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Investors eye forestry, water opportunities in tough markets

New York, 9 April: US investors have deserted the green investment space, according to analysts and investors speaking at a recent environmental markets conference in New York.

But forestry offset projects are poised to be a major source of investment opportunities amid indications that they will be included in a federal carbon cap-and-trade programme, market participants said, while water projects are set to benefit from major investments from the US economic stimulus package.

“The truth is [the market is] still contracting,” said Hilary Kramer, managing director of Greentech Research in Cambridge, Massachusetts. “It’s a very difficult time.”

This is an unfortunate development because there are numerous businesses and technologies that need a relatively small investment to proceed, Kramer said, speaking at the Wall Street Green Trading Summit in New York on 1 & 2 April.

Wind energy – tipped as the most scalable and the most cost-competitive renewable technology – is a good investment, although it continues to be hobbled by lack of financing, said Rob Romero, portfolio manager for investment advisor Connective Capital Management in Palo Alto, California.

“The US is a great long-term opportunity because it has high wind speeds and nice locations, but certainly project finance is a near-term obstacle,” he said. “China is fantastic for wind right now. They need the power strategically. They have the money to pay for it and they have a very dependable government. They don’t have a Congress that has to debate things. They just make it happen. From an investment perspective, we do look at that as a very attractive opportunity.”

The solar sector probably has the fastest growth potential, but still has a major inventory overhang so the market will be challenging for the next few quarters, Romero said. Because of the supply issues, Connective looks for companies such as Phoenix Solar that have “a nice pipeline of well-funded customers”, he said.

But the fundamentals for the renewable energy sector remain strong and there are signs of a pickup, said Mark Cox, chief executive officer of New Energy Fund in New York. For example, there are two banks competing to finance a \$40 million, 3.5MW solar project in the Mojave Desert. “This is the first crack in credit,” he said. “Whether it is widespread, I don’t know.”

Water projects represent another good investment opportunity, said William Brennan, managing principal of Brennan Investment Partners in Wayne, Pennsylvania, a firm that specialises in analysis of and investing in the water sector. Spending on water infrastructure increased to \$550 billion in 2008, from \$250 billion in 2003, a number that could rise to \$1 trillion by end of 2012 due to predictions of a dramatic decline in water resources over the next decade. “There still is an acceleration of spending in this space,” he said.

Spending will rise 6% to 8% in developed countries and 15% or more in emerging countries – with the US economic stimulus package including \$14 billion for investments in water infrastructure and technology, he added.

Meanwhile, the cap-and-trade proposal issued last week by Congressmen Henry Waxman and Ed Markey, signals that forestry offsets will be included in a federal programme.

Radha Kuppalli, a Washington, DC-based director of New Forests, a forestry investment firm that manages \$150 million in forest assets in the Asia-Pacific area, has met with potential investors over the past several weeks trying to raise funds for forestry projects in Australia, New Zealand and Southeast Asia. “What we’re finding is that there’s been just an evaporation of liquidity and it’s a total buyer’s market for those with capital,” she said. “They’re really seeking hard assets with cash yields.”

Some investors are still seeking out long-term opportunities related to climate change, natural resource and energy usage, and changing consumer preferences around environmental issues, she said. Forest projects fit these investment scenarios because they can address major environmental problems such as climate change, biodiversity loss and water management while generating substantial public and private sector revenue streams, Kuppalli said.

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In the US carbon space, the signals in California, regional and federal programmes are “all pointing in a positive direction”, she said. California has been strengthening its forest protocols to bring more private investment and private landowners into its programme while Waxman-Markey signals forestry credits in the US and abroad will be included. “We really see some significant strides in this area,” Kuppalli said.

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