



FORESTRY FIRMS BRANCH OUT TO ESTATE MANAGERS

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By Pam Graham

Listed forestry companies are giving up control of their forest estates and timber investors are willing buyers. "I think it would be reasonable to say, subject to the quality of assets meeting our investment grade criteria, we'll continue to look for opportunities in the Australasian region," said Michael Edgar, Asia Pacific regional director of UBS Timber Investors.

That is about as good as it gets in teasing out the intentions of a so-called timber investment management organisation, or Timo, in New Zealand, where there are about \$2 billion of plantation forests - Americans call them timberlands - for sale.

Hancock Timber Resource Group, another large Timo, has declined interviews but UBS Timber Investors agreed to explain at least what Timos are and why they like New Zealand.

UBS Timber Investors is a group of about 10 individuals who put together and manage timberland investments for international pension funds and anyone with more than US\$10 million (\$17.2 million) to invest.

They collect investors into a fund for each project. Sometimes there will be just one investor in what is known as a single client account. Three-quarters of UBS Timber Investors' funds come from the US, and Europe is also a big source.

Timos have grown up as diversified forestry firms have realised they do not need to own forests to secure timber supply.

"The flow of capital is no use unless there are also vendors willing to relinquish absolute control of the forest," said Colin McKenzie, UBS Timber Investors' US-based director.

Privatisation of state forests has also been a facilitator.

He rejected the suggestion, implied by some vendors, that Timo investors accept lower returns than investors in listed companies.

Timo investors typically organise their businesses to have a low tax rate and enter forest investments without debt and with currency hedges. That means they look at forest investment from "a different view point than say a corporate would".

UBS Timber Investors has US\$1.3 billion (\$2.24 billion) under management in seven countries and has returned an average 7.3 per cent cash after tax to investors a year since the start of its first fund in 1987. It would not break out returns for New Zealand investments.

It now manages 115,000ha of plantation forests in New Zealand, with annual woodflow of 2.1 million cubic metres. That compares with the 106,000ha of Fletcher Challenge Forests, just formally put up for sale, and the 165,000ha in the Central North Island Forest Partnership estate.

UBS has a 50/50 joint venture with Weyerhaeuser in the Nelson region, with 64,000ha operated by Weyerhaeuser. It has a 50 per cent interest in the 24,000ha forest in Northland with operator Carter Holt Harvey and has full ownership of about 20,000ha of former state forests in the central North Island, managed by a regional forestry management company.

It bought 9000ha of pruned forests from Fletcher Forests this year while Fletcher retains the management and half the wood supply.

The other 50 per cent "we will be selling on a stumpage basis in the Central North Island region", said Edgar. "We've visited 20 potential customers and have talked to them about our intentions for a stumpage programme and that has been warmly received."

That makes this Timo part of the changing landscape in the central North Island.

"One of the significant positives for New Zealand is that organisations such as ours are able to facilitate, indirectly, investment in the processing.

"Being only a forest investor and independent from processors, customers can sometimes feel a lot more confident that we have no conflict in selling to them relative to processing ourselves."

New Zealand stacked up reasonably well as an investment destination for UBS. Price was not controlled by a state entity, the currency was not subject to political manipulation and infrastructure was "reasonable".

The biggest drawback for international investors is a reliance on export for sale and a poor local stumpage market, said McKenzie.

Edgar said the Government's partnership approach with the forestry industry had been encouraging.

Timos assess the following factors when investing.

- Land tenure rights, certainty of occupancy and access.

- Business environment, including Government support.
- Local market price drivers.
- Currency exposure.
- Global competitiveness, including infrastructure, quality of workforce and access to world timber markets.

Why do they invest in plantation forests?

- Returns are driven by predictable biological growth.
- Plantations are a growing and sustainable resource.