



campbell
the campbell group

Does Timberland Ownership Change Mean Land Use Change? A TIMO Perspective

Jim Stevens

The Campbell Group



U.S. Timberland (million acres)

- Total – 503
- NIPF – 291
- Public – 146
- Industrial Forests – 67
 - Industry – 51
 - TIMO – 16*

*from Timberland Markets[©], other numbers from USFS



Timberland Transactions

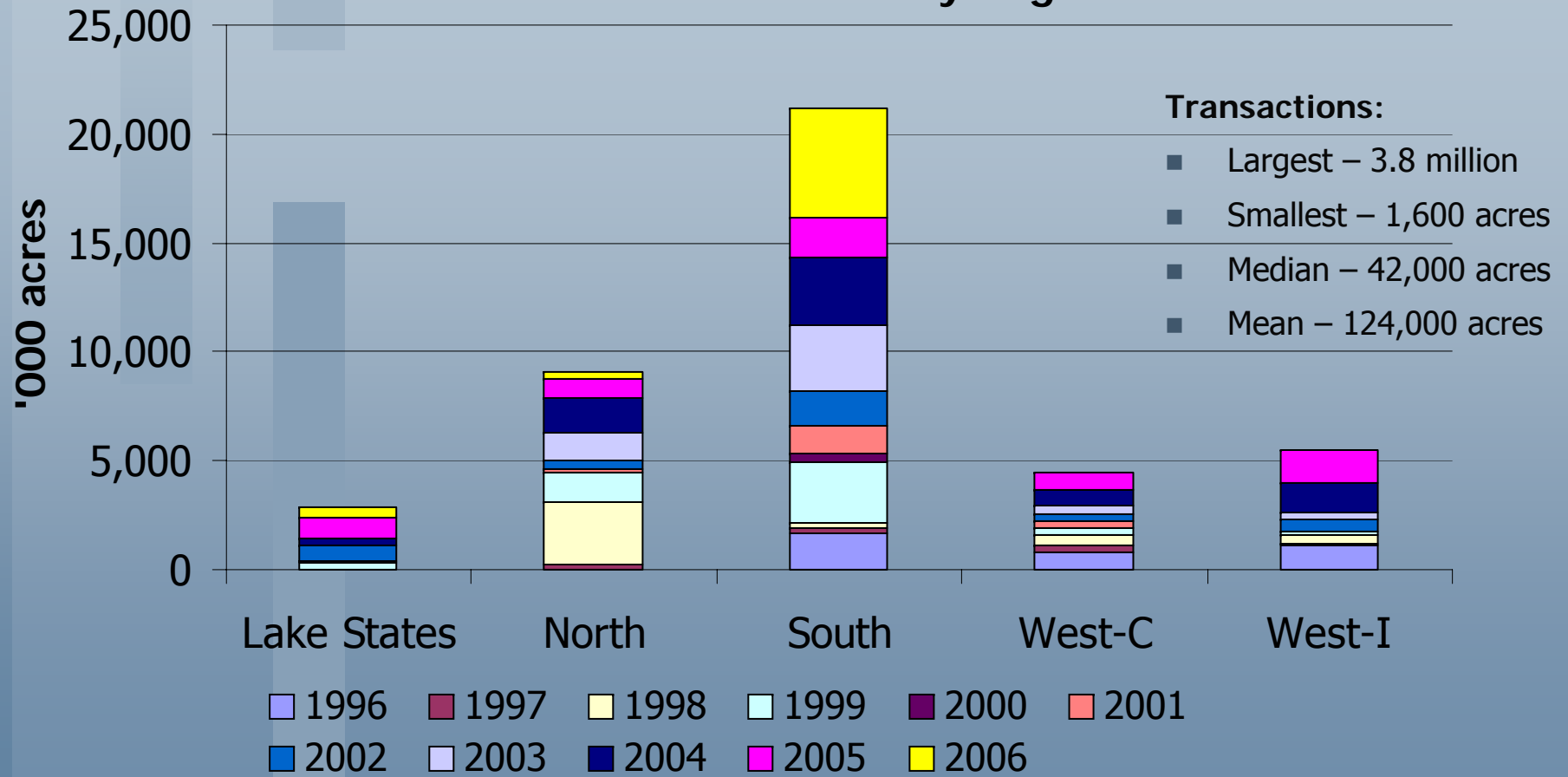
1996-2006 (‘000 acres)

Seller ↓	Buyer ⇒				
	Conservation	Financial	Industrial	REIT	Total
Conservation		155	34		189
Financial	118	6,361	533	271	7,282
Industrial	1,515	23,394	6,388	3,511	34,808
REIT	124	389	233		746
Total	1,757	30,300	7,187	3,782	43,026



South Dominates

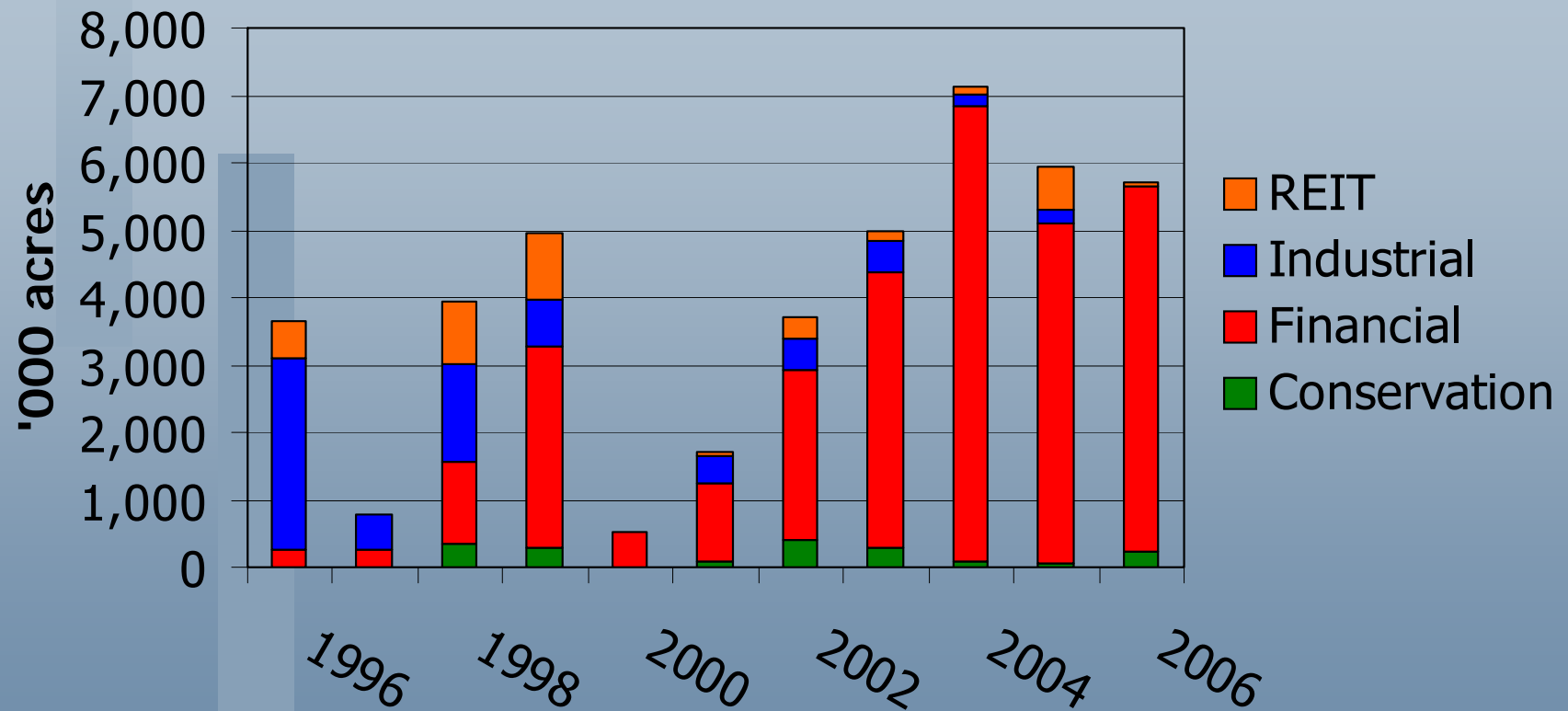
Transaction Area by Regions





Timberland Buyers

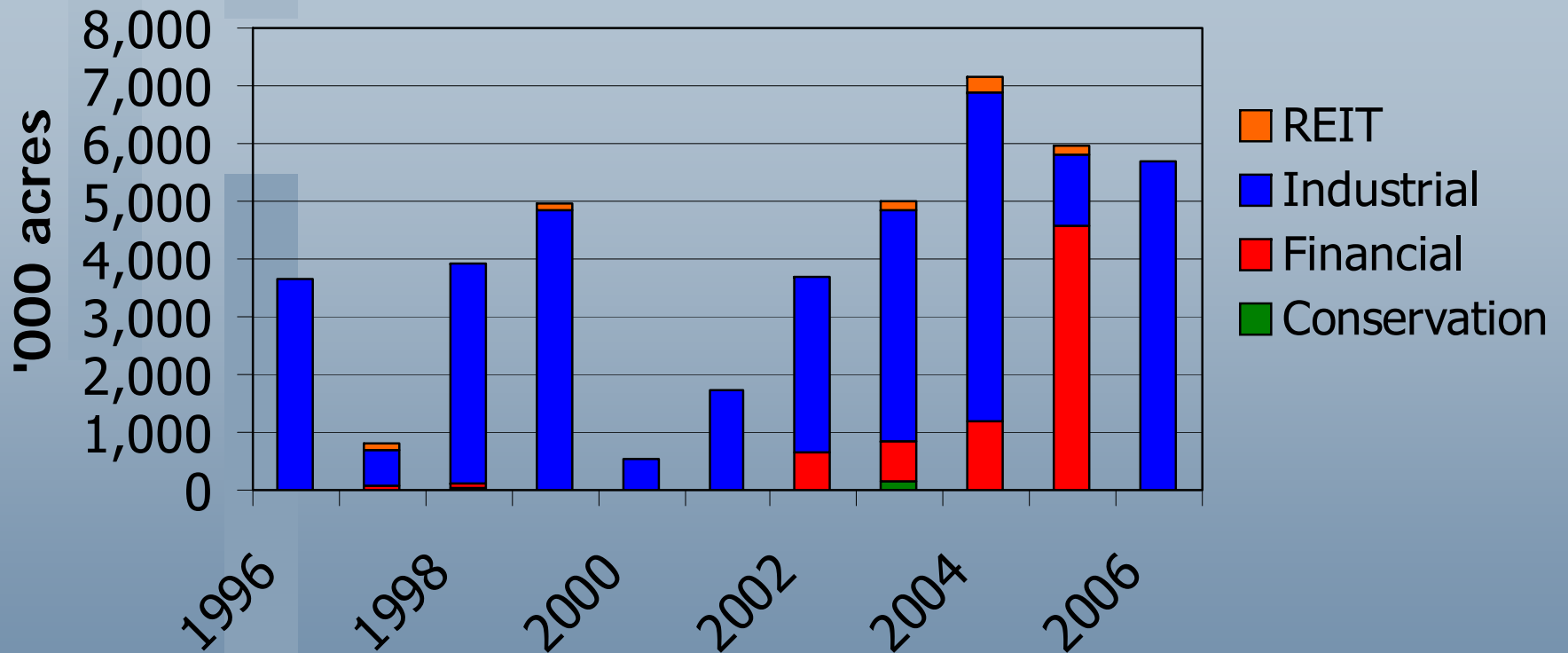
US Timberland Transactions by Buyer Type





Timberland Sellers

US Timberland Transactions by Seller Type





Factors Encouraging Forest Industry Timberland Sales

- Shareholder pressure, debt reduction, refocus business
- Tax disadvantaged relative to buyers
- Industry attitude change about strategic timberland
 - More open market timber
 - Supply agreements
- Many more buyers = sellers market
 - Even for large scale transactions



Given this high activity level, what factors increase the likelihood of land use change?

- Basic assumption: land use change risk is highest when timberland changes hands.
- Who are financial buyers?
- Typical transaction
- TIMO management
- Factors encouraging selling
- Factors encouraging holding
- Regional differences



Differentiate 'Financial' Buyers

- Turn-around, e.g., Madison-Dearborn, Cerberus, and pinhookers
- Long-term (endowments, pension funds, foundations, high net worth individuals)
 - Separate accounts
 - Finite-length funds
- Taxable, tax-advantaged, and non-taxable
- Developers



Typical Transaction

- Large timberland area
- One or more TIMOs/REITs
 - One to many clients
 - Funds and separate accounts
- Core land managed for timber
- Some non-strategic land resold
 - Often to private forest products companies and frequently stays in timber production



Do TIMOs Manage Differently?

- Vertically integrated forest products companies have first responsibility to mills
- REITs primary responsibility is to the shareholders in the form of dividends (may effect harvest timing)
- TIMOs maximize value over longer time frame
 - Clients are financial owners
 - Customers are the broader wood products market
- All of these 'industrial' owners manage to similar high stewardship standards



Factors Encouraging Owners To Sell All or Parts of Timberland

- Motivations for selling all
 - Industry under pressure from investors to maximize shareholder value
 - Quick turnaround resale
 - Acting as fiduciaries, TIMOs will go through periodic hold/sell analysis on properties
 - For example, timber price peaks in early 90s



Factors Encouraging Selling Parts

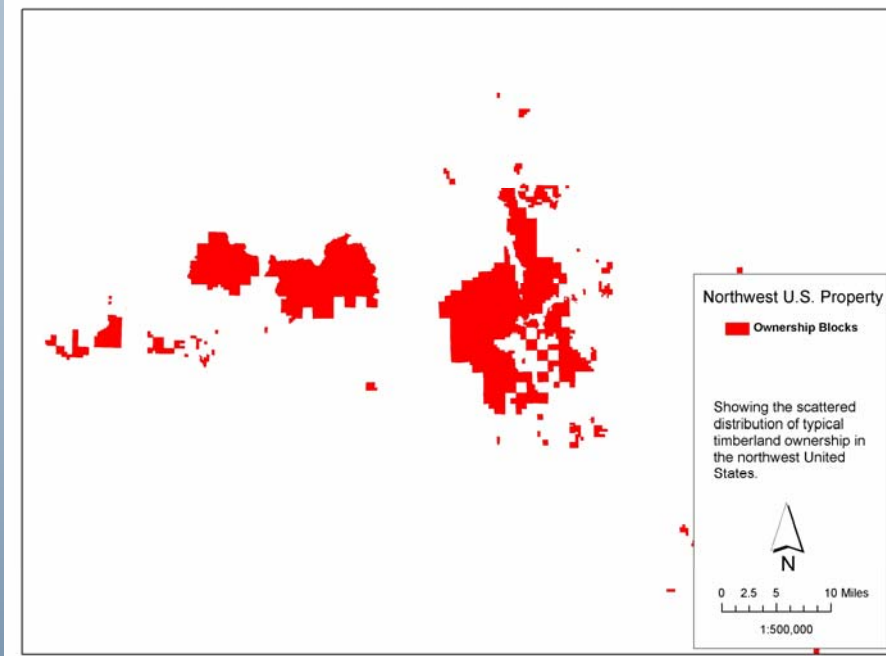
- Wholesale to retail effect (greatly reduced)
- May need to pay off debt
 - Esp. with forest products companies
- Strategic reallocation of assets
 - Rebalancing by financial owners
 - Realize gains
- Unsolicited offers
- Scattered, non-strategic parcels



Pacific Northwest and Southern Ownership Pattern Comparison

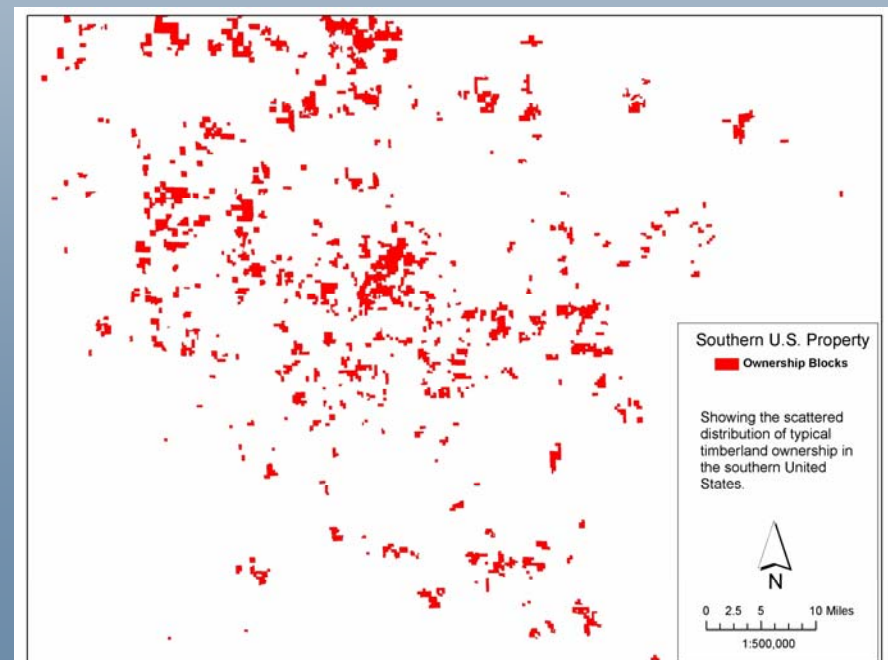
← Pacific Northwest

- 140,000 acre property
- It takes only 7 parcels make up 90% of the area
- 22 parcels of 80 acres or less
- 32 parcels of 160 acres or less
- Recent PNW timberland prices \approx \$2,500/acre



South ⇒

- 120,000 acre property
- It takes 250 parcels to make up 90% of the area
- 185 parcels of 80 acres or less
- 304 parcels of 160 acres or less
- Recent Southern timberland prices \approx \$1,200/acre





Factors Encouraging Selling Parts (continued)

■ HBU values

- recent Lehman Bros. report quoted HBU value at 10X timberland value
- IP/Blue Sky data (128,500 acres listed on web site)
 - Special use \$12,000/acres, 892 acres (0.5%)
 - Transitional \$5,200/acres, 23,686 acres (18%)
 - Timberland \$1,500/acres, 61,248 acres (47.5%)
 - Recreational \$1,600/acres, 42,681 acres (34%)
 - cf. overall value of IP timberland \approx \$1,200/ac



Factors Encouraging Holding

- Initial rationale for investors to get into timber: they like timber's investment characteristics
 - Diversification
 - Cash Flow
 - Real Assets
- Supply agreements
 - Potentially less attractive to buyer
- Timber funds holding period
- Unrelated business taxable income (UBTI)
- Land use restrictions



Northwest and South Differences

- Parcel sell off less common in NW due to:
 - More restrictive land use laws
 - Less recreation pressure
 - Steeper topography/less 'developable'
 - Less 'urban transitional' land
 - Less adjacency to public roads
 - Fewer scattered parcels
 - PNW land prices double those in South



Conclusions

- In today's competitive market, there will continue to be selling of some 'non-strategic' timberland by all owners
- Each succeeding transaction is usually at a smaller scale, bringing in more potential buyers with greater likelihood of land use change away from forest management
- The land use change impacts will be less in the West than in the South



Future of Timberland Ownership in Pacific Northwest

- Large contiguous blocks of timberland under management will likely stay intact in PNW
- Financial investors' demand will come into balance with timberland supply
- Large-scale private timberland management in the Pacific Northwest will continue to be a combination of large public FP companies, intermediate-size private FP companies, timber REITs, financial owners/TIMO managers and conservation management