



PRINTABLE VERSION: Thursday, October 4, 2007

11. FORESTS: Pacific Lumber plots land sales, development of 'kingdom' estates to exit bankruptcy (10/04/2007)

Arthur O'Donnell, *Land Letter* editor

In a proposed plan for exiting Chapter 11 filed with a Texas bankruptcy court this week, Pacific Lumber Co. said it expects to raise nearly \$1.2 billion in cash from the sale of Northern California timber lands – including 6,600 acres in six groves of ancient redwood trees that are subject to a 50-year protection plan – while selling an additional 22,000 acres for development as "trophy" properties.

The land surrounds the Headwaters Forest, a 7,400-acre, old-growth forest that the state and federal government purchased from Pacific Lumber in 1999 for \$480 million. The company also agreed to strict timber harvest limits in a habitat conservation plan for 210,000 acres of redwood and Douglas fir, while setting aside the ancient groves as habitat for the protected marbled murrelet.

The plan, filed under a court-enforced deadline to preserve the company's exclusive right to propose an exit strategy, is meant to wholly repay creditors while reorganizing six affiliated companies into a single entity. Pacific Lumber, the main subsidiary of Maxxam Corp., owned by Texas billionaire Charles Hurwitz, entered Chapter 11 in January, claiming that the restrictions on logging its property in California reduced revenues significantly while increasing costs to the point that the firms cannot make interest payments on more than \$700 million in outstanding debt (*Land Letter*, Feb. 1).

In all, Pacific Lumber has an estimated asset value of \$1.4 billion, while claims allowed by the court come to about \$1 billion.

The sale of properties would "unlock and monetize the high value of the ancient redwood groves," according to the company. The first part of the proposal would "market and sell each of the groves as old-growth conservation forests to a buyer or buyers who are willing to commit to permanent environmental protection of these unique and scarce old-growth redwood trees," the plan stated. Sales are expected to generate \$400 million, or \$60,000 per acre.

Another \$780 million could be raised through the subdivision and sale of what the plan calls the Redwoods Ranch Development, described as "160-acre, individual parcels of land that surround, and in some cases are contiguous to one or more of the ancient redwood groves or the Headwaters Forest." The parcels would be marketed as "trophy" or "kingdom" properties, the plan stated, with values of up to \$5 million per lot, depending on how close to the protected lands they are.

The plan cited corporate parent Maxxam's success in real-estate developments in Puerto Rico, Arizona and California and said a similar strategy would be used to market the Redwood Ranch development. "In short, Maxxam acquires undeveloped land, subdivides the land, builds the infrastructure required to create resort and master-planned communities, including utilities, roads, golf courses and tennis courts, and sells the land to other third parties at a premium, enters into a joint venture with a third party, or develops the lots for retail sale."

Whether such a plan is even feasible for the remote forests of Humboldt County is uncertain. County supervisors would have to approve amendments to their general plan to allow such developments, an unlikely event given their predisposition to retaining the forests as timberlands. Activist groups that have closely monitored Pacific Lumber's compliance with the Headwaters agreement are skeptical. In a statement, the Bay Area Coalition for Headwaters called the sales valuation "unbelievably inflated."

The next event in the case will be an Oct. 23 hearing to consider Pacific Lumber's request for an extension of the time it gets to try to win creditor support for its plan.