients concerned about the health of their seedlings prompted by unusual coloration.

Through the winter you can expect to see a wide variation in the color exhibited by the seedlings. Coloration may range from yellowish green to purple. The purplish color typically creates the highest level of concern for landowners. The purple color is related to the seedling preparing for dormancy and is considered normal. If you can bend a needle without it breaking when you see this color change, you are fine. If the needles snap, you may have an issue.

As always, contact your Kingwood forester if you have any questions or concerns about your seedlings.



STEPPED UP BASIS—WHAT IS IT AND WHY IT'S HELPFUL

No one wants to pay unnecessary taxes, but as the old saying goes, “Only two things in life are certain; death and taxes.” When we talk about a stepped-up basis, we are talking about both.

First, let’s start with what a basis is, then we will move to what a stepped-up basis is and how it helps you. Basis is the amount of capital investment in a property. For example, if you buy a piece of property with \$100,000.00 of timber on it, your timber basis is \$100,000.00. If you immediately sell the timber for \$100,000.00, you will not pay income tax. Taxes are only paid on a gain in your investment and not for any portion of your basis. (This same logic follows the value of the land, but for now, we are just referring to timber since gains in land values are only realized upon death or sale of the property.)

Let’s use the same scenario as above but assume you wait 10 years and then sell the timber for \$150,000.00. This would be a gain of \$50,000.00 and you would only pay capital gains tax on that amount above your basis. The \$100,000.00 would not be taxed.

Under the IRS tax rules, if you inherit a parcel of land, you can take a stepped-up basis. This means that your basis is the value as of the date you inherit the property, which is typically the date of death of the person you inherit the property from. Following the previous example, if you pass away after 10 years and value of the timber is \$150,000.00, your heirs will get a stepped-up basis of \$150,000.00, meaning this is their new basis. Therefore, they can then sell timber up to \$150,000.00 tax free.

However, if you receive the property as a gift from your family, you only get the basis that they have left in the land and timber. For properties that have been in the family for many years, their basis could be very little. This means you will pay significantly more capital gains tax through gifted property than through inherited property.

Whether you recently inherited a piece of property, or inherited it several years ago, contact your local Kingwood forester to make sure you get a timber appraisal to establish your basis to defend that value to the IRS. This will save you quite a bit in taxes for the future. Also, always seek counsel from a qualified tax preparer.

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STAFF NEWS

- ⇒ John McAlpine was recognized as the Forestry Communicator of the Year at the annual meeting of the Arkansas Forestry Association. Good job, John.
- ⇒ Pete Prutzman (Retired) was inducted to the Arkansas Foresters Hall of Fame at the 2024 Ouachita Society of American Foresters conference. There are only twenty-seven Foresters in the Arkansas Hall of Fame, established in 1994. Congratulations, Pete!

Don't forget to check us out online at www.kingwoodforestry.com