

Changing Timberland Ownership Bringing Unknowns to Industry, State Economies

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Timberland across the South is an economic fixture that supplies wood for houses, furniture, paper and the like and now is possibly generating funds for your retirement or favorite school.

The forests have become an attractive option for institutional investors – pension funds, retirement systems and even university endowments – far removed from the everyday planting, harvesting and replanting, says Auburn University forest economics professor Daowei Zhang.

The good part is that any investment in timberland contributes toward a thriving forest-products industry. Yet Zhang says the long-term effect of these short-term investments, typically lasting eight to ten years, is unknown and is creating questions for industry analysts.

"Who owns the forestland with such a limited term and how are they managing their forests?" Zhang asks. "After they harvest the timber, will they change the use of the land? Do they practice reforestation so forest-product manufacturers will have adequate timber supply?"

Zhang says industrial timberland owners in recent years have sold more than 30 million acres of commercial timberland across the country and more than 3 million acres in Alabama, mostly to institutional investors.

In the past, industrial timberland owners - such as Georgia Pacific, International Paper, and Weyerhaeuser - would own the land, equipment, and mill and run the entire operation, from planting the seedlings to the sale of construction-ready lumber and tissue paper. They also buy timber from independent landowners.

Facing tough competition and difficult economic conditions over the past 20 years, many of these companies have sold tracts of land to generate capital. Most of the sales were made to institutional investors, which hire timberland investment management organizations, or TIMOs, to manage the property for a short-term return on investment.

"It's a very attractive investment because the institutional investors pay only a 15 percent capital gains tax, whereas the timberland companies pay a 35 percent tax," Zhang said.

"The institutional investor also benefits from the generally accepted accounting rules that list land and timber value at the time of purchases and thus ignore the value of timber growth, which can rise dramatically each year."

Zhang and his collaborator, Brett Butler of the U.S. Forest Service, are using a new three-year, \$263,000 grant from the USDA's Agriculture and Food Research Institute to study institutional investors' forest management and land-use practices to help the forest-products industry predict future timber supply, attract capital investment to the industry, and shape governmental policy making.

The research seeks to: identify all institutional investors that have bought timberland in Alabama and the South; describe and map their timberland holdings; study their forest management and land-use behavior such as timber harvesting, reforestation and conservation; and assess their economic impacts to rural communities.

Approximately 20 percent of the timber used in forest-products manufacturing is from institution-owned timberland in the South, according to Zhang.

"If institutional timberland owners reduce timber harvesting after their initial short-term investment period, it will cost the state economy and reduce jobs," he said, "and will increase the cost of timber and all wood products. If the reduction of timber harvesting from all forest owners in the state of Alabama is 10 percent, the state economy could lose \$250 million a year."

Zhang and three graduate students are gathering and analyzing forest-landowner information from U.S. Forest Service surveys conducted each year, looking at data on timber-harvesting, erosion, reforestation, and land-use changes. The Auburn researchers are observing specifically five- and ten-year increments to note the changes taking place in those time periods.

At the end of the project in 2014, Zhang will publish the results in forestry and economic journals and provide information to timberland owners, policymakers, and the public through brochures and other forms of communication.

"We hope the results will help the forestry-products industry and governments deal with the changing market dynamics and avoid possible negative economic impacts," he said. ♣