

# Timber Investing: ‘Green Before Green Was Cool’



The housing market last year didn't bode well for one valuable resource — timber — but that is only one ring in a tree's long life. The advantage in investing in timber as an asset class is optionality: Unlike other farm products, you can harvest your product when the price is right.

As the sustainable investment market continues to grow and gain importance in the financial world — Morningstar

just released a report that more than \$6 trillion in U.S. assets under management today incorporate sustainable investment factors — timber grows in stature as an asset class. As Doug Donnell, national timberland executive of U.S. Trust, notes: “Timber was green before green was cool.”

Investing in timberland is made for the long haul, and definitely for high-net-worth individuals or funds. Donnell says that U.S. Trust, which is part of Bank of America's private wealth management group, asks clients to stay in the investment for 10 years to get the best return and requires a \$5 million minimum. The payoff, however, can be worth it. Investors typically can get about an 8%-10% annual return, says Donnell.

GMO, co-founded by Jeremy Grantham, is another asset management firm involved in timber. It just released its seven-year real return forecast, which predicts that timber will be the best performing asset class with an estimated 4.8% per year return. In contrast, it forecast losses for U.S. large- and small-cap stocks.

---

## RELATED

The key with timber is not to exit too soon, says Donnell. He explains that a young tree six inches in diameter might be “pulp wood” and get only \$6 to \$10 per ton, but as it ages and grows it becomes more valuable. “If you attempt to sell at year three, you wouldn't get that



### **GMO's Grantham: Why the Stock Market Won't Collapse This Year**

Grantham, the chief investment strategist of GMO and a perennial bear, is sounding somewhat optimistic about the U.S. economy and...

[8%-10%] type of return.... The key is that biologic growth drives the investment and the majority of total return.“

The downside is the low liquidity — it takes time to buy property and sell it – as well as the high minimums for direct investment. Donnell points out that “proxy” assets available to smaller or less patient investors include exchange-traded funds that focus on timber-related companies or timber real estate investment trusts, which are often included in some of those ETFs.

These REITs, however, have a higher correlation to the stock market and lose some of the benefits of direct timber investments, according to Donnell. In addition, REITs have limited flexibility, says Donnell. “If prices fall, they have to defend dividends, so they don’t have the luxury of not harvesting.”

Also, timber REITs and ETFs largely comprise “forest product companies,” many of which have divested themselves of timber and have become lumber production companies.

For example, an inside look at iShares Global Timber & Forestry ETF ([WOOD](#)) shows that the ETF consists of two REITs — Weyerhaeuser ([WY](#)) and Rayonier ([RYN](#)) — various paper and forest products stocks and one forestry firm — West Fraser Timber Co. ([WFT.TO](#)). WOOD shares are down slightly this year after surging more than 70% from a low in 2011 to a high in early 2015. Shares are off about 14% off from their 2015 peak.

Direct investment also runs into potential insect and disease risk. Donnell notes that his firm invests only in Pacific Northwest, Northeast and Southeast U.S. properties that aren’t exposed to problems like infestation by the Mountain Pine Beetle, which has ravaged forests in the U.S. Rockies and British Columbia.

He recommends that when doing due diligence on timber assets, investors review potential risks, such as infestations, and find properties (or timber types) that make it less of an issue.

He also says climate change likely won’t negatively affect timber investments. “Timber is an asset class [investors] will gravitate toward when they are uncertain and nervous.... The same thing is true with climate change. If we end up with new regulations on carbon, the forest land owner will participate in the profitable carbon sequestration [returns].”