Future of Large Forest Land Ownerships

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Categories of Large Owners

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- Families, estates & trusts
- Oil, mining, railroads
- Utilities
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- New Ownership structures – TIMO's et al.

Summary -- 2003

- 4.5 MM acres sold nationwide (TMS data)
- 2.1 MM in South
- $3.2 Billion
- On market – Large acreages

Top 3 Industrials

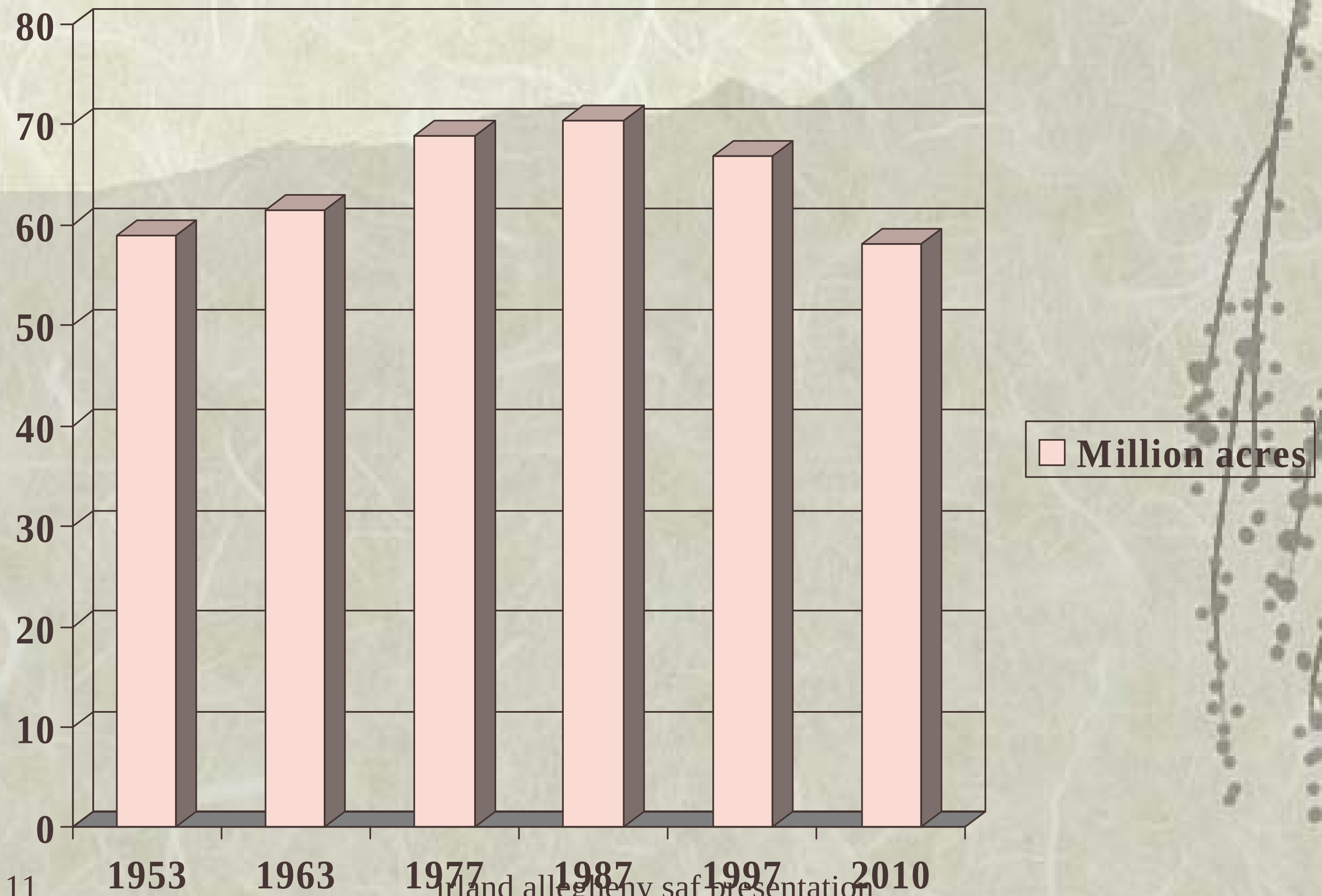
	1981	2003
IP	6.9	9.0
WeyCo	5.9	7.6 (now 3)
GP	4.6	000
PCT	1.5	8.1 (now 2)

Sources: Clephane & Carroll, 1982; Tim-Mart South 2004.

Industrial Owners by Size

	1981	2003
More than 2 MM	9	7
1-2 MM	11	4
500M to 1 MM	8	7
Cutoff top 20	1,040	430
	(P&G)	(Deltic)

Industry Ownership peaked in 80's



Why is Industry Selling?

- Can’t buy –No ready cash
- Lower perceived need for fiber control
  (esp. on Wall Street)
- Opportunity cost of fiber control thru ownership is rising
- Now there are Buyers!

Why….

- Goldsmith's Law
- Internal restructuring – Generally unsuccessful
- Company-specific factors
  - Cash flow outlook
  - Lands remote from mills
- Replacements for Fee wood
  - Recycled
  - Imports, chips, pulp
  - Longterm contracts (wishful thinking???)

Industry Conditions

- Mature Industry Challenges
  - Overcapacity
  - Low profitability – below cost of capital
  - Imports
  - Aging mills/infrastructure: “Smithsonian Trap”
  - Maxed out timbersheds

Mature Industry

- Withdraw capital (not always voluntarily)
- Cut Capacity
- Merge/Restructure
- Merger Costs – Pay with Land
- Land as piggy bank for earnings Mgt.

Regional Trends

- In South, declining stumpage values
- On Coast, declining export Markets
- Leisure lot/kingdom markets
- Many regions, regulations restrain management

Regional, cont…

- Resort spinoff effects
- Metro fringes – taxes
- Offshore – Major sales

Families et al.

- Prominent in wake of cutovers
- Paper cos. bought most out
- Few large examples survive – Pingree, P&C, Longyear
- Stresses:
  - Estate taxes
  - Low current incomes
  - Fragmentation as generations pass

Families: don’t count ‘em out yet

- A few are building portfolios
- McDonald: RR lands in Ont; GNP lands in Maine
- Mendocino (CA)
- Not all turn out to be stable: Lassiter, Ebbers

Oil, Mining, etc.

- 11 Cos. In Clephane 1981 list
- More than 4 MM acres
- Have not tracked this sector closely
- Subsurface estates extensive – not well documented
- Hard to find these owners

Utilities

- Owned forests as sideline along with
  - Reservoirs
  - Rights of way
  - Other facilities
  - Cost was low
- Electric Utilities
  - Massive restructuring
  - Sales often to public sector

Utilities, cont….

- Water utilities – special case
  - Changing regs, less need to control watersheds
- At times dabbled in processing
- These lands often of considerable local importance

Indian Nations

- More prominent out West
- Menominee, Maine tribes
- Litigation over claims
- Little major change recently
- Will gaming revenues be invested in land?

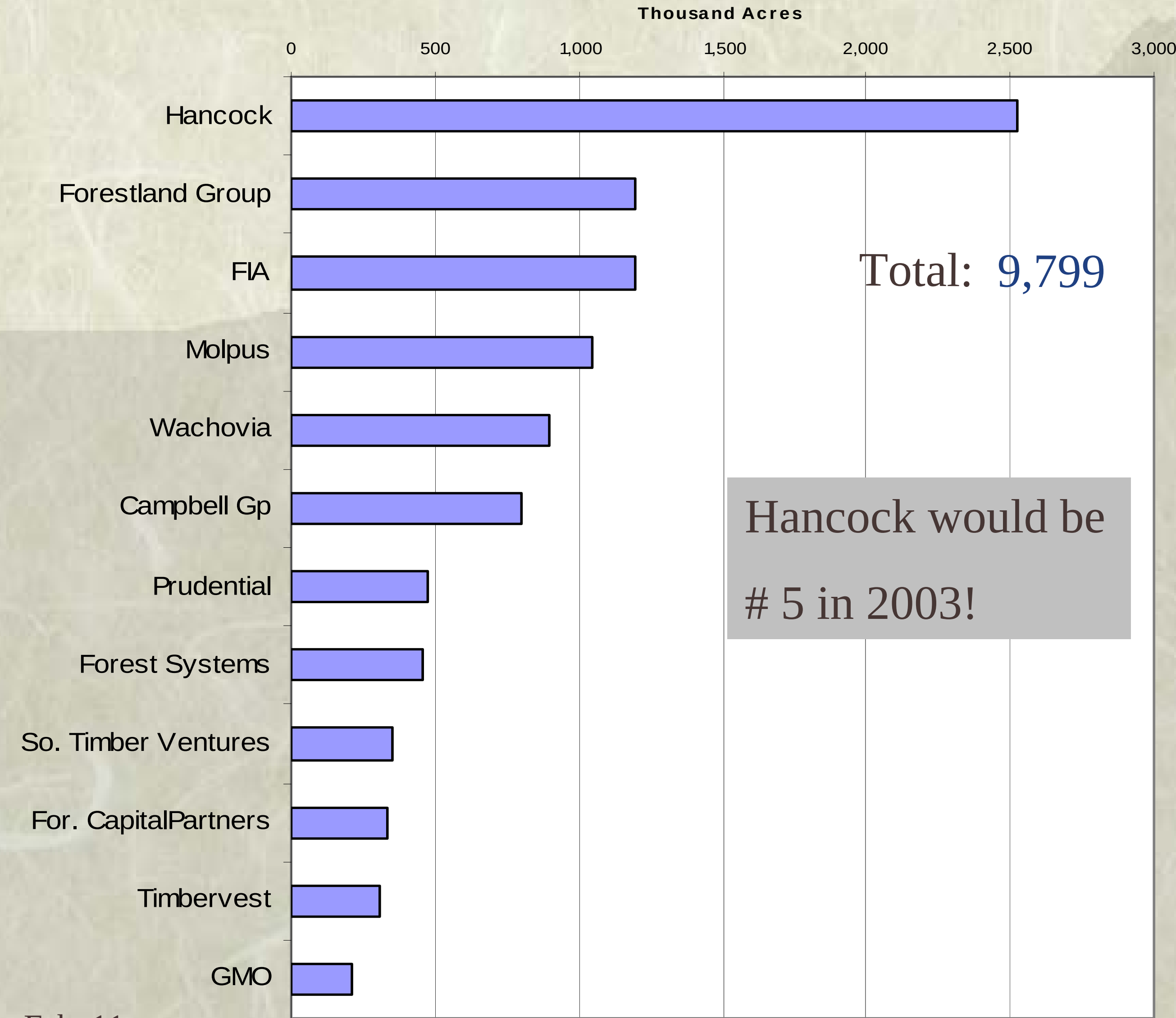
Kingdom Buyers

- Amenity, not investment
- Adirondack estates –from 90’s
- Media/finance celebs
  - – Ted Turner ranch (MT)
  - – John Malone (ME)
- Clubs prominent at one time
  - – Coming back as resorts? Perhaps in some areas
- Can afford not to manage

New Ownership Structures

- Capital is being mobilized to own timberland
- TIMO's -- Now have 9.8 MM A.
- MLP's
- Listed Companies (Timberwest et als)

TIMO's Eoy 2003



Conservation Buyers

- NEFF Pingree easement
- TNC 175,000 A on St. John
- AMC 100 mi. woods
- Chesapeake/Glatfelter
- Individuals -- more prominent?
- Count the states where Cons. Buyers are the LARGEST Pvt owners!

Supply/Management Implications

- Tracts will be Smaller
- HBU will change uses
- Management Intensity may not Change
- Ownership stability will decline
- Less concentration of ownership
- Less Vertical Integration….
  - – Not necessarily bad!

Other impacts

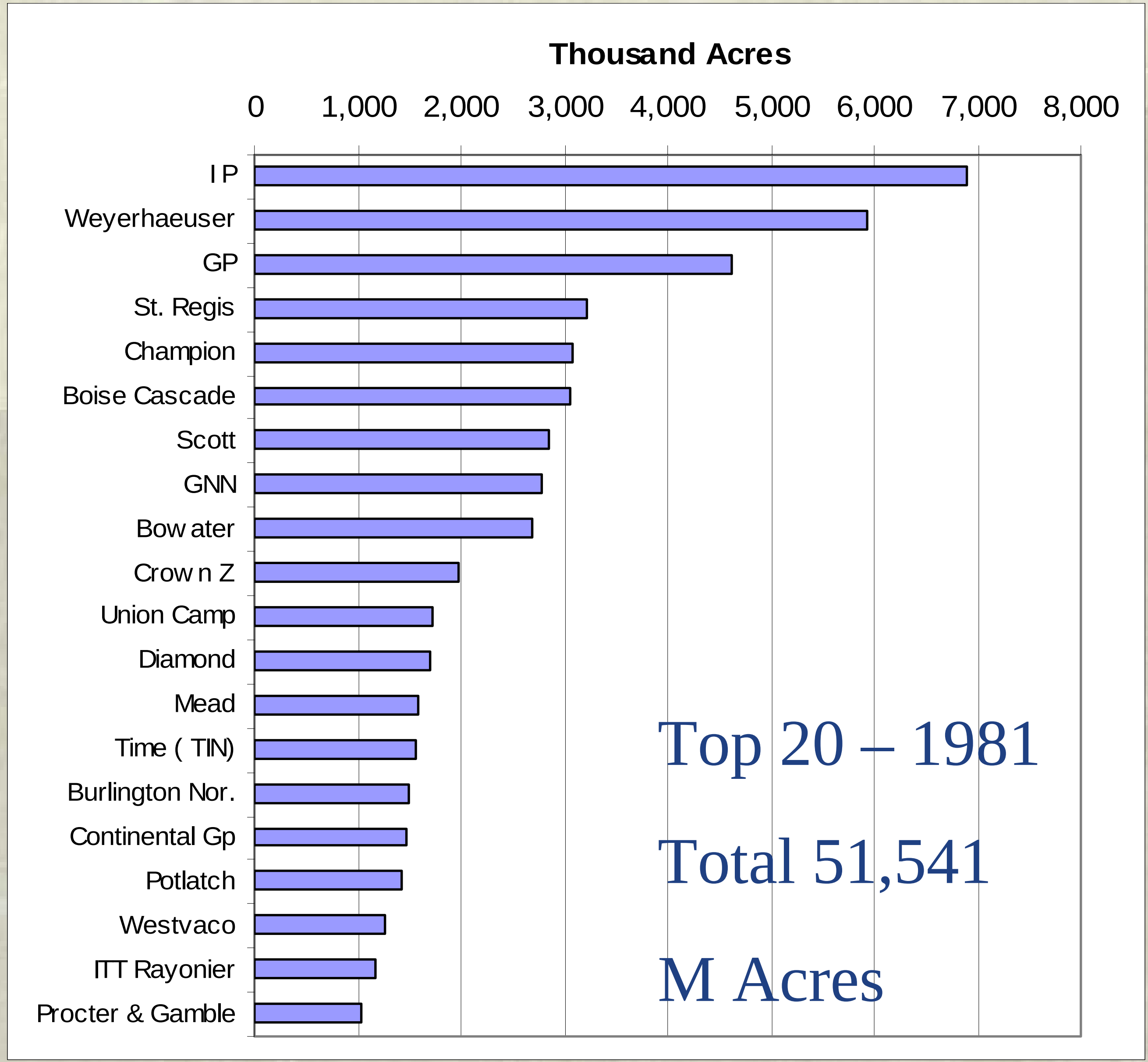
- Corporate Research Capacity/funding
- Human capital
- Employment
  - – All above likely to shrink

Conclusions

- An era that favored extensive large holdings has ended
- Change will be slow
- New and less familiar Owners
- There will be a mix of wood supply impacts, not all bad by any means
- More partial ownerships - easements
- Significant conservation benefits in some regions

BACKUP CHARTS

Data on industry owners, 1981 and 2003

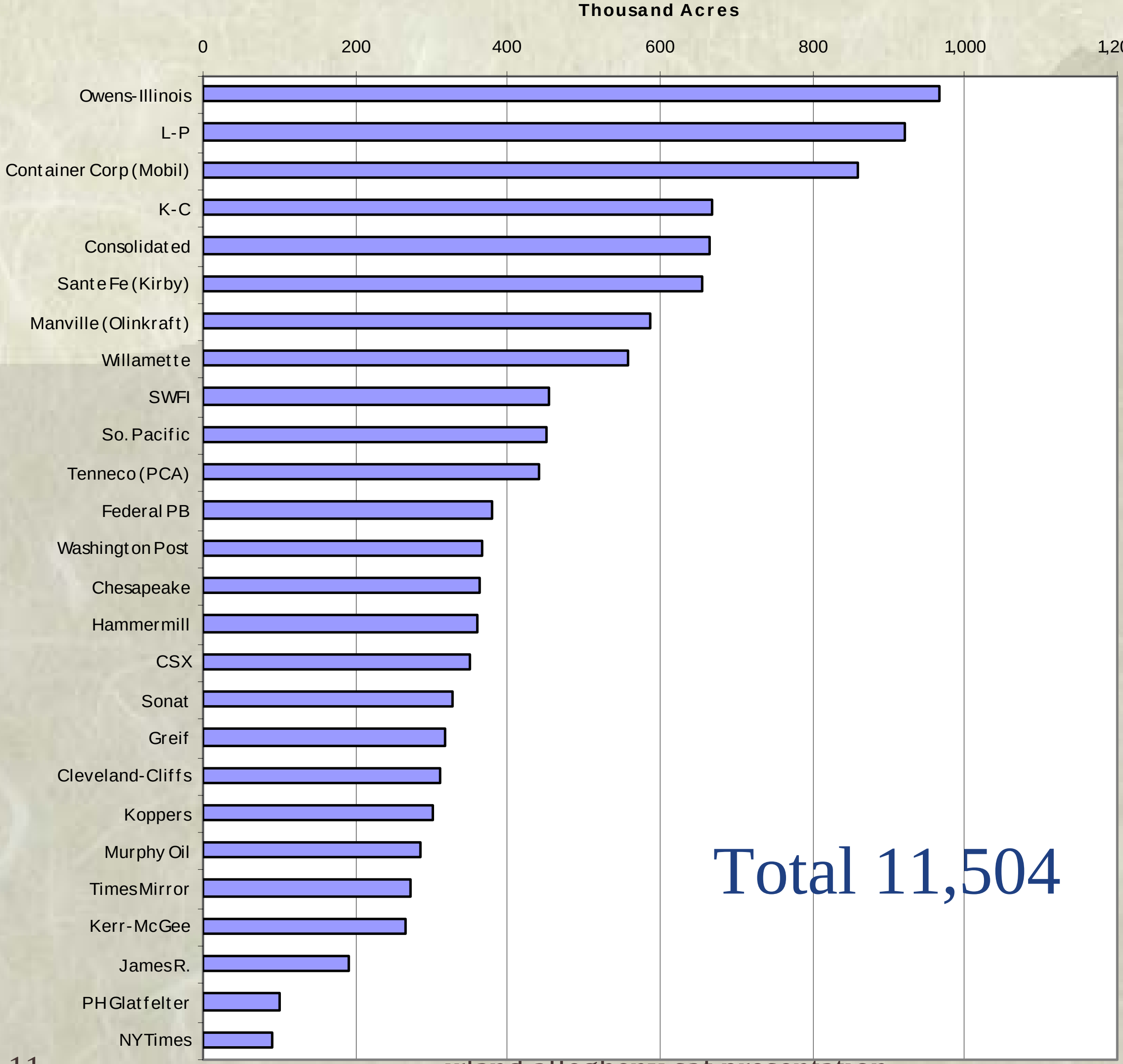


Top 20 – 1981

Total 51,541

M Acres

The next 26 -- 1981



Top 20 Owners 2003