

TIMBERLAND INDEX

U.S. TIMBERLAND CONTINUES TO GENERATE IMPRESSIVE RETURNS IN 2022

The NCREIF Timberland Property Index (“the Index”) has produced strong returns in a time of high inflation and uncertain markets. For the quarter ended September 30, 2022, the Index produced an overall return of 2.38%, with year-to-date returns of 7.64%, and a one-year return of 12.54%. The Index reported on 466 properties with a combined market value of approximately \$24.5 billion and 12.95 million acres. Historically, timberland investment returns have shown a positive correlation with inflation, many institutional investors search for inflation protection for their mixed-asset portfolios, and large-scale timberland properties tend to be a good fit as timber prices traditionally have kept up with or outpaced inflation. Another recent tailwind in favor of the timber asset class is the continued trend towards ESG (Environmental, Social, and Governance) investing. Investing in well-managed commercial forests can provide options for mitigating a firm’s carbon footprint while providing cash flow and overall solid investment returns.

The US Northwest has continued to see historically high timber prices over the last twelve months which have helped to strengthen timber valuations. Western timberland properties have been transacting at high historical values, especially in regions west of the Cascade mountains, appraisal firms have taken note of the strong regional demand, and some have lowered discount rates. Inflation has materially increased logging and hauling expenses which has offset some of the gains from higher timber prices and lower discount rates. The US Northwest Index is reporting a 2.56% return for the quarter, 8.29% year to date, and 15.09% over the past year.

In the US South, the Index returned 2.54% for the quarter, 6.99% year to date, and 11.22% over the past year. Product prices have generally been stable, but appraisers have taken note of the strong market, the increased investment in the regional milling capacity, and heightened competition for quality timberland properties. Some appraisers have compressed discount rates accordingly.

The US Northeast Index returned 1.11% for the quarter, 16.06% year to date, and 22.22% over the past year. Pricing has been strong for high-quality hardwood timber as repair and remodeling, and cabinet and flooring demand followed strong housing starts over the past year. Northeast timberland has also received attention from new buyers interest in the region’s optionality for primary ESG investing.

John Griffith
 Manager, Performance Measurement
 Manulife Investment Management

TIMBERLAND TOTAL RETURNS							
	NPI	Total Timberland	Property Count	South	Northeast	Northwest	Lake States
3rd Qtr 2022	0.57	2.38	466	2.54	1.11	2.56	0.78
2nd Qtr 2022	3.23	1.87	469	1.92	0.18	2.47	-0.21
One Year	16.08	12.54		11.22	22.22	15.09	9.91
Three Years	9.91	5.80		5.51	7.34	6.27	6.84
Five Years	8.62	4.69		4.02	5.97	6.38	3.59
Ten Years	9.48	5.90		5.11	3.82	8.45	5.36

TIMBERLAND EBITDDA RETURNS						
	NPI	Total Timberland	South	Northwest	Northeast	Lake States
3rd Qtr 2022	0.93	0.72	0.65	0.92	0.72	0.81
2nd Qtr 2022	0.97	0.82	0.78	1.07	0.64	0.29
One Year	3.98	3.22	3.01	3.92	2.77	3.27
Three Years	4.17	2.99	2.85	3.61	2.22	2.66
Five Years	4.33	3.00	2.77	3.75	2.70	2.42
Ten Years	4.73	2.85	2.62	3.60	2.49	2.19

TIMBERLAND APPRECIATION RETURNS						
	NPI	Total Timberland	South	Northwest	Northeast	Lake States
3rd Qtr 2022	-0.37	1.66	1.89	1.64	0.39	-0.03
2nd Qtr 2022	2.26	1.05	1.13	1.40	-0.45	-0.50
One Year	11.76	9.11	8.03	10.86	19.08	6.49
Three Years	5.58	2.74	2.61	2.60	5.05	4.10
Five Years	4.15	1.65	1.22	2.57	3.21	1.15
Ten Years	4.59	2.98	2.45	4.73	1.31	3.12