



WARREN FORESTRY

Forest Investment Excellence

The Other Forest Ownership Option

The Forestry Right / Joint Venture Option

2010

- A) The Problem and a Solution**
- B) Profile of Warren Forestry Ltd**
- C) Forestry Right / Joint Ventures**
- D) Advantages of Joint Ventures**
- E) Opportunity**

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 1,500 hectares of forest in joint ventures so have good relationships with a number of landowners now. And there are many others who would like us to find, set-up and manage substantial joint ventures for them. Often, tracking and fencing are in place and Resource Consent is usually not difficult to obtain. Mostly, 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 nine forest investment partnerships with over 250 investors. These are known as Mt. Noble, Amuri Hills, Six Hills, Insignis, Triple Ridge, McWarren, Mt Whitnow, Seventh and Chimney Creek. In total they cover 1,500 hectares (3,750 acres) on 37 sites, 24 of which are Radiata pine, 12 Douglas-fir and one Monterey Cypress.

Total funds committed amount to more than \$9 million, which currently should grow to return around \$90 million in between 15 and 35 years time.

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 28 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 3,500 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 nine 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 18 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 Forest & 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 properties are suited to total tree coverage. Often only about 25% is right for plantations in the South Island hill country.

There are excellent forest sites on hill and high country farms, ranging from modest to significant in area. They are very unlikely to be for sale but we can get 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 Radiata pine, 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 / Carbon Sinks

New Zealand's large pine and fir plantations are very environmentally sound and very efficient wood producers. They are likely to be even more valued in the future. Plantations are of course a substitute source for wood from 'natural' forests, and their other environmental advantages such as soil protection, water relations, species habitat and carbon storage are being appreciated more and more. Further, a forest on a farm is considered even more 'environmentally friendly' due to greater biodiversity. Therefore it is more likely to meet the criteria for marketing under green labels such as 'FSC' (Forest Stewardship Council).

All of our plantations are established on land that was forest 100s of years ago but has been pasture since. Therefore they qualify as 'Kyoto Forests' under the Kyoto Protocol and indeed they are very significant carbon sinks. It is now possible for owners of such plantations to receive carbon credits for such forests based on the amount of CO₂ they absorb from the air. As our softwood plantations grow more quickly than any others in the world and are established on former pasture sites they are very attractive for carbon sequestration as well as timber supply.

5. Community Considerations

Joint ventures strengthen the economic base of hill country farms, and the surrounding community. All of the landowners Warren Forestry Ltd 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 land available for joint venture forest development throughout the South Island on several 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 Forest Partnerships are fully subscribed but some units are still for sale on the secondary market. See the 'Units for Sale' page.

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



WARREN FORESTRY

Forest Investment Excellence