



## **The Other Forest Ownership Option**

### **The Forestry Right / Joint Venture Option**

**August 2004**

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#### **A) The Problem**

There is a natural assumption that if you want to grow a forest you need to buy land first. However this is not the case in New Zealand, and indeed we believe there are significant advantages to owning just the trees and not the land they grow on.

Most of the best forestry land in the South Island, especially the best sites for Douglas-fir, is not often for sale. It is pastoral hill country farmland that has been family owned for generations.

Or if it does come up for sale, it comes together with large tracts that are not suitable and have to be carried or disposed of. Often the unsuitable parts of a property for sale do not amount to a viable farming proposition, nor are they attractive for any other land use. Combine this with the fact that farm prices are arguably much higher than the return on land would warrant and you probably have a large part of the reason few sizeable forest investments have occurred as yet in the South Island hill and high country.

#### **The Solution**

As one does not have to own land to own a forest, and indeed there are distinct advantages to not owning the land, the answer is to establish a good relationship with those who do own it and the door will open to large areas of good forestry land.

As it happens, a lot of good forestry sites are not the best grazing land so farms will 'give them up' to trees if they don't also have to give up farming. However in our experience, landowners are very particular as to who they deal with and are reluctant to enter long term joint venture agreements with outside investors unless those involved are known and trusted and there is a professional structure set-up between them and the investors.

We have established good relationships with a number of substantial landowners and have found many others who would like us to find, set-up and manage large joint ventures for them. Added together, land available to us amounts to many thousands of hectares, all good forest sites. Often, tracking and fencing are in place and Resource Consent is not needed or not difficult to obtain.

The only ingredient missing is the investors with the means and foresight to realise the potential this recipe has.

## **B) Profile**

We create and manage joint venture forest investments. We specialise in linking landowners with investors and have designed legal and management structures specifically for such.

Warren Forestry Ltd is independent of the large forestry consultant, management and contracting firms. This helps us avoid conflicts of interest in the development and management of forests.

We can provide a complete service to a forest investor:

- Joint venture agreements, negotiated with selected landowners.
- Joint venture documents.
- Financial projections.
- Project co-ordination, administration and management.

The advice of consultants and the skill and experience of practical forest managers is used where appropriate. Care is needed to ensure all people involved have well defined areas of responsibility.

To date we have designed, developed and now manage eight forest investment partnerships with over 250 investors. These are known as Mt. Noble, Amuri Hills, Six Hills, Insignis, Triple Ridge, McWarren, Mt Whitnow and Seventh. In total they cover 1,400 hectares (3,500 acres) on 34 sites, 21 of which are Radiata pine, 12 Douglas-fir and one Monterey Cypress.

Total funds committed amount to more than \$8 million, which currently should grow to return around \$85 million in between 20 and 35 years.

### **The Directors of Warren Forestry Ltd have the range of skills and experience needed for this business :-**

#### **Dugald K Rutherford BForSc**

Dugald has more than 25 years of forest development and management experience. He has a professional qualification (BforSc Cantab) and is involved in forestry science research. He is also a fourth generation high country farmer running a 3,000 hectare sheep, cattle, deer and forest farm. His skills are valuable in the following areas: -

- Assessment of potential joint venture landowners.
- Site and species selection.
- Selection of site managers and contractors.
- Selection of professional forestry consultants.
- Tree-stock assessment and purchasing.

#### **Charles W Etherington LLB DipFor**

Charles is the Managing Director of Warren Forestry Ltd. Currently he administers the eight investment projects we have created. His legal (LLB Cantab.) and forestry qualifications (DipForSc Cantab.) bring the following abilities to the company: -

- The development of workable joint venture agreements to cover the differing requirements of various investors and landowners.
- The ability to co-ordinate and administer the day-to-day requirements of establishing and maintaining large blocks of forest.

#### **Andrew H Warren BCM CA**

Andrew has 14 years experience as a Chartered Accountant working in public practice. His client base includes forest investors, developers and high country farmers. His financial skills can be utilised as follows :-

- The calculation of the joint venture shares between the landowners and investors, or the share and rental combination to suit, as the case may be.
- Financial projections and reporting.

### **C) What does a Forestry Joint Venture consist of?**

*A forest established on land owned by another party under a Joint Venture Agreement.*

The landowner either has a share in the crop or receives a rental plus a (reduced) crop share. Landowners usually contribute the land, rates, fencing and access to the sites. The investors contribute the finance for afforestation, management and maintenance.

The parties' shares are negotiated with reference to the value of their respective contributions and required rates of return. A typical split is between 70 & 80% to the investors with the balance to the landowner.

Joint Venture Agreements are registerable interests in land. So they are entered on the land title, pursuant to the Forest Rights Registration Act 1983. They are unaffected by a change of landowner and may be traded.

### **D) Advantages of Joint Ventures**

#### **1. No Land Purchase - More Profitable**

Apart from the advantage of requiring substantially less capital per hectare of forest acquired, it gives an investor a pure forestry investment. So the investor gains the maximum area of forest for a given amount of capital.

The limited value of forestry land to the owner can enable the investor to achieve a higher net present value from their investment than they are able to in a land owning venture. A contributing factor is that an investor does not suffer the holding cost of land unsuitable for top quality forestry.

#### **2. Site Selection**

Site is the premier consideration in forest production, followed by species and regime. Not purchasing land allows much greater flexibility in the selection of good sites. Very few farms are suited to total tree coverage, and different sites have different pros and cons.

There are excellent forest sites on hill and high country farms, ranging from modest to huge in area. They are not for sale but we have access to them for selected investors.

Joint venture sites may have unusable or unsuitable areas too, but they come at no cost to the forest investor. Rental or crop share is calculated on *plantable* area not gross, which means no investment money is tied up in unused or unsuitable land.

### **3. Forest Portfolio Diversification**

- **Geographic Diversity**

A joint venture system allows a spread of risk, as forests may be scattered on a large property or on several properties and in several regions.

This geographic spread reduces risk from climatic catastrophe, disease, pests or fire. Fire risk is further reduced by, in many cases, having the blocks isolated by grazing land and on publicly inaccessible land. With a resident landowner and shareholder, unauthorised access is restricted and the farmers will be on hand to aid forest protection measures.

Geographic spread may also reduce management risk. Blocks for instance planted in Canterbury and Marlborough are unlikely to involve the same planting gangs, supervisors, and nursery stock.

- **Species Diversity**

Geographic spread also allows for selection of sites suitable to species other than *P. radiata*, which although the premier commercial species in NZ, is not the only commercially viable one.

In Canterbury we have access to some of the world's best Douglas-fir sites. This prized timber species is worthy of consideration as is *P. nigra* (Corsican pine), a top post and pole species. Thirdly, the Cypresses (such as *Macrocarpa*) are also commercially viable on the right sites. They produce superb timber of increasing interest to joiners and furniture manufacturers.

Investing in more than one species lowers market risk. Equally importantly it lessens disease susceptibility. Many potentially damaging diseases of pine, for instance, will not affect Douglas-fir or cypresses.

### **4. Market Advantage / Environmentally Sound**

New Zealand's large plantations are not considered sound by some environmental groups who criticise them as 'monocultural'. They are of course no more so than many 'natural' forests, and their environmental advantages hugely out-weigh any supposed disadvantages. Be that as it may, a forest on a farm is considered more 'environmentally friendly' due to greater biodiversity. Therefore it is more likely to meet the criteria for marketing under a green label.

### **5. Community Considerations**

Joint ventures strengthen the economic base of hill country farms, and the surrounding community. All of the landowners Warren Forestry has dealt with so far have subsequently offered us further blocks for forestry investment.

The value to an outside forest owner of being accepted and welcomed by the local network cannot be over emphasised.

## **E) Opportunity**

Warren Forestry Ltd has several thousand hectares of land available for joint venture forest development throughout the South Island on many properties.

Our 'land-bank' contains sites suitable for Douglas fir as well as Radiata pine and Cypresses.

We can design tailor-made packages to suit large or small investors, and manage them as required.

Our latest 'off the shelf' diversified package, Seventh Forest Partnership is fully subscribed but some units are still for sale on the secondary market.

If you want more information, click on our Contact page and get in touch.

**WARREN FORESTRY LTD**

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[www.warrenforestry.com](http://www.warrenforestry.com)

