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Timber investment taking root

Jacksonville Business Journal - by [Ryan Geddes](#) Staff Writer

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JACKSONVILLE -- The offices of Rock Creek Capital are in a ninth-floor suite overlooking the St. Johns River and the Downtown Jacksonville skyline.

But most of its money is in the trees.

"We think timber will be the next great asset class," said Ashton Hudson, an Atlanta transplant who serves as partner and general counsel with the private investment firm.

Rock Creek was co-founded in 1993 by former Drexel Burnham Lambert executive vice president James Dahl, once a top associate of junk-bond whiz Michael Milken and a recent player in the shakeups of the once staid St. Joe Co. (NYSE: JOE) and Florida East Coast Industries Inc. (NYSE: FLA)

Hudson said it's no accident that, given its partners' backgrounds, Rock Creek is taking a close look at timber.

"Junk bonds were once a misunderstood asset class, but in the 1980s, they grew into a mainstream one," Hudson said. "Timber is on track to do the same thing."

Although Rock Creek has a separate \$150 million private equity fund unrelated to the timber industry, the company also owns a majority interest in Timbervest LLC, an Atlanta-based timber investment management organization.

Through Timbervest, Rock Creek operates a \$500 million fund that taps into what it says is a growing interest in the timber industry among institutional investors and high-net-worth individuals.

How high is high? To get in on Rock Creek's commingled fund takes a minimum \$1 million investment. Separate accounts customers typically invest more than \$20 million.

Rock Creek recruited Bob Chambers, who managed Wachovia Corp.'s timber investment business in Atlanta in the early 1990s, to run Timbervest. Chambers retired in 2002, and former Atlanta Growth Fund manager Joel Shapiro is now CEO.

Shapiro said timber investment management organizations are attractive investments for those with an interest in timber but not in the more volatile paper or forestry products industries, which often have infrastructure, milling, manufacturing and retail components to their business.

And because a properly diversified pure timber investment is seen as less risky than many stocks, Shapiro said, returns can be high with low exposure. Investments in various species of trees at different stages of growth in a number of regions can help offset localized challenges like disease and fire.

"A lot of the interest we're seeing is from people who want consistent 8 percent to 12 percent returns and partial income growth but don't want the volatility of the stock market," Shapiro said.

According to a study by the Global Institute of Sustainable Forestry at Yale University, institutional investment in timberland increased from about \$1 billion in 1989 to about \$14.4 billion in 2002, the most recent year covered by the study.

According to the Yale study, Timbervest ranked among the top 10 private equity timber investors in 2002, with about \$430 million invested in 330,000 acres of timber nationwide.

That number is now closer to \$500 million, Hudson said, and Rock Creek is looking to increase the fund.

The timber-timid may have been emboldened of late by Harvard University's recent announcement that its \$19.3 billion endowment now has an 11 percent stake in global timber interests.

But Timbervest is strictly domestic, Shapiro and Hudson said, and it plans to stay that way.

"Our personal opinion is that [international timber investment] is a big mistake -- you're just adding risk," Shapiro said. "You're buying timberland for its high risk-adjusted returns, not its volatility."

Timber investment management organizations are one way for investors to get into timber, but there are also traditional stock market opportunities for those interested in making the asset class part of a diversified portfolio.

Although Jacksonville-based Rayonier Inc. (NYSE: RYN), a global timber, land and wood products company, saw timber harvests decline in the third quarter as a result of

hurricane damage and flooding in the Southeast, the company reported net income of \$24 million for the three months ended Sept. 30, up from \$8 million in the same period in 2003.

Seattle-based Plum Creek Timber Co. Inc. (NYSE: PCL) is repositioning its assets to fully realize its land values. Plum Creek is marketing 445,000 acres of its non-strategic timberlands for sale by the end of 2005, according to the company.

Timbervest and Rock Creek can't compete with giant integrated timber companies like Rayonier and Plum Creek when it comes to acquiring land, so they pick up smaller parcels where they can, often from family trusts or from the large timber companies themselves. Timbervest has foresters on the ground nationwide scouting for land and managing existing stock.

Rock Creek has other, mostly technology-related funds in addition to timber, but Hudson said timber is an investment with a unique upside.

"It's fun to manage timber," Hudson said. "You get the added benefit of taking a walk in the woods once in a while."

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