
U.S. Timberland Investment Markets

Brooks Mendell, Ph.D.

Forisk Consulting

bmendell@forisk.com

Society of American Foresters National Convention

October 26, 2006 – Pittsburgh, PA

Overview of key themes

- Investment activity and ownership changes
- Investment structures: TIMOs & REITs
- Risk management and financial contracts

Southern timberland markets had 9 transactions >50,000 acres in 2004 alone.

■ Major deals:

- Boise Cascade to Forest Capital Partners
 - ~750,000 acres in AL and LA
- Hancock to Forest Investment Associates
 - 321,000 acres in AL, FL, MS, NC, and SC
- Weyerhaeuser to various
 - 270,000 acres in GA

Over \$1.1B of “Georgia only” industrial timberland transactions have closed since 2000

Year	Seller	Buyer	Acres	Price_Acre
2000	Packaging Corp.	Southern Timber Ventures	385,000	\$649
2002	International Paper	NA	31,000	\$1,129
2002	International Paper	NA	30,000	\$1,167
2002	International Paper	NA	21,000	\$1,300
2003	Bowater	Wachovia	82,000	\$1,500
2003	Dupont	Gift to Conservatory Fund	15,900	\$799
2003	International Paper	Private Investor	45,500	\$655
2003	International Paper	Hancock	55,400	\$948
2003	MeadWestvaco	Private Investors	34,000	\$1,471
2003	Temple Inland	Private Investors	40,100	\$1,200
2003	UBS Timber	Langdale	16,000	\$1,088
2004	International Paper	Private	15,700	\$955
2004	International Paper	Private	13,100	\$1,031
2004	Weyerhaeuser	VFI & RMS	270,000	\$1,481
2005	Treesource LLP	Crescent Timber LLC	5,563	\$2,200

1,060,263

Maine dominated recent Northeast timberlands transactions.

Northeast timberland transactions over 20,000 acres in 2004, Q1 2005

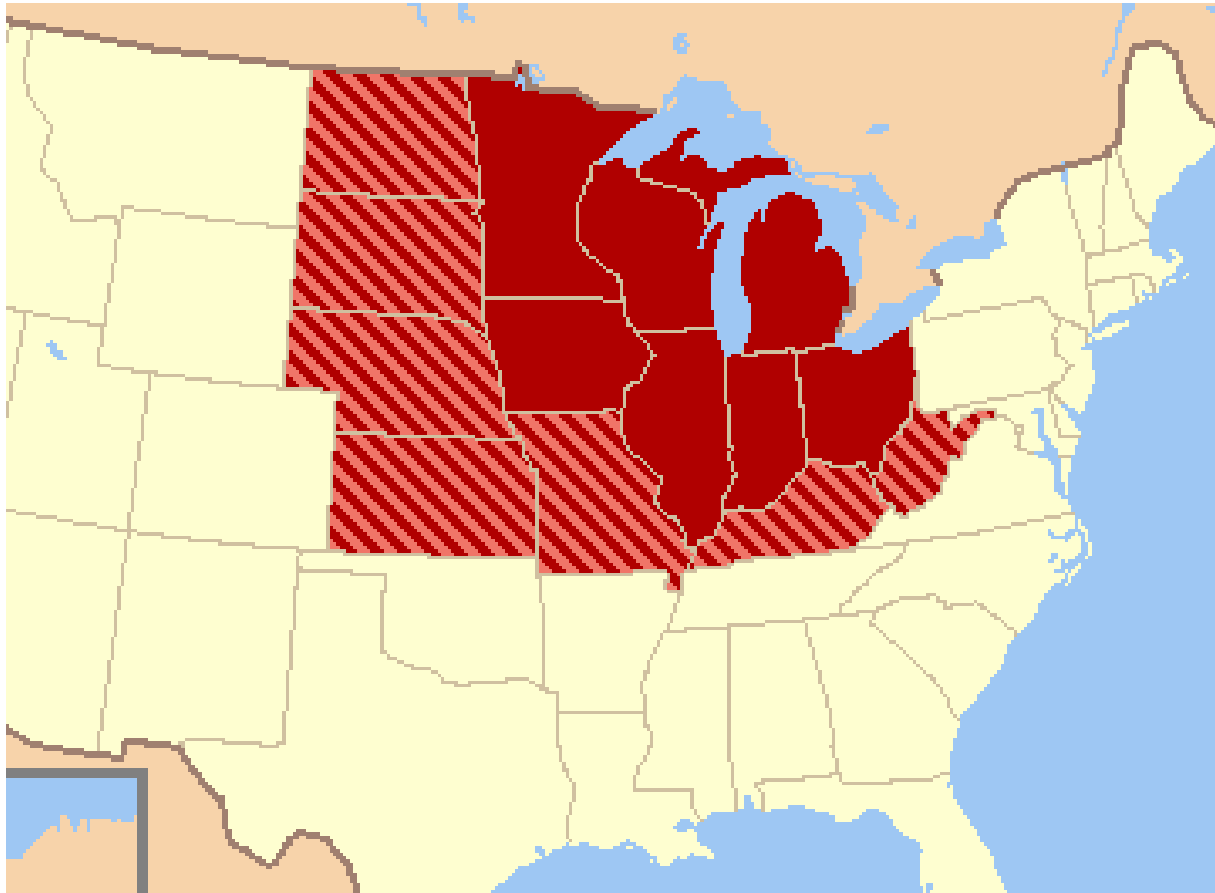
Seller	State(s)	Acres	Price (\$millions)	\$/acre	Buyer(s)
Domtar	NY	104,400	23.7	227	Lyme Timber Co (84,000 ac), The Nature Conservancy
Fraser Papers	ME	240,000	80.5	335	Forestland Group, LLC
Hancock	ME	48,500	33	680	Plum Creek
Hancock	NH	27,600	7.6	275	Dillon
Hancock/Calpers	NY, NH, ME, VT	50,400	13	258	Forestland Group, USF&WS, private
IP	ME	36,700	14.2	387	Conservation
IP	ME	50,079	10	200	H.C. Haynes
IP	ME, NH	1,100,000	250	227	GMO Renewable Resources LLC
Irving Woodlands, Inc	ME	230,000	113	491	Timber Star LLC
Irving Woodlands, Inc	ME	24,100	12	498	R. Quinby
White Birch Land LLC (Enron)	ME	61,100	61	998	Timbervest
TOTALS		1,972,879	618	313	

Corporate restructurings dominated Western timberland markets.

Selected Western timberland transactions, 2004, 2005

Seller	State(s)	Acres	Buyer(s)
Rainier Timber Company*	WA	40,000	Port Blakely
Plum Creek	MT	42,927	Blackfoot Challenge; The Nature Conservancy
Roseburg Forest Products	N CA	133,000	Sierra Pacific Industries
Crown Pacific	OR	293,000	Cascade Timberlands
Crown Pacific	WA	229,000	Cascade Timberlands
Mendochino Redwoods	CA	3,373	State of California
Sierra Pacific Industries	CA	1,095	US Forest Service
Port Blakely	OR	23,000	Roseburg Forest Products, DR Johnson Lumber
Boise	Northwest	1,300,000	Forest Capital Partners
Forest Capital Partners	ID, WA	400,000	Tim Blixseth
TOTAL		2,465,395	

Midwest timber markets get little attention (with reason).



Financial buyers discovered opportunities in the Midwest in 2005 and 2006.

- Secured productive capacity and forest lands in a series of transactions.
- Region features active hardwood stumpage markets, conservation easement interest, and specialized forest asset investment opportunities.

Year	Seller	State(s)	Acres	Buyer
2005	MeadWestvaco	MI, IL, OH	802,500	Cerberus Capital Management
2005	Escanaba Timber	Michigan	650,000	Plum Creek
2006	International Paper	Michigan	440,000	Forest Investment Associates
2006	International Paper	Wisconsin	69,000	The Nature Conservancy, Forest Investment Associates, Conservation Forestry, State of Wisconsin

The Largest TIMOs (Q1 2005)

- Does not include:
 - Global Forest Partners
 - Changes following the 5.5 MM acres sold by IP to RMS, FIA and TimberStar
 - REITs

Name	Acres (MM)
Forest Capital Partners	2.5
The Forestland Group	1.9
Forest Investment Associates	1.5
GMO Renewable Resources	1.5
Hancock Timber Resource Group	1.3
RMK Regions	1.1
Molpus Woodlands	1.0
The Campbell Group	0.9
Wagner Forest Management	0.7
Timbervest	0.4
Forest Systems	0.4

Sources: TIMO web sites; Timber Mart-South

REITs own and manage income producing real estate such as buildings, warehouses, timberlands.

- To qualify, a firm must, for example:
 - Be taxable as a corporation
 - Have at least 100 shareholders
 - Have 50% or less of shares held by five or fewer people
 - Invest at least 75% of total assets in real estate
 - Derive at least 75% of gross income from rents from real estate or interest on mortgages
 - Pay annually at least 90% of its taxable income in the form of shareholder dividends

Qualified REITs may deduct dividends paid from corporate taxable income.

- Therefore, most REITs remit at least 100% of taxable income to shareholders....
 -and therefore owe no corporate tax.
- Shareholders pay taxes on dividends received and any capital gains.
- Most states honor this federal treatment and do not require REITs to pay state income tax.

Which publicly-traded REITs focus on timber?

- **Plum Creek** → REIT as of 1999
 - 8.2 million acres in 18 states
 - 2005 revenues: \$1.576 billion
- **Rayonier** → REIT as of 2004
 - 2.0 million acres in US
 - 2005 revenues: \$1.181 billion
- **Potlatch** → REIT as of 2006
 - 1.5 million acres in 4 states
 - 2005 revenues: \$1.496 billion
- **Longview Fibre** → REIT as of 2006
 - 585,000 acres in Oregon and Washington
 - FY 2005 revenues: \$898.1 million

TIMOs versus REITs

	TIMOs	Public REITs
Liquidity	Low – capital normally committed till end of investment	High – shares easily bought and sold
Valuation	Difficult – based on appraisals; potential conflicts	Easy – based on share price; share prices can be problematic (Enron)
Forest management	Direct control – can sell & buy acres, change plan	Indirect control – go to shareholder meeting
Risk	Low – you own a hard asset	Moderate – low beta; but it is an equity
Returns	Early entrants have done very well	Popular income stocks

Timberland transactions often include financial derivative-like contracts

- Conservation easements
- Wood supply agreements
 - Contractual obligation by supplier to provide agreed-to volumes of wood to buyer, who commits to purchase wood at contract price
 - Mitigate impacts of timberland divestitures
 - May include “right of refusal” on additional volume

Timberland transactions >100,000 acres with wood supply agreements, 2004-2005

Seller	State(s)	Acres	Buyer(s)
Domtar	NY	104,400	Lyme Timber Co, The Nature Conservancy
Fraser Papers	ME	240,000	The Forestland Group, LLC
Irving Woodlands	ME	230,000	Timber Star LLC
International Paper	ME, NH	1,100,000	GMO Renewable Resources LLC
Boise Cascade	Northwest, LA, AL	2,200,000	Forest Capital Partners
TOTALS		3,874,400	

Sources: Paperloop, Timber Mart-South, James W. Sewall Company

Common pitfalls associated with timber-related long-term agreements

- Wood volume
 - As % of total harvest from ownership
 - As % of total consumption by mill
 - As % of total consumption by local timber market
- Penalty clauses
- Transferability of agreement
- Pricing mechanism and price data