

TIMBERLAND INDEX

ROBUST LOG AND RURAL LAND MARKETS DRIVE STRONG RETURN PERFORMANCE

The NCREIF Timberland Property Index reported a total return of 4.56% for the three months ended December 31, 2021, bringing the full year 2021 return to 9.17% for all consolidated US geographies. Total return for the quarter and the full year was driven by strong contributions from both EBITDA and appreciation. The average per acre value for properties reported to the index is \$1,811/acre, an increase of \$75/acre from the \$1,736/acre value as of December 31, 2020. Per acre values are up across the NCREIF Timberland Property Index, with all 4 sub-geographies reporting annual increases in appraised value per acre – US South (\$57/acre - 3.91% annual appreciation return); Northwest (\$178/acre - 9.52% annual appreciation return); Northeast (\$68/acre - 10.26% annual appreciation return), and Lakes States (\$13/acre - 3.62% annual appreciation return).

The one year EBITDA return for all timber properties of 3.45% for 2021 is the highest return in the past decade, and with small exception, was the highest EBITDA return for each sub-geography in the past 15 years. Income return performance in 2021 was the result of strong log markets in core timber basins. Stumpage markets in the second half of 2021 generated some of the best pricing outcomes for timberland owners in the past several years. Demand for wood products is reflective of a strong housing market that is characterized by low supply and high demand, which created demand from lumber producers resulting in upward pressure on large log prices. Total housing starts of 1.7 million in late 2021 represent the highest level since the global financial crisis. Additionally, strong shipping and e-commerce demand in the post-COVID economy has put upward pressure on small logs.

On the timberland market transaction side, activity increased in 2021 both in terms of dollar figures and deal size. For the full year 2021, approximately \$1.5-2 billion of timberland changed ownership, with deep market activity in all US core timber regions. Additionally, 2021 ended with several significant sales processes on-going. The current transaction marketplace is characterized by a competitive and diverse set of buyer types, with TIMOs, public-REITs, ESG oriented buyers and manufacturers all active in the deal space. The expectation is that the closing of several significant timberland transactions in 2022 will provide appraisers with additional comparable sales to consider in future valuations. A robust set of recent comparable sales coupled with strong pricing realizations and an improving price forecast should provide a dual set of tailwinds for comparable sales and income approach valuations.

Looking forward, timberland owners have many reasons to be optimistic. While still in the early stages, growing interest in forest carbon markets suggests future option value may exist for timberland owners. Additionally, strong current pricing in log markets is expected to persist in the near term as demand for logs remains high. Into 2022, timberland owners will likely be focused on central bank policy decisions on interest rates and inflation that could impact timber positions. Taken together, these market developments all point to increased institutional demand for timberland.

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TIMBERLAND TOTAL RETURNS							
	NPI	Total Timberland	Property Count	South	Northeast	Northwest	Lake States
4th Qtr 2021	6.15	4.56	454	3.95	5.31	6.28	3.79
3rd Qtr 2021	5.23	1.89	450	1.04	1.65	4.26	1.94
One Year	17.70	9.17		7.06	13.22	14.42	7.41
Three Years	8.37	3.69		3.85	1.87	3.52	5.53
Five Years	7.75	3.58		3.02	2.66	5.33	2.73
Ten Years	9.32	5.30		4.53	2.31	7.92	5.03

TIMBERLAND EBITDDA RETURNS						
	NPI	Total Timberland	South	Northwest	Northeast	Lake States
4th Qtr 2021	1.03	0.82	0.78	0.87	0.56	1.42
3rd Qtr 2021	1.05	0.91	0.73	1.35	1.25	0.87
One Year	4.24	3.45	3.06	4.57	2.74	3.70
Three Years	4.32	2.88	2.80	3.28	1.97	2.65
Five Years	4.44	2.93	2.71	3.63	2.59	2.37
Ten Years	4.88	2.82	2.59	3.58	2.36	2.01

TIMBERLAND APPRECIATION RETURNS						
	NPI	Total Timberland	South	Northwest	Northeast	Lake States
4th Qtr 2021	5.12	3.74	3.17	5.41	4.75	2.37
3rd Qtr 2021	4.18	0.98	0.31	2.91	0.40	1.06
One Year	13.05	5.58	3.91	9.52	10.26	3.62
Three Years	3.92	0.80	1.03	0.25	-0.09	2.82
Five Years	3.20	0.64	0.30	1.66	0.07	0.36
Ten Years	4.29	2.43	1.91	4.24	-0.05	2.97