

TIMBERLAND INDEX

CONTINUED GROWTH DESPITE CHALLENGES

In the third quarter of 2018, the NCREIF Total Timberland Index logged its best quarterly performance for the year at 1.02%, with a total return over the last four quarters of 4.00%. The index has now had ten positive quarters in a row. While all four NCREIF reporting regions experienced positive returns for last quarter, the Northwest region has been the best performer for each of the last four quarters. With the exception of paper pricing, economic data relevant to timberland ownership was relatively lackluster during the period.

Housing: According to the U.S. Census Bureau and the U.S. Department of Housing and Urban Development, housing starts for the third quarter of 2018 averaged a seasonally adjusted annual rate of 1.201 million, representing an approximate increase of 4% over the same timeframe a year ago; however, the average for last quarter fell off from what was a stronger previous second quarter when the average was approximately 1.27 million starts. Compared to the rapid rise through late 2016, housing starts appear to have leveled off.

Pulp and Paper: As indicated by Industry Intelligence data dashboard, pulp and paper pricing continued its march up during the third quarter. Paper pricing rose to \$1,105 per ton on the 20lb cut size standard, a price level not experienced since September 2010, and an 18% increase over this time last year. Pulp pricing has reached a new peak level at \$1,430 per ton, continuing an uninterrupted increase in price since December 2016. This represents a 23% increase year over year.

Lumber: The Random Lengths Framing Lumber and Structural Panel Composites for the third quarter of 2018 both realized a significant drop over the quarter, after a steady yearlong increase. At \$431/mbf, the Framing Lumber Composite ended up about 2% over last year, but the average for the third quarter witnessed a 14% drop over last quarter's average pricing (and record high of \$564/mbf in June). The Structural Panel Composite of \$473 per thousand square feet witnessed a similar fate, dropping off 7% year over year, and 12% down from last quarter's average. Sluggish housing numbers for the third quarter most likely drove this pricing downgrade for both product indices.

Weather: The U.S. southeast experienced several significant hurricane events last quarter, with Hurricane Florence inundating the southeastern coast of the U.S. with a deluge of rain, especially in the Carolinas and further north. In addition, a number of other storms contributed to above-average rainfall along the Gulf Coast. The Pacific Northwest suffered through severe droughts and high temperatures, leading to significant wildfire activity. Overall, there were 8.2 million acres of fires, with the Mendocino fire in Northern California burning nearly half a million acres alone.

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TIMBERLAND TOTAL RETURNS

	NPI	Total Timberland	Property Count	South	Northwest	Northeast	Lake States
3rd Qtr 2018	1.67	1.02	461	0.33	2.76	0.43	0.77
2nd Qtr 2018	1.81	0.48	453	-0.35	2.49	1.77	0.09
One Year	7.16	4.00		1.48	11.14	6.00	-2.95
Three Years	7.75	3.52		2.47	7.46	-0.34	0.73
Five Years	9.57	6.00		5.06	9.78	1.92	4.36
Ten Years	6.42	4.01		2.85	7.46	1.36	4.87

TIMBERLAND EBITDDA RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
3rd Qtr 2018	1.11	0.81	0.57	1.33	0.95	0.89
2nd Qtr 2018	1.14	0.75	0.58	1.20	1.05	0.25
One Year	4.62	3.22	2.53	4.99	3.86	2.00
Three Years	4.70	2.80	2.54	3.56	2.59	2.34
Five Years	4.92	2.79	2.57	3.52	2.65	2.13
Ten Years	5.50	2.60	2.34	3.47	1.94	1.27

TIMBERLAND APPRECIATION RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
3rd Qtr 2018	0.56	0.21	-0.25	1.42	-0.52	-0.12
2nd Qtr 2018	0.67	-0.27	-0.94	1.29	0.72	-0.17
One Year	2.46	0.77	-1.03	5.93	2.08	-4.88
Three Years	2.95	0.71	-0.07	3.81	-2.87	-1.58
Five Years	4.49	3.14	2.45	6.10	-0.72	2.19
Ten Years	0.88	1.38	0.51	3.90	-0.57	3.56