

TIMBERLAND INDEX

SOLID RETURNS AMID GROWING ECONOMIC HEADWINDS

Timberland investment as tracked by the NCREIF Timberland Property Index provided a solid performance of 1.87% for the second quarter. Appreciation of forestland assets contributed 1.05% while income generated the remaining 0.82%. These returns rode the tailwinds of one of the best housing markets in years, which led to soaring demand for building products. When combined with strong performance of the previous three quarters, the Timberland Property Index notched a one-year total return of 12.01%, the best one-year performance since the third quarter of 2008.

Despite the gains, the second quarter return is lower than the 4.56% and 3.21% achieved in the fourth quarter of 2021 and first quarter of 2022 respectively. This is a reflection, in part, of the growing economic headwinds facing the wood products industry. Rising interest rates have weakened the demand for homes. Already, June housing starts were 14% below April levels on a seasonally adjusted basis. That, in turn, has helped cause lumber prices to fall by more than half from its peak in March. Weakness in lumber markets has begun to translate to softer timber prices across certain parts of the United States.

Between the four different timberland regions, the Northwest was the lead performer at 2.47% for the second quarter. This is no surprise given that timber prices have accelerated over the past year as limited supplies caused mills in the region to bid up the price of logs. A series of wildfires in recent years have hurt timber availability. Consequently, Log Lines reported that the price of sawlogs in the Northwest in June, despite falling 2.8% for the month, was 19.7% higher than the same period one year ago. For the full year, the Northwest region returned 17.0%.

In contrast to the Northwest, the South returned 1.92% for the second quarter and 9.58% for the year. The lower performance can be attributed, in part, to smaller gains in timber prices. The price of pine sawtimber – the leading log product – rose on average 5.0% on a year-over-year basis in the second quarter as tracked by Timber Mart-South. That pales against double-digit annual price gains observed in the Northwest. In the years following the Global Financial Crisis, reduced harvests across the South caused a build-up of timber stocks. That greater availability of timber in the region has muted some of the price movements for timber.

The remaining other two regions of the index – the Northeast and Lake States – returned 0.18% and -0.21% respectively for the quarter. The flat performance reflects falling demand for printing and writing papers. The loss of pulp mills in both regions has kept demand for small-sized logs known as pulpwood relatively weak. In addition, exports to China have fallen off. China is a significant buyer of hardwoods from the Northeast and Lake States which China uses for its furniture industry. However, global demand for furniture has fallen as consumers switched their spending away from goods and towards travel and services.

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TIMBERLAND TOTAL RETURNS							
	NPI	Total Timberland	Property Count	South	Northeast	Northwest	Lake States
2nd Qtr 2022	3.23	1.87	469	1.92	0.18	2.47	-0.21
1st Qtr 2022	5.33	3.21	475	2.38	14.58	3.04	5.30
One Year	21.45	12.01		9.58	22.88	17.00	11.17
Three Years	10.22	5.03		4.93	6.89	4.92	6.88
Five Years	8.86	4.32		3.62	5.42	6.04	3.64
Ten Years	9.67	5.73		4.91	3.78	8.31	5.32

TIMBERLAND EBITDDA RETURNS						
	NPI	Total Timberland	South	Northwest	Northeast	Lake States
2nd Qtr 2022	0.97	0.82	0.78	1.07	0.64	0.29
1st Qtr 2022	0.99	0.82	0.76	1.00	0.82	0.72
One Year	4.10	3.41	3.09	4.36	3.31	3.34
Three Years	4.23	2.98	2.87	3.48	2.17	2.72
Five Years	4.37	3.01	2.77	3.76	2.70	2.43
Ten Years	4.78	2.83	2.60	3.59	2.43	2.11

TIMBERLAND APPRECIATION RETURNS						
	NPI	Total Timberland	South	Northwest	Northeast	Lake States
2nd Qtr 2022	2.26	1.05	1.13	1.40	-0.45	-0.50
1st Qtr 2022	4.34	2.39	1.62	2.04	13.75	4.58
One Year	16.85	8.38	6.35	12.25	19.09	7.65
Three Years	5.81	2.01	2.02	1.42	4.66	4.09
Five Years	4.35	1.29	0.83	2.22	2.68	1.19
Ten Years	4.72	2.84	2.27	4.60	1.33	3.16