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Community-Owned Forests: Possibilities,
Experiences, and Lessons Learned (June 16-19)

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SLIDES: Trends for Large Forest Landowners

Michael Goergen

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Trends for Large Forest Landowners

Michael Goergen

Executive Vice President and CEO

Society of American Foresters

June 2005

Society of American Foresters

Growing better all the time

The Future of Industry

- Wall Street forces land to be used for the highest and best use
- This will result in some land staying in industry's hands, but . . .
- Divestiture:
 - 30 million acres (publicly announced) has changed hands in the US since 1996, one-half to financial institutions
- Expect another 10 to 15 million acres to change hands by 2013

Change

1981

American Electric Power
 Bohemia
 Boise Cascade
 Burlington Northern
 Champion International
 Chesapeake Corporation
 Cleveland Cliffs (Cliffs Forest Products)
 Consolidated Papers
 Container Corp of America
 Continental Group (Stone)
 Crown Zellerbach
 Deltic Timber (Murphy Oil)
 Diamond International
 Federal Paperboard
 Georgia Pacific (Timber Company)
 Glatfelter Paper
 Great Northern Nekoosa
 Greif Bros.
 Hammermill
 International Paper Company
 ITT Rayonier/Rayonier
 Johns Manville/Riverwood
 Kimberly Clark
 Kirby Forest Industries (So Pacific/Santa Fe)
 Longview Fiber
 Louisiana Pacific
 MacMillan Bloedel
 Masonite (Timber Realization)
 Mead
 Medford
 Owens Illinois
 Pacific Lumber
 Pope & Talbot
 Potlatch
 Proctor & Gamble
 Scott Paper
 Southwest Forest Industries
 St. Joe Company (St. Joe Paper)
 St. Regis
 Temple-Inland (Time/Temple-Eastex)
 Tenneco (Pactiv/Packaging Corp)
 Union Camp
 Wausau Mosinee Paper
 Westvaco
 Weyerhaeuser Company
 Willamette Industries

1987

American Electric Power
 Boise Cascade
 Bowater
 Champion International
 Chesapeake Corporation
 Cleveland Cliffs (Cliffs Forest Products)
 Consolidated Papers
 Continental Group (Stone)
 Deltic Timber (Murphy Oil)
 Federal Paperboard
 Fort James/James River/Crown Vantage
 Georgia Pacific (Timber Company)
 Glatfelter Paper
 Great Northern Nekoosa
 Greif Bros.
 International Paper Company
 ITT Rayonier/Rayonier
 Jefferson Smurfit Stone (Container)
 Johns Manville/Riverwood
 Kimberly Clark
 Kirby Forest Industries (So Pacific/Santa Fe)
 Longview Fiber
 Louisiana Pacific
 Masonite (Timber Realization)
 Mead
 Potlatch
 Proctor & Gamble
 Scott Paper
 St. Joe Company (St. Joe Paper)
 Temple-Inland (Time/Temple-Eastex)
 Tenneco (Pactiv/Packaging Corp)
 Union Camp
 Wausau Mosinee Paper
 Westvaco
 Weyerhaeuser Company
 Willamette Industries

Partnerships

Plum Creek LP
 Pope Resources

1997

American Electric Power
 Boise Cascade
 Bowater
 Champion International
 Chesapeake Corporation
 Consolidated Papers
 Deltic Timber (Murphy Oil)
 Georgia Pacific (Timber Company)
 Glatfelter Paper
 Greif Bros.
 International Paper Company
 Jefferson Smurfit Stone (Container)
 Kimberly Clark
 Longview Fiber
 Louisiana Pacific
 Mead
 Potlatch
 St. Joe Company (St. Joe Paper)
 Temple-Inland (Time/Temple-Eastex)
 Tenneco (Pactiv/Packaging Corp)
 Union Camp
 Wausau Mosinee Paper
 Westvaco
 Weyerhaeuser Company
 Willamette Industries

Partnerships

Crown Pacific
 Plum Creek LP
 Pope Resources
 Rayonier
 US Timberlands

2005

American Electric Power
 Bowater
 Deltic Timber (Murphy Oil)
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 Greif Bros.
 International Paper Company
 Longview Fiber
 MeadWestvaco
 Potlatch
 St. Joe Company (St. Joe Paper)
 Temple-Inland
 Wausau Mosinee Paper
 Weyerhaeuser Company

Partnerships

Pope Resources

REITs

Plum Creek REIT
 Rayonier REIT

A Few More Thoughts on Divestiture

- Timber Investment Management Organizations (TIMOs) now hold about 10 million acres – hold for investment, not to send fiber to a mill
- That's more than International Paper's holdings
- Will this land stay in forestry in the long-term?
- Timberland ownership has shifted away from firms taxed as a corporation
- Ownership shifts away from public to privately-held entities
- Five percent of family forests have a conservation easement

Why TIMO's?

- It's all about the green visors!
- Accounting rules require industry to account for land at low cost or market
- Selling land, helps pay off debt
- True value of land is not on the balance sheet
- Stock price increases as companies produce more revenue and profit with fewer assets and liabilities
- Corporate industry at a disadvantage – since 1980 corporations have reduced landholdings from 50 million acres to 30 million

Why TIMO's?

- C corporations (publicly traded), have capital gains tax disadvantage
 - Taxable at corporate level
 - Dividends taxable at ordinary rate
 - profits taxed twice (corporate at 32% - investor at 15%)
- Individual ownership often only taxed on gains of the sale of timber, and have a preferred capital gains rate
- There are about 20 major TIMO's
- Cash flow comes from harvesting timber and selling land
- Tend to be unstable
- Pension funds and other tax exempts don't pay capital gains or income taxes at all!

Real Estate Investment Trust (REIT)

- Government created investment so small investors could get involved in real estate
- Can be public or privately-held
- Shareholders receive income as dividends from timber sales and land dispositions – similar to TIMO's
- Unlike TIMOs, REITS will acquire and hold land for an unspecified period of time, generally long-term except for properties where timber management is not the highest and best use
- To avoid taxation at the corporate level, 75% or more of a REIT's income must come from real property and at least 90% of its net earnings must be distributed to shareholders annually.
- Because REITs must distribute most of their earnings, REITs pay high yields of 5% to 10% or more.

Others

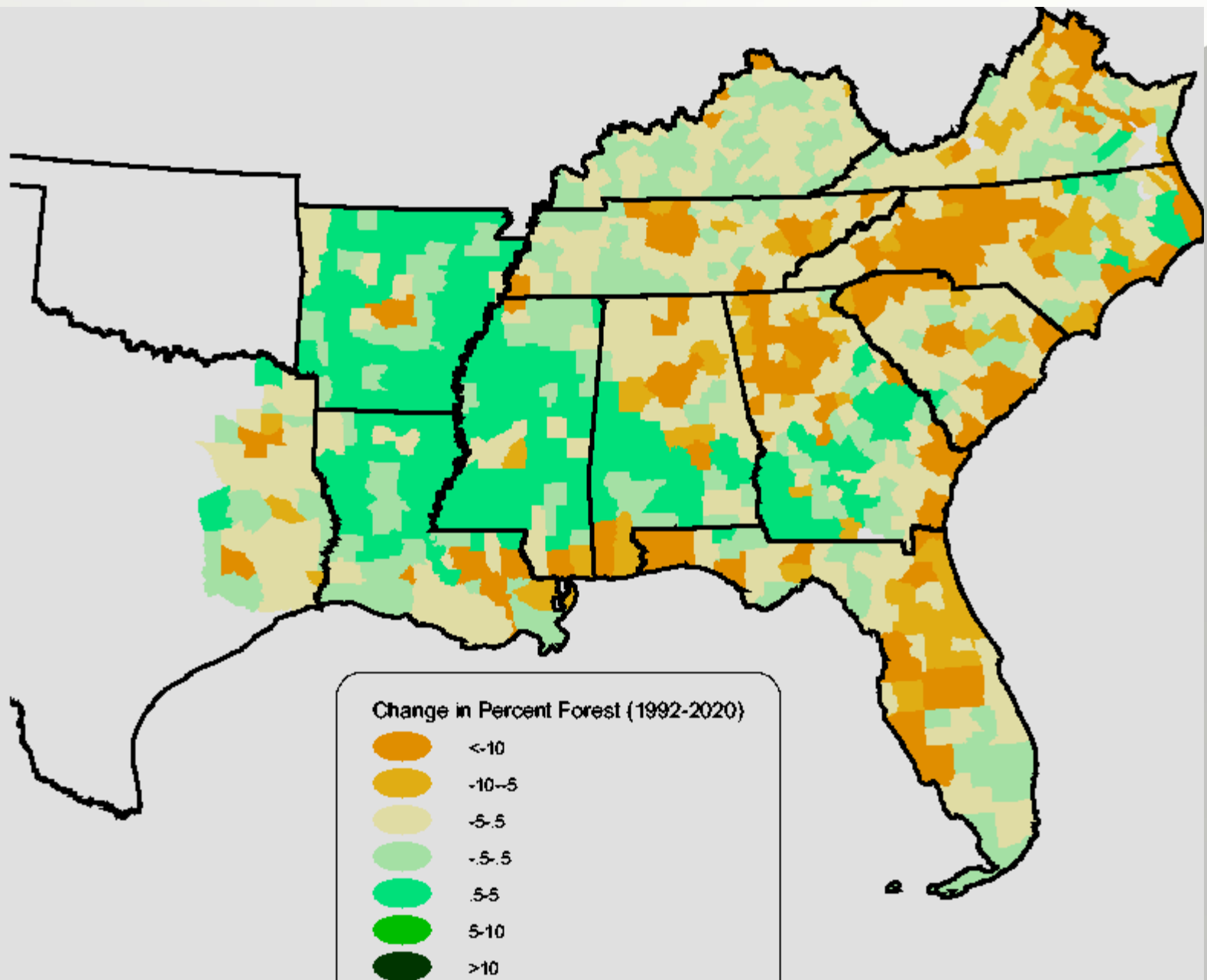
- Partnerships – someone runs it, others supply capital – often organized as **Limited Liability Corporations**
- **Master Limited Partnership (MLP)** -- partnership traded on a stock exchange like a corporation, but taxed like a partnership (avoids the corporate income tax).
- S corps avoid corporate taxation; fewer shareholders; permit family control
- These are often less restrictive approaches to ownership

Some Negatives

- Some are ambivalent to good forest management
- TIMO's = turnover (typically 10 to 15 years)
- Land may be harvested more aggressively
- TIMO's largely not engaged in certification, trade associations, professional societies
- Short rotations
- Smaller parcels – more owners
- Industry loses hedge against high prices
- Imports become very attractive to industry

Some Positives?

- High Yield Forestry
- Increasing corporate efficiency through focus and specialization
- Opportunities for more long-term and sensitive management (REIT, private ownership, easements)
- Not every acre is suited for development
- For most landowners timber harvest is an isolated event (OPPORTUNITY)



Demand

- Demand for forest products hasn't changed since 1982
- This despite a growing population, world economy, and China, India and elsewhere

Why a Lack of Growth in Demand?

- Increased recycling
- More efficient use of wood
- Substitutes

Changing Nature of Nature

- According to the FAO, in 2000, 34 percent of the world's industrial wood came from planted forests
- Industry moving from natural forests to plantations
- Allows for genetic improvement, both traditional and through genetic engineering (not so much in the US)

Competitiveness of U.S. Industry

- Increasing low-cost foreign competition
- High energy costs
- High labor costs
- Aging assets
- Tax issues
- Cultural acceptance

Competitiveness of U.S. Industry

- Improved growing stock resulting in increased wood growing productivity
- Forest Certification may be more expensive on certain forest lands, but will likely be the only way to access the market
- Development options may make the opportunity costs of the land too high to justify forestry uses.

Who is Likely to Out Compete the United States?

- Russia
- Chile
- Brazil
- Probably others in South America as well

Eastern Europe?

- Savings in transportation time (open borders)
- Free movement of labor
- Consistent quality control and trade regulations
- Certification more mature
- Almost 25% more forest available for wood supply
- Cultural acceptance higher

What about a Dollar?

- Weak US Dollar or strong?
- Weaker Dollar hasn't changed our trade balance (trade debt continues to rise)
- Oil is traded globally in US Dollars
- China's currency is pegged to the US Dollar
- Argentinean and other currency weaker against a weak US Dollar!

So What Does All this Mean?

- Strive to be more competitive – higher productivity forests on fewer acres
- Certification will be the way to access markets, no premium
- Smaller parcels, more diverse values for holding land – how will we reach new “ranchette” owners?
- Communities will need to work hard to maintain forests and economic activity
- Different foresters needed in the future

Thank You



- Seneca Creek Associates
- Charlie Tarver
- Nadine Block
- Carol Daly
- Many others

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