SLIDES: Trends for Large Forest Landowners

Michael Goergen

Follow this and additional works at: https://scholar.law.colorado.edu/community-owned-forests

Part of the Business Organizations Law Commons, Forest Management Commons, Land Use Law Commons, Natural Resource Economics Commons, Natural Resources and Conservation Commons, Natural Resources Law Commons, Natural Resources Management and Policy Commons, Property Law and Real Estate Commons, Public Administration Commons, Public Policy Commons, Recreation, Parks and Tourism Administration Commons, State and Local Government Law Commons, and the Urban Studies and Planning Commons

Citation Information

Reproduced with permission of the Getches-Wilkinson Center for Natural Resources, Energy, and the Environment (formerly the Natural Resources Law Center) at the University of Colorado Law School.
Trends for Large Forest Landowners

Michael Goergen
Executive Vice President and CEO
Society of American Foresters
June 2005
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
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 or 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

Michael Goergen
301.897.8720 x120
goergenm@safnet.org