

Partners in Conservation: EIP Pioneers New Model

By Alice Kenny

Ecosystem Investment Partners is re-writing the book on land conservation. The Ecosystem Marketplace finds out what the men behind the new business have to say about the synergies they see between conservation and investment returns in the United States.

On drained and ditched land flat as a pool table in Virginia's Great Dismal Swamp, a visionary, an investor and a conservationist are prepared to lay down their cash. Their bet: that a multi-million-dollar investment can foster the next step in the emerging ecosystem services market by generating multiple private and public revenue sources and fulfilling a variety of environmental goals. Clearly, this is a new take on land conservation.

In fact, America's revered founding father, George Washington, had proclaimed the enormous swamp worthless in its natural state, hiring excavators to dig a canal back in 1763 so that it could be farmed and harvested for trees.

But during the past two decades the intrinsic value of swamps – now going by the more dignified name of “wetlands” – for their propensity for flood control, water quality and fostering biodiversity has soared among investors and emerging ecosystem markets.

Sure enough, the three men's stake is paying off. Their newly formed firm, Ecosystem Investment Partners, just announced an agreement to co-invest with the private equity timberland investor Lyme Forest Fund on up to \$27.5 million in

conservation projects. Their investment strategy is particularly noteworthy because of its synergy; its success making money for its investors depends on its ability to generate multiple environmental successes, from improving water quality and biodiversity to restoring wetlands– and vice versa.

“While wetlands are a core part of our investment strategy, EIP will not be a mitigation banking company solely,” says Adam Davis, one of the three founding partners. “One of the things that makes our strategy unique is that we are restoring and protecting multiple types of ecosystem services. So our deals have multiple types of revenue producing activity making them inherently more flexible and hedging risk.”

The Partners

Just eight years ago, Davis joined 60 environmentalists, regulators, forest-product company representatives, bankers and journalists in the mountains outside Katoomba, Australia to discuss the future of ecosystem services conservation and environmental markets. Back then, the premise that scarce ecosystems such as marshes -- commonly viewed as drains on a land’s value -- could instead augment its value, appeared more theory than reality. But today, assigning a price tag to a forest’s ability to absorb carbon or a wetlands’ ability to filter water and limit flooding has become increasingly commonplace.

“Land now is being protected not just as an expression of ethical values but because we recognize what it’s doing,” says Davis, an investment pragmatist and environmental visionary whose charismatic turns of phrase leave a listener stumbling between saying “Amen” and “err...good point.”

“Back in 1999, that was all theory,” Davis continues. “It’s amazing to see how far we’ve come.”

Not one to wait and see, Davis pushes the environmental envelope. He formed a consulting firm fostering corporate environmental investment by finding the financial value of natural systems. Then, two years ago, Davis teamed up with Nick Dilks and Fred Danforth to form an environmental investment firm.

For Dilks, a career conservationist, the new venture appears a logical progression. Dilks spent the prior decade coordinating real estate deals for the Conservation Fund, relying on an \$80 million revolving fund and donations to acquire virgin properties threatened by development. But the fund was constantly over-tapped, Dilks says, limiting its philanthropic reach. With Ecosystem Investment Partners, he says he can, “grow the pie of capital for great projects.”

To grow that capital pie, Dilks and Davis turned to Fred Danforth, cofounder of the private equity investment firm Capital Resource Partners. For Danforth, a career capitalist, the venture offered a sort of salvation. “I found myself on a treadmill that went faster and faster,” he says from his office in Massachusetts. “It was hard to know when to stop.”

Danforth first stepped off the treadmill in 2002, retiring from the firm he founded so he could spend time fly-fishing in the West. He ended up as conservation buyer of a ranch from the Nature Conservancy, and created the first two wetland-mitigation banks in the lush-green landscape of Montana.

With Ecosystem Investment Partners, he has an opportunity to create a “double bottom line,” applying his investment savvy to generate market rates of return while

maximizing investments with conservation outcomes, fostering win-win solutions instead of the win-lose scenarios more typical of the investment world where he spent most of his professional career.

The Business Model

Performing a due diligence investigation far different from any he participated in while in the Wall St. financial world, Danforth tromped through mud and leapt over ditches in the Great Dismal Swamp earlier this month with two representatives from Lyme Forest Fund.

“Although there are only three different letters in the phrase ‘conservation finance’ versus ‘conventional finance’, there is a world of difference in what they do,” Danforth says in marked understatement as he outlines Ecosystem Investment Partners’ preliminary plans to make money with Lyme Forest Fund by restoring the environment.

A \$191- million private-equity timberland fund and a pioneer in economically profitable forest conservation, Lyme Forest Fund maintains working, timbered forests – and not new housing developments – on environmentally sensitive lands, augmenting their financial bottom line by selling easements on the land to conservation organizations.

Lyme partner Peter Stein, appearing at least as practical as philosophical, says that partnering with Ecosystem Investment Partners offers a natural progression in Lyme’s business model. “We’re attracted,” he says, “because we believe these wetland and species-specific markets may eclipse public funding for conservation, offering us better economic returns.”

Under their initial arrangement, Lyme is prepared to invest up to \$25 million on a deal by deal basis. For any given deal, Lyme is prepared to stake up to 90 percent of the capital while Ecosystem Investment Partners contributes the remaining 10 percent along with the intellectual resources to navigate markets new to Lyme. They are under contract to close their first two deals – 1,037 acres in Virginia’s Great Dismal Swamp and 1,206 acres in Delaware forests – within the next four months. The deals offer a prototype of Ecosystem Investment Partners’ business model for profitably investing funds while solving otherwise-intransigent environmental goals.

The Deals

The Great Dismal Swamp’s name sums up much of its history. Since America’s founding father first noted the Great Dismal Swamp’s financial potential, lumber companies harvested its native cypress trees and white cedars so thoroughly that by the 1950s there was no virgin timber left on its 200,000 acres, historic records reveal. So in 1973, in the single largest corporate conservation transaction in the U.S. until that time, the landowner, the Union Camp timber company, donated their ownership in the swamp to the Nature Conservancy. This conservation organization then turned the land over to the U.S. Fish and Wildlife Service to create a wildlife refuge.

Under the Agency’s protection, the land, exploited for two centuries, flourished once again, slowly returning to its natural state. The reforested land now provides home to over 200 species of birds, a variety of plants including the rare log fern and the usual assortment of bats, bobcats and bears that call a forest a home.

But 1,037 acres, a key piece of the refuge, remained privately held, farmed, drained, ditched and inhospitable to wildlife. The state tried for years to acquire the land but was unable to come up with the cash.

This is where Ecosystem Investment Partners comes in. They devised a private strategy to raise the capital needed to obtain and restore the land. An important part of this strategy is that conservation entities such as U.S. Fish and Wildlife, the Nature Conservancy or the State of Virginia will ultimately be able to afford to take over the land. Meanwhile, the partners' investors, Lyme Forest Fund, will have the opportunity to double their money over approximately ten years time.

This scenario sets up a whole new paradigm for preservation. "Environmentalism at its heart," says Davis "is *against* something. DDT, whaling, litter – the simple answer is 'no.' Meanwhile, sustainability, how to produce products and services in a way that is aligned with natural systems, is *for* something. In this new world, where every unit of improvement is worth money, there is suddenly an incentive to conserve. That's why the markets are an important part of the answer."

According to Dilks, Ecosystem Investment Partners will use money from Lyme Timber and other investors to acquire the land and restore it. They plan to then sell restored wetlands as mitigation credits to developers required to compensate for harming wetlands in other locations. Dilks says he expects this will generate significant returns within the ten-year life of the mitigation banks. After that the partners will sell the restored property with restricted development rights to a conservation fund or to the state of Virginia at a lower market price than the land would fetch if it were not under easement. The approach allows conservation entities the time they need to raise funds to

purchase the property, and it provides EIP with a ready exit strategy once restoration is complete. Ecosystem Investment Partners plans to close on the deal within the next 45 days, says Danforth.

In their second deal with Lyme Timber, the partners expect to acquire 1,206 acres of environmentally sensitive land that the Conservation Fund and State of Delaware have long wanted to acquire and restore but could not afford. The land is part of an industrial forest that is seeded like cornfields with pine trees that its owner, a pulp and paper company, clear-cuts every twenty years. To make the deal work, Ecosystem Investment Partners will purchase the property, and then restore a portion of the land as wetlands for sale as wetland mitigation credits. They plan to sell endangered species credits on a separate portion that will be restored and made hospitable for indigenous animals. Finally, a portion of the land will be converted to “sustainable forestry,” letting trees grow for 40-50 years, then cutting them selectively and selling them as high end forest products. “It’s better for investors and better for the wildlife,” Dilks says. “It just takes a more patient owner.”

Recently, Lyme Timber’s Stein and Ecosystem Investment Partners’ Danforth sat on a panel for the Yale Leadership Council at the groundbreaking of a new building for its forestry school in leafy, suburban Connecticut. The subject they were asked to discuss was whether money could be made by doing conservation.

“My talk was short,” Stein says. “I just said ‘yes’.”

Alice Kenny is a prize-winning science writer and a regular contributor to the Ecosystem Marketplace. She may be reached at alkenny@aim.com.



Before: This is the current state of the property under contract with Ecosystem Investment Partners



After: This is a view of the National Wildlife Refuge adjacent to the EIP project site, which shows what that site will look like after restoration.