

TIMBERLAND INDEX

ENDING A TURBULENT 2020

Demand continued to rise for remodeling and housing construction, sustaining strong price gains for wood products markets and fourth quarter income returns. However, strong finished product price gains had low pass-through back to stumpage in the South. In many parts of the South, appraisers have incorporated a flat or weakening outlook on pricing in longer term prices, leading to much of the negative appreciation returns in recent quarters.

The Northwest region saw the strongest income returns in the fourth quarter, likely associated with salvage logging as a result of the fires this past fall. Given the propensity for burnt timber to deteriorate, harvesting should continue to be aggressive throughout winter and spring of 2021. The growing supply of burnt logs slightly dampened log prices in the fourth quarter, but tightened supply from winter weather and improved markets should trend log prices upward during 2021. The strain to logging and production capacity in the Northwest near term, due to loss of machinery, prioritization of salvage logging, and competition for labor from construction and other industries, may open an opportunity for the South to fill any gaps resulting from capacity limitations.

Considering the many assumptions that go into an appraisal, the year-over-year impact to appraised value from the fires was minimal or unnoticeable for most properties across the Northwest, with no apparent impact to regional appreciation returns YoY. The timing of appraisals likely influenced whether the appraisals adjusted for market factors. Given the fires occurred in September and October, appraisals dated prior to year-end may not have fully incorporated fire-related impacts. Externally appraised properties saw an increase in returns YoY, while internally appraised properties saw decreases YoY. In the coming year we may see improved market understanding of impacts including salvage logging, competition for labor, and log supply limitations.

The \$/acre in the fourth quarter decreased in all regions YoY, with the Northwest seeing the largest decrease of 8.68%, followed by Lake States 4.90%, Northeast 4.23%, and South 1.03%. Current market values decreased by 2.3% YoY, while acres increased by 5.5% YoY. The large drop in the PNW is mostly due to negative appreciation, and a couple notable transactions throughout the year that influenced the value and area sold for the year.

Overall, the impact of the COVID-19 pandemic on the timber industry has varied across sectors and evolved over time, given the volatility in demand, supply, and price over the year. Total Timberland Property Index returns for the year decreased 49bp YoY, and returns have mostly trended downward since 2015. The diversity of product markets and supply chains may have provided some resilience to the industry as a whole to help steady performance for 2020. As we look forward and progress towards the end of the pandemic, the integral roles that timberland and wood products have in addressing climate change and a strengthening U.S. economic recovery should benefit the industry.

Clifford Zhu
Performance Analyst
Campbell Global

TIMBERLAND TOTAL RETURNS

	NPI	Total Timberland	Property Count	South	Northeast	Northwest	Lake States
4th Qtr 2020	1.15	0.58	460	0.40	0.48	0.94	1.16
3rd Qtr 2020	0.74	0.04	464	0.09	-0.49	-0.18	0.94
One Year	1.60	0.81		1.61	-4.75	-0.69	2.91
Three Years	4.89	1.77		1.80	-0.35	1.92	2.59
Five Years	5.91	2.30		2.21	-0.87	3.08	2.53
Ten Years	9.00	4.55		3.52	1.78	7.77	4.46

TIMBERLAND EBITDDA RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
4th Qtr 2020	1.01	0.76	0.67	1.12	0.29	0.60
3rd Qtr 2020	1.02	0.58	0.60	0.53	0.37	0.67
One Year	4.20	2.50	2.51	2.76	1.21	2.12
Three Years	4.43	2.81	2.64	3.38	2.69	2.03
Five Years	4.55	2.75	2.62	3.26	2.43	2.20
Ten Years	5.06	2.75	2.48	3.64	2.17	1.67

TIMBERLAND APPRECIATION RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
4th Qtr 2020	0.14	-0.18	-0.26	-0.18	0.19	0.56
3rd Qtr 2020	-0.28	-0.54	-0.52	-0.71	-0.86	0.28
One Year	-2.52	-1.66	-0.89	-3.38	-5.90	0.78
Three Years	0.44	-1.02	-0.82	-1.42	-2.96	0.56
Five Years	1.32	-0.44	-0.40	-0.16	-3.23	0.33
Ten Years	3.80	1.76	1.02	4.03	-0.38	2.75