

Assessing Timberland Investments at the County Level

By Brooks C Mendell PhD. and Matt Camp, MFR

Over 12.6 million acres of large timberland deals have closed or been announced in the U.S. in 2005 and YTD 2006. Of these, over 7 million acres are located in the South. This includes 4.65 million of the 5.1 million acres sold by International Paper in April (TMS Q1 2006). These recent transactions continue the migration of timberland ownership from the traditional integrated forest products companies to institutional investors and TIMOs, REITs, and private LLCs. These owners emphasize financial returns over time horizons of eight to fifteen years.

Ongoing timberland transactions result in increasing fragmentation of large industrial ownerships. For example, the announced International Paper transaction includes two multi-party investment groups. Each participant evaluated their portion of the transaction with varying objectives, from managing long-term for timber income to maximizing development and higher-and-better-use (HBU) potential. In sum, reducing ownership size and reducing investment time horizons increases the importance of individual parcel and timber market analysis.

While detailed timber price and wood consumption data are available from private firms, county level factors such as growth trends and land use are available on-line from government sources. This information can be used to profile counties to assess HBU potential and the likelihood that counties will remain viable for timber production moving forward.

In addition, research published in the *Journal of Forestry* by David Wear of the USDA Forest Service and David Newman of the University of

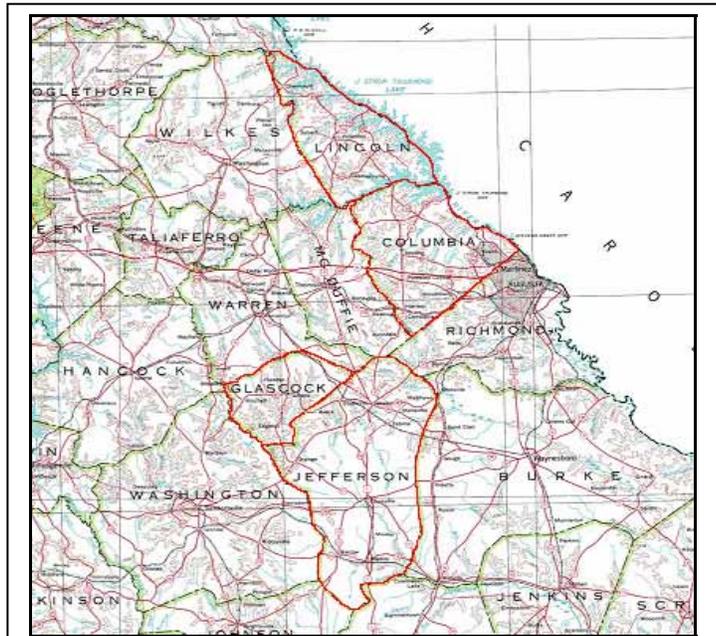


Figure 1. Map of Columbia, Glascock, Jefferson, and Lincoln Counties (Source: Georgia Department of

Georgia associated timberland transactions, and potential conversion, with certain variables.¹ They estimated the effects of population density, site class, farm earnings, and household income on assessed property values in counties across Georgia, and identified a per acre land value of \$800 as the threshold above which land was likely to be converted to non-timber use. The research indicated strong relationships between population density and land values, with 150 people per square mile, on average, being the point where land values begin to increase rapidly into conversion value classes.

We compared four counties in East Georgia to identify which counties were better for owning timberland (Figure 1.) We chose counties in a common wood basket centered in Augusta, GA which contains two paper mills and one sawmill with several mills in surrounding towns. We looked at population characteristics including density, growth, income, home ownership, and education with data obtained from the U.S. Census Bureau. We also looked at assessed land values and land classified as agricultural or conservation

¹ Newman, D.H. and D.N. Wear. 2004. "The Speculative Shadow Over Timberland Values in the US South." *Journal of Forestry*. 102(8):25-31.

Table 1. Comparison of selected variables at the county level

Category	Variable	Columbia County	Glascok County	Jefferson County	Lincoln County	Georgia
Land area	Acres, 2000	185,659	92,190	338,028	135,083	37,071,703
Population	Est, 2004	100,589	2,631	16,883	8,398	8,829,383
	Per sq. mile, 2000	307.9	17.7	32.7	39.5	141.4
Education	% change, 4/00 to 7/04	12.7%	2.9%	-2.2%	0.6%	7.8%
	High school, age 25+, 2000	87.9%	66.1%	58.5%	71.0%	78.6%
Income	Bachelor's, age 25+, 2000	32.0%	6.5%	9.1%	10.1%	24.3%
	Median household, 1999	\$55,682	\$29,743	\$26,120	\$31,952	\$42,433
	Per capita money income, 1999	\$23,496	\$14,185	\$13,491	\$15,351	\$21,154

use in information gathered from the Georgia Department of Revenue.

Table 1 summarizes the county level data on population characteristics such as growth, density, education, and income. These factors give an indication of the growth and development potential in a given county which can affect land prices and availability. Three of the four counties feature population densities, education, and income levels far below statewide averages. Only Columbia County exceeds statewide averages across categories, including the 150 person per square mile threshold estimated in Wear and

Newman (2004.) Columbia County exhibits all the signs of growth that would complicate long-term intentions to maintain investments in timber, if that was a preferred objective.

The comparison highlights Jefferson County as best suited for long-term timberland investments. It is a relatively undeveloped county, with negative population growth since 1990, the lowest income levels of the counties studied, and lowest percentage of high school graduates.

Examining taxes and land values also offers important insights. Timber production is basically an agricultural operation and the amount of agricultural land in a county over time provides an indication of key alternative land use. We looked at assessed land values, which are used to determine tax rates, as well as acreage designated as agricultural or conservation use from each counties' tax assessor. Figure 2 shows how agricultural land values have changed over time.

As expected, Columbia County features land values that far exceed the other three counties. Jefferson County has the most land designated as agricultural or conservation use and the assessed values are second lowest next to Glascock County. Location matters. As counties grow, property values increase and timberlands convert to other uses. Identifying counties with slow growth and a large agricultural land base can indicate suitable areas for sustaining timberland investments. By

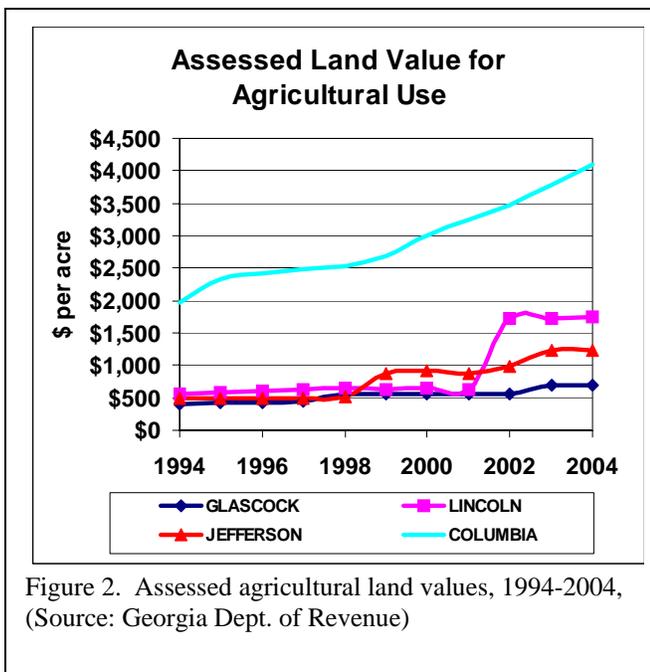


Figure 2. Assessed agricultural land values, 1994-2004, (Source: Georgia Dept. of Revenue)

gathering data from public sources, one can compare potential investments, target certain areas that exhibit the required characteristics, or separate the value of an investment due to its timberland component from its conversion or development potential. This profiling of location remains a helpful process in performing the due diligence required in making profitable timberland investment decisions.

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Timberland Transactions

Of about one million new U.S. timberland sales announced this quarter, about 225,000 were in the South. Transactions in the South averaged about \$950 per acre.

AmSouth Timber Fund LLC is in the process of selling 884 acres in Taylor County GA to the Georgia Department of Natural Resources (DNR.) Biologists say acquisition of this site will allow Wildlife Resources Division to restore and manage the upland and wetland habitats essential for some important species. The DNR will manage the property as a State Natural Area and pay \$1.3 million (about \$1,500 per acre.)

Molpus Woodlands Group LLC (MWG) of Jackson MS announced the closing of a jointly managed timberland investment fund, along with partners **Molpus Woodlands Advisors** and **Salient Partners LP** of Houston TX. With \$149 million in capital, the fund has placed over 90 percent in managed timberlands in Alabama, Louisiana and Arkansas. The fund is made up of U.S. and international investors including corporate and public retirement systems, university endowments, foundations and private investors. The fund's latest acquisition includes approximately 41,400 acres of timberland in

Ashley County AR, Morehouse Parish LA and Union Parish LA from **Barrs & Glawson Associates** for about \$42.5 million (about \$1025 per acre.) The purchase increases MWG acreage under management to about 528,300 acres, all in the South. MWG has sold over 500,000 acres of managed land recently to capture investment gains for clients including 44,000 acres sold for Joshua Timberlands LLC to Gulf States Paper last year. See TMS Market News 4th Quarter 2005.

Private owner **Vernon Barnett** sold about 1,935 acres of Tennessee mountain property at auction by **J.P. King Auction Company** on April 15th. The total sale was \$2.23 million or \$1,175 per acre. Located along Interstate 24 near University of the South at Sewanee, the property was purchased by Mike Cardin of **Cardin Forest Products**, South Pittsburg TN. Cardin, who operates a hardwood sawmill and owns adjacent property, intends to manage for recreation as well as timber production. J.P. King said that there were eleven bidders.

Bowater Inc. plans to sell about 1,000 acres in York County SC to residential developer **Newland Communities** of San Diego CA. According to press reports, a consortium of local groups including the York County government offered \$13.2 million (over \$13,000 per acre) for the site along the Catawba River which was formerly a seed orchard for Bowater. Terms of the transaction were not disclosed however Newland presumably made a better offer.

Regions Morgan Keegan Timberland Group (RMK) sold about 13,000 acres in Florida to a private developer. Terms were not disclosed. **Confirm.** RMK purchased 169,000 acres from **Tolleson Land & Timber, Inc.** of Perry GA (from their Cerberus purchase?) in Tennessee and Ohio for \$143.6 million (about \$850 per acre.) **Confirm.** For Tolleson's purchase from Cerberus, see 4th Quarter 2005, TMS Market News.

Outside the South

Cascade Timberlands LLC, successor to bankrupt Crown Pacific LP, sold a controlling 70 percent interest to **Fidelity National Financial Inc.** of