

PROFILE: CHANGING LAND OWNERSHIP IN NEW ENGLAND

The Open Space Institute

The Open Space Institute (OSI) conducted a study of land ownership in the Mahoosuc Region, a 600,000-acre region along the border of Maine and New Hampshire. The study reports that over 700,000 acres of forestland have been bought and sold (some acres have changed hands more than four times) over the last 25 years. The trend is toward the transfer of land from integrated forest products companies to investors in timberland. The study explains the financial motivations and constraints of timberland investors and predicts the sale of 11 forestland parcels over 1,000 acres, in hopes of encouraging a proactive and cooperative response to the next surge of land sales.

As background to the study, OSI reports that between 1980 and 2005, almost 24 million acres in the 26 million-acre Northern Forest region changed hands with many large transfers from the forest products industry to timberland investors. A growing body of research concludes that these timberland investors, or financial owners “will manage forestlands on an economically optimized basis, invest less in forestry research, and are indifferent to income from cash flow vs. capital appreciation.” These investors are less accountable than the publicly traded forest industries, have much shorter holding periods, and are increasingly forced to augment returns with conversion of forestland to real estate development. The Mahoosuc region was selected because of the prominence of timberland investors in the region and the relative loss of infrastructure. The region is “emblematic of larger trends and dynamics within the Northern Forest region, including the loss of pulp processing and saw log milling facilities, increased demand for recreational properties, and an expanded role of conservation organizations as major buyers of lands and easements.”

While the study focused on a relatively small region in Northern New England, it has relevance beyond the region and to community-based forestry (CBF) in particular, for several reasons, including:

- The owners in this region manage at least 15 million acres of timberland nationally and are under similar pressures and constraints elsewhere.
- The issues raised by changing ownership in this area are indicative of issues across the 430 million acres of private forestlands in the U.S., including: ownership fragmentation, inflated land prices, declining public access and loss of forest-related jobs.
- The sale of forestland by timber investors provides

an opportunity for communities to acquire land to establish community forests. Between 8% and 25% of the region’s forestland will be up for sale in the next five to ten years. If this area is a dependable weathervane for other private lands in the East, we will see tens of millions of acres sold across the Eastern U.S. over the next ten years.

Analysis of Forestland Ownership in the Mahoosuc

Forestland ownership in the Mahoosuc region is diversified with timberland investment management organizations (TIMOs) holding 38% of the total forestland base, conservation interests holding 32% in fee, and only 1% currently under working forest easements. The rest is held by family ownerships (12%), real estate investment trusts (REITs, 8%), logging contractors (5%), and developers (4%).

TIMOs serve investors through two vehicles: separate accounts, in which a very large institutional investor (e.g. Yale University) has control over specific timberlands, and commingled accounts, where multiple investors’ funds are pooled in a portfolio (e.g., The Lyme Timber Company, The Forestland Group, GMO Renewable Resources). The distinction is critical for predicting future land sales, since separate accounts allow more control over the decisions and timing of asset sales. TIMOs managing commingled accounts need to assure investors up front of a seven to 15-year investment period. Of timberland investors with large holdings (over 1,000 acres) in the region, only two owners, holding eight percent of the region, are commingled TIMOs that acquired the land in 2004 and will likely sell in the next five to seven years. The rest (30%) is held by investors that include individual endowments or pension funds that purchased the land between 1997 and 2003. This land will likely come up for sale in the next ten years but could be delayed depending on markets for timberland.

The report concludes that there will be a series of sales over the next five years by contractors and resort developers and a larger, and more significant, “surge” in land sales during the period of 2010-2013 when the closed-ended funds will exit their investments. Altogether, this will result in 40,000 to 170,000 acres of land becoming available. An elevated level of fragmentation and development due to rising land prices will characterize these land sales. TIMOs or other “high-net-worth” individuals are the most likely buyers of these lands.

Future Work

The Open Space Institute is planning to complete a broader study of upcoming landowner transfers across the Eastern U.S. private forestlands. The objective will be to identify significant areas of private forests with high risk of

future sales under threat of conversion to non-forest uses. This information will draw attention to the issue of and quantify the need for climate change mitigation dollars to protect the private forest carbon sinks and maintain opportunities for forest-based renewable energy sources.