

TIMBERLAND INDEX

STRONG LUMBER MARKETS NOT REACHING TIMBERLAND INVESTORS... YET

As the U.S. housing market continues its recovery, wood product markets have been on a tear. Softwood lumber prices reached a record high in the first quarter, with Random Length's Structural Lumber Prices hitting \$502 per thousand board feet in March, a 25% gain over year-ago levels. Similarly, the prices of plywood and oriented strandboard (OSB) reached their highest levels since 2004. Unfortunately, that has not yet translated into improved performance of timberland assets, as tracked by the NCREIF Timberland Property Index. The Index gave a 0.92% total return for the first quarter. For the year ending in March, returns amounted to 3.79%. In comparison, the annualized returns for the index over the past 20 years was 6.41%,

The source for the lackluster performance boils down to essentially two market factors: flat log pricing and/or slow harvest rates. How it transpired differed by region. In the case of the Northwest region, a harsh winter created rail-car and trucking shortages. With sawmills challenged to ship lumber to their customers, harvest rates were capped. Nevertheless, the Northwest was the best performing region among the four, generating a 1.59% return for the quarter and 8.06% for the trailing four quarters.

Timberland owners in the South faced a different set of issues than the Northwest. Several years of low harvest rates has culminated in a large accumulation of timber inventory, which has kept prices low. Amid weak log markets, many timberland owners have chosen to withhold their harvests in hope of better prices in the future. Harvest income suffered as a result. Not surprisingly, the EBITDDA return for the South was a modest 0.69% for the first quarter. Total returns for the South was only 0.75% for the quarter and 2.64% for the year. However, a series of capacity expansions of sawmills and OSB mills across the Southern states bodes well for increased harvest rates that will eat away at the excess inventory and allow for sawlog prices to rise again.

Timberland assets in the Northeast and Lake States would have experienced healthier gains during the quarter if not for a series of widespread winter storms, which hit much of the Northern U.S. during the latter half of the reporting period. Four high-intensity winter storms, which are known in the region as "nor'easters" traveled across large segments of the North in quick succession during late February and March and this continuously disrupted logging, sawmill operations and shipments of lumber. Consequently, the Timberland Property Index tallied first quarter returns of 0.95% and -0.93% for the Northeast and Lake States, respectively. Trailing 12-month performance was 1.89% and -2.24%, respectively, where full-year returns were hurt by closures of several pulp mills in the area.

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TIMBERLAND TOTAL RETURNS

	NPI	Total Timberland	Property Count	South	Northwest	Northeast	Lake States
1st Qtr 2018	1.70	0.92	456	0.75	1.59	0.95	-0.93
4th Qtr 2017	1.80	1.52	464	0.76	3.88	2.74	-2.87
One Year	7.12	3.79		2.64	8.06	1.89	-2.24
Three Years	8.72	3.44		2.92	6.12	-0.67	0.93
Five Years	10.00	6.10		5.32	9.38	1.42	5.78
Ten Years	6.09	4.06		3.10	7.01	1.01	

TIMBERLAND EBITDDA RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
1st Qtr 2018	1.12	0.87	0.69	1.37	1.31	0.34
4th Qtr 2017	1.16	0.74	0.67	1.00	0.50	0.51
One Year	4.66	3.01	2.63	4.16	2.96	1.97
Three Years	4.78	2.70	2.58	3.09	2.55	2.38
Five Years	5.03	2.74	2.53	3.46	2.39	2.02
Ten Years	5.53	2.55	2.32	3.34	1.77	

TIMBERLAND APPRECIATION RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
1st Qtr 2018	0.58	0.05	0.06	0.22	-0.36	-1.27
4th Qtr 2017	0.63	0.78	0.09	2.88	2.24	-3.37
One Year	2.38	0.76	0.01	3.78	-1.05	-4.15
Three Years	3.81	0.73	0.34	2.96	-3.15	-1.43
Five Years	4.79	3.29	2.74	5.77	-0.95	3.70
Ten Years	0.54	1.49	0.77	3.59	-0.74	