

Southern Timberland Activity

This issue was delayed slightly in order to incorporate late-breaking news on timberland transactions.

OVER TWO MILLION ACRES CHANGING HANDS IN 1999

An unusually large number of timberland transactions over 100,000 acres have occurred this year in the South, with a couple more still in the works. Here is the year in review:

January

Kimberly-Clark announced an agreement to sell the remainder of its timberland assets (529,000 acres) in the Southeast. That deal later fell through (but see June).

Alliance Forest Products announced it would sell its 370,000 acres of timberland acquired with its purchase of Kimberly-Clark's Coosa Pines mill in central Alabama.

March

The St. Joe Company announced a plan to sell 800,000 acres of timberland in northwest Florida in 100,000 acre increments. The first block of 100,000 acres was to go on the market immediately.

April

Chesapeake Corporation announced it had agreed to sell 278,000 acres in Virginia, Maryland and Delaware to the Hancock Timber Resource Group and had agreed to sell its building products business to St Laurent Paperboard. The combined sales price was reported as \$186 million. This turns out to be the lowest price per acre for timberland of any of the major transactions. If no value is assigned to the building products business, the per acre value of the timberland would be \$670 per acre. If \$30 million is (arbitrarily) chosen as the value of the building products business, the per acre value of the timberland would be \$560. In August, Hancock Timber announced that The Conservation Fund would purchase 76,000 acres of the timberland on the Delmarva Peninsula.

May

Bear Island Paper announced the sale of 82,000 acres in Virginia to Virginia Forest Investments LLC for approximately \$80 million. Within a few weeks, Virginia Forest Investments had purchased another 26,000 acres from Bear Island. (The price for this second block was not published).

June

Kimberly-Clark announced a new agreement to sell 460,000 acres of timberland in Alabama, Mississippi and Tennessee to Joshua Management LLC of Brookhaven, MS for approximately \$400 million. An additional 69,000 acres were sold to various conservation groups and state agencies.

July

The St. Joe Company announced that it had sold 13,275 acres of timberland to the State of Florida for just under \$750 per acre. However, it withdrew the rest of its timberland from the market. The company cited weak market conditions due in part to the large supply of timberland on the market. The company’s press release did not clearly indicate whether this was a temporary withdrawal or if it would develop a new strategy for its timberland holdings.

Smurfit-Stone Container announced that it had sold 980,000 acres in Florida and Georgia to Rayonier for \$725 million. This property consists of 820,000 acres of fee land and 160,000 acres of leases.

October

Bowater announced that it had sold 133,000 acres in North and South Carolina to Wachovia Timberland Investment Management for \$163 million.

News was received as this newsletter was being written that Packaging Corporation of America (a former or soon-to-be former subsidiary of Tenneco) had closed on the deal to sell 244,000 acres in the Mid-South to Forest Systems LLC. The price was not disclosed.

News was also received that Alliance Forest Products has agreed to sell 412,000 acres in Alabama to the Hancock Timber Resource Group for \$312 million. This deal includes 374,000 acres of fee land and 40,000 acres of leases.

Still in the Works

Gilman Paper is selling 100,000 acres in southeast Georgia/northeast Florida.

This list does not include numerous transactions in the 20,000-100,000 acre range, with several more currently in the works. The table below summarizes the eight major Southern sales which have closed or for which agreements have been announced so far this year.

Seller	Buyer	Acres	\$/Acre
Alliance Forest Products	Hancock Timber Resource Group	412,000	\$ 752
Bear Island ¹	Virginia Forest Investments LLC	128,000	\$ 959
Bowater	Wachovia Timberland	133,000	\$ 1,226
Chesapeake ²	Hancock Timber & The Conservation Fund	278,000	< \$ 670
Kimberly-Clark	Joshua Management LLC	460,000	\$ 870
Packaging Corporation of America	Forest Systems LLC	244,000	
St. Joe ³	State of Florida	13,725	\$ 743
Smurfit-Stone	Rayonier	980,000	\$ 740
Total		2,236,725	

¹\$/Acre price was for an initial purchase of 82,000 acres; the price for the additional 46,000 acres was not disclosed.
²Published purchase price includes building products facilities sold to third party.
³87,000 acres were withdrawn from the market after this initial sale.

Table 1—Southern Timberland Transactions Over 100,000 Acres in 1999

VOLUME DISCOUNTS OR MARKET GLUT?

Back in 1996 and 1997, I had a rule of thumb that southern pine plantations were worth about \$1,000 per acre. This varied for an individual property by location, local markets, property size, timber inventory, etc., etc., but it was a reasonable starting place for looking at the world. Table 1 shows an average price of under \$1,000 per acre for the 1999 transactions—sometimes well under. When I heard of all the land on the market early in the year, I expected to see low per acre prices because I expected the timberland buyers would not be able to assemble enough funding to buy everything being offered. The low prices in Table 1 support my hypothesis. However, some of these large transactions are *very large*. It would not be a surprise to find that these very large transactions sold at some volume discount. On the other hand (says the economist), one of the reasons for a volume discount in timberland is that there are fewer players who can handle the large transactions. But three of the buyers in this year's transactions are new names in the business—these companies are less than a year old (some of the principals in these companies have been around for years). There are now more players at this scale than there used to be. More players would suggest there should be less of a volume discount than there used to be and that the lower per acre prices are caused by an oversupply of timberland on the market.

So which is it: volume discount or market glut? I welcome your opinions.

NO RESPECT FOR INDUSTRY TIMBERLAND OWNERS

One of the interesting aspects of this summer's timberland transactions is that most have involved forest industry companies selling to non-industry investors. The single exception was the largest transaction—the nearly 1 million acres purchased from Smurfit-Stone by Rayonier. It is widely held in financial centers that forest products companies should not own timberland, and the stock market's reaction to this transaction clearly illustrates that this belief is strongly held. News wires carried press releases on July 29 and stock market reaction was swift. On July 30, *The Wall Street Journal* reported the transaction and noted that Rayonier shares had fallen \$1.50 per share while Smurfit-Stone had risen \$0.0625 on the day of the announcement.

The two charts below show what has happened to both companies' share prices since then. Rayonier shares (Figure 1) have fallen steadily (until the company announced in early October that it was moving to Jacksonville, Florida—is there a connection here?). In contrast, the now timberland-less Smurfit-Stone has more closely followed the market as a whole (Figure 2). (Given the recent downturn in the market, its shares are now lower than they were at the time of the timberland transaction.)

Note however, that Smurfit-Stone was not rewarded (in the form of increased share prices) for selling off its timberlands. This is not an unusual reaction. In a presentation to the Southern Forest Economics Workers in April I showed that buying, holding, or selling timberland generally has no noticeable impact on stock prices of forest products industry companies. The only people on which it has a significant impact are the poor procurement foresters who must get wood to the mill without the benefit of a timberland base.

While stock prices do not appear to change, is a company selling timberland better off than a company that keeps timberland? Instead of a billion dollars worth of timberland, it has a billion dollars in cash—doesn't that look better on the balance sheet?

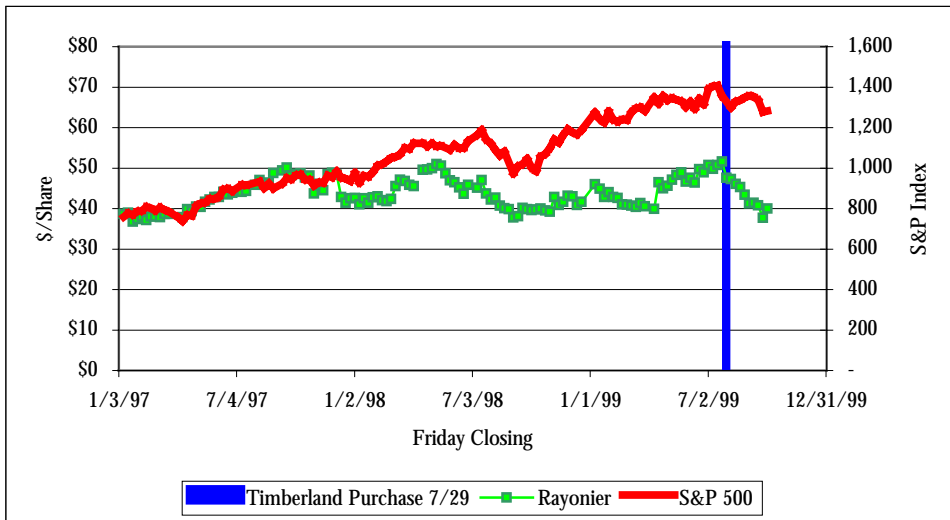


Figure 1—Recent Rayonier Stock Prices

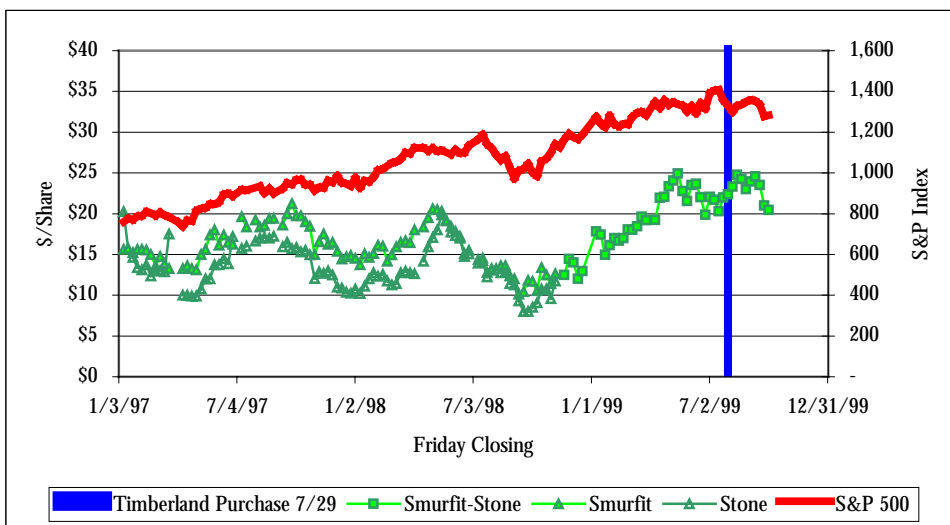


Figure 2—Recent Smurfit-Stone Container Stock Prices

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