TIMBERLAND INDEX

TIMBERLAND INVESTMENT OUTLOOK BRIGHTENS

The NCREIF Timberland Property Index posted strong EBITDDA, or cash flow returns, with a small negative appreciation return for the first quarter of 2021. The Total Timberland Property Index posted EBITDDA returns of 0.88%, while the EBITDDA return was 0.81% for the South and 1.18% for the Northwest. Annualized returns show a similar dynamic with a 2.72% EBITDDA return for the Total Timberland Property Index, and 2.63% for the South, and 3.29% for the Northwest for the year ended March 31, 2021. Given the low level of interest rates today, these EBITDDA returns look quite attractive. They also reflect strong domestic demand for logs, which is due to strong housing, repair and remodel markets, and a strengthening export market to China, which adds additional market tension. In the case of the Northwest, salvage harvests following last year's fires have benefitted greatly from this strong demand.

TIMBERLAND TOTAL RETURNS

	NPI	Total Timberland	Property Count	South	Northeast	Northwest	Lake States
1st Qtr 2021	1.72	0.76	467	0.68	1.56	0.76	0.54
4th Qtr 2020	1.15	0.58	460	0.40	0.48	0.94	1.16
One Year	2.61	1.46		1.51	0.95	0.99	2.96
Three Years	4.89	1.71		1.78	-0.14	1.64	3.10
Five Years	5.81	2.51		2.29	-0.07	3.52	2.90
Ten Years	8.82	4.55		3.55	1.72	7.70	4.33

TIMBERLAND EBITDDA RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
1st Qtr 2021	1.04	0.88	0.81	1.18	0.53	0.53
4th Qtr 2020	1.01	0.76	0.67	1.12	0.29	0.60
One Year	4.14	2.72	2.63	3.29	1.47	2.06
Three Years	4.40	2.81	2.68	3.32	2.43	2.09
Five Years	4.52	2.81	2.66	3.40	2.42	2.07
Ten Years	5.01	2.77	2.51	3.61	2.19	1.74

TIMBERLAND APPRECIATION RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
1st Qtr 2021	0.67	-0.12	-0.13	-0.43	1.03	0.01
4th Qtr 2020	0.14	-0.18	-0.26	-0.18	0.19	0.56
One Year	-1.48	-1.23	-1.09	-2.24	-0.51	0.88
Three Years	0.48	-1.08	-0.89	-1.63	-2.51	0.99
Five Years	1.25	-0.30	-0.36	0.12	-2.44	0.82
Ten Years	3.68	1.74	1.02	3.98	-0.46	2.55

Appreciation returns are more pronounced on an annualized basis, and since third-party appraisals are generally conducted annually, the annual results provide a more relevant measure than quarterly. For the year ended March 31, 2021, appreciation returns were negative 1.23% for the Total Timberland Property Index and a negative 1.09% and 2.24% for the South and Northwest Indices, respectively. Appreciation returns are generated from a combination of transactions and appraisals, which makes these returns a little more complicated to explain. Having said that, the causes of the negative returns vary greatly by region. In the South, disappointment in the continued lack of pricing power on behalf of timberland owners in the region is the likely cause of these results. In the Northwest, negative returns are attributable to weak export markets to China, which only recently began to improve. However, the outlook for these markets remains strong with pent up demand for housing likely to continue to play out and trade tensions between China and Russia, and China and Australia likely to continue providing upward pressure on demand from China.

One of the interesting attributes of timberland investments is the historically strong correlation between timberland returns and inflation. As measured by the Consumer Price Index, the last time we had inflation in excess of 5% was 1990, and that was for a single year. The last time we had inflation in excess of 5% for multiple years was 1982. The average monthly change in CPI for 2020 was 1.2% and for the month ending April 2021, the CPI change was 4.2% which potentially indicates the start of an upward trend. There is some anecdotal evidence that capital is flowing into the timberland asset class. This is expected to continue as investors begin to recognize that the poor return performance of the past decade (<5% total return) appears to be changing. As investors look for ways to participate in the improving housing, and repair and remodel markets, we expect timberland to remain an attractive investment and mitigate the inflation risks in our economy, which appear to be growing.

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