Land Availability Working group
27th June 2013

- Experience of the use of conservation funding in forestry investment in the US
- Views on promoting forestry investment and impact on land availability for forestry

IForUT - Alternative Investment – Real Assets

Forestry Investment for Irish Tax Exempt Institutional Investors

The views and opinions expressed in this presentation are exclusively my own personal opinions and may not be represented as the views or opinions of IForUT

Brendan Lacey, Chief Executive, IForUT.

Irish Forestry Unit Trust

Alternative Investment – Real Assets

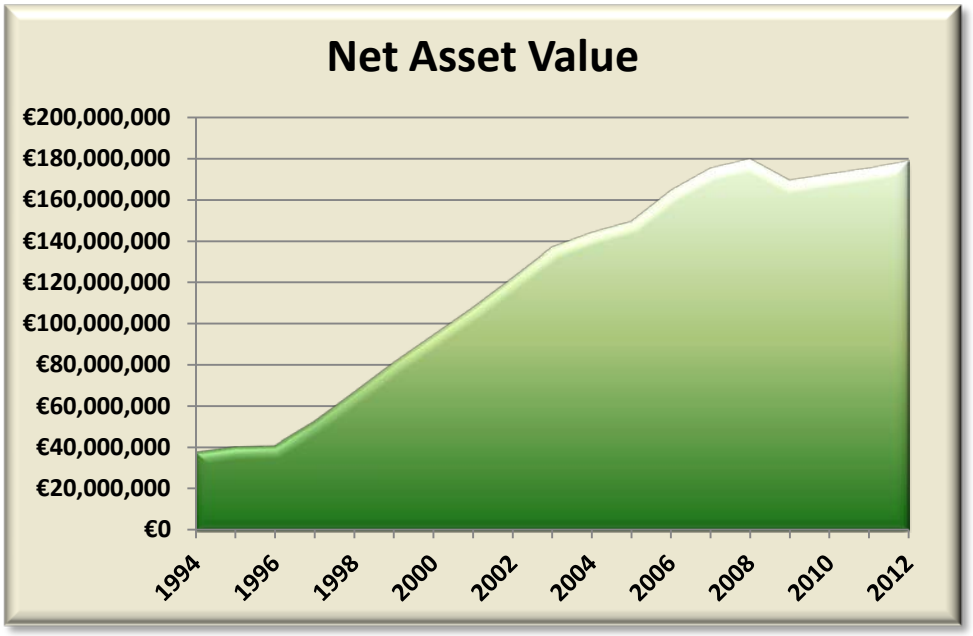
- Background – IForUT and NAFIT
- Part 1
  - Some Applications of Conservation Funding in US Forestry
  - Possible Applicability to Irish Forestry funding
- Part 2
  - Promoting Investment in Forestry
    - Impediments to investment
    - Potential to increase overall planting and land availability for forestry

Irish Forestry Unit Trust

Alternative Investment – Real Assets

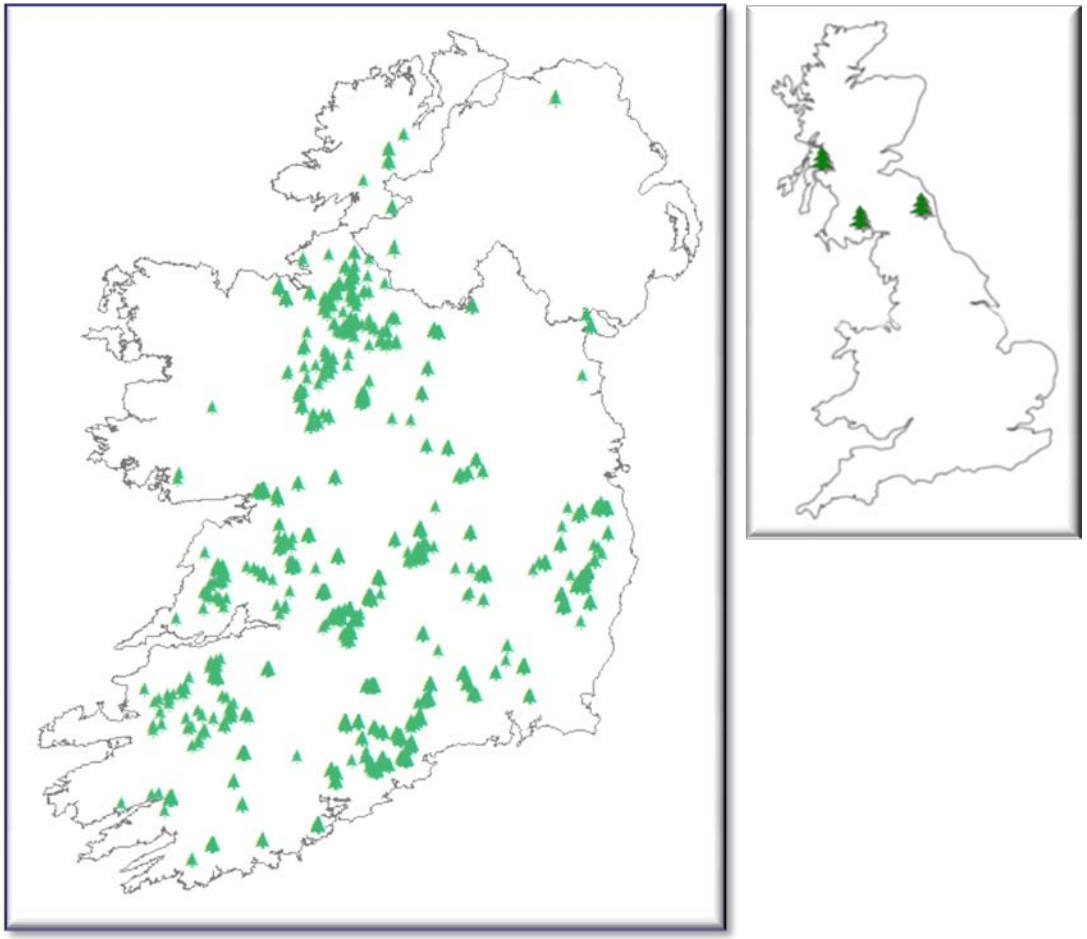
What is IForUT

- A Unit Trust for Investment in Forestry
  - by Irish Revenue Authorised Pension Funds and Charities
- It's objective is to deliver strong positive Real Rates of Return
  - for medium to long term investors by acquiring and managing forestry investments
- It is owned by its investors and operated at cost for their benefit
- It is controlled by a Committee of Management
  - made up of representatives of investors and selected forestry, pensions and investment professionals
- IForUT has €170 million of forest assets predominantly in Ireland
  - Small number of forest properties in the UK



IForUT Background

- Current Portfolio of Forest Assets
  - Geographic and Age Diversification
  - UK properties represent c. 3% of portfolio
  - Focus on Quality/Crop Health in portfolio
  - Site/Species Suitability



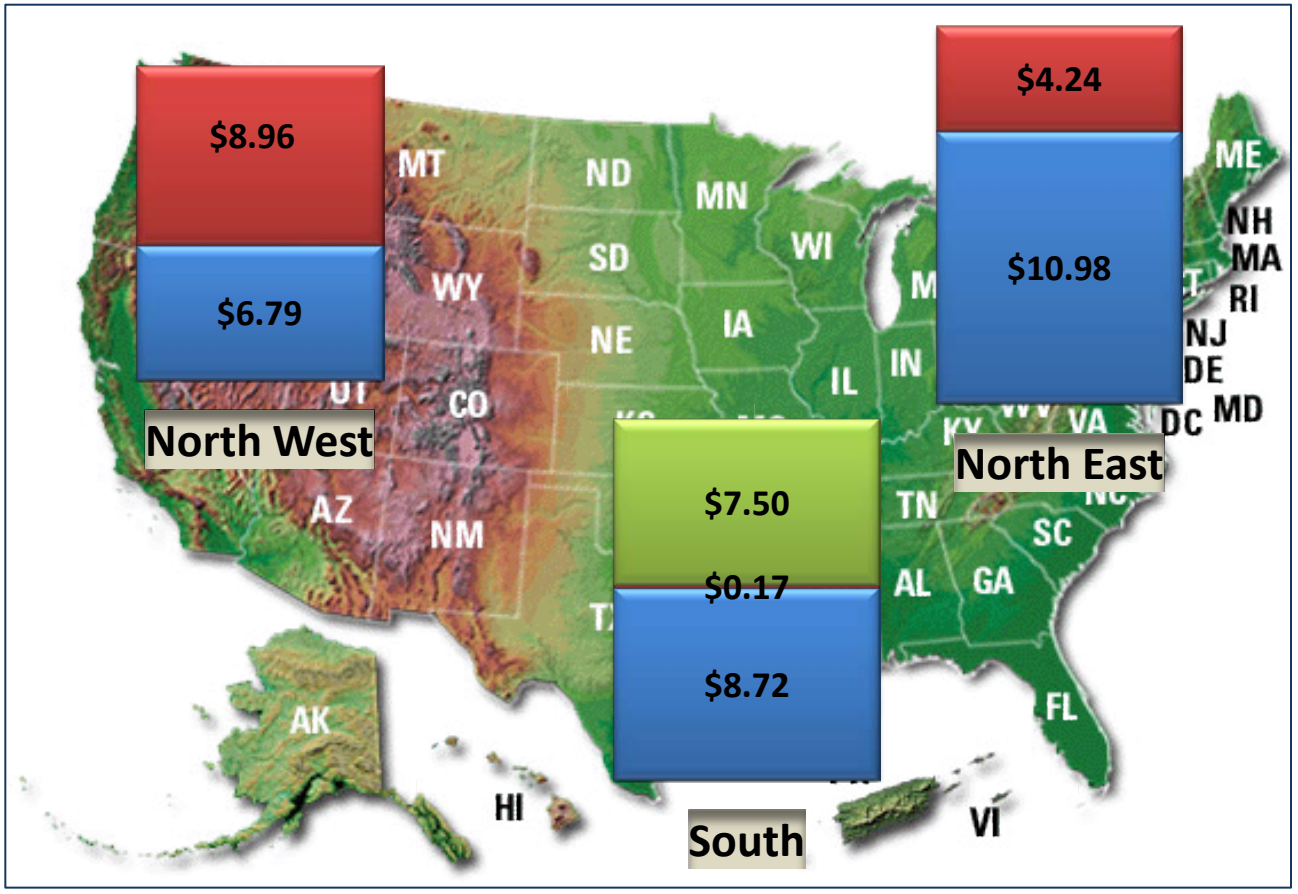
Irish Forestry Unit Trust

Alternative Investment – Real Assets

NAFIT Background

- Proposed further Commitments
- Additional Committments*
- Existing Investments

Proposed further commitments refer to investments under due diligence review for which NAFIT already has subscriptions from unit holders



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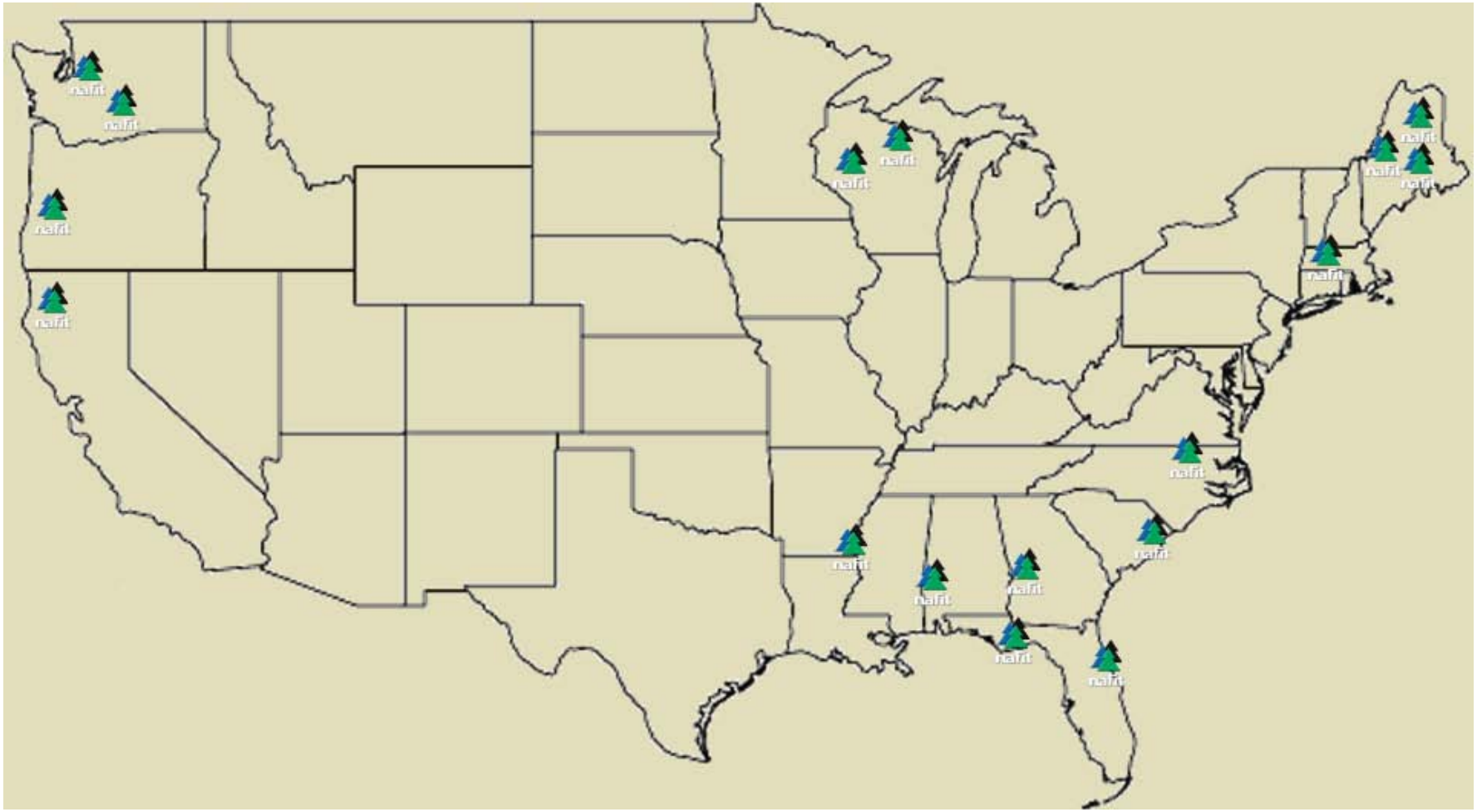
Alternative Investment – Real Assets

NAFIT Portfolio

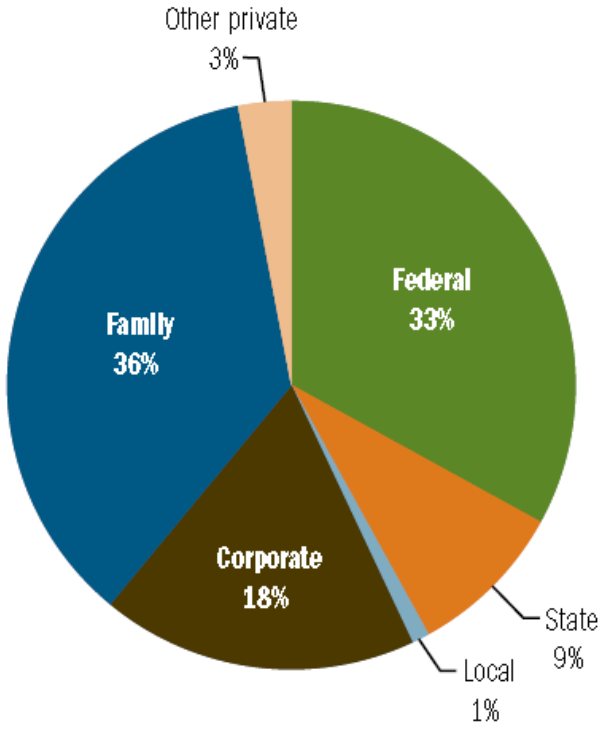


US Forestry Overview

US Forestry Investment Overview

- US Forest Land is estimated at 304 million hectares (33% of land area)
  - 56% privately owned – 107 million ha
  - Of this one third is held by 'corporations'

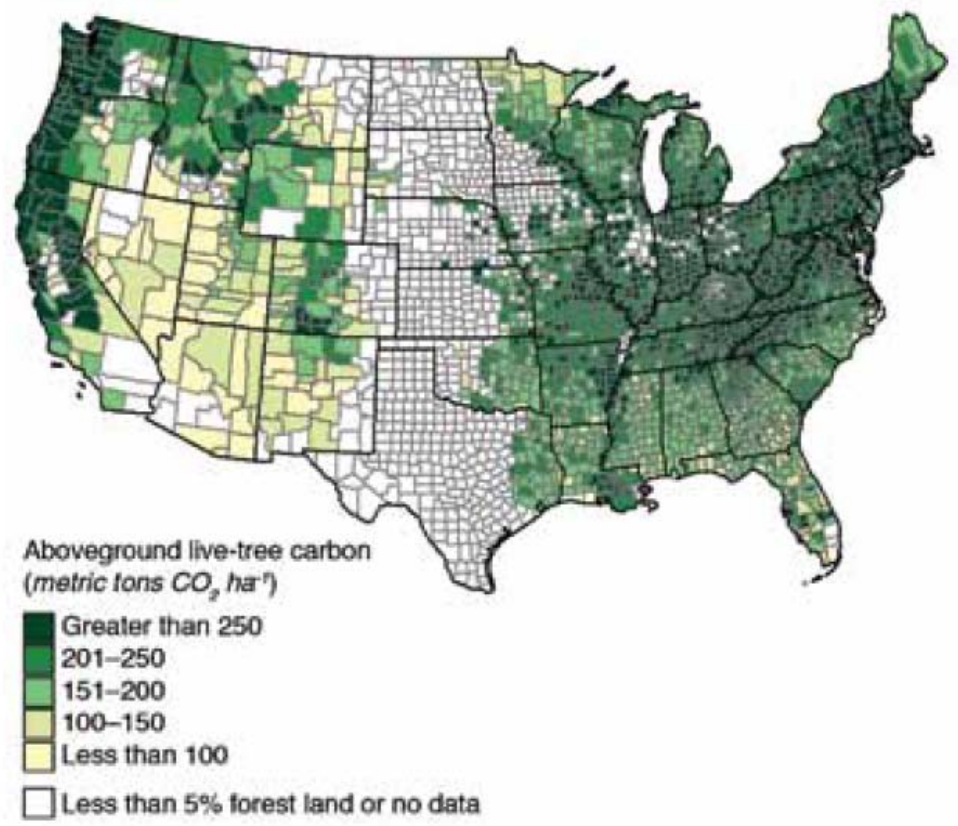
Distribution of forest land ownership in the United States, 2006



* Includes nongovernmental conservation organizations, unincorporated partnerships, and Native American lands.

US Forest Regions

Aboveground live forest biomass stocks by county in the United States, 2006



Ecosystem Services

- Payments to forest landowners from all sources from which data are available were
  - $553 million in 2007
  - Federal agencies providing $248 million,
  - States $12 million, and
  - Non government sources accounting for $294 million.
- Of the non government sources,
  - greenhouse gas offsets amounted to $5.5 million,
  - conservation easements $110 million, and
  - fee simple purchases $176 million.

Ecosystem service payments

- From 2005 to 2007, government payments—Federal and State—remained fairly constant, ranging from $256 million in 2005 to $260 million in 2007.
- In contrast, payments by nongovernment organizations for carbon offsets and conservation easements grew from $213 million in 2005 to $294 million in 2007

Conservation Easements

- An Easement is a restriction on Land use
  - Registered as a burden on title
  - Often Paid for by conservation groups or State / Federal conservation funds
- Typically High Conservation Value habitat
- Threat to conservation Lands where few restrictions on development exist
- Military issues in some cases
- Partnering option
  - Joint purchase between Forestry Investor and Conservation Group
  - Forestry Investor buys timber rights
  - Conservation Group buys development rights

Wetland Mitigation Banking

- In areas where building works have negative environmental impact, particularly on wetlands, planning consent may require alternative site enhancement
- Supervised by Army corps of engineers
- Steps involved
  - Purchase degraded wetland
  - Environmental value assessed
  - Enhancement work carried out
  - Credit attributed to work
  - Credit can then be sold to developer to meet planning consent requirements

Comparisons with Ireland

US

- Large funded conservation organisations
  - e.g. Nature Conservancy assets $6 billion
  - Annual member contributions $450 million
- Significant State/Federal funding
- Few planning restrictions to prevent forest conversion

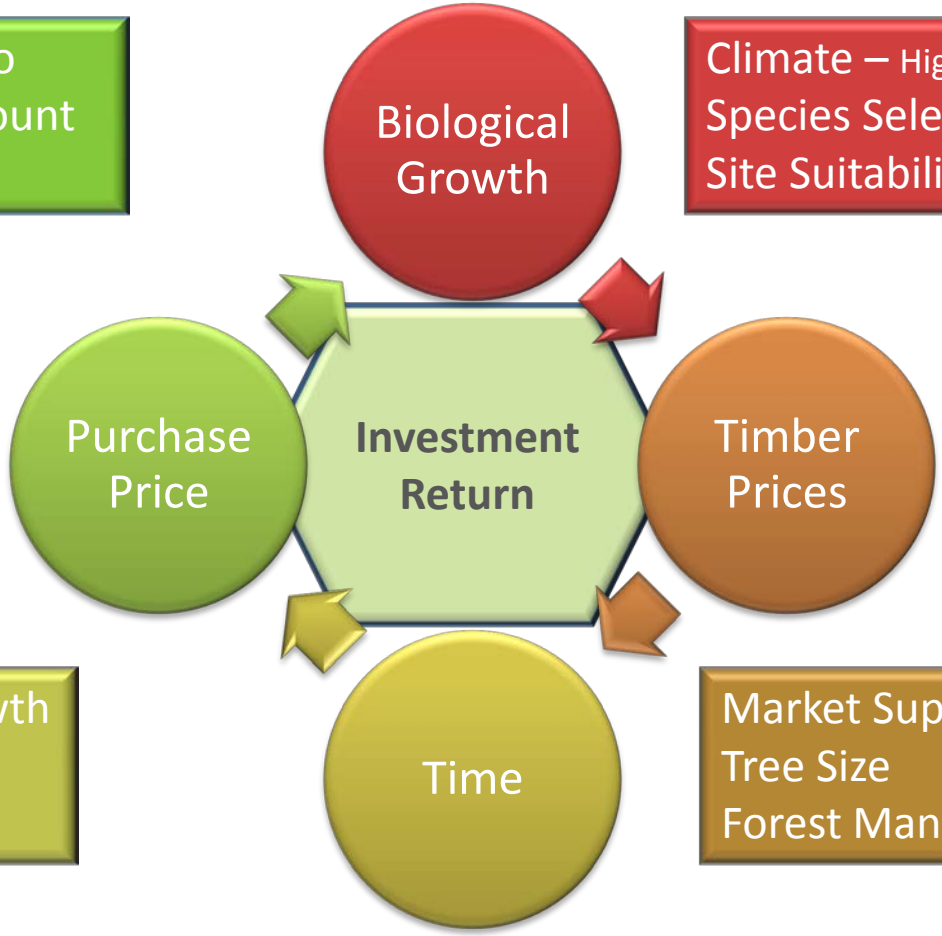
Ireland

- Smaller poorly funded organisations
  - E.g. An Taisce assets €240k
  - Annual member contributions €110k
- Low level of State conservation funding
- Planning restrictions/laws prevent forest conversion

Investment Drivers

Components of Forestry Returns

Disciplined approach to Quality and Yield/Discount Rate.



Climate – High growth rates in Ireland
Species Selection - Focus on Quality
Site Suitability

Rate of Biological Growth
Forest Management
Regulation

Market Supply/Demand
Tree Size
Forest Management

Investment Issues

- Grant and Premium Eligibility
  - Current system reduces price investors can pay for established forests
  - Limits market for seller
  - Rules out bare land purchase
- Investment in Broadleaves is difficult due to
  - Lack of timber market data
  - Longer rotations – higher risk
  - Silviculture
  - Broadleaf grant rates have impact on alternative use/coniferous planting
- Taxation
  - Exempt Income threshold is causing
    - Deferral of sales
    - Potential fragmentation to uneconomic lot size to stay under threshold
  - Clarity needed on Capital gains v income required for established plantations

Does Investment Forestry Increase Planting or Forest area

Enhanced land availability

- Investment Forestry creates a market for forest owners
  - Allows shorter investment horizon for owner
  - Gives confidence to grower they can get out if necessary
  - Sales proceeds gives option to reinvest in new young forest
  - Inheritance – option for beneficiaries to realise value
    - Enhances idea of planting for the next generation
  - Farm Retirement planning made easier a adds potential value to marginal land
- Net effect is to make planting decision easier for a land owner if a market is available
- Therefore enhances land availability for forestry
- Investment Criteria should be borne in mind at establishment
  - Economic size
  - Access/harvest planning a establishment
  - Productivity
  - Forest Management/protection