

# TIMBERLAND INDEX

## INCOME: TRENDING OR TRANSITORY?

The NCREIF Timberland Property Index reported a total return of 3.21% for the three months ended March 31, 2022, and for the last four quarters the return has been 11.82% for all timberland regions in the U.S. Total return recently has been impacted primarily by strong value appreciation, but the income component has also been picking up.

Prior to 2007 the income component of the Total Timberland Index was consistently above 1% each quarter. It has never been above 1% since. In fact, the average quarterly income return after 2006 has been 0.67%. Interestingly, over the last five quarters this average has been 0.84% with a minimum of 0.79%. This development does not seem to be caused by a change in the “P/E ratio” because average income per acre has also exhibited a similar pattern.

For years, the disconnect between log and lumber prices has been puzzling. After being relatively stable for more than a decade, lumber prices skyrocketed in the spring of 2020, peaked in the spring of 2021, and then gave up most of those gains by August of 2021. During this monumental ascent and descent of lumber prices, log prices remained unresponsive. Plentiful timber supplies and efficient mills kept timber prices suppressed. However, this entrenched narrative is beginning to change. A growing demand for lumber appears to be awakening the log market from its extended hibernation. Since bottoming in August of 2021, lumber prices rose again over the last six months. Despite recent mortgage rate increases, the housing market is still tight, and new home construction is not occurring fast enough to add additional needed supply in the marketplace.

Recent supply constraints are another factor pushing lumber prices higher, including rising tariffs on Canadian lumber and supply chain disruptions in the Pacific Northwest caused by weather and transportation delays. There is also some evidence based on prior planting history that the South is in a temporary decline in sawtimber-age timber. This is likely to rebound.

Given the shortage of homes and these supply-side constraints, lumber demand is expected to remain at historically high levels into the future, which should have a positive impact on sawtimber supply and demand dynamics. Timber pricing is already improving. According to Forest2Market, southern timber surged to a 14-year high during the third quarter of 2021, with stumpage prices up an average of 22% year over year. The lumber industry continues to grow, as manufacturers continue to invest in existing mill expansions and new mill projects at a brisk pace.

Because of rapidly increasing costs of logging, hauling, fertilizer, and other costs, it is too early to celebrate a return to higher timberland income, but hopefully larger macroeconomic factors may be moving in that direction.

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TIMBERLAND TOTAL RETURNS							
	NPI	Total Timberland	Property Count	South	Northeast	Northwest	Lake States
1st Qtr 2022	5.33	3.21	475	2.38	14.58	3.04	5.30
4th Qtr 2021	6.15	4.56	454	3.95	5.31	6.28	3.79
One Year	21.87	11.82		8.86	27.73	17.02	12.49
Three Years	9.60	4.75		4.65	6.75	4.47	7.10
Five Years	8.54	4.08		3.33	5.32	5.83	3.80
Ten Years	9.61	5.60		4.75	3.79	8.17	5.40

TIMBERLAND EBITDDA RETURNS							
	NPI	Total Timberland	South	Northwest	Northeast	Lake States	
1st Qtr 2022	0.99	0.82	0.76	1.00	0.82	0.72	
4th Qtr 2021	1.03	0.82	0.78	0.87	0.56	1.42	
One Year	4.18	3.39	3.01	4.38	3.04	3.89	
Three Years	4.28	2.91	2.83	3.36	2.05	2.70	
Five Years	4.41	2.97	2.74	3.70	2.65	2.42	
Ten Years	4.83	2.81	2.55	3.59	2.40	2.10	

TIMBERLAND APPRECIATION RETURNS							
	NPI	Total Timberland	South	Northwest	Northeast	Lake States	
1st Qtr 2022	4.34	2.39	1.62	2.04	13.75	4.58	
4th Qtr 2021	5.12	3.74	3.17	5.41	4.75	2.37	
One Year	17.16	8.23	5.73	12.23	24.14	8.36	
Three Years	5.16	1.80	1.79	1.10	4.65	4.31	
Five Years	4.00	1.09	0.58	2.08	2.62	1.36	
Ten Years	4.61	2.73	2.16	4.46	1.37	3.25	