

TIMBERLAND INDEX

WEAKNESS IN HOUSING AND EXPORTS KEPT 2019 RETURNS DOWN

The year 2019 was a disappointing one for many U.S. timberland investors. The NCREIF Timberland Property Index showed a -0.04 percent total return for the quarter and 1.30 percent for the year. This is the lowest calendar year performance in a decade, when the Timberland Index registered a -0.15 percent return in 2010. Consequently, 2019 returns were 315 basis points under the 10-year annualized returns of 4.45 percent.

Performance was dragged down, in part, by two factors: a trade-war and a soft housing market. Chinese tariffs on logs and lumber sourced from the U.S. have measurably curtailed American wood exports. In addition, U.S. housing starts underperformed expectations for the first two-thirds of the year. That crimped demand for softwood lumber from the Pacific Northwest and the South. It was only towards the tail end of 2019 that residential construction activity picked up. However, the late uptick in housing starts over the fourth quarter was too late to benefit log markets for 2019. Lumber production was muted across much of the U.S. and timber prices across many markets reflected that. Weak log prices hurt harvest income as well as the market value of timberland assets. Consequently, EBITDDA returns were 0.64 percent for the fourth quarter and 2.68 percent for the year. Appreciation returns were -0.68 percent for the fourth quarter and -1.36 for the year.

Among the four timberland regions that NCREIF tracks, the Northwest was the weakest performing region with a -2.46 percent fourth quarter return and a -2.38 percent annual return. Low lumber prices caused several sawmills in the region to curtail production. On top of that, log and lumber exports to China from Washington and Oregon fell by more than a quarter.

Compared to the Northwest, timberland investments in the South generally fared better. Due to a wave of expansions of sawmills in the region, more than a billion board feet of new lumber capacity has come online in the past year. Rising lumber output kept timber demand stable. That allowed the South segment of the Timberland Index to record a modest, but positive 0.94 percent return for the fourth quarter and 2.97 percent for 2019.

The Northeast was another region impacted by the Chinese tariffs, as China is the leading buyer American hardwood lumber – a key wood product for the Northeast. The Chinese use American hardwood to manufacture cabinets, flooring and furniture which they then export to the world. Due to declining exports, the Northeast experienced a -1.19 percent return for fourth quarter, which dragged down full year returns to -1.97 percent.

The best performing region for 2019 was the Lake States, with Q4 and 2019 returns of 4.20 percent and 6.31 percent, respectively. However, it should be noted that the Timberland Index tracks less than \$700 million in assets in the region (totaling less than 3 percent of the total market value of the Index), so returns can be volatile year to year.

TIMBERLAND TOTAL RETURNS

	NPI	Total Timberland	Property Count	South	Northeast	Northwest	Lake States
4th Qtr 2019	1.55	-0.04	451	0.94	-1.19	-2.46	4.20
3rd Qtr 2019	1.41	0.18	452	0.85	-0.17	-1.30	0.89
One Year	6.42	1.30		2.97	-1.97	-2.38	6.31
Three Years	6.70	2.71		2.18	1.88	4.49	1.16
Five Years	8.25	3.13		2.75	0.68	4.82	2.41
Ten Years	10.18	4.45		3.23	2.08	8.14	4.75

TIMBERLAND EBITDDA RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
4th Qtr 2019	1.10	0.64	0.74	0.48	0.52	0.35
3rd Qtr 2019	1.11	0.67	0.73	0.52	0.56	0.96
One Year	4.52	2.68	2.84	2.52	1.97	2.14
Three Years	4.59	2.90	2.66	3.61	3.01	2.02
Five Years	4.71	2.79	2.65	3.23	2.79	2.27
Ten Years	5.32	2.75	2.47	3.66	2.18	1.45

TIMBERLAND APPRECIATION RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
4th Qtr 2019	0.45	-0.68	0.20	-2.94	-1.71	3.85
3rd Qtr 2019	0.30	-0.49	0.12	-1.83	-0.72	-0.07
One Year	1.84	-1.36	0.12	-4.80	-3.89	4.10
Three Years	2.04	-0.19	-0.48	0.87	-1.10	-0.84
Five Years	3.42	0.34	0.10	1.56	-2.06	0.13
Ten Years	4.67	1.66	0.74	4.36	-0.10	3.26

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