THE BUYER’S PERSPECTIVE

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Abstract

Most of the timberland formerly held by the large, publicly-traded forest products companies in the United States has been sold or transferred to large institutional investors or timberland real estate investments trusts (REITs). Why are the institutional investors interested in buying timberland? What are the factors that cause individuals to buy timberland?

Keywords: Timberland, investment

Introduction

The publicly-traded US forest products companies have transferred or sold most of their timberlands to real estate investment trusts and institutional investors. What is driving these investors to buy that land? What factors cause individuals to buy timberland?

Institutional Investors

Institutional investors, such as pension funds and endowments, are driven primarily by returns — they need the money. Biodiversity, carbon sequestration, wildlife and scenic beauty have little value for them because those “forest products” currently provide little in the way of financial returns. Why are they so focused on the money?

In the case of pension funds, they are responsible for keeping the roofs over the heads of, and food on the table of, their retirees. Any reduction in financial returns, whether to increase biodiversity or improve recreation opportunities, means that the there will be less money available for the pension beneficiaries. These beneficiaries include retired teachers in Ontario, New York and Arkansas, retired police officers in Colorado and San Antonio, retired college professors everywhere, and retired state employees in Pennsylvania and Oregon. All these pension funds have (or have had) investments in timberland.

Endowments are responsible for the financial foundation of colleges and universities. They contribute to the upkeep of the buildings and provide financial aid. Harvard, Yale and Chicago all have (or have had) significant investments in timberland. Reducing financial returns to promote other forest attributes will mean less money available for scholarships and building maintenance.

But, while the financial returns are the primary concern, these institutional investors want no environmental surprises. They do not want to see their name in the headline above a picture that is identified as a forest they own and described as, or implied to be, an environmental disaster. They do not want bad press, even if the activity on their timberland is absolutely legal, ethical, and scientifically sound.

Institutional investors have been buying timberland as a way to diversify their investment portfolios. Timberland is poorly correlated with many other asset classes, such as stocks and bonds, and has performed well against many of them (Figure 1). Timberland often improves the performance of the portfolio (Figure 2).

**Figure 1. Returns for various asset classes, 1998-2007**
Sources: National Council of Real Estate Investment Fiduciaries and Morningstar

**Individual Investors**

Individuals and families have invested in timberland for centuries and, in fact, own more US timberland than industry did or institutional investors do. Individual and family ownerships are usually smaller than institutional ownerships.

Individual investors are mixed in terms of their investment objectives. While many are concerned primarily with financial returns, many are also in a position to realize non-financial returns as well.

These non-financial returns can include such values as recreation, scenery and wildlife (all in one place in Figure 3).
Figure 2. Efficient frontiers for a portfolio with and without timberland

Figure 3. Multiple forest values near Invercargill in New Zealand
Summary

Large institutional investors buy timberland primarily for the money. Their properties are often managed to high standards because they do not want to be identified with environmental problems. Individual investors are more able to focus on non-financial returns because they may not necessarily have to maximize the financial returns from their timberland.