

# TIMBERLAND INDEX

## WESTERN TIMBERLAND OUTPERFORMS OTHER U.S. REGIONS IN CALENDAR YEAR 2018

U.S. private timberland investments returned 0.75 percent in the fourth quarter of 2018, which is a 3.21 percent annual total return with data available through December 31. Strong returns in the West offsetting lackluster return performance in the South and Lake States characterized timberland performance for the year. Record high delivered log prices in the West during the first half of 2018 supported healthy gains in both timberland income and capital appreciation. Timberland investments in the South generated average income, yet capital appreciation registered a modest decline as expectations scaled back regarding prospects for southern timber markets despite the growing capital investment in the regions wood processing industry.

### Fourth Quarter Results:

The Timberland Property Index (TPI) in the fourth quarter of 2018 measured performance of 453 properties spread across the U.S. with a total market value of \$23,084 million. Timberland properties in the Index are grouped into four regions and reported separately. The TPI is heavily weighted toward pine and mixed hardwood plantations in the U.S. South, representing 63 percent of the Index by market value at Q4 2018. Twenty-nine percent of the Index by value is western timberland properties, and the remaining 8 percent of the Index value is split between high-value hardwoods and mixed softwood/hardwood timberlands in the Northeast (5 percent), the Lake States (3 percent), with less than one percent of the Index reflecting timberland outside of the four main regions.

Fourth quarter net operating income (EBITDDA) returns of 0.77 percent for U.S. timberland is a slight increase (3 bps) from fourth quarter of 2017. Regionally, net operating income in the U.S. South at 0.70 percent is slightly up from fourth quarter 2017 (3 bps), whereas EBITDDA on Northeast timberland investments at 1.53 percent is 103 bps above fourth quarter last year. Net operating incomes in the U.S. West, at 0.90 percent, and in the Lake States, at 0.33 fourth quarter were both declines from EBITDDA returns in the fourth quarter of 2017.

### Calendar Year Results:

Net operating income (EBITDDA) returns of 3.24 percent for U.S. timberland in 2018 is an improvement from last year's 2.77 percent and the highest annual income return reported for U.S. timberland since 2006. Timberland properties included within the NCREIF Timberland Index are third party appraised on an annual basis to determine market value. For calendar year 2018, the market value of U.S. timberland fell -0.03 percent from 2017 values. The nearly flat U.S. timberland appreciation rate in 2018 masked significant regional differences, with strong performance in the West and actual declines in the South and Lake States.

The dominant position of southern timberland in the Index, combined with the South's relatively weak returns, pulled down the overall U.S. return performance in 2018. Western timberland in 2018 delivered a solid 9.19 total return, split fairly evenly between income and capital appreciation. Southern timberland returned a 0.84 percent total return, with income at 2.57 percent and a capital return of -1.69 percent for the year, reflecting lower appraised values. Western timberland total returns increased 216 basis points compared to last year, whereas southern timberland total returns ratcheted down by 190 basis points from last year's performance, due to a combination of both lower income and capital appreciation.

### Western Timberland Outperforms other U.S. Regions in Calendar Year 2018

Timberland total returns in the Lakes States, at -1.31 percent, was a slight improvement over 2017 returns of -1.50 percent. In 2018, operating income in the Lake States was off slightly from 2017, while the 2018 decline in capital appreciation was a bit more moderate than in the previous year. Northeast timberland performance in 2018 at 5.99 percent is 421 bps above 2017, with both income (4.92 percent) and appreciation (1.03 percent) showing solid improvements over 2017.

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### TIMBERLAND TOTAL RETURNS

	NPI	Total Timberland	Property Count	South	Northwest	Northeast	Lake States
4th Qtr 2018	1.35	0.97	453	0.12	2.82	2.72	-1.22
3rd Qtr 2018	1.67	1.02	461	0.33	2.76	0.43	0.77
One Year	6.70	3.44		0.84	10.01	5.99	-1.31
Three Years	7.21	3.22		2.16	6.54	0.84	1.18
Five Years	9.32	4.98		4.14	7.86	2.81	3.42
Ten Years	7.49	3.83		2.47	7.75	1.75	4.28

### TIMBERLAND EBITDDA RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
4th Qtr 2018	1.11	0.77	0.70	0.90	1.53	0.33
3rd Qtr 2018	1.11	0.81	0.57	1.33	0.95	0.89
One Year	4.56	3.25	2.57	4.89	4.92	1.83
Three Years	4.67	2.86	2.58	3.67	2.99	2.25
Five Years	4.88	2.83	2.60	3.52	2.85	2.14
Ten Years	5.48	2.63	2.36	3.52	2.05	1.25

### TIMBERLAND APPRECIATION RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
4th Qtr 2018	0.25	0.20	-0.58	1.92	1.19	-1.56
3rd Qtr 2018	0.56	0.21	-0.25	1.42	-0.52	-0.12
One Year	2.07	0.19	-1.69	4.94	1.03	-3.09
Three Years	2.45	0.35	-0.41	2.80	-2.10	-1.05
Five Years	4.29	2.11	1.51	4.24	-0.04	1.25
Ten Years	1.92	1.18	0.12	4.13	-0.29	2.99