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# Timberland Investing During the Next Decade: What Can We Expect?

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## Executive Summary

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We are on the cusp of seeing a new series of forces further shape the timberland asset class over the coming years. In this analysis, we identify and explain three forces of which investors should take note.

**A Focus on Proven Markets:** Against a backdrop of higher interest rates, inflation pressures and greater trade uncertainty, many timberland investors will favor holding forest assets located in reliable and proven markets, such as North America, Australia and New Zealand. On the other hand, we expect to see a higher risk premium being applied to non-core timberland strategies in emerging and pioneering markets.

**The Supply Deficit:** Timberland investors will benefit from a projected growth in demand for wood products over the coming decade. This growth is expected to come from three main areas: (1) construction; (2) packaging and tissue; and (3) bioenergy. While these sectors will drive increased wood demand, timber supply will be constrained. The expansion of the world’s working forest land base has slowed to a trickle and rural and semi-rural lands that historically were managed primarily for timber production will increasingly face pressure from alternative uses, like development, conservation and public recreation.

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Timberland investors will benefit from a projected growth in demand for wood products over the coming decade. This growth is expected to come from three main areas:



Construction



Packaging  
& Tissue



Bioenergy

**Increasing Complexity:** While the market is unlikely to see more investment-quality forestland available for purchase, the world’s existing base of privately owned working forests will produce more varied opportunities for owners and investors to generate financial returns. This is because there has been a growing recognition that private forestland owners should be rewarded and compensated for the many benefits their lands provide to society outside of their capacity to produce timber. In short, forest-based solutions that are designed to help society address environmental challenges and achieve environmental goals are increasingly becoming viable sources of revenue for forest investors. In the future, this trend is likely to accelerate – making it easier to monetize a much broader array of forest resource values – everything from the ability of working forests to support biodiversity, mitigate climate change, and provide better access to clean water, clean air, open space, and outdoor recreational opportunities.



There are two implications for timberland investors associated with these forces:

1. Investors will not be able to depend on an expanding pipeline of deals to enter or expand their exposure to the asset class. Rather, they are likely to focus on extracting the most value possible from the existing body of forest assets around the world. This should support the appreciation of forestland values in the years to come. In addition, there will be more opportunities for investors to generate revenue and asset appreciation through alternative, non-timber, natural capital strategies, including wetlands mitigation banking, recreational leases, the sale of carbon credits and the development of both mineral resource values and renewable energy infrastructure, like solar and wind farms.
2. The options for investing in timberland will continue to evolve and expand, with timberland investment management organizations (TIMOs) increasingly developing specific strategies and expertise to accommodate the needs and interests of a broader array of investors. In turn, the onus will be on investors to properly vet and analyze the wide spectrum of unique and differentiated products that TIMOs will offer.

## Introduction

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Since its emergence as an asset class in the early 1980s, timberland has undergone evolution and transformation – with a number of key events and market forces shaping its history and growth.

It started with the passage of the Employee Retirement Income Security Act (ERISA) of 1974 in the United States. This landmark legislation helped push institutional investors to diversify beyond the traditional investment products such as blue-chip stocks and bonds in which they typically invested. A watershed event for the timberland asset class came with the large-scale divestiture of forest holdings by vertically integrated wood products companies based in the United States during the 1990s and 2000s. Many institutional investors jumped at the opportunity to include forest asset exposure in their portfolios in response to this divestiture. Concurrently, globalization of trade, combined with the emergence of Asia as an economic powerhouse, moved the timberland investment sphere beyond the United States to many other parts of the world. Many of these investment regions, including Australia, New Zealand, Chile, and Brazil, were targeted to help serve the increasingly robust appetite for wood that was emerging in the leading Asian economies of Japan, South Korea, and most prominently, China.



As we now look to the future, it is evident that we are on the cusp of a new series of forces, which will further shape timberland asset class in the coming years. Three such forces are particularly noteworthy.

1. **A Focus on Proven Markets:** In response to higher interest rates and growing inflation risk, investors will favor timberland assets in established markets because less-proven markets will continue to require larger risk premiums.
2. **The Supply Deficit:** Global timber markets will likely tighten as rising demand for wood conflicts with limited supplies.
3. **Increasing Complexity:** The universe of investment-grade timberland that is available for purchase will tighten, but there will be more opportunities for investors to monetize a broader array of forest resource values (non-timber, natural capital values) to generate revenue and promote asset appreciation.

Investors who understand these forces and their implications will be able to use these insights to shape their future timberland investment strategies in ways that produce risk and return benefits over the long term.

## Trend 1: A Focus on Proven Markets

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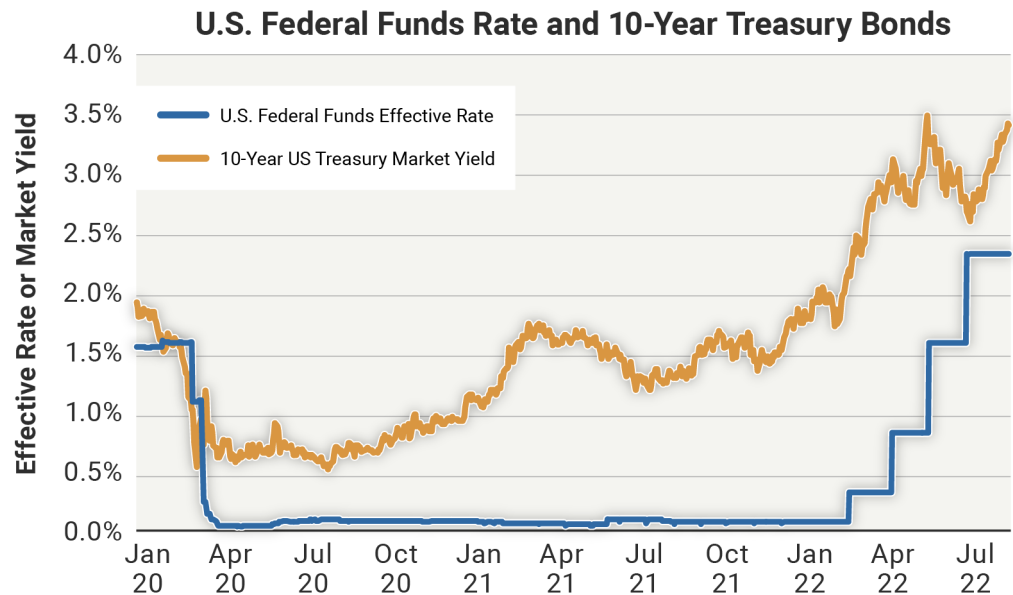
In response to the Global Financial Crisis (GFC) of 2008, the United States, the European Union (EU) and other industrialized economies embraced an era of ultra-low interest rates and very loose monetary policy. Many investors, facing sluggish to even negative yields on their portfolios of lower-risk government bonds sought higher returns by placing capital in riskier assets. In the case of the timberland asset class, this pursuit of higher income and appreciation returns led some investors to seek participation in new, but often unproven, markets and geographies. Since the late 2000s, timberland investors have invested in exotic new markets, including mahogany plantations in Latin America, pine and eucalyptus plantations in Africa, tropical hardwoods in Southeast Asia, and spruce forests in the Baltics.

However, this expansionary mindset among investors may have run its course. Following the Covid-19 pandemic of 2020-2022, economies around the world have faced buffeting inflationary pressures. In turn, the central banks of many major countries have transitioned from employing accommodative monetary policies to more restrictive ones. The United States' Federal Reserve Bank has been at the vanguard of this movement – rapidly increasing short-term interest rates and moving



away from *quantitative easing* (QE) and toward *quantitative tightening* (QT). As this has happened, long-term interest rates have increased as well (Figure 1).

Figure 1. Source:  
U.S. Federal Reserve



The result has been a shift in the mindsets of many investors from being *risk-seeking* to *risk-aware*. Even if inflation pressures subside worldwide in the coming years, the post-GFC era, which was characterized by highly accommodative monetary policies, is likely over. As a result, we can expect a more normalized interest rate environment in the years to come.

With respect to the timberland asset class, investors can afford to avoid timberland markets that have produced weak or unproven track records. Conversely, higher interest rates will allow them to remain anchored in established and mature markets where demand for working forest assets and the wood and other resource values they produce will continue to be in demand. This is meaningful as investments in riskier emerging and pioneering timberland markets have largely stagnated since the mid-2010s. The chart in Figure 2 illustrates that total investment in timberland by dollar value in regions outside of North America, Oceania and Latin America have remained below one percent since 2015.



Figure 2. Source: Timberlink survey of timberland investment managers (Dec. 31, 2021)

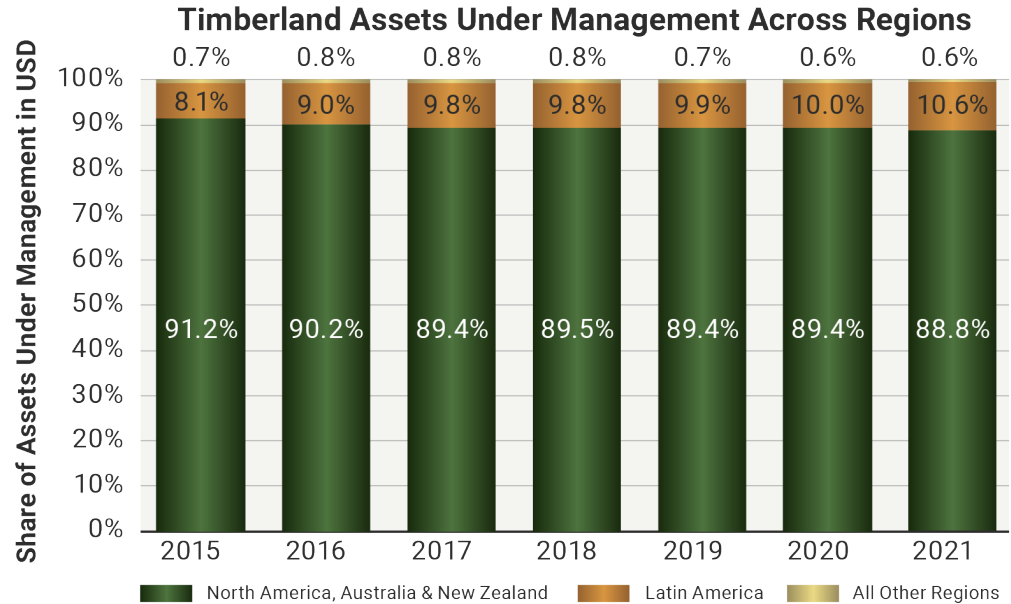
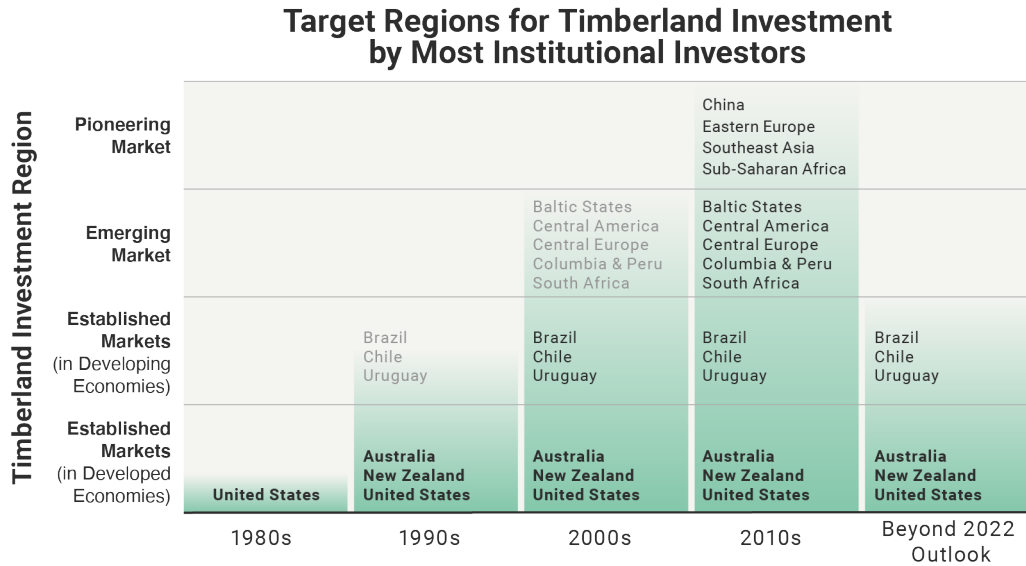


Figure 3.



For the coming decade, this flight to safety could favor well-established timber markets – those with strong track records for having hosted successful private forest investments (Figure 3). Among these established markets in developed economies are the United States, Australia, and New Zealand. Likewise, other established markets in developing regions, like Brazil, Chile and Uruguay, also may continue to be targets for



some investors, especially those seeking global geographic diversification. However, other parts of the world, emerging and pioneering timberland markets where institutional investors may have considered investing in the past are likely to be less attractive.

## Challenges for Foreign Investor Capital in Emerging Timberland Markets

### Once and Future China Market

China's real estate sector is undergoing a major structural transition. Combined with slower economic growth and a demographic decline in its workforce, China's wood imports are becoming more volatile and could see declines in the years ahead. In fact, *Wood Resource Quarterly* reported that Covid-19 related shutdowns helped cause China's import volume of softwood forest logs and lumber in the first quarter of 2022 to drop by 50 percent to 12 million cubic meters (roundwood equivalent) from the all-time high of third quarter 2020 when imports reached 24 million cubic meters.

Higher interest rates are not the only factor that is driving investors to concentrate on safe markets. The Covid-19 pandemic, trade disputes with China, and the Russia-Ukraine war all have underscored the need for shorter supply chains and reliable trading partners. For example, the Ukraine conflict caused all Russian and Belarusian wood products to lose their sustainability certifications from the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PEFC). With the loss of certification, wood products from Russia and Belarus such as lumber, plywood and pellets can no longer be sold into European Union (EU) markets. While foreign institutional investors have negligible forest holdings in Russia and Belarus, the fallout of the war underscores the fact that sudden and unexpected economic and political events can create significant trade disruptions. The effect is that forest assets that are situated in emerging economies that have unstable supply chains or that are subject to political disruption are likely to be shunned by all but the most intrepid of investors.

Further to this point, in recent years China has shown a willingness to suddenly, and without warning, cut off imports of wood products from various trade partners. Furthermore, future gains in Chinese wood imports are not assured as the country's economy faces growing headwinds (see box). This should cause investors to think twice about investing in any

geographic region that relies heavily on China to serve as an end-market for its harvested timber. This applies to many potential forest investment opportunities in places like Africa, East Asia, and Latin America.

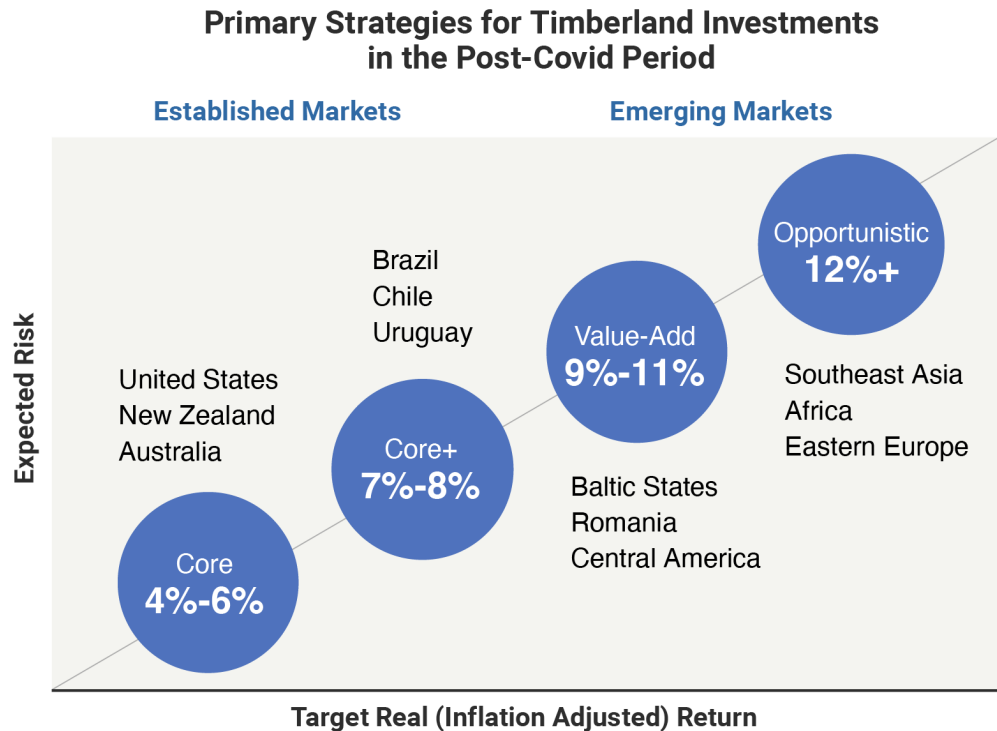
## Increasing Separation Between Core and Non-Core

Again, in the coming years, higher interest rates, inflation pressures, and greater trade uncertainty are likely to cause many investors to favor holding forest assets in reliable and proven markets. Core markets such as North America, Australia and New Zealand



could see flat or falling real discount rates (Figure 4). On the other hand, we expect to see higher-risk premiums being applied to non-core timberland strategies in emerging and pioneering markets.

Figure 4.



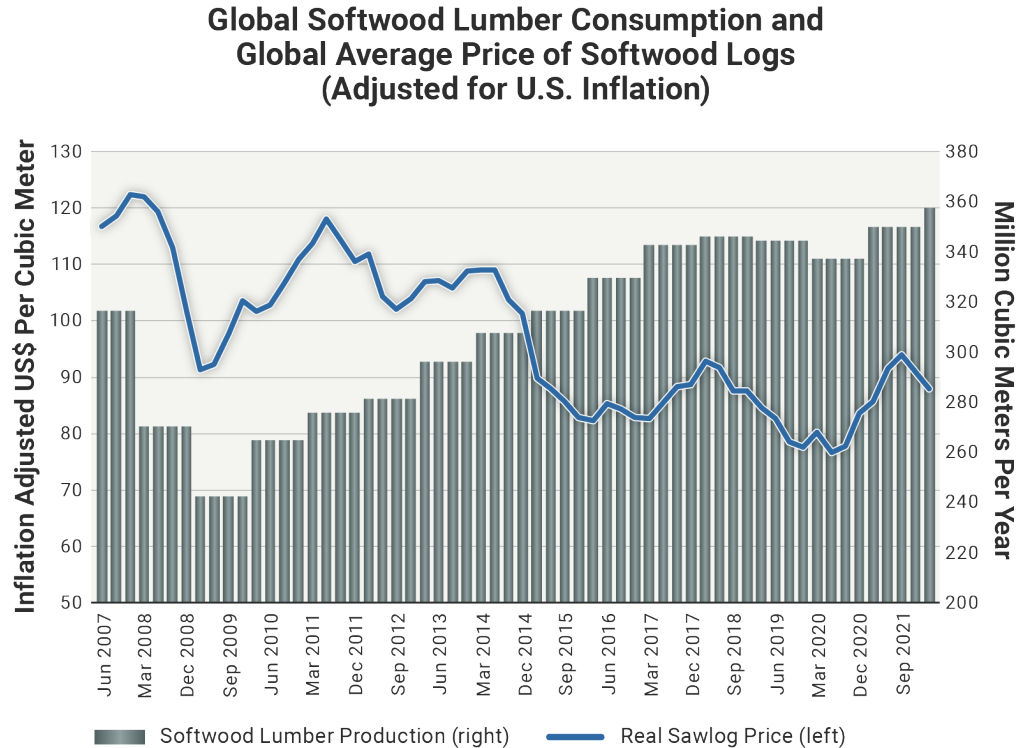
## Trend 2: Tightening of Global Wood Markets

Another trend we see developing is a turnaround in global timber markets – from surplus to scarcity. In the past decade leading up to the coronavirus pandemic of 2020, supplies of timber outpaced the growing demand for wood. Take the case of softwood lumber. Consumption of this key construction material for homes and other buildings has risen by roughly 100 million cubic meters since the GFC, an increase of more than 40 percent (Figure 5). Yet, softwood sawlog prices have actually declined 28 percent since before the GFC – and this is even after taking into account currency exchange rates and adjusting for the effects of inflation. Falling real prices, in spite of rising demand dynamics, are a clear indicator of plentiful supplies of timber. This is the result of several factors. First, a wave of new forest plantations that were planted





**Figure 5.** Softwood Lumber Production values sourced from United Nations Food and Agriculture Organization (FAO) and Forest Economic Advisors. Softwood log price is represented by the Global Sawlog Price Index published by *Wood Resource Quarterly* and consists of sawlog prices from 21 leading wood-producing regions around the world, all priced in U.S. dollars using exchange rates current at the date of measure. Inflation adjustment relies on the U.S. Consumer Price Index.



in Australia, New Zealand, Chile, and Brazil in earlier decades have matured, and their wood products have entered global wood markets. Concurrently, an epidemic outbreak of the mountain pine beetle in the western Canadian province of British Columbia in the 2000s created a wave of salvaged logs. A similar effect was created when Central Europe faced its own outbreak of the spruce bark beetle beginning in 2017.

However, these market forces, which helped depress global timber prices, are unlikely to be replicated in the coming decade. As a result, we could see tighter timber markets as the world’s growing appetite for wood becomes difficult to satisfy because of supply constraints.

### Demand Factors for Timber Are Increasing

An increase in demand for wood over the coming decade will clearly generate benefits for timberland investors. We see this growth deriving from three sectors of the global economy: (1) construction; (2) packaging and tissue; and (3) bioenergy. In the construction sector, the UN Food and Agriculture Organization (FAO) has estimated that 3 billion people – or 40 percent of the world’s population – will need new housing



over the course of the coming decade.<sup>1</sup> This would necessitate the construction of as many as 300 million new homes.

In addition, because of both cost and growing environmental concerns, with climate change being a particular driver, more homes and buildings will be built with wood in the future. The carbon footprinting of construction material manufacturing and the carbon content of those materials are becoming more important for the construction of both residential and commercial buildings. Meanwhile, the era of cheap fossil fuels is likely over. This means traditional building materials that utilize steel and concrete, which require carbon intensive manufacturing and transportation processes, will lose favor when compared to wood, which is not only cheaper to produce, manufacture into building products, and transport, but also produces fewer environmental impacts. Durable building products like lumber and mass timber store carbon in their wood fibers, which means that building with wood is climate smart. In fact, the European Union has adopted a goal of becoming climate-neutral by 2050. Part of its strategy for accomplishing these ambitious goals is to renovate 35 million inefficient buildings by the end of the decade by using low-carbon-footprint materials, specifically wood.<sup>2</sup>

Emerging trends in the construction sector are not the only factors that will drive growth in wood consumption. Population growth combined with rising household incomes across the world also will continue to propel the need for packaging papers and tissue products. These products include corrugated boxes used in e-commerce shipments, bathroom tissue, paper towels and food containers that serve as substitutes for plastic-based packaging. In fact, for the past half century through 2020, global demand for packaging and hygienic paper products have been growing at an annual rate of 2.7% (Figure 6). This has more than made up for the loss of printing and writing paper demand, which has been caused by consumers' increasing use of electronic media. In the last decade through 2020, packaging and tissue production increased by 55 million tonnes, which more than made up for the 28 million tonne loss in printing and writing paper demand. In the coming years, we expect this trend to continue.

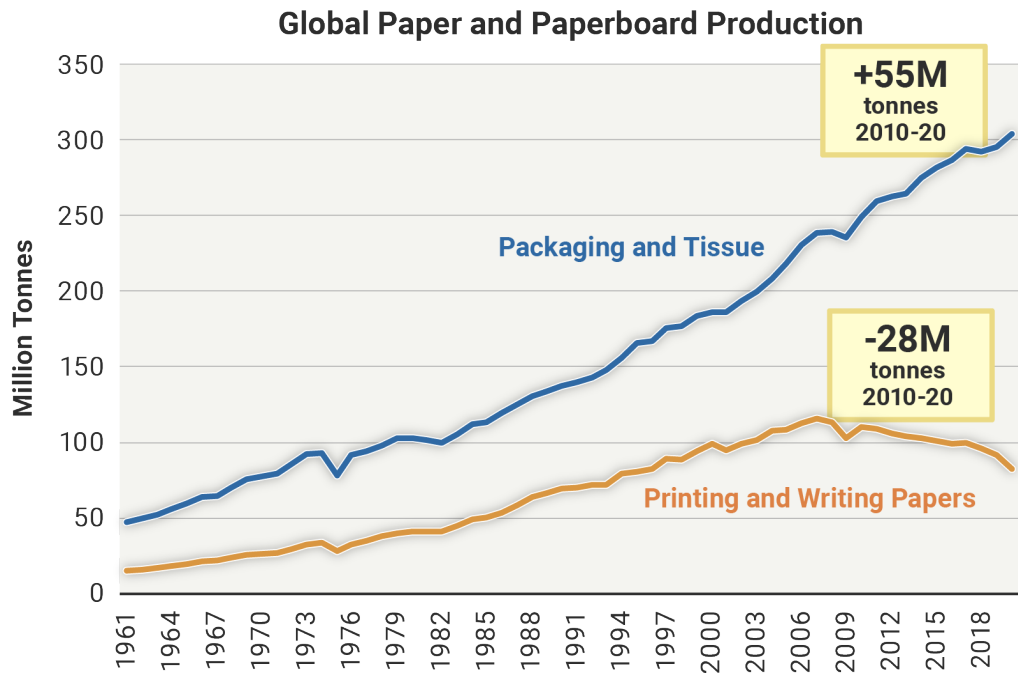
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<sup>1</sup> United Nations – Food and Agriculture Organization: *State of the World's Forests 2022*.

<sup>2</sup> *Wood Markets Monthly* (June/July 2022) p. 3.



Figure 6. Source: FAO.



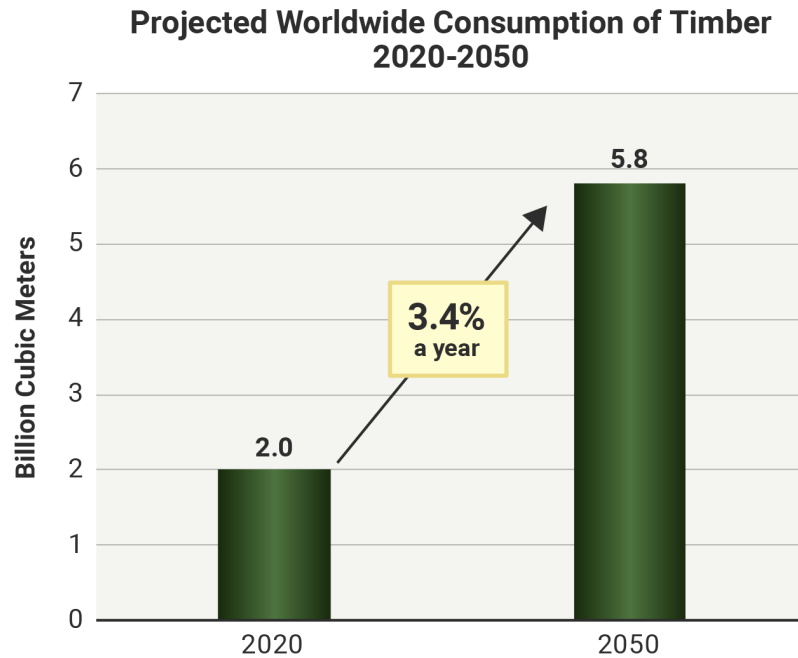
The third piece of the global demand picture for timber is bioenergy. The ongoing transition away from fossil fuels and toward renewable energy sources, including wood-based bioenergy, will continue to grow. One important advantage of wood-based energy generation is that it can serve as baseload (i.e., sustained) power. Solar and wind energy production, in contrast, are intermittent power sources unless very expensive battery systems are deployed to keep related infrastructure running when wind currents are weak and sun coverage is sparse. A key market for wood energy is fuel pellet production and a leading demand source for the product is Western Europe. Renewable energy targets that have been put in place by the EU and the United Kingdom are projected to increase European wood pellet demand from 31 million tonnes in 2021 to as much as 40 million tons by 2025, with further growth expected beyond 2025.<sup>3</sup> Another fast-growing market for wood fuel pellets is Asia. Japan and South Korea are both aggressively seeking ways to substitute oil, coal, natural gas, and nuclear power for wood bioenergy.

All combined, these demand factors can sustain annual growth rates for global wood usage of 3 percent or more. Gresham House, an international investment advisory firm, estimates that total timber consumption will reach 5.8 billion cubic meters per year by 2050 – a 2.9x increase of 2.0 billion cubic meters as compared to consumption in 2020 (Figure 7).

<sup>3</sup> Wood Resource Quarterly (2022 Q1) p. 25.



Figure 7. Sources:  
FAO (historic),  
Gresham House  
(forecast)



## Timber Supply Faces Increasing Limitations

As was explained earlier, while global demand for wood is projected to increase, timber supplies are increasingly constrained. New additions of commercial forestland (primarily new plantation establishment) have slowed to a trickle and competing demand for raw land for other uses, including residential and commercial construction, as well as conservation and recreation, are taking forestland that was traditionally owned and operated primarily for timber growth out of production. In some Latin American countries, such as Brazil and Chile, natural forests cannot be legally cleared. This means timber growers must compete against farmers, who often can pay more to access and use arable land to grow crops and raise livestock. Other emerging economies, including many countries in Eastern Europe, East Asia and Africa, lack private land title or have challenging business climates, which dissuade foreign investors from placing capital in those locations. This limits the appeal of these regions for commercial timber production.

The wood supply challenge extends beyond emerging markets and includes fully industrialized economies as well, like the major wood producing countries of Australia, New Zealand, Canada, and Germany. The underlying reasons for these countries' timber supply constraints differ, but the result is the same: less timber availability.



- **Australia:** Following a series of wildfires, drought, and heightened competition from its growing agricultural sector, the size and scope of Australia’s forest plantations, as tracked by the New Australian Forest Products Association, had shrunk by 10 percent in six years to 1.7 million hectares (4.2 million acres) as of 2020 – and this decline is expected to continue in the years to come.
- **New Zealand** faces a different challenge. It has a government-managed carbon market featuring one of the highest carbon offset credit prices in the world. As a result, payments to New Zealand’s forestland owners to sequester carbon by growing trees over longer rotations, and in some cases permanently, may impede the country’s ability to increase its timber harvest in future years.
- **Germany,** like many other parts of Central Europe, experienced major losses of its spruce forests due to windstorms and a severe outbreak of the spruce bark beetle starting in 2017. Ebner, which is Europe’s largest lumber producer, forecasts that Germany’s harvest volume of spruce logs will be halved by 2050.
- **Canada** faces challenges created by pine beetles and wildfires. Furthermore, environmental restrictions designed to save old-growth forests and to protect habitat for the endangered woodland caribou will reduce the Annual Allowable Cut (AAC). The AAC applies to public Crown Lands (land owned by the federal and provincial governments), which include more than 90 percent of Canada’s commercial forests. In fact, Western Canada’s AAC has declined by 23 percent from its peak in 2008 – and Eastern Canada’s AAC has been down 15 percent.<sup>4</sup>

This is important because in 2019, before the Covid-19 pandemic, these four countries together accounted for nearly one-fifth of all industrial softwood timber production globally. Softwood timber is used to make structural-grade lumber, which is used in construction.

## Fundamental Shift in the Supply-Demand Dynamic

Based on the prevailing trends, the outlook for the coming decade is rising wood demand that must be met from a limited supply of forests. Fortunately, we do not foresee a timber shortage. Instead, *markets will adjust and prices will likely rise* in order to draw forth more timber from those regions in the world that have the supplies to replace the losses we spoke of earlier.

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<sup>4</sup> Forisk Research Quarterly: 2022 Q2 p. 10.



## Trend 3: Investable Timberland Base Remains Stable, But Becomes More Financially Complex

The third key trend we anticipate influencing the asset class in the years to come is its increasing financial complexity. In short, the investable base of global timberland assets will remain stable, but the drivers of timberland investment performance will become more varied and diverse.

During the last three decades, we have witnessed an extraordinary transition within the asset class as the opportunities to invest in timberland have expanded dramatically. This has been driven by the actions of most of the large, vertically integrated forest product companies in the United States, which sold their managed

forestlands to financial investors. This was followed by the actions of the governments of Australia and New Zealand, which decided to privatize their vast, publicly owned forest plantations and to invite foreign ownership of these assets. In addition, a wave of new pine and eucalyptus plantations were created in Latin American countries like Brazil and Uruguay. Finally, during this same period, a number of Central European countries that had previously been part of the former Soviet bloc reverted much of their publicly owned forestlands back to private ownership.

### Share of Global Industrial Timber Production, 2020

Rank	Region	Share
1	United States	18.6%
2	Russia	10.2%
3	China (mainland)	9.1%
4	Brazil	7.2%
5	Canada	6.6%
6	Indonesia	4.2%
7	Sweden	3.6%
8	Germany	3.1%
9	Finland	2.6%
10	India	2.5%
11	Chile	2.2%
12	Vietnam	1.9%
13	New Zealand	1.8%
14	Poland	1.8%
15	Australia	1.6%
<b>Top 15 Total Share</b>		<b>77.0%</b>

Table 1.

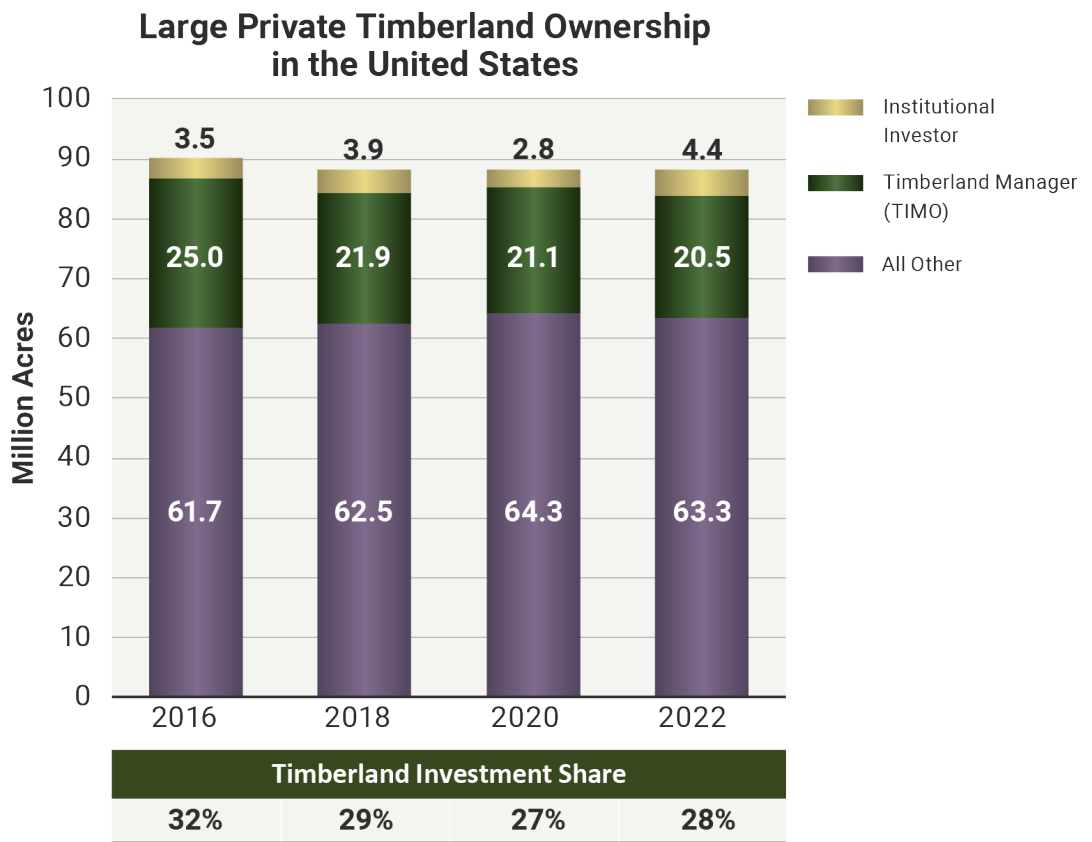
### No Fresh Additions to Investable Timberland Universe

While the social and economic forces just described helped increase the universe of investable timberland, we believe that trend has largely run its course. Effectively, the total base of forestland accessible for investors to own will remain the same in the years to come, with incremental gains in some regions being offset by losses in others. To understand this trend, it is useful to analyze the top 15 producers of industrial timber by volume as reported by the FAO (Table 1). Note that the second and third largest timber producers in the world – China and Russia – are largely inhospitable to foreign institutional forest investment. This is unlikely to change in the foreseeable future. Canada, at #5 on the list, maintains the vast majority of its investable commercial timberland under public ownership. In addition, Australia, New Zealand, Germany, and the Scandinavian countries, as top 15 timber producers, face strong competition for forestland ownership from industrial players and individuals.



At the top of the list of timber producers is the United States. Here, the total area of large private timberland holdings has stayed consistently at about 90 million acres (36 million hectares) for the last several years (Figure 8). Out of these 90 million acres, 28% was held by investors in 2022 – whether it is through a timberland investment manager (e.g., TIMO) or through direct ownership. That is little changed from the 32 percent share held by financially oriented owners back in 2016. Looking ahead, we see little opportunity for investors to gain ownership share in the U.S. as the disposition of forestland by integrated forest product companies is essentially complete. Today, and in the future, investors and TIMOs must continue to compete with timber REITs<sup>5</sup>, conservation groups and private individuals to gain access to investable-quality forestland.

**Figure 8.** Source: Forisk Consulting. Forest holdings of 10,000 acres (4,000 hectares) or larger



<sup>5</sup> REIT is a Real Estate Investment Trust, which is a tax-advantaged corporate entity focused on real estate. A Timber REIT is a type of REIT that centers its business specifically on forestland and timber. Note that a timber REIT may carry wood processing facilities as a wholly-owned taxable business under the REIT structure.



In the case of the other countries in the top 15 list, the economic liberalization that characterized their economies during the past decade has largely ceased. And, in some cases, this movement toward liberalization has been reversed. More and more countries have begun to restrict foreign ownership of their natural resources, including their forestland. For these reasons, we believe the global market of investable timberland will remain little changed for the coming decade.

### Timberland will Offer a Richer Slate of Options

While we do not foresee measurable increases in the amount of forestland available for investment in the years ahead, we do see more varied value-creation opportunities developing for owners of high-quality forests. This is because there has

been a growing recognition that forestland owners should be rewarded and compensated for the many benefits their forests provide to society. In other words, there is a greater acceptance of market-based solutions for the achievement of environmental goals and the mitigation of environmental challenges that are of concern to the public. This, in turn, is generating more opportunities for forest investors to monetize the variety of goods and services (natural capital) that their forests provide beyond simply harvestable timber. Some examples, among many, include (a) the sale of mitigation banking credits that are designed to protect wetlands, streams and wildlife habitat; (b) the sale of carbon offset credits that are designed to mitigate climate change by compensating forest owners for the carbon that is stored in the trees and soils of their forests; (c) the sale of conservation easements, which convey certain conservation rights to third-parties, like public agencies and private conservation groups, while allowing private landowners to maintain fee ownership of their forests; (d) the development of renewable energy installations, such as wind farms and solar farms, which typically generate steady and ongoing royalty or direct revenue payments; (e) the sale of clean water credits that are designed to protect sensitive watersheds; and (f) the offering of recreational leases, which generate fees from the public use of private forest assets for activities like hunting, fishing, hiking, biking and birdwatching.

These non-timber markets are sometimes referred to as *ecosystem services* or *natural-capital solutions*. The FAO estimates in its *State of the World's Forests 2022* that forests around the world provide ecosystem services that are worth USD 7.5 trillion, which is equal to 9 percent of the global economy. Yet, most of this value is not

#### Some Examples of Non-Timber Sources of Income from Forestland



Carbon storage on the stump



Support of wildlife and ecosystem services



Conservation and recreation values



Sites for renewable energy



Environmental mitigation banking



Watershed protection

Figure 9.





currently remunerated to private forestland owners. This, however, is changing as the developed economies of North America and Western Europe, in particular, are leading efforts to advance and develop natural-capital markets.

As interest in environmental, social and governance (ESG)<sup>6</sup> engagement and impact investing continues to grow, investing in natural-capital solutions is expected to become an increasingly important feature of timberland investments.<sup>7</sup> To illustrate this point, the total market value of the voluntary market for carbon credits reached USD 2 billion in 2021, up from USD\$0.5 billion in 2020.<sup>8</sup> Much of this increase was based on the popularity of, and demand for, forest-based carbon credits, which demonstrates how new and expanding markets for forest-based natural capital values are enriching the optionality of timberland investments.

## Takeaways for a Timberland Investor

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The trends outlined in this paper will have implications for timberland investors over the next several years. Two, in particular, are worth noting.

### Rising Value of Timberland

First, the great timberland transfer from public and industrial ownership to financial investors is largely over. Investors in the timberland asset class cannot depend on an expanding or robust pipeline of deals facilitating access to, or expanded involvement in, the sector. Rather, in the future, investors will need to focus more attention on extracting the most value possible from the existing body of forest assets they collectively own around the world.

As the demand for timber grows, and as the forestland base from which that timber will be derived remains static in size and scope, competition for land with (a) the right climate and (b) proximity to the right markets, will continue to increase. This is expected to support the appreciation of forestland values. Augmenting this will be the growing potential for non-timber, alternative sources of income – such as the sale of wetland mitigation banking credits, carbon credits, recreational leases, conservation easements, and the development of renewable energy resources, including wind and solar.

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<sup>6</sup> ESG represents Environmental, Social and Governance issues. The term springs from the recognition that non-financial features that affect society's well-being should be part of the investment decision process.

<sup>7</sup> For further review of the emerging ESG and impact investing in timberland, you can check the white paper available from TIR: "The Emergence of Natural Capital Investments: How It is Reshaping the Timberland Asset Space."

<sup>8</sup> Ecosystem Marketplace, *State of the Voluntary Carbon Markets*. (2022)



## Increasing Diversity of Investors and Managers

Secondly, the options available for generating revenue and land appreciation from timberland will continue to expand in the future. Investors that wish to build safe timberland portfolios will be able to do so by investing capital in proven markets where they will be able to generate cash yields and realize long-term asset appreciation. However, for those seeking higher returns and who are willing to accept higher levels of risk, targeting forest assets in emerging markets also will be an option. Among others, these might include eucalyptus plantations in Malaysia, acacia plantations in Vietnam, and teak resources in Honduras. In addition, investors interested in ESG engagement or impact also will have opportunities to invest in forest assets that offer these types of attributes. In short, we see the timberland investment sector continuing to evolve and expand in the days ahead with investors having access to a greater diversity of markets and product options as TIMOs increasingly develop strategies, expertise, and offerings to accommodate their needs and interests. For instance, we have recently seen investment managers targeting the development and sale of forest carbon offsets, while others are promoting their expertise in generating returns from the sale of mitigation banking credits and conservation easements. In addition, some of the larger TIMOs have begun touting their ability to serve as a “one-stop-shop” for investors seeking broad diversification in the natural resource segment of the private equity market. They are doing so by combining their timberland expertise with agricultural, and sometimes renewable energy, investment capabilities.

The challenge investors will face going forward is recognizing their potential to be spoiled by the availability of a broad array of investment options within the timberland asset class. As a result, it will be increasingly important for them to properly vet the wide spectrum of managers and products that are being offered. Our recommendation to the investment community is that investors perform careful due diligence to ensure that the strategies and managers they select are, in fact, a good and appropriate fit with their goals and investment objectives. A new era of timberland investing is arriving.



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