Growing Interest in Timberland Investments –
A Consultant’s Perspective
by
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Abstract

Natural resource professionals and investors often face decisions that rest on investment and valuation models for forest property. There is growing interest in the intrinsic value of timberlands as a profit center. Yet, remarkably little attention is given to this important topic in college courses and the literature. This paper briefly explores some of the reasons for poor coverage this important subject area. It then looks at the way in which active market participants view timberland investments, and how the appraisal community attempts to model their behavior. It focuses on Eastern U.S. investments, and examines regional differences among the Southeast, Appalachia, and the Northeast. Topics include how fiber is marketed, intensive silviculture, growth and yield modeling, non-timber values, environmental pressures, and valuation models. Finally, it looks at emerging trends in how industrial, institutional, and large NIPF timberlands are held, and the resulting implications.

The existence of seasonality means investors can make excess return by following a simple strategy—buy the forest industry stocks in late 1st quarter and sell them in early 4th quarter. Similarly, they should buy the timberland limited partnership stock in early 1st quarter and sell in late 3rd quarter. Since institutional timberland investment is not currently available, no particular strategy should be followed other than imposing that investment in timberland enjoy a high financial return and low risk level.

This research has significant practical implications on the nature and allocation of forest investment. Attracting investment is a key to enhancing forest productivity. In order to attract investments, especially investments from NIPF landowners, it is necessary to understand and publish the risk and return characteristics of timberland investment and their correlation with other financial assets and inflation. Thus, the results of this research may be of keen interest to NIPF forest landowners, institutions marketing timberland management services, institutional investors, financiers, and forest commodity in general.

The results of this study need to be interpreted with caution. First, we only used 10 years’ data. Second, the forest industry portfolio only has 17 largest forest products firms’ stock, and timberland limited partnership portfolio has 3 stocks. Further research could be directed into (i) improving the data by including more companies and covering longer period of time; (ii) using other models, such as Arbitrage Pricing Theory, to analyze the factors that affect risk and return of each investment alternative.

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