

Reprinted from the May/June 2007 issue of the Forest Landowners Association's award-winning bi-monthly magazine, *Forest Landowner*. Call (800) 325-2954 or visit the Forest Landowners Association's website at www.forestlandowners.com for subscription and membership information.



INDUSTRY

TIMOs

RENTS

the
Changing Face
of
Forestry:

The New Private Forest Landowners

—Troy Harris

If you are paying attention to what is going on with timberland ownership these days, you should realize that something very significant has been taking place over the last 10 years or so. The traditional large industrial owners of large blocks of timberland are selling their land to investors. There are many reasons for this, including pressure from shareholders to reduce debt and focus the company on its core competencies, double taxation issues, and attractive prices being offered by the investors, which can free up capital. It appears that the old business model of the vertically integrated forest products company does not work anymore.



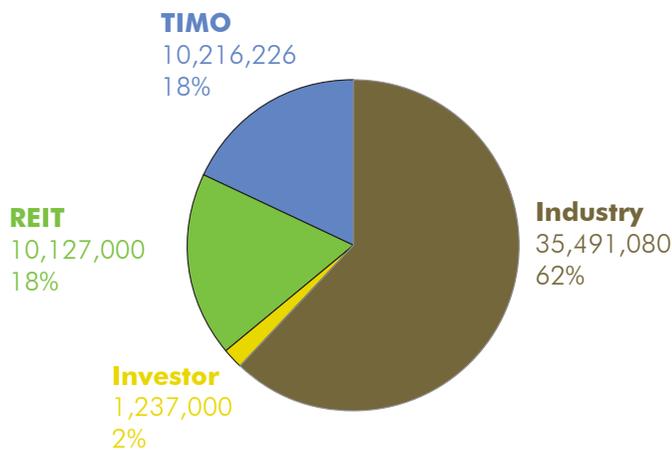


Figure 1: 2004 industrial timberland ownership by type (57,071,000 acres).
Source: Forestweb.

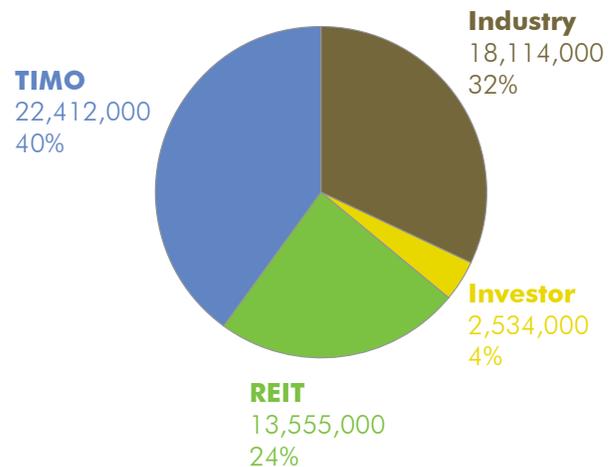


Figure 2: 2007 industrial timberland ownership by type (68,816,000 acres).
Source: RISI Timberland Markets.

Who are the Investors?

We have discussed these investors before in other articles. The two most important types of investors are the Timberland Investment Management Organizations (TIMOs) and the Real Estate Investment Trusts (REITs).

What is a TIMO?

Timberland Investment Management Organizations (TIMOs) are managers of timberland—they do not own it. The owners are actually investors, such as pension funds, endowments, foundations, and high-wealth families. The TIMOs manage money from these investors and buy, manage, and sell timber and timberland. Generally, the TIMOs' investors are looking for long-term investments from 10 to 20 years. Timberland has become popular with investors because it offers competitive returns and has a low correlation with other investment classes, which lowers the investors' overall portfolio risks. To simplify that concept, trees grow without caring what the rest of the economy is doing. Currently TIMOs manage more than 22.4 million acres with an estimated value of more than \$18 billion dollars.

What is a REIT?

Timberland Real Estate Investment Trusts (REITs) are special tax designations for a corporation that invests in

timberland real estate that reduces or eliminates corporate income taxes. In return, REITs are required to distribute 90 percent of their income back to the investors. Like other corporations, REITs can be publicly traded or privately held. Public REITs, such as Plum Creek and Rayonier, may be listed on public stock exchanges. Timber REITs currently manage more than 13.5 million acres with an estimated value of more than \$11 billion dollars.

What is Happening With Timberland Ownership?

If we take a look at industrial land ownership changes since 2004, we get a fair picture of what has been taking place. Figure 1 shows industrial timberland ownership in 2004; Figure 2 shows industrial timberland ownership in 2007. You can see industry's piece of the pie is getting smaller, and the TIMOs' and REITs' are getting larger. In fact, the share of the pie has flipped from industry owning 62 percent of the timberland in 2004 to TIMOs and REITs combined owning 64 percent in 2007. It is also important to note that TIMOs have taken the largest bite of the pie.

Who are the Buyers and Sellers?

If we take a closer look at net gains and net losses in industrial timberland, the picture starts to become clearer. From 2004 to the present, the timber industry

has sold around 19 million acres. TIMOs have purchased about 12.5 million of those acres, and REITs have acquired an additional 2.5 million acres.

Figure 3 shows the major buyers and sellers of timberland from 2003 to the present. It is no secret to most of us that International Paper Company was the largest seller during the period, selling more than 9 million acres. International Paper, MeadWestvaco, and Boise Cascade saw dramatic timberland losses. Weyerhaeuser appears to be selling at a slower pace, but the company is under major pressure from its stockholders to sell its timberland, as well. In the next two years, it is unlikely to be the same company and will either sell its timberland or convert to a REIT.

Clearly, the days of the vertically integrated manufacturing company are coming to an end. This is a very strategic move on industry's part. Industry believes that it can procure its product from these lands more efficiently than managing them inhouse. Indeed, many of the latest transactions include timber supply agreements from the land being sold.

They say one person's loss is another one's gain. The TIMOs benefiting from these sales include companies like Resource Management Service (RMS), Wagner Forest Management, GMO, Forest Capital Partners, Hancock Timber Resource Group, Global Forest

Partners, TimberStar, The Forestland Group, Lyme Timber Company, and Forest Investment Associates.

TIMOs and REITs that had no major land holdings in 2004 are quickly emerging and now have become large players in the timberland investment community. Groups like Resource Management Service, Wagner Forest Management, and Lyme Timber were all former forestry consultants who managed lands for TIMOs and are now moving into the field. The older, traditional REITs, like Plum Creek and Rayonier, have been slowly acquiring timberland over the period, while the new kid on the block, TimberStar, appears almost overnight to have become a major player in the game. And let's not forget some of the original TIMOs who have made strong purchases during the period, like Forest Investment Associates, The Forestland Group, and Hancock Timber Resource Group.

Who are the Timberland Owners in 2007?

So with all of these changes, what does the timberland ownership look like in 2007? Figure 4 shows my estimate of total timberland acres under management as of January 2007. Plum Creek is the dominant land owner with more than 9 million acres; Weyerhaeuser is a distant second with around 5.5 million acres of timberland. However, keep in mind that the company is under great pressure to sell its land or convert to a REIT. Next come a number of TIMOs and REITs. It is interesting to note that RMS is now the fourth largest timberland owner in the industry, but only emerged as a TIMO last year.

You should also take note of three industry players on the list: Temple Inland, Bowater, and Mead Westvaco are all in the process of selling their land base. By the end of 2007 almost all of those properties will be under TIMO management.

What Does this Mean to Private Landowners?

Many of you may be concerned about this change in land ownership. I think this is encouraging news for the private

landowner because these groups are also private landowners. Like us, TIMOs and REITs are concerned with private property owners' rights. Some of these companies (Plum Creek, Potlatch, Resource Management Service, and Forest

Investment Associates) see FLA as a strong ally and have joined us to promote our mission to support through advocacy, education, and information, forest landowners' responsible management of our private property.

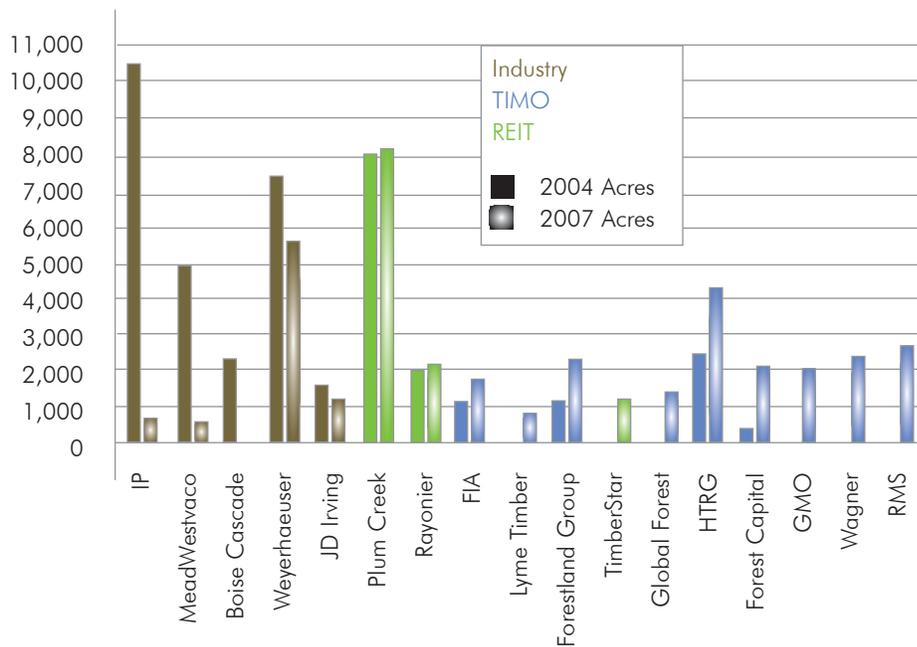


Figure 3: Major land ownership changes 2004 to 2007. Source: RISI Timberland Markets.

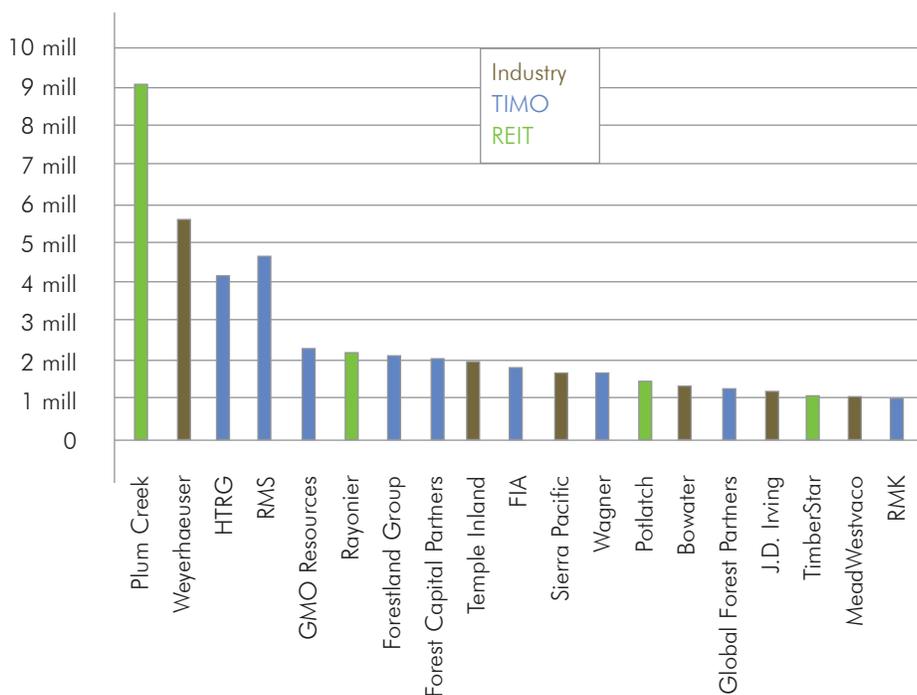


Figure 4: 2007 timberland owners with +1 million acres. Source: RISI Timberland Markets.

