

Connecting the Dots Between Timber Investment and Conservation

by Cameron Walker

*Peter Stein has inked 86 innovative conservation partnerships on working forestlands for Lyme Timber during his career. Is there a model in his work for investors interested in mitigation banks? The **Ecosystem Marketplace** investigates.*

In 1990, Peter Stein's job change must have sparked serious water-cooler gossip in the conservation world. One of the founders of the nonprofit land conservancy the Trust for Public Land, Stein had just landed a job with timber management organization Lyme Timber Company. "I went from a permanently enslaved NGO employee to a capitalist," Stein says. Some colleagues and friends, he says, "thought I had lost my mind."

But things have changed. When he began working for the Trust for Public Land in the 1970s, a big land deal could mean five or ten thousand acres. Now, as a general partner at New Hampshire-based Lyme Timber Company, he's helped orchestrate the company's largest conservation transaction ever: a deal in the Adirondacks in New York that combines conservation easements, working forestlands and preserved areas to protect 276,000 acres from development.

Over the course of his career, Stein has become known for innovative deals that preserve large tracts of land (and the ecosystem services flowing off them) through unique partnerships that bring together timber companies, land conservancies, and state and local agencies.

"[Lyme Timber] has been an excellent organization and Peter Stein is one of the reasons," says Robert Davies, director of the New York State Department of Environmental Conservation's Division of Lands and Forests. Stein's conservation background helps state agencies navigate the many conflicting interests that influence forestlands, he says. "He's very sensitive to that."

Making the Switch

Stein was one of the early graduates of University of California at Santa Cruz and later became a senior vice president of the Trust for Public Land, a land conservation organization that has protected 2.2 million acres of land since 1972.

The Trust for Public Land is one of several land conservancies known for purchasing conservation easements— legal agreements that forever protect an area of land from development.

During Stein's tenure at the Trust for Public Land, he started working with Lyme Timber to negotiate easements on the company's lands in the Adirondacks and in Wisconsin. "The Lyme

Timber Company, every now and then, found itself owning something that was coveted by a conservation NGO or a public natural resource agency," Stein says. One of these spots was a "gap property" in Virginia that was one of the missing pieces of the Appalachian Trail. The Trust for Public Land and Lyme Timber worked together, got government funding for the deal, and set aside some of the key lands as permanent conservation land. When Stein was considering a return to the Trust for Public Land's headquarters in San Francisco, Lyme Timber offered him a job.

Aside from the chance to move with his young family to "one of these cute little postcard-like New England communities," Stein says he made the switch because he realized timber investors like Lyme Timber had the purchasing power to fund bigger projects. In the land conservancy world, "it was easy to find the deals, but difficult to put together the dollars to do the deals." On the private investment side, the money was there, but high-quality deals were missing. With Lyme Timber, he could combine his conservation experience with investment capital to form conservation-oriented partnerships with land trusts, conservationists and natural resource agencies around the country.

Forests for Sale

Partnering with timber companies isn't new for nonprofits, says Bill Ginn, director of the Global Forest Initiative at The Nature Conservancy. "We've always had partnerships with timber companies, because timber companies have always been owners of tremendous biodiversity," he says.

Changes in the economy, however, have increased the need to work together.

Two decades ago, a conservancy or a timber investor searching for forestland to buy might have been out of luck. "If you went to the Adirondacks 25 years ago, lands just didn't trade hands," Stein says.

Now forest companies have been shedding their lands and institutional investors have been stepping up to buy them as a way to diversify portfolios. But sellers often price forestlands higher than what the timber's worth, so many investors split up the land and sell some of it to real estate developers to make their investments pay.

This can leave land trusts looking to buy conservation easements out in the cold. Many sellers don't want to split up their land, negotiating with one buyer for the easement, another for timber, and still another for the land itself. "They just want to cash out of the property," Stein says. New owners may not want to be subject to a conservation easement's restrictions. And nonprofits can't usually outbid a well-funded investment company.

Unless, that is, they partner with a group like Lyme Timber.

Lyme Timber, like any other company, could carve up part of the land and sell it for

development. But Stein says, "I couldn't go home and face my family, and we wouldn't be getting any referral phone calls from the Trust for Public Land anymore." Instead, Lyme Timber works with nonprofits and state agencies, selling back the conservation easements on forestlands, while continuing to have working forests, not new developments, on the land.

"We get paid not to develop the real estate," Stein says. For Lyme Timber, it's a way to reduce timberland investments without being subject to real estate market fluctuations, development approval from state agencies, and rocky relationships with groups interested in conservation. "We're a little bit chicken. So we decide that there's a safer way to turn the real estate value into cash through the sale of conservation easement."

And, conservancies and state agencies get easements and other public land access that they might not have been able to afford otherwise. "We're always looking for ways to extend our conservation dollars," says Ginn, who has worked with Lyme Timber on partnerships in New Hampshire and New York. "The bad news, of course, is that Peter Stein is one of only a handful of timber investors who partner with conservation."

Paul Young, a managing member at Conservation Forestry, a New Hampshire-based timber investment group that focuses on conservation-oriented deals, says pairing conservation easements with timber can also make these deals more palatable for the local community. Locals can be concerned that conservancies coming in can mean the land's shut off from hunting, fishing, and recreation—and that local timber jobs will disappear. Community groups worried about development and environmental values could be cheered by the involvement of conservancies in forest deals.

In the Adirondacks

Many of these multiple benefits came together during Lyme Timber's recent work in the Adirondacks. New York's Adirondack Mountains host centuries-old hunting camps, lakes for swimming and fishing, and hardwood forests of maple, oak, and cherry.

Within these mountains is the Adirondack Forest Preserve, a 2.7 million acre expanse of land protected by the state. The state's open space plan recognizes that, along with acquiring new lands for the preserve, "there are very important working forestlands that should continue to be working forestlands," says Davies. The state can protect the land from development and fragmentation by buying conservation easements and other land rights, he says.

International Paper was the state's largest landowner, owning lake-filled lands packed with recreation opportunities, as well as working forests. A few years ago, the state began negotiating with International Paper for conservation easements on 260,000 acres of this land. On Earth Day 2004, then-governor George Pataki announced that the state had lined up nearly all of these acres—257,000 of them—in conservation easements with the help of the Virginia-based Conservation Fund.

In April 2006, International Paper sold these and other forestlands to Lyme Timber for an estimated \$137 million. Lyme Timber assumed the conservation easements; this March, the state closed the easements in a \$28 million purchase, cutting Lyme Timber's purchase price for the land and letting the state protect recreation opportunities while preventing development on the land.

The state's ability to partner with timber investors and conservancy groups has helped protect forest resources. "Because we were able to get ahead of the curve on all this, we're in a much better place, and have a much better outlook for the future of our forests and our forest resources than some of the states that have not had the opportunity to put these protections in place," Davies says. In other states, he says, "lands that have historically been open for public access and recreation are now being lost."

Will We See More?

In the early 1990s, Lyme Timber was the only company working intensively to put together conservation-meets-forestry arrangements; now, several timber management organizations are turning to partnerships like these to keep forestlands working, Stein says, and more might be on the horizon.

One reason for the shift may be that more states and communities are recognizing the importance of forests—and putting up the money to protect them. In 2000, Gallatin County, Montana voters passed a \$10 million initiative to protect open space; on California's November ballot, a multi-billion dollar bond act aimed at environmental protection targeted \$450 million to wildlife and forest conservation. "People are reaching into their pockets and taxing themselves to pay solely for the environmental or public interest values that they need," Stein says.

People may soon be reaching into their pockets in Tennessee as well. In February, Governor Phil Bredesen proposed an \$82 million bond measure that would help protect the North Cumberlands area, a biodiversity hotspot. More than 123,000 acres could be part of a partnership that would make use of conservation easements, outright protection and, for Lyme Timber, innovative leaseback agreements on 75,000 acres of forestlands, according to the Tennessee Department of Environment and Conservation.

Research in conservation biology has also increased understanding that whole watersheds need to be protected, not just single species. "Science has driven us to a larger scale," Stein says. These large-scale land partnerships are particularly important in a time when forests are increasingly under threat.

Market Futures

These partnerships may also come in handy as markets for carbon and other ecosystem services develop. Lyme Timber retains ecosystem services function rights on its conservation easements, and its partners, like the state of New York, are interested as well. "If at some point in time, there is a carbon sequestration cap-and-trade system in the United States," he says, "we're hoping to be able to participate in those new, emerging markets," Stein says. Lyme Timber also is pursuing emerging markets for wetland and species-specific mitigation.

Already, Lyme Timber has been looking in the Catskill and Delaware watersheds for New York City. In these areas, the city has been buying land and easements to protect the natural filtration services that forests here provide for the city's public water supply system.

These and other projects bring a little more effort into Lyme Timber's work—in exchange for making conservation a part of the company's mission, Stein says, he and his colleagues make it up by attending scores of meetings with stakeholders and partners to bring together forestry and land protection. Stein has stayed involved with the Land Trust Alliance, which coordinates land trusts across the country, and sits on a new land trust accreditation commission. He also advises private investors and nonprofits on conservation purchases through a consulting branch of Lyme Timber.

All the time he's put in has resulted in 86 conservation partnerships for Lyme Timber. "It's worked out wonderfully," Stein says. And, as for the friends who questioned his sanity? "Oh, they got over that."

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