

TIMBERLAND INDEX

INCOME RETURNS STEADY AS APPRECIATION DECLINES, DEAL FLOW INCREASES

The NCREIF Timberland Property Index reported a total return of 0.48% for the three months ended June 30, 2018, approximately half of the total return of 0.92% for the first quarter of 2018. Year to date returns totaled 1.41%, carried entirely by the EBITDDA return, with the year to date appreciation return being negative 0.22%. The average per acre value of \$1,804 has not changed substantively since year-end 2017, and is down a little more than 1% from the June 30, 2017 value of \$1,824.

Total return in the South region was negative 0.35%, the first negative return in seven and a half years. For the quarter, a positive EBITDDA return of 0.58% was offset by a negative appreciation return of 0.94%. Values for southern timberland averaged \$1,758/acre at June 30, 2018, down 1.3% when compared to \$1,782/acre on June 30, 2017. Southern timberlands continue to demonstrate the ability to generate positive EBITDDA return of approximately 60-70 bps per quarter, consistent with the historical rate of approximately 250 bps annually.

Returns in the Northwest region continue to show strength, with total return being 2.49% for the quarter and 9.14% for the 12 months ended June 30, 2018. Values for Northwest timberland averaged \$2,939/acre at June 30, 2018, an increase of 5.8% when compared to \$2,778/acre on June 30, 2017. If the 6-month trend continues, Northwest EBITDDA returns for the full year of 2018 are on pace to exceed the 5 and 10-year average of 341 bps.

The second quarter of 2018 included strong timberland transaction activity, with approximately \$275 million of asset sales reported in the index, with 94 percent of that activity occurring in the South region. Current quarter transaction activity compares to less than \$100 million of sales reported in the second quarter of 2017. Closed transactions exceeding \$640 million for the first 6 months of 2018 should give appraisers adequate comparable sales transactions to incorporate into upcoming timberland appraisals. Significant closed sales in the states of Washington, Alabama, and Georgia demonstrate buyers' appetite for assets in core timber markets. Closed transactions for the first half of 2018 demonstrate a delineation between core timber assets and non-core timber assets. The key differentiator driving timber transaction pricing and success continues to be quality assets in core markets. The current quarter's negative appreciation return may represent pricing adjustments on unsold timberland assets returning to market in 2018 which were unsuccessfully marketed in the past 12-24 months, at price-adjusted levels reflecting current conditions for non-core timber assets.

Looking forward, approximately 4 billion board feet of announced and ongoing North American mill expansion is estimated to increase wood demand by up to 25% in the coming years. Through the first half of 2018, housing starts were approximately 8% higher than one year ago, with projections for 1.3 million total starts in 2018. In the Northwest, log prices remain high on strong demand for logs and alignment exists between log and lumber prices. In contrast, the South's historical correlation between log and lumber prices has eroded, as log supply exceeds current levels of demand. However, with the addition of meaningful capacity in the region, we are forecasting higher production and thus demand and pricing and see many reasons for optimism in United States timber investment.

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TIMBERLAND TOTAL RETURNS

	NPI	Total Timberland	Property Count	South	Northwest	Northeast	Lake States
2nd Qtr 2018	1.81	0.48	453	-0.35	2.49	1.77	0.09
1st Qtr 2018	1.70	0.92	456	0.75	1.59	0.95	-0.93
One Year	7.19	3.57		1.79	9.14	4.02	-2.71
Three Years	8.25	3.43		2.61	6.79	0.18	0.69
Five Years	9.77	6.00		5.14	9.54	1.90	4.68
Ten Years	6.22	4.01		2.94	7.21	1.18	4.78

TIMBERLAND EBITDDA RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
2nd Qtr 2018	1.14	0.75	0.58	1.20	1.05	0.25
1st Qtr 2018	1.12	0.87	0.69	1.37	1.31	0.34
One Year	4.64	3.14	2.62	4.62	3.60	1.97
Three Years	4.74	2.76	2.58	3.30	2.78	2.47
Five Years	4.98	2.75	2.56	3.41	2.55	2.08
Ten Years	5.51	2.58	2.33	3.41	1.85	1.20

TIMBERLAND APPRECIATION RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
2nd Qtr 2018	0.67	-0.27	-0.94	1.29	0.72	-0.17
1st Qtr 2018	0.58	0.05	0.06	0.22	-0.36	-1.27
One Year	2.46	0.41	-0.81	4.37	0.40	-4.61
Three Years	3.40	0.66	0.03	3.41	-2.54	-1.75
Five Years	4.63	3.19	2.53	5.98	-0.64	2.56
Ten Years	0.68	1.41	0.60	3.72	-0.66	3.54