Ties to the Land
OSU Oregon State University

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Sweat Equity in the Tree Farm

By Clint Bentz

Jane, Sue and Rick (not their real names) inherited their tree farm from their parents 15 years ago. Jane lives within 10 miles of the tree farm, and Sue and Rick live out of state. They each own one third of the farm. Jane has managed the property and paid all of the bills for the last 15 years. Sue and Rick have been passive owners. Jane has never asked to be paid for any of the work she has done and the little money that has come from the property over the last 15 years has been used to pay the property taxes and other bills. Jane called me with a problem I have heard many times before.

"My brother and sister want to sell the property to me. We are all retirement age and they don't have any children that are interested in owning the property. I want to buy this property in order to preserve this family heritage for my own family" she said. "The property is worth around $1.5 million, so that means I need to come up with around $1 million to buy them both out." She went on to tell me that "the problem I am having is that I feel I have earned some sweat equity in the property for all of the work I have done over the last 15 years, but don't know how to value it or even how to talk to my brother and sister about it." She added, "Can you help me figure this out?"

How do you put a value on the time and effort that family owners invest in the property? Jane's real problem is that she has provided these services for free for 15 years, and only now wants to start this discussion about what her time was worth. It is a recipe for bruised feelings at best and broken relationships at worst.

When Mom and Dad owned the property, there was no question about compensation. They owned it, took all of the risk, and reaped all of the reward. Sue and Rick were happy to let Jane do all of the work, yet the three of them have never had a conversation about how to compensate her for her time. Since there was no income in most years the question of paying Jane never even came up. However, now that money will be changing hands it is only fair that they compensate Jane for her work.

In my experience, family members are reluctant to have an open-ended conversation about paying money to each other. They want some framework for the discussion and some boundaries so that they know what is being proposed. Since the first question that will probably come from Sue and Rick is “how much are you talking about?” I worked with Jane to figure out a range of what her services were really worth.

The short answer to how much these services were worth is what would you have paid someone of equal skill, ability, passion, and commitment for the same work? In order to find this out, we needed to quantify what she actually did and how much time she spent doing it. She spent on average 8-10 hours per month (100 hours/year) paying bills and doing the bookwork for the farm. She also spent 200-400 hours per year managing the property, hiring contractors, doing odd jobs around the property, and reporting to her brother and sister about what was happening on the farm. In her area, she would pay $50/hour for a quality bookkeeping service to pay bills and maintain the books, and $90/hour for a top notch consulting forester to take responsibility for all of the management of the property. That meant that the family would have been paying $25,000 to $40,000 per year for these services that Jane provided for free. For fifteen years this added up to $375,000 - $600,000.

I suggested she start the conversation by letting her brother and sister know she was interested in purchasing the property, but that the purchase price needed to be adjusted for the time and effort she had invested maintaining the property for them all of these years. We prepared a report showing our research and calculations for the value of her time, and she asked that her purchase price be reduced by $400,000 to compensate her for her sweat equity.

While the three of them had a fairly close relationship, this was a very difficult negotiation which they ultimately resolved after several extended discussions. The bottom line is that all of this heartache and strain on their relationships could have been avoided if the three of them had decided upon a fair way to compensate Jane when they first acquired the property.

Clint Bentz is a CPA living in Oregon with his wife and six children. His practice is centered on helping family forest landowners deal with intergenerational succession issues. He is the principal author of “Ties to the Land: Your Family Forest Heritage.” Clint’s family was recognized as the 2002 National Outstanding Tree Farmers of the Year. Clint is the chairman of the National Operating Committee of the American Tree Farm System, and is a trustee of the American Forest Foundation. He welcomes your comments and questions at cbentz@bcsllc.com or (503) 769-2186.