

# Valuing Timber Tenures

## Creating New Opportunities



**TimberWest**

Industry leader in second-growth harvesting

**Hamish Kerr**

VP, Strategic Planning and Forest Policy  
TimberWest



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**“Creating New Opportunities: Forest Tenure & Land Management in BC”**

# Agenda

- **Valuation Case Study**
- **Factors that affect valuation**
- **What can Government do to improve the value of Tenure**
- **What is current tenure system worth to Government**

# Case Study

| Value Factor            | Units | V.I.    | PNW     |
|-------------------------|-------|---------|---------|
| Growth Rate             | M3/ha | 9       | 12      |
| Stumpage                | \$/m3 | \$38    | \$52    |
| Cash Flow Multiple      |       | 12      | 13      |
| (Implied Discount Rate) |       | 8.3%    | 7.7%    |
| Non Productive          |       | 15%     | 10%     |
| Value/Hectare           | C\$   | \$3,500 | \$7,300 |
| Value/Acre              | US\$  | \$1,247 | \$2,601 |

# Factors Affecting Valuation

- **Growth Rate**
  - Silviculture
    - Increase genetic worth of planted seedlings
    - Late Rotation Fertilization
    - Aggressive brush management

# Factors Affecting Valuation

- **Stumpage**
  - Revenue
    - Merchandize forest to maximize value
      - Can't be tied to specific converting facilities
    - Sell to customers who will pay the highest price
    - Encourage the development of a competitive converting industry near the trees
    - Flexibility to respond to market conditions
    - Pursue alternative revenue streams
      - HBU (real estate) opportunities
      - Coal bed methane, minerals, gravel
      - Sell conservation easements

# Factors Affecting Valuation

- **Stumpage (Cont)**
  - Costs
    - Move to contract logging and encourage development of diverse contractor community
    - Benchmark staffing levels against peer group
  - Planning
    - Value can only be maximized with good land base data (inventory and GIS) and planning models (Winfall, Woodstock/Stanley)
    - Good planning provides harvest flexibility to respond to markets

# Factors Affecting Valuation

- **Cash flow multiple (discount rate)**
  - Financial structure appropriate for asset (no corporate level taxation)
  - Cannot be paired with assets that trade at lower value (sawmills or pulp and paper mills) or where there is a temptation to cross subsidize
  - Risk has to be reduced to minimum (steady, predictable cash flows)

# Factors Affecting Valuation

- **Land Base**
  - Non productive land has to be minimized to maximize value
    - Riparian zones
    - Habitat
    - Viewscapes



# Timber Tenures

- **Ways Government can maximize the value of new timber tenures**
  - Unrestricted access to all markets
  - Minimize log supply commitments to specific converting facilities
  - Legally binding commitment to compensate if tenure rules change during the term of the tenure
  - Good infrastructure (roads, ports etc)

# Current Timber Tenures

- **Current timber tenures have seen value decline for tenure holder**
  - Cash flows are very lumpy
  - Until recently tenures paired with converting facilities
  - Rules can change at any time with little leverage to negotiate compensation
  - Harvest levels tightly regulated and generally declining to make room for other values

# Value to Government

- **Current tenure system may deliver virtually no value to Government!!**
- **Three Year Average Stumpage net of Administration costs**

|              |                     |
|--------------|---------------------|
| – TimberWest | \$30/m <sup>3</sup> |
| – MoF *      | \$ 6/m <sup>3</sup> |

\* Note that MoF number is an approximation calculated by the speaker from poorly understood public data!

# Conclusion

- **B.C. needs a new tenure system that delivers more value to the owner of the resource (the public)**
- **Value can be maximized by;**
  - A focus that allows the future tenure holder to maximize cash flow
  - Selling the tenures at auction to as wide a range of buyers as possible

# Conclusion

- **New tenure holders are likely to be financially oriented (Pension funds, University endowments, Income Trusts) and will deliver value to both the Government as the seller and to investors (pension plan members, the university community and individual investors)**
- **It would be nice to provide these types of investors with an opportunity to invest in Canadian timberland, and not force them abroad as is currently the case**