

Revolutionaries

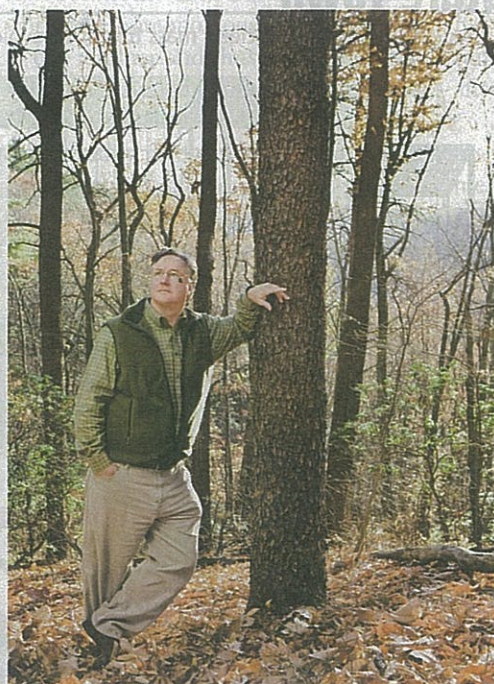
GREEN BUSINESS

THE CUMBERLAND PLATEAU IS THE Grand Canyon of the East, with steep gorges and thick hardwood forests stretching from Kentucky to Alabama. It's one of the country's most biodiverse spots, home to thousands of species including endangered varieties of sandwort and dusky salamander. The Nature Conservancy calls it an "ecological jewel." John Tomlin, founder of Exeter, N.H. timber investment fund Conservation Forestry, agrees. That's no reason it can't be logged, though.

Tomlin has raised \$370 million to pursue a lucrative way to harvest trees for profit while permanently protecting the surrounding forests from development. He's done it by joining forces with business' longtime nemesis, conservation-minded nonprofits. Here's how it works: Conservation Forestry and a nonprofit like the Nature Conservancy will pool their money to buy a huge woodland tract. Conservation Forestry may put up 75% of the purchase price for the right to harvest timber, and the Conservancy will put up the rest, receiving a conservation easement that ensures the forest will forever remain a forest and not, say, condos. Tomlin's investors get steady returns from the timber, the state retains its property tax base and the public gets wildlife and open space.

A former high-tech venture capitalist, Tomlin, 52, happened on to forestry in 2000 after his funds unwound and his partners retired. An avid outdoorsman, he was curious about why so many "green" business ideas, such as alternative energy, organic farming and wetland preservation, were unprofitable. "The assumption that you shouldn't expect competitive returns, that bothered me," he says.

Sustainable forestry, which prunes the woods delicately and limits clear-cutting, was the only business idea he found that expanded easily, didn't rely on state subsidies and offered investors liquidity with good returns. An index of timber assets maintained by the National Council of Real Estate Investment Fiduciaries is up 9% compounded annually the last ten years, seven percentage points higher than the S&P 500 over the same period. "I



Forest Gumption

John Tomlin has found a way to protect and log vast woodlands at the same time.

By Devon Pendleton

thought, what's not to like?" says Tomlin.

The Conservation Forestry fund was up and running in late 2004. The early going was rough. Tomlin quickly found himself priced out of the woodland market as bubble-blinded hedge funds and condo developers were outbidding him for land. In the late 1990s timberland had been selling for a 20% premium to its trees' discounted cash flows. By 2007 parcels were frequently changing hands at 50% premiums. The dirt was becoming more valuable than the trees.

Tomlin had no problem with huge landowners such as Plum Creek, Campbell Group and Hancock Timber flipping their land to make a buck, but throwing up even one house can threaten sensitive species

accustomed to miles of isolation. In response, panicked greenies were buying up as much conservation-worthy land as their budgets and state bureaucrats would allow. Permanent reserves are great for critters, not so much for locals. Property taxes and jobs vanish when a working forest turns into a wildlife refuge.

Tomlin proposed a deal whereby his fund would buy the land at a discount to its fair market value and conservation would make up the rest by buying up (and extinguishing) the development rights. The land's permanent status as private timberland means more jobs for locals, a higher tax base for the community and a lower-risk investment for Tomlin's backers.

The first deal came in 2005 when International Paper, once the country's largest private landholder, put nearly all of its 6.8 million acres up for sale. Conservation Forestry and its partners joined up with the Nature Conservancy to purchase 105,000 acres in Virginia, Florida, North Carolina and Wisconsin for \$132 million: \$81 million for the timber from Conservation Forestry's group, \$51 million from the Nature Conservancy (with some help from the state of Wisconsin) for permanent protection of most of the land. Since then Conservation Forestry has helped protect 500,000 acres of land.

Tomlin now has 150,000 acres of forestland under management and is out raising more capital. It's not the best time to do so, but if he can get money, a bad economy might be good for him because the land speculators have lost their appetite. Some big land sales have been called off in the past few months, after raw land prices fell 60% from August 2007 to August 2008.

Tomlin's focus is necessarily on the long term. He's in it for the trees, and they take 30 to 80 years to grow. His model is catching on: Lyme Timber and Forest Investment Associates also work with conservation groups to share the costs and keep more forests forested. **F**