SLIDES: Trends for Large Forest Landowners

Michael Goergen

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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
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**Partnerships**
- Plum Creek LP
- Pope Resources
- Crown Pacific
- Plum Creek REIT
- Paper Resources
- Rayonier
- US Timberlands

**REITs**
- Plum Creek REIT
- Rayonier REIT

**Partnerships**
- Plum Creek REIT
- Rayonier REIT

**Society of American Foresters**
*Growing better all the time*
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

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