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Conservation Equity Management

By Bill Briggs

Conservation Equity Management



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They were ensconced on some 1,559 acres of prairie and lakes south of Fort Worth in Johnson County at Mustang Creek Ranch.

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“Looks like something out of *Gone with the Wind*,” said the money man, Kyle Bass, a Dallas

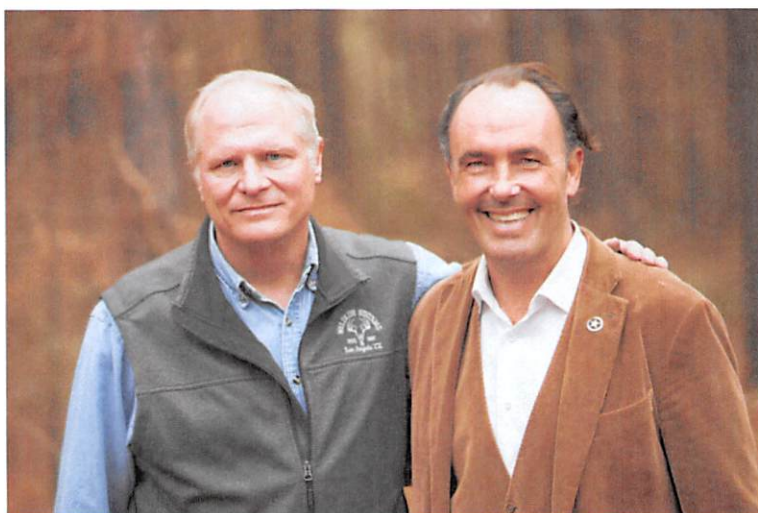




hedge fund manager who made a name for himself (and fortunes for his investors) by correctly calling the subprime mortgage meltdown that triggered the Global Financial Crisis.

“That’s the prettiest pecan tree in the state of Texas,” said the conservationist, Terry Anderson. Anderson specializes in a different type of banking. Over the last decade, he has facilitated the investment of more than \$90 million of private equity into mitigation banks that restore wetlands and wildlife habitats.

Anderson brought that same expertise to Mustang Creek Ranch, but not at Bass’s behest. Instead, his client was a timber company based in the Northeast that is developing the mitigation bank along Mustang Creek.



Conservation Equity’s two partners, Terry Anderson and Kyle Bass, couldn’t be more different in their backgrounds yet more in sync with their goals.



Conservation Equity's two partners, Anderson and Bass, couldn't be more different in their backgrounds yet more in sync with their goals. Two different men with two entirely different backgrounds. Yet as they chatted on that shady porch on that hot summer day, they both sensed a common ground. Each possessed a profound love for land and had a sharp nose for business opportunities. In addition, both were in their early 50s and were in the midst of plotting the triumphant finales of their careers.

Bass's keen instincts were buzzing. As he saw it, there were countless Mustang Creek Ranches to be found the length and breadth of the Lone Star State. He foresaw similar tracts enticing savvy investors who recognized their value as sustainable investments to capture and store carbon, to offer biodiversity offsets, and to provide a hedge against inflation. Bass looked at Anderson and began channeling his concepts into a string of questions.

"Why on Earth would we take a mitigation partner from out of state when we could fund this ourselves?" he asked. He was just getting going. "Why don't we use the goodwill, business acumen, and contacts we've both developed to make rural land here in Texas a proper asset class among institutional investors?"

Texas pride aside, there was another aspect that was equally, if not more appealing. "On top of all that, you want to engage in mitigating the



environmental damage that corporations and industries and highway departments are causing. This is the sweet spot. Why don't we do this for the next decade and have some fun doing it?" Bass asked.

Anderson listened to the pitch and did some quick lifestyle math. He had far exceeded his career aspirations as a biologist. In the not-so-distant past, he had made a half-hearted attempt to retire — and failed. Yet he couldn't help himself. His reply came down to three simple factors.

"If we're going to do something together, we're going to have fun, we're going to work with good people, and we're going to do good projects," he told Bass. A deal was struck, and some fine bourbon was subsequently imbibed.



The brushy South Texas scrub near CEM's Bahia Grande acquisition is one of the last remaining outposts for the ocelot in the US.

In February 2021, they founded **Conservation**



Equity Management (CEM), a private equity firm with offices in Dallas, staffed by Bass and his team at Hayman Capital, and in Nacogdoches, staffed by Anderson and his crew at Conservation Equity Partners and Wildlife Systems. The business model is a simple one: to create value by enhancing ecosystems, mitigating environmental impacts, and developing conservation in Texas and surrounding states.

CEM acquires large tracts, including neglected pieces of forestland and coastline. Bass and Anderson will consider buying listed properties but say they prefer to find parcels that have not been brought to market. After a purchase, CEM applies an array of ecological management tools such as sustainable timber harvesting, for instance, or prescribed burning to add biodiversity and to boost property values and enhance returns.

Another set of opportunities includes clients whose own development projects are negatively impacting an ecosystem. To enable these clients to offset any ecological impact, CEM buys and enhances land in the same watershed. This enables clients to develop valuable mitigation credits. Such a transaction is the essence of mitigation banking and Anderson's specialty.

"Terry is the godfather of Texas mitigation," Bass says. "He has facilitated about one in five mitigation credits issued in Texas and



surrounding states over the last 20 years.

“It’s a marriage made in heaven. I’m a conservationist at heart. I’ve been buying and selling rangeland and ranchland and raising the value of ecosystems for about 15 years. Terry is the best in the world at understanding what needs to be done from a biological and forestry perspective to answer the mitigation demands of the authorities. It sounds like two odd bedfellows, right? Some finance guy in Dallas and a forester and biologist out of Nacogdoches. But I’m telling you, it’s a perfect union,” Bass says.

This dichotomy forms the bedrock of a formidable duo. A Miami native whose father managed the Fontainebleau Hotel, Bass attended Texas Christian University on a diving scholarship and has lived in Texas for decades. He’s still into cliff diving as well as spearfishing. After shorting the subprime market, Bass testified before Congress about the causes of the 2008 financial collapse. In 2005, he founded Dallas-based Hayman Capital and has been its chief investment officer. A fervent critic of the Chinese Communist Party, he is also a member of the Council on Foreign Relations.

Anderson earned a forestry degree at Stephen F. Austin State University in Nacogdoches. He teaches there part-time as an adjunct professor, focusing primarily on habitat management and ecology. Born in Texas, he eschewed football as



a youngster. Fishing and hunting were more his speed. He spent time with local woodsmen in East Texas and devoured books and magazines about Africa, Alaska, and natural resources. He's proud to say he's never played a round of golf. Anderson has helped develop more than 28 wetland mitigation or habitat conservation banks. He plays the banjo – badly, he claims.

When his friends heard he would be partnering with Bass, Anderson admits he got some double takes.

“I am in my East Texas world over here, and they go, ‘Wait, what? What’s your new adventure? Who’s that guy?’ Kyle certainly has had this larger-than-life, interesting career. He’s quite the character. But here’s the thing I discovered: The more he learns about something, the faster he comprehends it, and the quicker the cogs are spinning,” he says.

Anderson will walk Bass through the basics of a mitigation opportunity on, say, 20,000 acres in West Texas. He’ll tell Bass what he expects to happen to that land over the next three to five years, listing the ecological drivers that could turn the property into an investment win.

“Kyle can look at that and go, ‘Got it.’ And he’s like *Rain Man*,” Anderson says. “He can run the numbers. He can figure out, ‘We’re going to need \$10 million in capital to do this. And here’s what’s going to happen at the federal level with

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interest rates and inflation.’ When you put his planet and my planet together, that’s when the magic happens.”

CEM’s first acquisition was Cherokee Ridge River Farm outside of Alto, Texas. Some 3,496 acres of rolling pine ridges and river bottom lands laced with streams, springs, lakes, and oxbow sloughs, it was previously owned by ExxonMobil and used primarily for natural gas extraction and as a hunting retreat. It was never listed for sale. Nestled well behind the Pine Curtain of East Texas, the property features highly productive forestlands and a significant wetlands component.

With giant swaths of old forest, Cherokee Ridge already represents a large carbon sink. CEM plans to conduct selective timber harvesting while planting native herbaceous vegetation and grasses. The goal is to open the canopy and allow additional light to reach the forest floor. This will offer welcome habitat for bobwhite quail, which have largely disappeared from East Texas.

Over the next 24 to 30 months, those extra hours of sunlight will slowly start to transform the lush terrain from its current industrial pine plantation dynamic into something that more closely resembles a South Georgia quail plantation.

“That’s what we do,” Anderson says. “We



manage sunshine. We'll reintroduce shortleaf or longleaf pines" that will blanket stretches of the property in five or ten years, "maybe well after we sell it to the next recreational buyer."

"Somebody else down the line is going to benefit, while both the habitat and the wildlife will also benefit from what we're doing," Anderson says. "But for some recreational user who's soon moving out from California or New York – he doesn't even know it yet — but we're getting his dream land ready."

The fuel for CEM's business launch, the partners say, begins with a series of economic shortcomings now hitting many coastal states. They point to "aggressive tax increases, essential services reductions, and a surge of housing unaffordability" in New York, New Jersey, Connecticut, and California. This is driving an exodus of affluent residents to states like Texas, Tennessee, and Florida.

Between July 1, 2020, and June 30, 2021, Texas's population rose by 310,288 people. According to Texas State Demographer Lloyd Potter, more than half of that increase came from net domestic migration, i.e., people who moved into the state minus people who left Texas.

From 2010 to 2020, Texas experienced a 40 percent increase in the contribution of net domestic migration to the state's overall



population. Domestic migrants from Illinois, New York, and California led that surge — with most of those people (302,978) relocating from California, Potter says. This trend line is expected to continue.

“Texas is a low-tax, business-friendly state, which is a big draw for businesses and employers,” Potter says. “In addition, housing costs in Texas are also lower when compared to other states, although that is beginning to change. Therefore, if the Texas economy continues to grow, then we will likely continue to experience increases in our net domestic migration.”

On the ground, this flow is elevating the price of Texas rangeland and timberland. According to Bass and Anderson, that steep jump indicates that more investors “are coming around to thinking about these larger parcels” as opportunities for biodiversity offsets, carbon capture and storage, as well as a hedge against inflation.

For Bass, the firm’s launch has been underpinned by some basic wisdom: You can make a fortune by trading derivatives. But the sweetest deals may not be strictly about the best returns. Sure, CEM is targeting strong returns on its investments. But it’s focused on the good and lasting benefit that their work will do for the Lone Star State, he says.



In fact, Bass has now returned all of Hayman Capital's investment capital. CEM has become his sole focus.

"This isn't just a shiny object that I'm adding to my portfolio. This is going to be my core business," Bass says.

"It is centering for me to be here in the state of Texas and do what I love doing – partnering with Terry to acquire rural land parcels, fix them up, and raise the values of these ecosystems. I can't wait to see some of our finished products in the next three to five years. It's going to be amazing," he says.

That includes the second acquisition that closed under the CEM umbrella: the Bahia Grande Conservation Parcel, 479 acres in Cameron County just outside of Brownsville. This critical expanse of coastal habitat is bordered by both the Laguna Madre, a hypersaline bay along the Gulf of Mexico, and by the all-important **Laguna Atascosa National Wildlife Refuge**. While the area is teeming with fish, fowl, and other animals, different investors might consider Bahia Grande to be a prime target for high-density commercial and residential development.

CEM's plans for the place are far less intrusive. The firm may do some low — density, green development — less concrete, more grass, Anderson says. But with its wetland features,



Bahia Grande is better suited for ecological enhancements to mitigate environmental impacts elsewhere in the watershed.

One possible improvement: providing a corridor for ocelots to migrate from Mexico northward across portions of highly developed stretches of Cameron County into the Laguna Atascosa Refuge.

“This is the perfect place for us to be,” Anderson points out. “There’s about as much flexibility on that particular property as any property I’ve looked at in the last 20 years.”

“It’s going to be beautiful when we finish it,” adds Bass. “We are going to be building ecological paradises.”

In February, a third property was tentatively added to the CEM portfolio: the western portion of Monarch Ranch along the Devil’s River. The 20,000-acre property sits at the intersection of the Edwards Plateau, the Chihuahuan Desert, and Tamaulipan Thornscrub. According to Charles Davidson with Republic Ranches LLC, the transaction is scheduled to close April 1.

Away from their day jobs, both Bass and Anderson reboot on their own properties. They each spend time and money replenishing their private holdings.

Anderson possesses what he calls “an eclectic blend of properties” — seven ranches ranging



from 100 to 1,000 acres from South Padre Island to West Texas and from Arkansas to Alaska. He uses his land, in part, to teach conservation literacy in outdoor classrooms, showing visitors how to do better things with the environment. He also has a passion for revitalizing wetlands and marshes and for restoring native species, including planting longleaf pine, shortleaf pine, and native grasses.

For Bass, his East Texas ranch offers a welcome refuge from Big D. His recent weekday plans included attending a board meeting at the office, then picking up his 2-year-old son, and motoring around those 5,000 acres. “He and I are going to pal around out there all day tomorrow, just taking the day off. I love that,” he says.

Bass’s excursions to his ranch bring to mind when he first became smitten with Lone Star landscapes – and why he’s now fully devoted to protecting Texas ecosystems.

As a kid, he and his family made an annual Thanksgiving pilgrimage from South Florida to his grandfather’s home in Tyler. He and his sister would dash through the pine needles. Then the family would gather in front of the TV to watch the Dallas Cowboys game while his grandfather would enjoy a stogie. Inside.

These days, Bass climbs onto his Polaris 4-wheeler with his wife and son or with friends



and drives through the meadows to take a look at the deer, hogs, and nesting bald eagles. All of it, he says, takes him back to those long ago Thanksgivings behind the Pine Curtain scurrying through the pine needles with his sister. “I love the conservation aspect of what we’re doing. I love the birds, the bees, the bats,” Bass says. “Being at my ranch really strikes a chord with me. It reminds me of my mom, my granddad, and where they all came from. It reminds me of the best times with family.”

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