



Timber in transition: Booming values shift Plum Creek from logging to real estate

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By *MICHAEL JAMISON of the Missoulian*

KALISPELL - Used to be, the Kalispell Chamber of Commerce would get together once a year for a field trip into the woods.

They called them “timber tours,” and according to chamber president Joe Unterreiner, “early on, these actually were timber tours.”

But those were the days when the business of timber was the business of western Montana.

Times have changed.

On a soggy afternoon last fall, Unterreiner arrived on forestland owned by Plum Creek Timber Co. for a very different sort of tour.

He called it “timber lite,” adding that today's Chamber of Commerce field trips emphasize “the changing economics of what's happening with timberlands.”

Montana has been discovered, he said, its real estate is commanding premium prices, and companies such as Plum Creek are realizing their trees are worth more vertical than horizontal.

So they're selling off big chunks of land to developers - and developing other pieces on their own.

Mark Boardman is a forester with another local timber company; he arrived home from a two-year hitch in Iraq just in time for last year's timber tour.

“Everything changed” while he was overseas, Boardman said. “To me, it seems like a huge change.”

Instead of standing amid a logging operation, Boardman and Unterreiner were standing in Meadowbrooke, Plum Creek's first attempt at developing its own subdivision.

Are there any similarities between this site and the working forest Boardman knew before heading to Iraq? “Well, they're still Plum Creek lands. At least for a little while longer.”

That Plum Creek is divesting some lands - calling them “higher and better use” lands, or HBUs - is no secret. The company has even spun off a new subsidiary, Plum Creek Land Co., to broker the real estate deals.

“Our business model has changed greatly over the last few years,” said company spokeswoman Kathy Budinick. “We've moved from being solely a timber company to something much more complex.”

The creation of Plum Creek Land Co., she said, surely signaled a shift toward real estate sales as a bigger contributor to the corporate bottom line.

“It's a real business opportunity beyond forestry,” she said.

These are, after all, private lands, and can be logged or developed as the owners see fit.

Company policy is clear: “We work to capture the most value from every acre that we own. This means continually assessing the value of the trees growing on the land, the value of the natural resources that reside below the surface, and the value of the land itself. ... Over time, our strategy is to sell the non-core timberlands and reinvest the proceeds from these sales in other, more highly productive timberlands that add to our timber inventory, harvest and cash flow.”

Put simply, in the words of company president and CEO Rick Holley, “people are going to come to us, and they're going to want to buy land.”

A few weeks after Unterreiner and Boardman visited Plum Creek's subdivision west of Kalispell, another group came field-tripping through. It was an investor tour, led by research analysts from Deutsche Bank Securities Inc.

“We saw an internally developed community called Meadowbrooke, which is almost sold out much faster than expected,” they reported, adding that “the market for luxury mountain developments is not confined to famous places like Aspen and Jackson Hole.”

Plum Creek, the investment analysts said, has about a quarter-million acres targeted for residential real estate development nationwide. Include the 975,000 acres of company lands to be sold for recreation, as well as the 500,000 acres to be sold for conservation, and about 1.7 million acres are on the block. Another half-million acres of “non-strategic” timberlands are under review for possible sale.

In 2004, Plum Creek reported the sale of 375,000 acres for \$300 million. In 2005, 232,000 acres sold for \$292 million. That same year, the company's own in-house development arm obtained permits for 926 rural residential lots on nine properties, with 19 more projects in the works. At the same time, Plum Creek reported entering joint ventures with real estate developers in Florida and Georgia.

Although real estate sales remain a relatively small percentage of corporate revenue, they represent a substantial chunk of Plum Creek profit - approaching 50 percent of all company profits in some years.

That's a lot. The investor analysts touring Meadowbrooke estimated Plum Creek would realize profits of nearly \$21,000 an acre at the proposed Black Hawk subdivision, which is planned on 467 acres near Swan Lake.

The company's real estate income has skyrocketed in recent years, and for 2006, according to Plum Creek filings, real estate revenues totaled some \$308 million, with 111,575 acres sold.

Following their tour, the Deutsche Bank analysts gave Plum Creek a “buy” rating, predicting total returns of more than 10 percent during the coming year.

That income will largely result from what Plum Creek's Tom Ray calls the recent “up-tick in private sales. Some lands just have more value as developments.”

And although Ray insists “our core business is owning timberlands,” he admits “development will certainly be important, too, as the company moves forward.”

Question is, what will that development cost Plum Creek's neighbors?

Pat O'Herren is mapping part of that cost from his office in Missoula, where he's a planner with Missoula County's Rural Initiatives program.

“We're certainly aware of that apparent shift in their land management strategy,” he said, “and we are definitely concerned.”

He's worried because Missoula County has almost no control over how Plum Creek will develop its land. The county, O'Herren said, is split into nine planning regions. If any single landowner owns more than half the private acreage in any given region, that landowner can protest and quash any attempt at planning and zoning there.

And of Missoula County's nine planning regions, Plum Creek owns a majority property share in six. Countywide, the company owns 413,992 acres.

“That pretty much makes Missoula County a company county,” O'Herren said. “We're not talking about company towns anymore; we're talking about company counties. There's a lot at stake here.”

Especially if Plum Creek decides to fight county zoning efforts. A Seattle-based corporation, O'Herren said, whose connection to Montana is only as strong as the value of the land, can - and likely will - define the community landscape for all the rest of the residents.

“They've been very blunt,” O'Herren said. “If they don't agree with the county zoning, they will protest it.”

It's not as if Plum Creek is blind to the importance of zoning as a way to protect property values and a way of life. In fact, at Meadowbrooke - where Plum Creek intends to sell nearly 60 home sites on slightly more than 500 acres - the company has put a whole laundry list of conditions on what homeowners can and cannot do with their property.

The covenants include a ban on cutting big, old trees.

Beyond its own internal subdivision rules, though, the company has shown no interest in broader community planning efforts, O'Herren said.

“Quite honestly, that leaves us only one tool,” he said, “emergency, or provisional, zoning.”

And that's exactly what Missoula County commissioners are considering for the Seeley Lake area, where Plum Creek owns a whopping 81 percent of all private land, or 82,786 acres. Company representatives have told O'Herren they plan to develop much of that acreage, “and that's certainly going to change the character of Seeley Lake.”

It's also going to impact the Missoula County budget. Already, two rural landscape scientists have been hired to deal with rural development issues, including development on Plum Creek lands. O'Herren expects to hire one more full-time planner next summer, which will increase his staff from fewer than three to about eight in a short year and a half.

That will cost taxpayers, O'Herren said, as will the development itself.

“The property taxes from that type of forestland development come nowhere close to paying for the infrastructure needed,” he said. “From our perspective (as county planners), the big concern is how do you provide services to remote locations? It becomes a nightmare - an expensive nightmare - in terms of infrastructure.”

Others are worried about impacts on county road budgets, school budgets, emergency response budgets. Then there are firefighting budgets, both wildland and residential, not to mention impacts to wildlife, to watersheds, to the timber industry itself. Others are concerned about traffic, about access, about hunting and fishing and a whole way of life.

Which is exactly why Missoula County is considering emergency zoning in Seeley Lake. It would only last a year, two at the most, but perhaps that's a sufficient window for negotiation.

Currently, O'Herren is awaiting a neighborhood land-use plan, due for release Feb. 12, but still suspects emergency zoning will be required.

“We're willing to talk,” said company spokesperson Kathy Budinick. “We want to be involved with the communities.”

That's good news for O'Herren, but does not slow the county's push for emergency zoning.

“We're seeing significant change in a hurry,” he said, “and we need some breathing space to deal with that.”

No one denies Plum Creek's ownership of 1.3 million acres in Montana, and more than 8 million acres nationwide. And no one denies Plum Creek the right to do as it pleases with that land, within the constraints of law, to maximize profits for shareholders.

But there will be impacts, for the company's neighbors and Montana taxpayers.

“These kinds of concerns are on our radar,” Budinick said. “But that doesn't mean that we're going to stop selling land or stop developing land. What it means is that we're willing to engage with stakeholders about the impacts.”

And so the real questions are for those neighbors, not for Plum Creek.

What will they do?

“That's a very big question,” said Melanie Parker, an educator and community organizer living in northwestern Montana's Swan Valley. “It's an interesting debacle.”

Until now, she said, Plum Creek's land sales have trickled through her valley, giving locals the time to drum up money to buy them out.

Much of the cash for those deals has come from the federal Land and Water Conservation Fund, a pot of royalties from off-shore oil and gas drilling intended to mitigate environmental impacts of that work by buying up habitat elsewhere.

And although the fund is flush amid high energy prices, it's being tapped for other national priorities. No one expects the LWCF to finance continued purchases of Plum Creek land, and no alternative cash source has been identified.

“We're right on the edge of some cataclysmic changes here,” Parker said. “The big story in the Swan is that Plum Creek announced it was going to divest 20,000 of its 80,000 acres, a quarter of their holdings in the valley.”

The Trust for Public Land used LWCF money to buy 9,100 of those acres, then gave the land to the U.S. Forest Service. Another 3,560 acres already have been sold to developers. And development rights have been sold on most of the remaining 7,400 or so acres.

In addition, The Trust for Public Land was able to purchase development rights on 10,000 acres not included in Plum Creek's initial announcement of intent to sell.

“But there's still 62,000 acres in the Swan hanging in the balance,” Parker said, “with no clear plan.”

The conservation buy-out model is further being eroded by the fact that Plum Creek is now in the business of not only selling land, but also developing land. Anyone hoping to purchase their way out of development will have to pay not only for the land, but also for the profit potential of that land once developed.

Plum Creek calls the remaining 62,000 Swan Valley acres “core timberlands,” yet Parker remains suspicious of the company's long-term commitment and wonders, “If they're core timberlands, how can we keep them that way? What's at stake here is the Crown of the Continent ecosystem.”

Bob Harrington is a forester, the top forester in fact, for the state of Montana. He's been watching Plum Creek sell its lands, and like others, he's worried.

“They are a corporation,” Harrington said, “and they're out to make money. I, for one, am not going to begrudge them that.”

But neither is he naïve enough to believe there will be no fallout.

During the wildfire season of 2006, he said, cash spent from the state general fund to fight fire totaled about \$40 million. Most of that was spent battling blazes in the “wildland-urban interface,” where rural homes tuck into forest hillsides.

As Plum Creek subdivides its forests, Harrington said, “the fires that occur on those lands will become more expensive and more dangerous for our firefighters.”

The taxpayers will carry that burden, he said, not the company.

“Sometimes,” Harrington said, “fires we could have caught are getting away because we're spending our time protecting homes.”

He, for one, wonders how long taxpayers can afford continued development in the forest interface.

Harrington's boss, state Department of Natural Resources and Conservation director Mary Sexton, estimates that nationwide, wildfire in the interface costs three to 10 times as much to fight as does fire in

the uninhabited forest.

Harrington said a statewide review of Montana fires showed suppression costs 50 percent to 60 percent greater in the wildland interface than in uninhabited forests.

“Expanded development in the wildland-urban interface obviously causes us concerns,” Sexton said. Of course, zoning could limit that development, if the developer did not also enjoy the ability to veto that zoning.

“We definitely have some major concerns here,” she said.

Those concerns include Harrington's fear that Montana's long-term timber supply could be in jeopardy.

“That's very troubling,” he said, “with the divestiture of Plum Creek lands.”

Plum Creek acres, he said, are among the most productive timberlands in the state.

“And they have been harvesting those lands in excess of sustained yield for years,” Harrington said. “I think that's pretty common knowledge now.”

The company once supplied most all its western Montana mills with trees from its own forests, and still had enough left over to export logs to other mills. Now it supplies only one-third to one-half of its own milling needs.

The trend is clear to Harrington, regardless of Plum Creek's assertions that the company will continue to harvest at a sustainable pace into the future: “At some point along this new trajectory, that 1.3 million acres in Montana is gone as far as timber harvest is concerned; and that's huge, because those lands are very productive, and they're vital to maintaining a wood products industry.”

“Timber companies,” Parker agreed, “basically have come to the point where they've already taken the value off the land in terms of timber, and now the big value of the land is residential real estate. Real estate is worth so much, they can't afford to keep it as timber lands.”

But Budinick insists her company “will never run out of trees.” Plum Creek, she said, has reduced harvest levels in recent years and likely will continue to do so into the future.

“Our harvest levels may not be the same tomorrow as they are today,” she said.

Still, that's not to say real estate prices aren't pushing corporate policy on what have been purely timberlands.

“We believe there's a market opportunity there,” Budinick said.

But the company's opportunity could come at the expense of Montana's long-term milling infrastructure, Harrington said.

Arguing about public-land timber sales while Plum Creek sells off prime industrial forestlands, Harrington said, amounts to “fiddling while Rome burns.”

And how can the state log, Sexton wondered, when the new neighbor is a high-end subdivision? “Do

people want to live next door to a timber harvest?”

As Plum Creek harvests heavily, Harrington said, land managers on adjacent public lands must curtail their cut to mitigate for the damage next door. Meanwhile, as its private lands are stripped, Plum Creek looks increasingly to public lands to source its mills.

That puts the corporation in direct competition with smaller mills, Harrington said, which are falling by the wayside.

One day, he said, Plum Creek could be the only one left standing. And then, if Plum Creek pulls out - and Harrington, for one, believes they will - land managers will have no milling infrastructure left to handle public timber sales.

“If their intention is to move out of the county, at least as a manufacturer, then the sooner they tell us the better.”

So said Joe Brenneman, a Flathead County commissioner worried about Plum Creek's real estate divestment.

“We're watching it closely,” he said. “And there's a fair amount of concern up in Lincoln County, too. The commissioners there are talking to us about it.”

Mostly, he said, they're talking about what they perceive to be “a lack of transparency about what their intention really is.”

The trend, Brenneman said, has not been to buy milling operations in western Montana, or even to buy land here. The trend, he said, has not been to cluster development so logging can continue elsewhere, but rather to spread development out.

“It's obvious they aren't developing the land in a way that allows for future timber harvest,” the commissioner said. “There's no indication at all that they intend to operate as a timber company in the long term.”

Flathead County, he said, is strapped. Rural residential development results in a net loss of somewhere between 35 cents and 70 cents on the dollar, as demand increases for far-flung services.

“This change Plum Creek's going through,” Brenneman said, “it requires a lot of concessions on the part of taxpayers.”

That's why he and Commissioner Gary Hall asked Plum Creek to use some of its projected \$16 million in profits from the company's proposed Ashley Lake subdivision to pave a few extra miles of road to the new neighborhood. After all, Hall said, it was Plum Creek logging trucks that trashed the county road into Ashley Lake to begin with.

But the company refused. In fact, “they sued us,” Hall said. “I don't have the budget to go up there and rebuild the road to their new neighborhood in the woods.”

But depending upon how the court rules in the lawsuit, he may have to do just that.

“Look, we appreciate the jobs that Plum Creek has provided to our community,” Hall said. “But they

have also enjoyed incredible profits doing business in Flathead County. And we have enjoyed them protesting their taxes, regularly.

“We're kind of at a loggerhead on this one, and I'm not bending. I mean, the money they're making on this subdivision - to put the burden on Flathead County's taxpayers just isn't right.”

He can't afford to bend, he said, because there are simply too many more subdivisions coming, and he can't afford them all. But Hall did say he remains willing to meet halfway, so long as Plum Creek is willing to ante up.

“If not, then they can go somewhere else and build subdivisions.”

In fact, Plum Creek often does build somewhere else, and often those somewhere elses come with land-use rules requiring the company to pay county costs.

Flathead County, however, has no such rules.

“And whose fault is that?” Budinick wondered. “Not ours, I think.”

No matter what happens in western Montana, Plum Creek most assuredly will build subdivisions in other states as well. Several are planned, and a handful are under way.

In Maine, the company has proposed the largest development in that state's history. The outline initially submitted to Maine planners covered 426,000 acres - and 570 pages - with homes and lodges and resorts and golf courses spread across Maine's remote north woods.

Amid a roar of public opposition, Plum Creek pulled its Moosehead Lake development plan, sat down with neighbors and activists, and is now preparing a new application. The bulk of the land at stake there is zoned for forestry and wildlife habitat, not development, and concerns there reflect concerns here in Montana.

The land rush is on, it seems, and there simply isn't enough money for communities to buy their way out of it, as they have in the past.

Perhaps, said Hank Goetz, it's time for a new plan.

“We can't have an out-of-state timber corporation defining how a whole county is going to look,” said Goetz, lands director for the Blackfoot Challenge.

A broad-based group working to purchase thousands of Plum Creek acres along Montana's Blackfoot River, the Challenge has proved a working template for the sort of public-private partnership required to buy lands outright. It was the only way, Goetz said, to protect prime mid-elevation game habitat, as well as to protect access for hunters, anglers and other outdoors people.

But the federal Land and Water Conservation Fund money that bought thousands of those acres is gone, Goetz said. It's time for a new approach.

“The voters need to say, ‘Hey, this is baloney,’” Goetz said. “We have to do something so Plum Creek can't dictate what our state looks like. What we have are a million and a half acres for sale to the highest bidder and no money to buy it.”

“Plum Creek holds the future of this community in the palm of its hand,” Parker agreed, “and what they do will shape our small towns forever. Our way of life is actually at the whim of one company; they could turn us into a ski resort if they chose to.”

It is time, she said, for those affected to start finding answers and a vision for their collective future.

In the Swan Valley, where Plum Creek has a decade-old grizzly bear conservation agreement with state and federal land managers, locals are now calling for a revision to that agreement in light of increased subdivision activity.

“The Swan Valley is key habitat for many treasured species of fish and wildlife,” said Keith Hammer, chair of the Swan View Coalition. “If it is treated like just any other piece of real estate, that habitat will be lost.”

Since Plum Creek began selling instead of logging, Hammer said, federal land managers in charge of endangered-species oversight have “fallen way behind the curve on this.”

Eight other conservation groups are working to block a similar agreement regarding lynx protection on Plum Creek lands, citing “Plum Creek’s conversion of forestlands to real estate development.”

In addition to applying federal wildlife laws to the development rush, Goetz, for one, advises reworking Montana’s subdivision law so Plum Creek no longer has the power to veto zoning attempts.

“It’s a totally different situation today than when Montana passed its statewide subdivision laws,” he said. “We need to keep up with the times.”

In Missoula County, that means an open-space bond, which voters passed last fall, to raise the cash needed to buy up critical lands, including Plum Creek acreage.

All this activity is not Plum Creek’s problem, Goetz admits. They’re just doing what companies do, and he has no real problem with that.

“The question is,” he said, “what are we going to do?”

But Plum Creek is asking questions, too. Where is the company headed? What are its impacts? How can they mitigate those impacts and still maximize profits?

The company is acting fully within the law, in a way actually encouraged by private enterprise. Yet at the same time, its officers are well aware that although company policies themselves are not bad, they might occasionally have bad implications for neighbors and taxpayers.

“People are going to come to us, and they’re going to want to buy land,” repeated president and CEO Rick Holley.

And Plum Creek, he said, “will continue to work with the communities, to listen. You’ve got to listen. You just can’t say it’s all about shareholders all the time.”

Holley recognizes he has lots of community stakeholders, in addition to those very important corporate shareholders.

Still, there is no map of the 1.7 million acres Plum Creek has identified for eventual sale nationwide. The company does not share how that acreage breaks down state by state, and so planners have no idea what to expect.

“We don't really disclose the locations of those lands,” said company spokesperson Kathy Budinick. “It's a competitive market out there.”

And that secretive nature makes local community planning very tough indeed. How do you budget or plan or zone or build transportation or other infrastructure if you don't know which big chunk of forest might soon be a neighborhood, or a resort?

“You'd have to ask the community members about that,” Budinick said. “We understand that our plans have a variety of implications for people; we're aware of that.”

Budinick said her company “looks at the whole picture, and all the implications. But on the other hand, we also have shareholders, and we have an obligation to them.”

What's next for the

1.3 million acres of Plum Creek land in western Montana, and the people who live near them?

“That's really a question for the communities themselves,” Budinick said.

“No one can predict the future,” said Tom Ray, the company's regional timber manager.

But Budinick imagines a trend “definitely toward more land sales and development.”

“I think you can expect that we'll have a presence in Montana for many years to come,” she said. “I think you can expect that we'll continue to evaluate all of our lands for the best use. I think you can expect us to work directly with the communities more than we have in the past. I think you can expect that we'll be a responsible member of these communities for many years to come.”

At their Flathead County commission offices, Gary Hall and Joe Brenneman hope that's true, and hope that translates into negotiations instead of lawsuits.

“This is a huge change,” Hall said, “and it's going to impact every single taxpayer in Montana.”

Brenneman agrees. “Plum Creek could say, ‘You know what? We're a big huge company. We made way more in the first quarter of this year than Flathead County's entire annual budget. And we're having a big impact on this community, so we're going to step up and pave a few more miles of road.’

“They could choose to do that, if they wanted to.”

But the choice isn't for Plum Creek to make, Harrington said. The choice is for residents.

“How much are you willing to pay?”

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