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Land Trusts Seek Deals During Recession, Prepare for End of Bond Funds

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The past few years have been great for not building things. The Great Recession has particularly devastated developers building on the urban fringe, who found themselves saddled with entitlements for homes that no one would ever buy.

But for a distinct group of non-developers, the so-called Great Recession has been great for business.

The state's 150 land trusts are a diverse lot. But many have escaped the fate of their for-profit counterparts due to a fortunate coincidence. At the very moment when land prices have dropped, state, federal, and even philanthropic funding has generally remained robust.

"For the most part, the speculative values have gone down, so it's actually a better time to be buying than during the craziness of a few years ago," said Brian Leahy, assistant director at the Division of Land Resources at the California Department of Conservation.

"Overall, it's been favorable as long as you have dry powder," said George Yandell, director of real estate for the California chapter of the Nature Conservancy. By that he means, of course, money.

So far, money has flowed smoothly enough during the recession for land trusts large and small around the state to make major acquisitions. For example:

- The Nature Conservancy has, according to Yandell, recently been adding roughly 10,000 to 15,000 acres annually in easements and outright purchases to its statewide total - roughly 400,000 acres.

- The Eastern Sierra Land Trust has acquired roughly 4,000 acres since 2008, more than doubling its total holdings.
- The Sonoma Land Trust recently made one of its biggest acquisitions ever, a 6,000-acre assemblage along the Jenner Headlands, at the mouth of the Russian River.

Others have suffered decreases in donations and bureaucratic impediments.

In the Bay Area, where land prices have scarcely dropped, the economic situation has “drastically reduced (the) ability to secure land,” according to Craig Edgerton, executive director of the Silicon Valley Land Conservancy. Edgerton said that his organization missed out on the chance to purchase 500 acres for \$1.9 million when the state, amid its own budget troubles, put a temporary freeze on the disbursement of bond funds that had already been granted to the organization.

Though they are independent organizations, many land trusts effectively act as conduits for state-sponsored conservation activities. Trusts identify properties with significant ecological resources and willing sellers but often fund the purchase of title or easements with state funds that are earmarked for conservation.

The most robust source of funding in recent years have been bonds issued under Proposition 84, the 2006 voter initiative that approved the sale of \$5.8 billion in bonds for a variety of purposes related to drinking water, flood control, and conservation. Just under \$1 billion in uncommitted funds remain.

The continued availability of those funds has, in some ways, put land trusts in their own economic time warp. “Because of the number of bond acts that were passed over the last 5-10 years, there’s been a carryover of funding,” said Hardy.

Though land trusts are well aware that this pool of money will dry up when the final round of funding is disbursed, many have tried to take advantage of the funds and the deals that have come available over the past few years.

Karen Ferrell-Ingram, executive director of the Eastern Sierra Land Trust said that the “vast majority” of funding for the 4,000 acres her group acquired has come from either Prop. 84 or Prop. 50 funds, much of it disbursed through the newly created Sierra Nevada Conservancy. Prop. 50 is the \$3.4 billion clean water bond passed in 2002. Nonetheless, Ferrell-Ingram said that 5,000-15,000 acres of “high-value resources” remain to be preserved in her region, which is centered on the town of Bishop.

Some of land trusts' most fortuitous acquisitions have come at the expense of would-be developers on the urban fringe. Investors who bought land before the real estate bubble burst have had to unload it at a discount. Those discounts have been 10-15% off peak prices, according to Paul Hardy, executive director of the Feather River Land Trust. That's compared to 60% drops in residential and commercial prices in his area in Plumas County, Hardy said.

"There was a combination of developers and holding companies and real estate investors buying these large ranch properties, many of them rapidly proceeding with entitlements and zoning and subdivision permits," said Hardy. "When the bubble burst there wasn't a market for those kinds of subdivisions."

"We've picked up ranches that were slated for development into everything from suburban-type housing, or large trophy, second-home, hobby ranch types of opportunities," said Yandell.

Hardy even said that some investors have approached him trying to unload their properties. "It's kind of created this super-demand and super-level of interest in working with us," said Hardy. "We used to do a lot of landowner outreach—and now we're doing donor discouragement."

Across the state, however, opposing forces are acting, on the one hand, to create a buyers market for land trusts but, on the other hand, to limit the availability of properties.

Would-be developers who bought rural land, and are carrying debt on it, likely have neither desire nor expertise to put it to agricultural use and therefore may be willing to unload it on to land trusts for a relative bargain.

By contrast, the prospect of building exurban mini-mansions may not be nearly as enticing as that of using rural land for old-fashioned agriculture. Many working farms and ranches show no signs of coming on to the market because, in this economic climate, those activities have remained profitable. And owners who have been in business for years have nearly zero incentive to get out, particularly because grain and beef are currently fetching relatively high prices.

"Many of the ranchers are not overburdened with debt, so they don't have the liquidity needs," said George Yandell. "They're not in a rush to sell....they're making good money."

Those landowners are, in essence, unfazed by market conditions and are likely to sell land only according to their personal inclinations or family situation.

“Probably the main thing that has changed is that there’s not as many potential parties that are interested in selling,” said Darla Guenzler, executive director of the California Council of Land Trusts.

Land prices would likely be lower except that trusts must purchase land according to appraised development value, and those values still persist even if no one actually intends to develop the land.

When those properties do come up, however, they often lead to a scramble. When trusts have funding on-hand, they can jump at those opportunities—or be sorely disappointed.

“It’s not just where you can pick and say, let’s get this in 2012, 2013,” said Ralph Benson, executive director of the Sonoma Land Trust. “It’s all of a sudden there’s a death in a family and a really critical property comes on the market....and you either respond or you’re really not in the game.”

The game, however, is set to change drastically for everyone.

When Prop. 84 funds run out in 2013—without any indication of another bond measure on the horizon—it will be the first time in recent memory that land trusts have not been able to draw from a dedicated pot of state funds. Guenzler said that state capital has been available consistently since 2000.

“California has such a history of having periodically renewed sources of capital, so up until now, it’s been fairly constant,” said Benson. “We’ll miss opportunities. It’s hard to say what they are, but I’m sure it’ll be a setback and there will be some things that are just irreversible.”

Land trust administrators say that a combination of strategic planning for acquisitions and diversified funding sources will be essential for them to ensure that they minimize those irreversible losses. Many trusts say they will rely more heavily on donations, which have remained consistent for many of them.

“It seems like there are people recently fed up with government,” said Hardy. “My own perception is there could be a broader trend and that people are feeling like taking direct action. One way they can take direct action is voting with the dollars for things they care about.”

In order to stretch those dollars as far as possible, land trusts may become increasingly more picky about the properties that they try to acquire.

It has to have some value to our mission: biodiversity, threatened, and of a critical size or adjacent to something making it meaningful," said Yandell. "We have to find those critical projects that are going to make a difference in those large environmental problems that we're facing in California."

Though Guenzler noted that donations have been down at many land trusts, overall she said that Californians are likely to continue supporting the work of land trusts.

"Californians love land," said Guenzler. "They love parks and open spaces... there may be changes and the change in pace in the coming years, but Californians are pretty dedicated to seeing land protected."

Notwithstanding that rosy prediction, Leahy, of the Division of Land Resources, said that the organizations that are facing this future—however uncertain it may be—are far more stable and mature than they were before the current 11-year wave of state funding began.

"Fifteen years ago there were land trusts, but they were more like coffee klatches," said Leahy. "Now we have some very professional land trusts throughout the state and they have become part of the planning process in many areas."

In the absence of state funding, Leahy said that local jurisdictions must make conservation a formal part of their planning and permitting process.

"These farmland easements are valuable planning tools for lots of reasons: open space, food, buffers," said Leahy. Leahy suggested that all counties should consider programs, such as one in Stanislaus County, by which developers who build on farmland are required to pay for the preservation of farmland elsewhere in the jurisdiction.

He also said that the implementation of Senate Bill 375, the regional planning law that requires the creation of Sustainable Communities Strategies, may have implications even for rural land conservation.

"SB 375 is basically trying to get to a land ethic," said Leahy. "And that's what we're about. We're trying to figure out how we instill in the local planners and supervisors an understanding that some land is more valuable as developed land and some land is more valuable as working land."

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