

TIMBERLAND INDEX

TIMBERLAND RETURNS AND DEAL FLOW LOW AS COVID-19 PANDEMIC IMPACTS U.S.

The NCREIF Timberland Property Index (NTPI) reported a total return of 0.11% for the quarter ended March 31, 2020, up from -0.04% in the fourth quarter of 2019 and equal to the return from the first quarter of 2019. EBITDDA and appreciation returns for the quarter were 0.67% and 0.56%, respectively. The average per acre value of \$1,865 has not changed substantively from the same point in 2019, when the reported value was \$1,859.

Total return in the South region was 0.77%, driven in large part by a typically-steady EBITDDA return of 0.70%. US South timberland values for the first quarter, at \$1,813/acre, remained largely unchained from per-acre values for the prior quarter and first quarter 2019 (\$1,810/acre and \$1,814/acre, respectively).

The Northwest region saw a third consecutive quarter of negative returns for the first time in NTPI history, with a first quarter 2020 return of -0.91%. EBITDDA returns of 0.67% for the quarter partially offset appreciation returns of -1.58% as prices for Douglas Fir logs continued to drop from record levels in 2018. Values for Northwest timberland averaged \$2,809/acre at March 31, 2020, down 5.5% from timberland values at the same point in 2019 (\$2,972/acre).

Returns for the Northeast region were negative for the fifth consecutive quarter, at -4.17% for the first quarter of 2020, due to continued market pressure on hardwood logs. This was driven primarily by a 4.44% appreciation return. Timberland market values for the quarter dropped to \$1,187/acre from prior quarter values of \$1,241/acre.

The Lake States region followed a strong fourth quarter 2019 total return of 4.20% with a return of 0.49% for the first quarter of 2020. Timberland values declined slightly during the quarter to \$629/acre, down from \$635/acre at December 31, 2019.

Reported timberland sales transactions for the first quarter of 2020 dipped to \$96 million, the lowest quarterly level in the NTPI since the first quarter of 2016. Sales activity was largely concentrated in the South (\$56 million) and Lake States (\$31 million). Current quarter transaction activity compares to \$758 million in the fourth quarter of 2019 and \$322 million for the same quarter in 2019. The relative lack of deal flow may reflect investor uncertainty in timber markets, which have been adversely impacted by trade restrictions and slower than anticipated housing starts in recent periods, which will be further impacted by the COVID-19 crisis.

Going forward, the full impact of the COVID-19 pandemic on timberland remains uncertain, though the asset class has some inherent strengths. Timber being deemed an essential business helps to mitigate the direct impact of business restrictions. Additionally, pulpwood demand is expected to remain largely unaffected. On the other hand, a sharp decline in the seasonally adjusted annual rate of housing starts from 1,564,000 in February 2020 to 1,216,000 in March 2020 indicates a near-term decline in demand for lumber, which will impact log markets.

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TIMBERLAND TOTAL RETURNS

	NPI	Total Timberland	Property Count	South	Northeast	Northwest	Lake States
1st Qtr 2020	0.71	0.11	451	0.77	-4.17	-0.91	0.49
4th Qtr 2019	1.55	-0.04	451	0.94	-1.19	-2.46	4.20
One Year	5.28	1.30		3.72	-5.66	-3.52	6.06
Three Years	6.41	2.48		2.15	0.17	3.96	1.33
Five Years	7.65	2.80		2.52	-0.67	4.44	1.82
Ten Years	10.17	4.49		3.33	2.18	7.99	4.69

TIMBERLAND EBITDDA RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
1st Qtr 2020	1.10	0.67	0.70	0.67	0.28	0.58
4th Qtr 2019	1.10	0.64	0.74	0.48	0.52	0.35
One Year	4.51	2.64	2.84	2.41	1.64	2.15
Three Years	4.57	2.91	2.68	3.61	2.93	2.06
Five Years	4.68	2.76	2.63	3.19	2.69	2.27
Ten Years	5.26	2.76	2.48	3.66	2.18	1.53

TIMBERLAND APPRECIATION RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
1st Qtr 2020	-0.39	-0.56	0.08	-1.58	-4.44	-0.09
4th Qtr 2019	0.45	-0.68	0.20	-2.94	-1.71	3.85
One Year	0.74	-1.32	0.86	-5.82	-7.21	3.84
Three Years	1.77	-0.41	-0.52	0.35	-2.69	-0.72
Five Years	2.87	0.04	-0.11	1.23	-3.29	-0.45
Ten Years	4.73	1.69	0.84	4.22	0.00	3.11