



Changing Land Ownership in the South

Implications for Conservation

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- Changes and trends in forest ownership in the South
- The TIMO effect
- Impact on conservation
- New strategies on the horizon
- Some thoughts on future markets



Southern Forests



Southern Forests

- 215 million total acres – 201 million classed as “commercial timberland”
- 37 million acres (about 17%) industrial private forests ... historically
- 141 million acres non-industrial private ownership
- 550,000 direct-forest industry jobs, plus hundreds of thousands in related jobs



Changes in Ownership

- Low cost fiber supply depresses forest product markets
- Industry consolidates to control supply... forest lands are low in book value
- Timberlands were an unknown commodity in the market – and were undervalued.
- Forestlands were not managed to maximum efficiency, but as a hedge against price
- So, there were bargains to be had....



The TIMO effect

- Forest Industry succumbs to pressure... leading to large-scale sell-off of industry lands
- TIMOs organize to manage partnerships of institutional investors.
- These new owners manage for maximum returns
- Profit maximization leads to parcelizing – esp. selling of HBU lands
- Continued divestiture of industry lands has led to increasing diversification of TIMOs, and REITs



The TIMO effect

- From 1995 to 1999, TIMOs and REITs accounted for about 60 percent of all timber transactions in the U.S
- Institutional investment in timberland went from about \$1 billion in 1989 to about \$14.4 billion in 2002
- Forest land sales reached new peak in 2006 – more than 7 million acres...
More than \$8 Billion ...
- Amount of Timberland owned and managed by TIMOs and REITs?
 - no one can be sure...



Impact on Conservation

- It's not all bad:
 - Timberland remains under forest management
 - Financial markets now assign more value to timberlands
 - Many TIMOs have partnered with conservation organizations – often on working forest easements



Impact on Conservation

- Reduction in research and management staff
- High value lands moving toward development
- Dramatic increases in the number of “family” forest owners over the last 15 years – now well over 5 million
- Shorter-term perspective in management – responsive to markets
- Resale is part of the equation.... has led to higher speculative values



Impact on Conservation

- Fragmented ownerships, more difficult to coordinate management at scale
- “Small” landowners are less likely than large landowners to manage their land at all
- Smaller ownerships have higher “operability” costs – making forestry a less viable option
- TIMO's have shorter ownership window, and frequently parcelize land on resale



What's Next?

- What comes after TIMOs?
- What will be the impact of inflated land prices?
- Will it be possible to capture conservation values and enable continued profitability?
- Can we monetize multiple values, and ensure conservation?



New challenges call for new approaches...



Strategies on the horizon:

New Forest Investment Business Models that include Conservation Components

New Companies form that capture conservation values as part of their business plan, similar to "socially responsible" investments.

- Could include monetization of ecosystem services, permanent easements, restrictive deeds
- Or could take the shape of temporary restrictions, eg. certification

Strategies on the horizon:

Ecosystem Services as a primary driver of Conservation acquisitions

Trading in Ecosystem Services (water, carbon, endangered species etc.) becomes profitable enough to drive conservation purchases and permanent protection.

Requires regulatory framework to be successful. Many parties interested in this.

Be careful what you ask for...

Strategies on the horizon:

Conservation Entities or new public/private partnerships as Timber owners

- Consistent with some approaches now being considered
- Lower profit margins required, which could help leave room for conservation set-asides.
- Is this an appropriate role for NGO's or government?

A few thoughts about markets



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- Global energy prices, and perhaps security concerns, will drive bioenergy markets
- New biomass industry could create markets for small diameter material
- Could biomass become a driver of silvicultural systems?
 - new plantations
 - short rotations
 - new species preferences

A few thoughts about markets

- Could carbon markets encourage longer rotations, and make sawtimber more profitable to landowners?
- Globalization of forest markets could make the U. S. markets less certain, especially for pulp
- Or... the push for certification globally could make US raw materials more competitive
- Competition for raw materials could induce new industries to effectively market wood from small ownerships



A few thoughts about markets

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 - Air: The "speculative" carbon market trades at some \$3 per ton.... could go as high as \$30

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