



Beyond Timber: Why Natural Forests Are a Smart and Sustainable Investment

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When most people think about managed timberland, they imagine vast, uniform rows of planted trees – plantations – where maximizing fiber production is the main objective. While plantations do dominate timberland investment, there are also opportunities in a different kind of forest: naturally regenerating forests.

Unlike plantations, which are managed for maximum yield with a single species, natural forests are a diverse mix of tree species and ages. They are generally not treated with herbicides and fertilizers, and they regenerate on their own, often through selective harvesting instead of clear-cutting. This approach not only supports the environment and local communities but also provides unique financial opportunities.

Investing in natural forests isn't just about timber; it's about a diverse range of potential returns including wildlife, water, climate, conservation, public recreation, and rural economic development benefits.



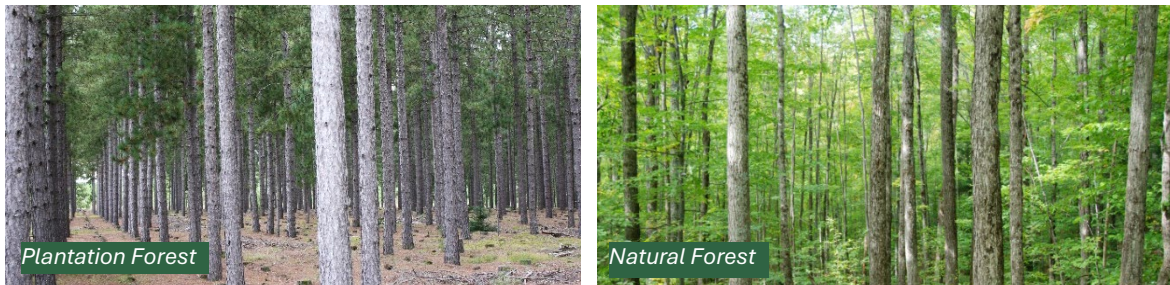
Natural vs. Plantation Forests

The U.S. timberland market is heavily skewed toward plantations, which make up about 90% of the asset class by value. These are primarily located in the South (loblolly pine) and the Pacific Northwest (Douglas-fir) and are managed on short rotations to maximize productivity. As single-species stands often treated with herbicides and fertilizers, they have more limited habitat and biodiversity value.

By contrast, natural forests make up the remaining 10% of the market and are found in regions like the Lake States, Appalachia, and the Northeast. These forests are generally dominated by deciduous hardwoods and are managed on a much longer rotation —typically 70 to 100 years, compared to 20 to 35 years for plantations. Markets for forest products are more diversified as well, including both high-grade and low-grade markets, domestically and internationally.

Here's a simple breakdown of the key differences:

- **Diversity:** Natural forests have a mix of species and ages, while plantations are monocultures.
- **Forest Management:** Natural forests use partial and multi-age harvesting, while plantations often rely on clear-cutting. Herbicides and fertilizers are generally not used in natural forests.
- **Conservation Values:** Natural forests offer higher value for biodiversity, clean air and water, and public recreation.



Strategies to Monetize Non-Timber Values

Natural forests can be a critical tool for mitigating climate change and protecting biodiversity, which can be monetized in several ways:

- **Conservation Easements:** Natural forests have higher potential for the sale of a working forest conservation easement (WFCE), which is a legal agreement that restricts development on the land but allows for sustainable timber harvesting. A WFCE sale provides upfront capital to the investor, improving returns while ensuring the forest remains intact forever.
- **Carbon Markets:** Forests are powerful "natural climate solutions" because they sequester and store carbon as they grow. Markets for carbon have provided a source of revenue for forestland owners who can generate income by selling carbon credits to companies looking to offset their emissions. Natural forests have been a major source of these offsets in the U.S. through both compliance and voluntary markets.
- **Resilience:** Natural forests tend to be more resilient to climate change, disease, and storms due to their diverse structure and species. This reduces the long-term risk of natural forest investments.

Specialized Management for a Unique Asset

Because they are more complex, natural forests require specialized management. This includes understanding legal instruments like WFCEs and carbon protocols, using advanced tools like LiDAR to model complex forest systems, and even investing in the supply chain itself, such as logging or log marketing businesses.

Not all timberland investment managers have developed the capacity to manage and deliver value from natural forests. The team at Lyme Timber has developed unique expertise through their nearly 50-year history of developing and pursuing strategies to maximize value through operations, value-add strategies and conservation on these complex assets.



A Path Forward

The challenges of managing natural forests come with significant opportunities. By looking beyond traditional forest products and embracing strategies that protect these valuable ecosystems, investors can achieve attractive financial returns while also making a meaningful impact on the environment and rural communities.