



# Western Timberland Market Trends

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Natural Resource Consultants Since 1921

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1921-2011

# Objectives

- Review current state of timberland market
- Trends in timberland transaction prices versus valuations and appraisals
- Expectations for 2011 and beyond

# Recession Impacts

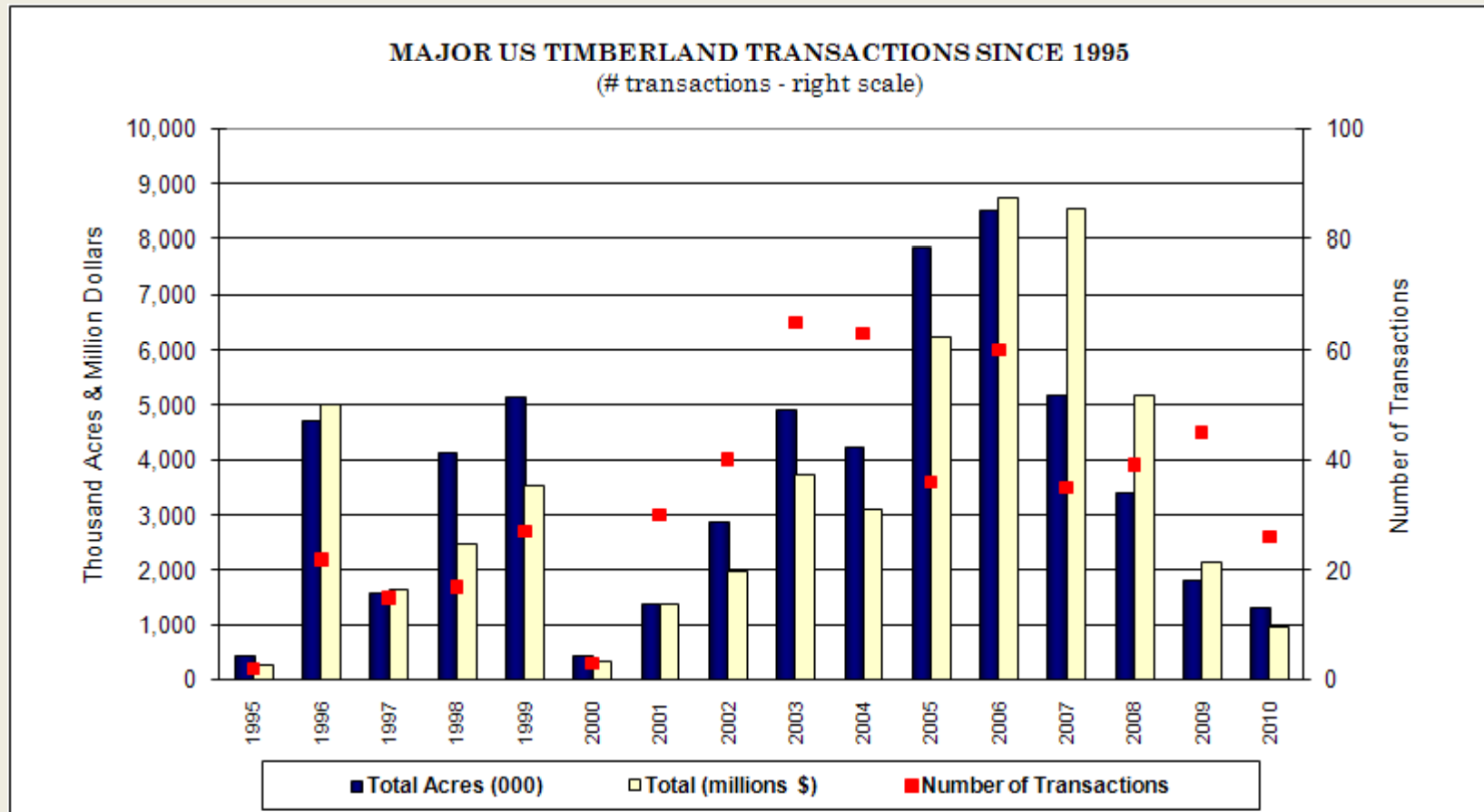
- Assuming 2007 was a 'normal' year...
  - Cumulative reduction in Oregon & Washington harvest 2008-2010 has been 4.9 Billion Bd.Ft.
  - Equals 70% of the 7.0 Bbf harvest in 2007
  - Lost value of \$4.6 Billion (delivered basis)
    - \$2.5 Billion due to reduced volume harvested
    - \$2.1 Billion due to lower log prices



Given this huge loss in income, what's happened to timberland values?



# Timberland Market at 10-Yr Low



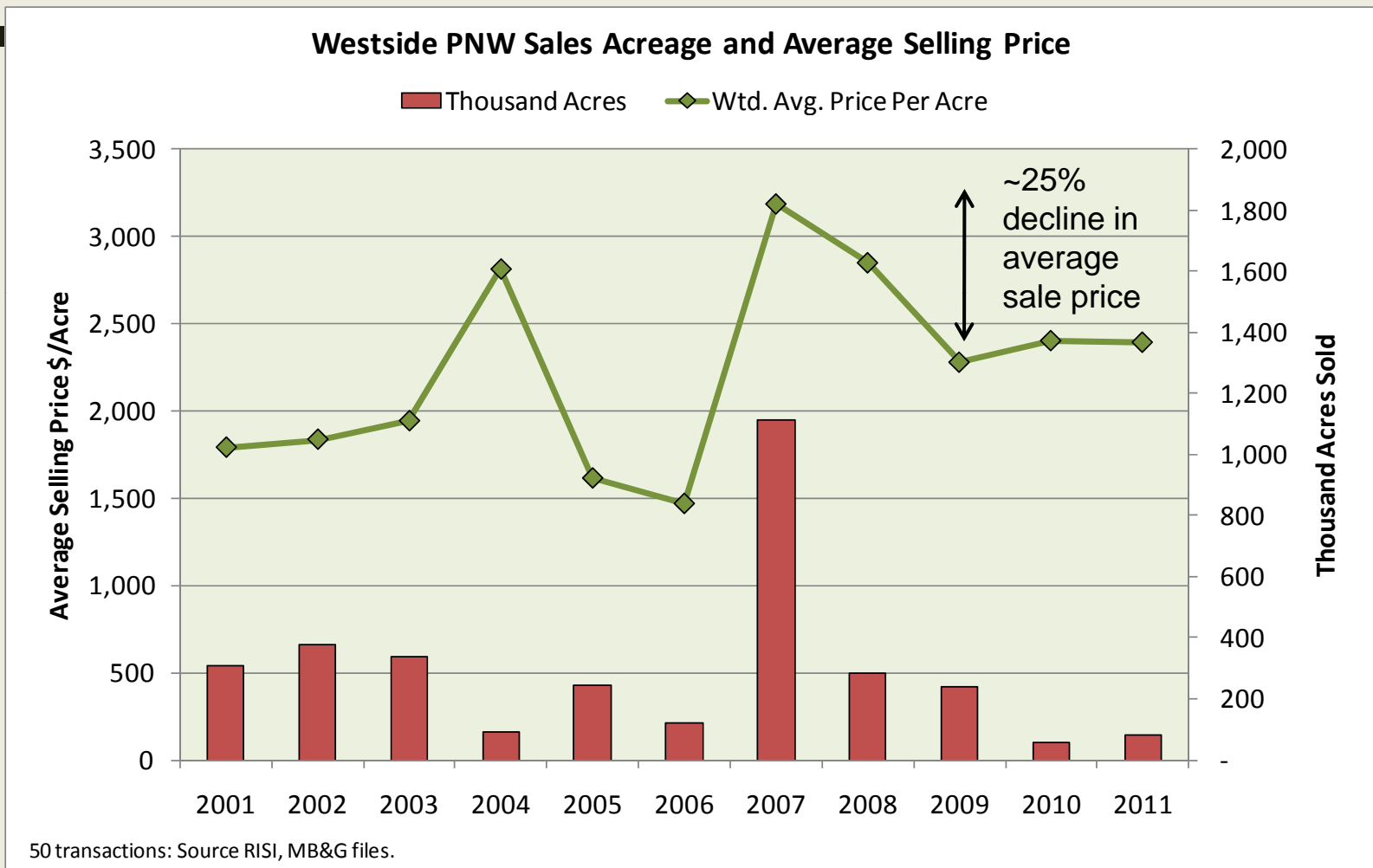
Source: RISI



# PNW Timberland Sales

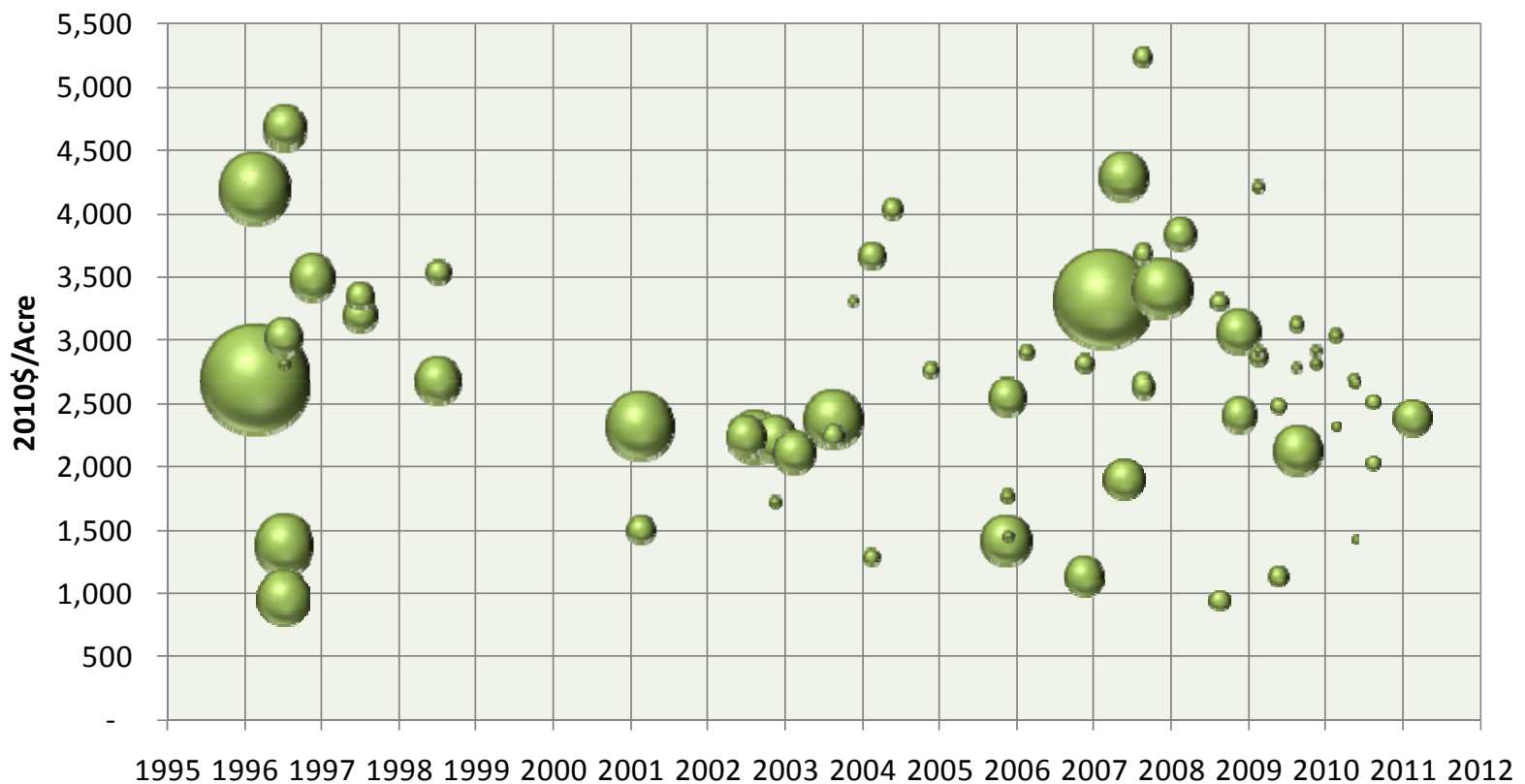
Year	Date	Seller	Buyer	Sale Name	State	SubRegion	Acres (000)	Price (MM \$)	Per Acre (\$)
<b>2009</b>	Jan	Hancock Timber	Regions Morgan Keegan	Scappoose	OR	NW OR	8.0	33.0	4,150
	Mar	Rosboro	Forestry Investment Assoc.	Price Creek	OR	S Valley	6.4	18.3	2,865
	Mar	Hancock Timber	The Campbell Group	Chinook	WA	SW WA	18.5	52.0	2,818
	Jun	Weyerhaeuser	Forestry Investment Assoc.	South Bend	WA	SW WA	14.1	34.4	2,443
	Aug	Weyerhaeuser	The Campbell Group	North Coast	OR	NW OR	140.7	295.2	2,097
	Sep	Hancock	Conservation Forestry	White River	WA	Puget Snd	5.1	14.1	2,737
	Sep	Rosboro	Forestry Investment Assoc.	Rock Creek	OR	S Valley	11.4	35.0	3,071
	Oct	Green Diamond	Olympic Resource Mgt.	Rockaway	OR	OR Coast	6.4	18.3	2,861
	Dec	Stimson	Hancock Timber	NW Oregon	OR	NW OR	7.3	20.1	2,766
	TOTAL/AVERAGE							217.8	520.3
<b>2010</b>	Jan	Roseburg	Forestry Investment Assoc.	North Umpqua	OR	S Valley	9.5	28.7	3,036
	Mar	Rosboro	Conf Tribes of the Siletz	Lake Tahkenitch	OR	OR Coast	6.5	15.1	2,326
	Jun	GMO RR	The Campbell Group	Startup/Haystack	WA	NW WA	9.7	26.0	2,676
	Jun	Weyerhaeuser	St Helens Noble Farms LLC	Shultz Creek	WA	SW WA	5.1	7.3	1,423
	Aug	Rayonier/Terrapointe	Olympic Resource Mgt.	Riffe Lake	WA	Puget Snd	12.8	26.0	2,038
	Aug	Weyerhaeuser	Olympic Resource Mgt.	Copper Creek	OR	N Valley	12.8	32.1	2,516
	TOTAL/AVERAGE							56.3	135.2
<b>2011</b>	Feb	Weyerhaeuser	Hancock Timber	Aberdeen	WA	WA Coast	81.5	195.0	2,393

# Westside PNW Sales



# Another View of Sales

**Timberland Sales in W. Oregon & Washington, 1996 - 2011, in 2010 \$'s**  
Sales > 5,000 acres, size of bubble is proportional to sale acreage





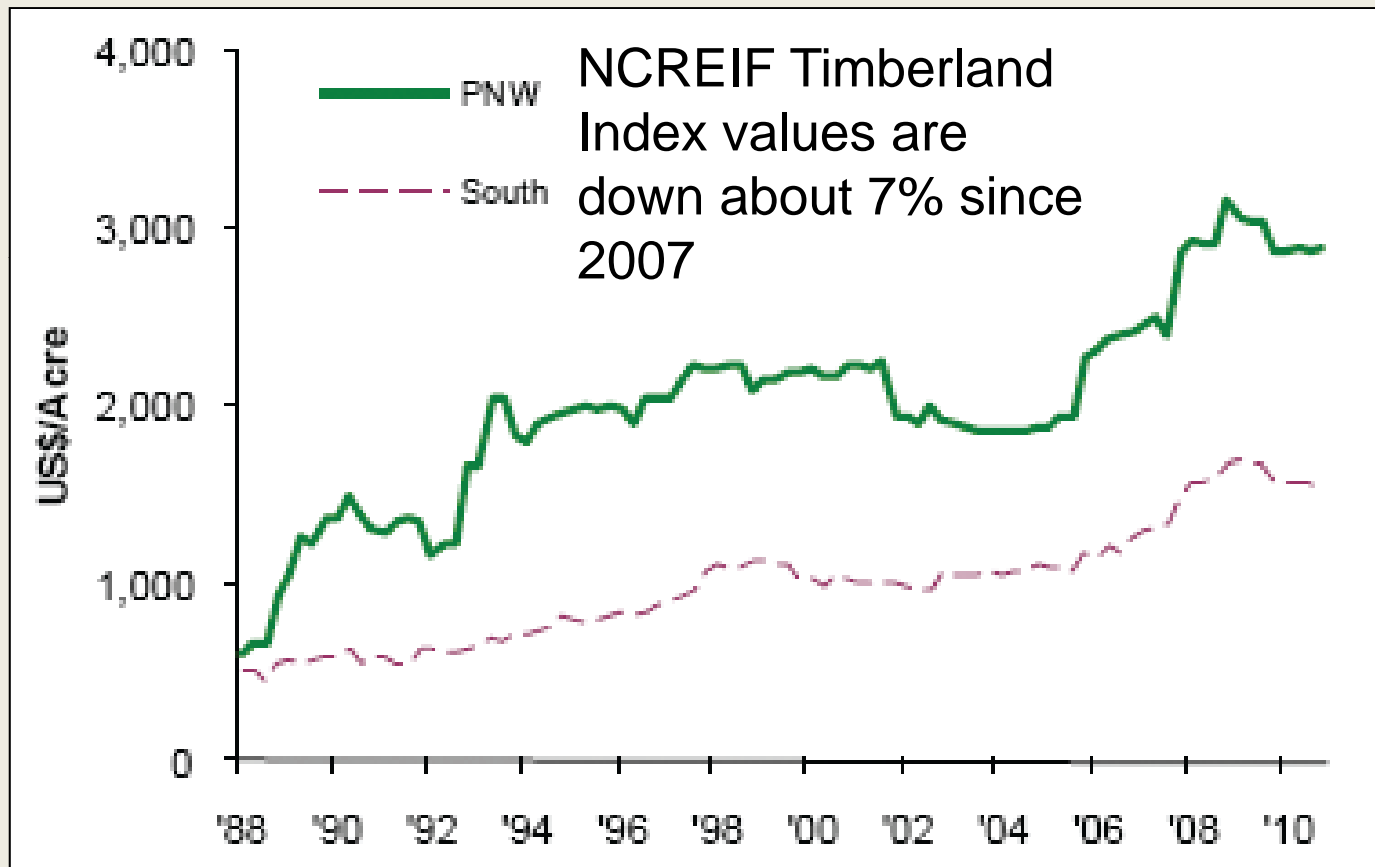
So timberland values are down 25%?

NO

# NCREIF Timberland Index

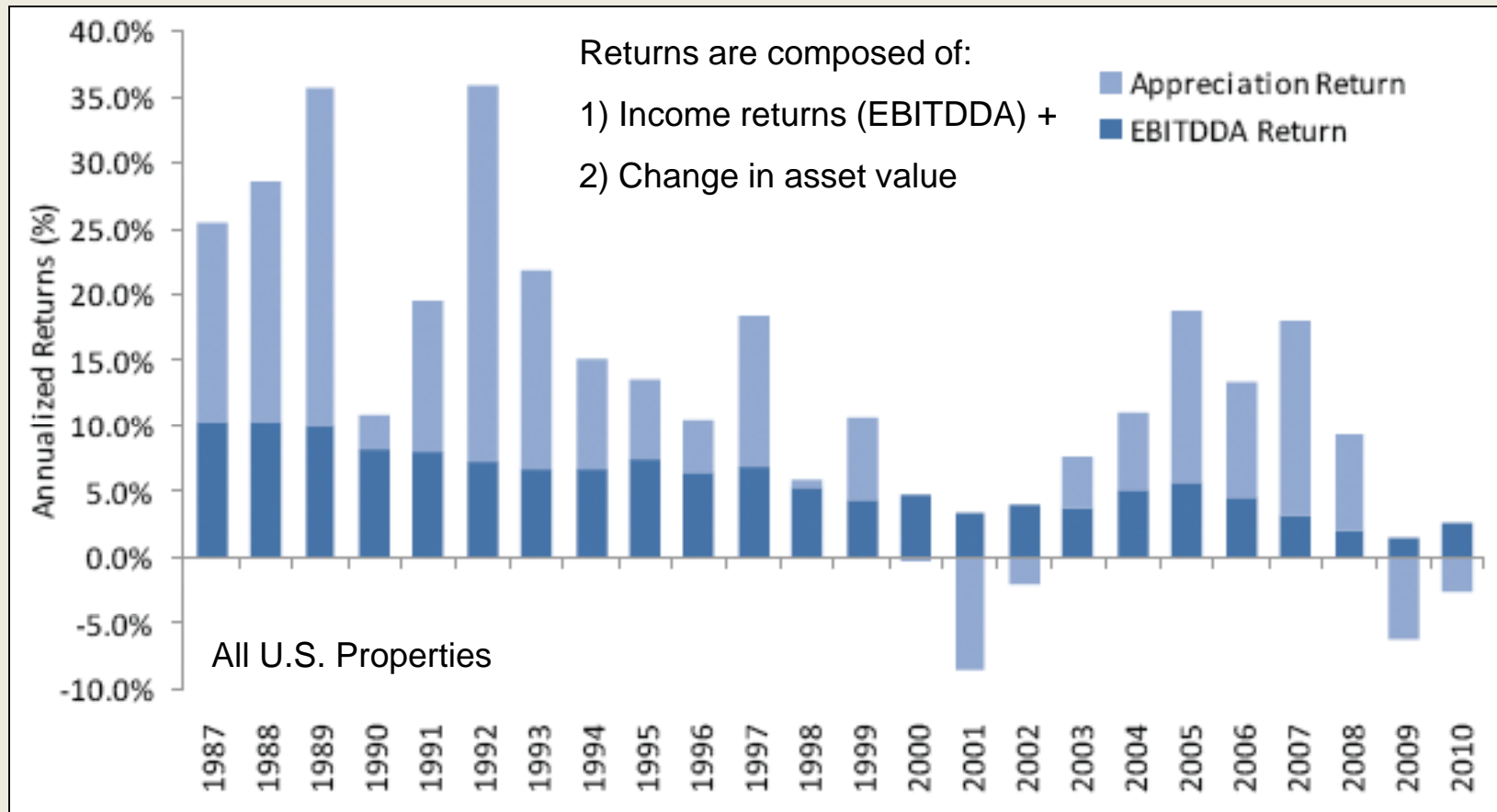
- Product of the National Council of Real Estate Investment Fiduciaries
- Nationwide index of investment grade timberland properties designed as a benchmark for measuring financial returns
- Quarterly returns since 1993
- As of the fourth quarter 2010, there were 384 properties or 13.9 million acres with a market value of \$23.7 billion in the index.

# NCREIF Timberland Index



Source: Brookfield Asset Management

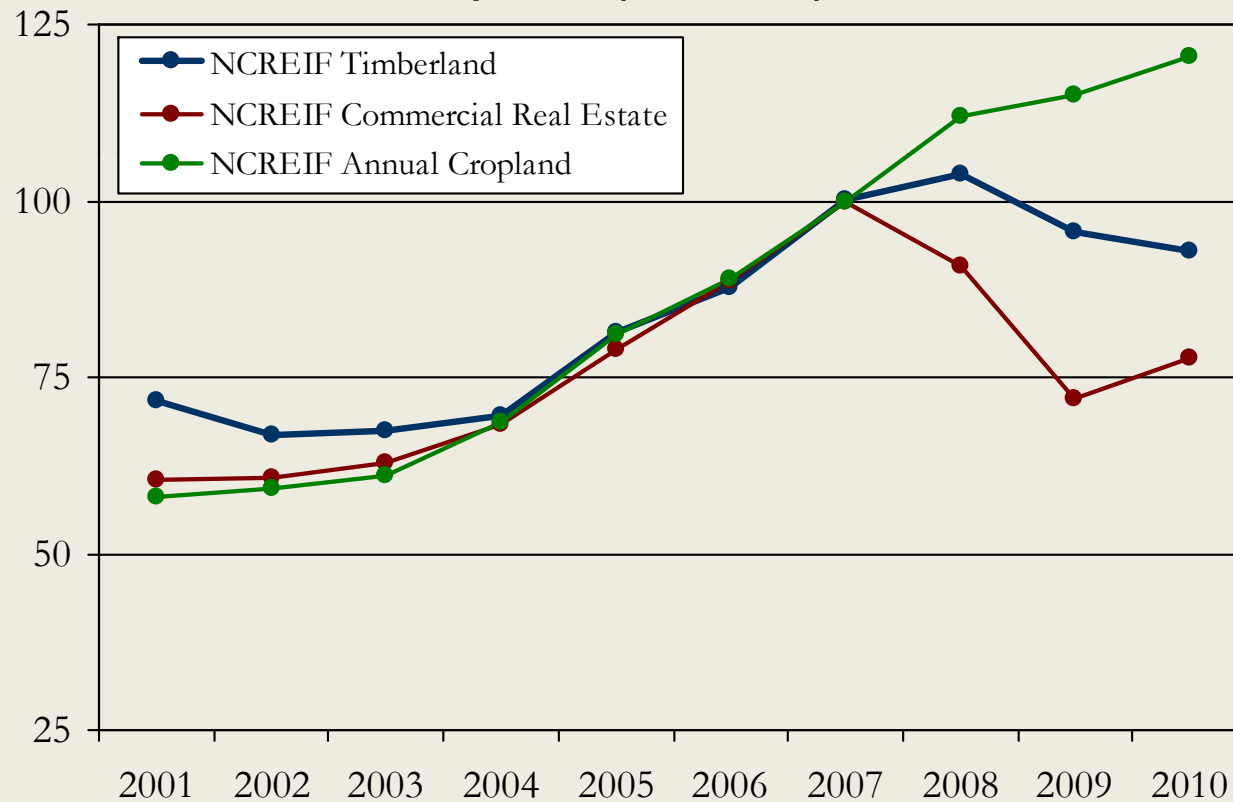
# NCREIF Timberland Index



Source: Brookfield Asset Management

# US timberland, CRE, and cropland values diverged after 2007

Reported Values for US Timberland, Cropland, and Commercial Properties (2007 = 100)





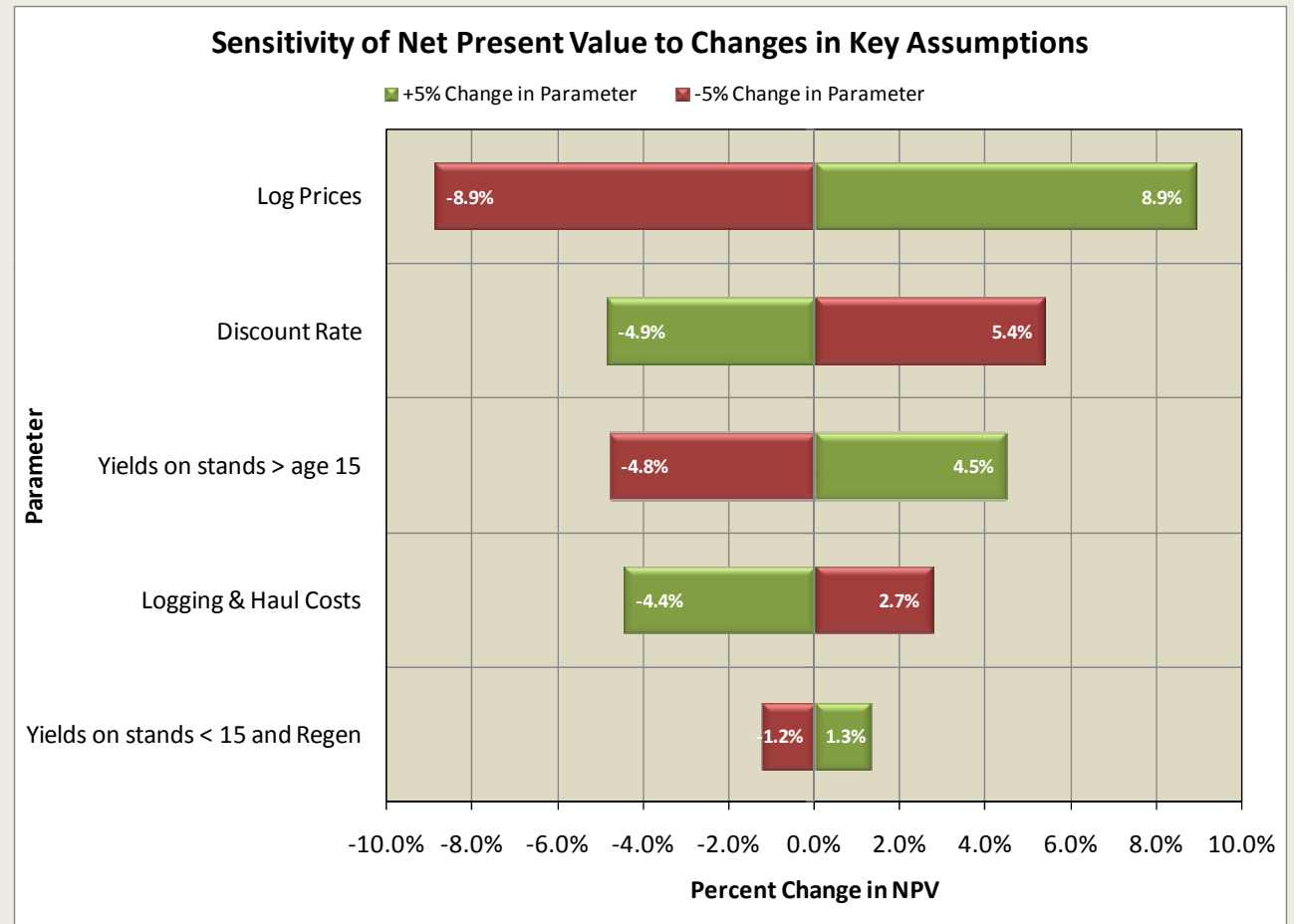
# Western Timberland Appraisals

- Tend to rely on Income Approach (DCF) more than Sales Comparison Approach
  - More sources of variability between properties makes comparisons challenging
  - Fewer transactions to compare
  - Alternative land uses less of a valuation issue
  - Timber production fundamentals drive values



# Key Factors Affecting DCF Valuations

- Log price projections
- Discount rate
- Near-term timber yields
- Production costs



# Key Factors Affecting DCF Valuations

- At current discount rates, cash flows in the first 5 years represent 15-30% of the NPV
  - Effect of short-term log market fluctuations are muted by long-term nature of DCF valuation
  - Especially because deferred harvest volume can be stored on stump and will continue to grow
- This explains why timberland has held value so well over the past 3 years



What can we expect going forward?

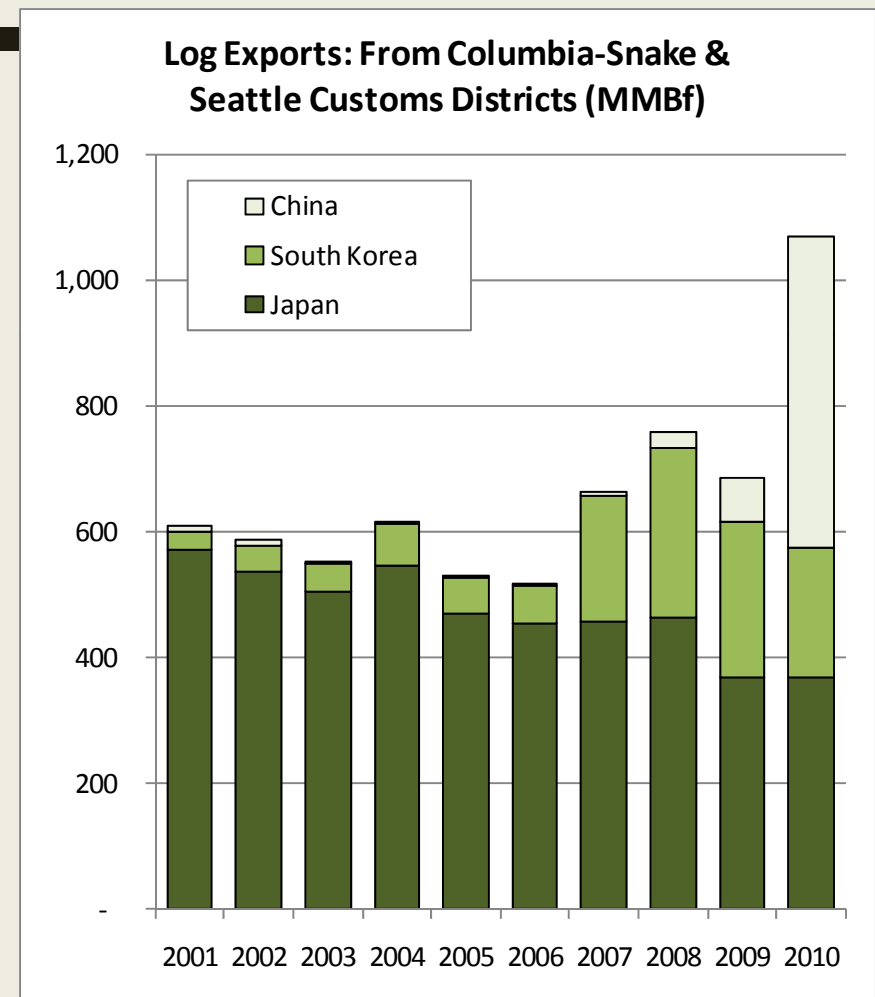
# Log Market Drivers, 2010

- Log exports to China up 600%
- Lumber production showing signs of life
  - Western lumber production up 9.2% in 2010, compared to 3.9% in the South
  - Spurred by export demand
- Lesson of 2010 is that western timberland owners benefit from access to export markets
- Downside is more misery for domestic mills



# China: Market Driver of 2010

- Total export volume from OR & WA of 1.1 Bbf with 500 MMbf to China
- Primarily domestic grade whitewoods
- More recently pushing up Doug-fir prices
- Lumber exports from U.S. finally ramping up



# China: Market Driver of 2010

- Export facilities added
  - Port Angeles & Grays Harbor (WA)
  - Astoria & Coos Bay (OR)
  - Eureka (CA)
- Export logs being collected along Columbia River
- Ripple effect on log prices throughout the region

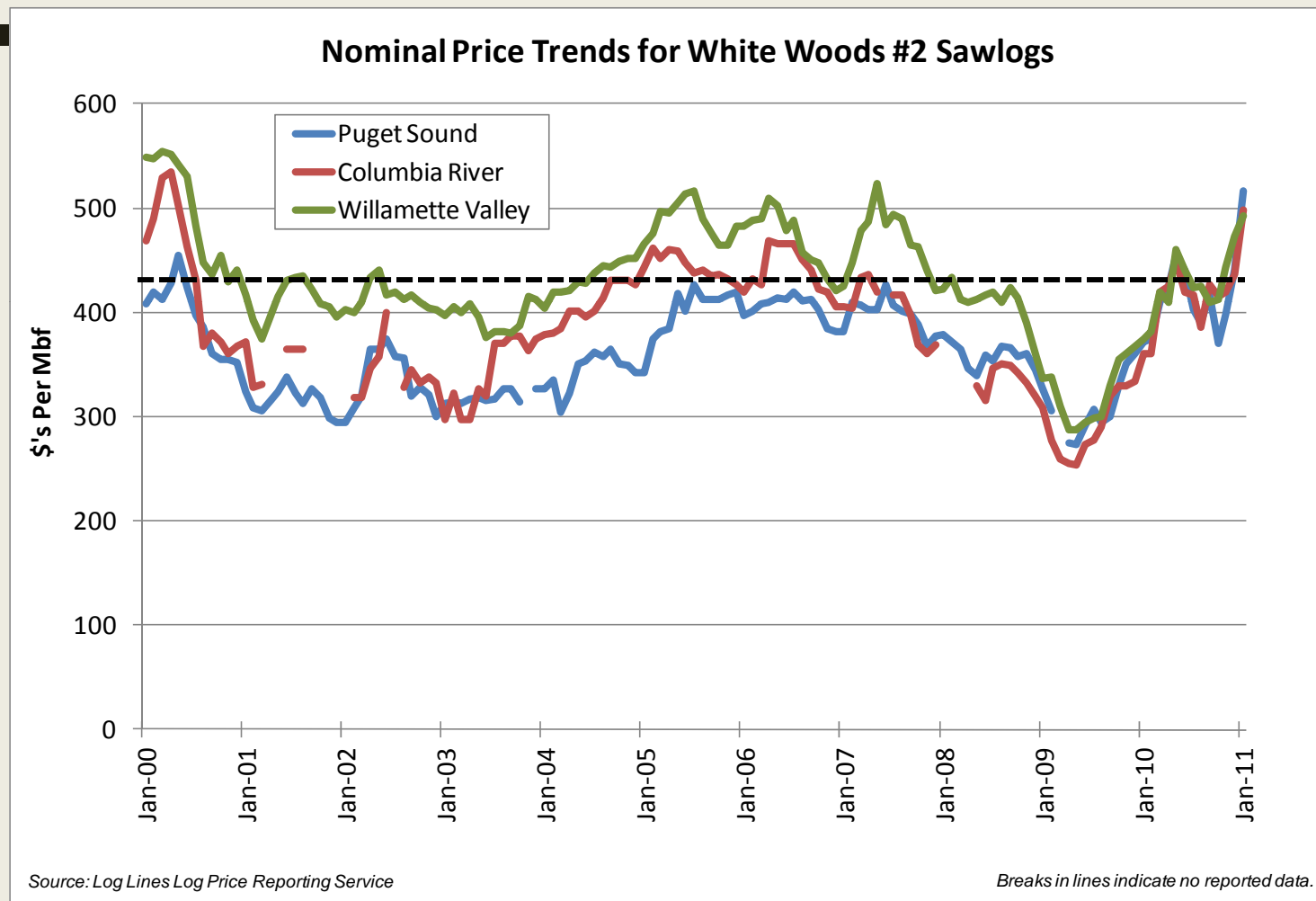


# 2011

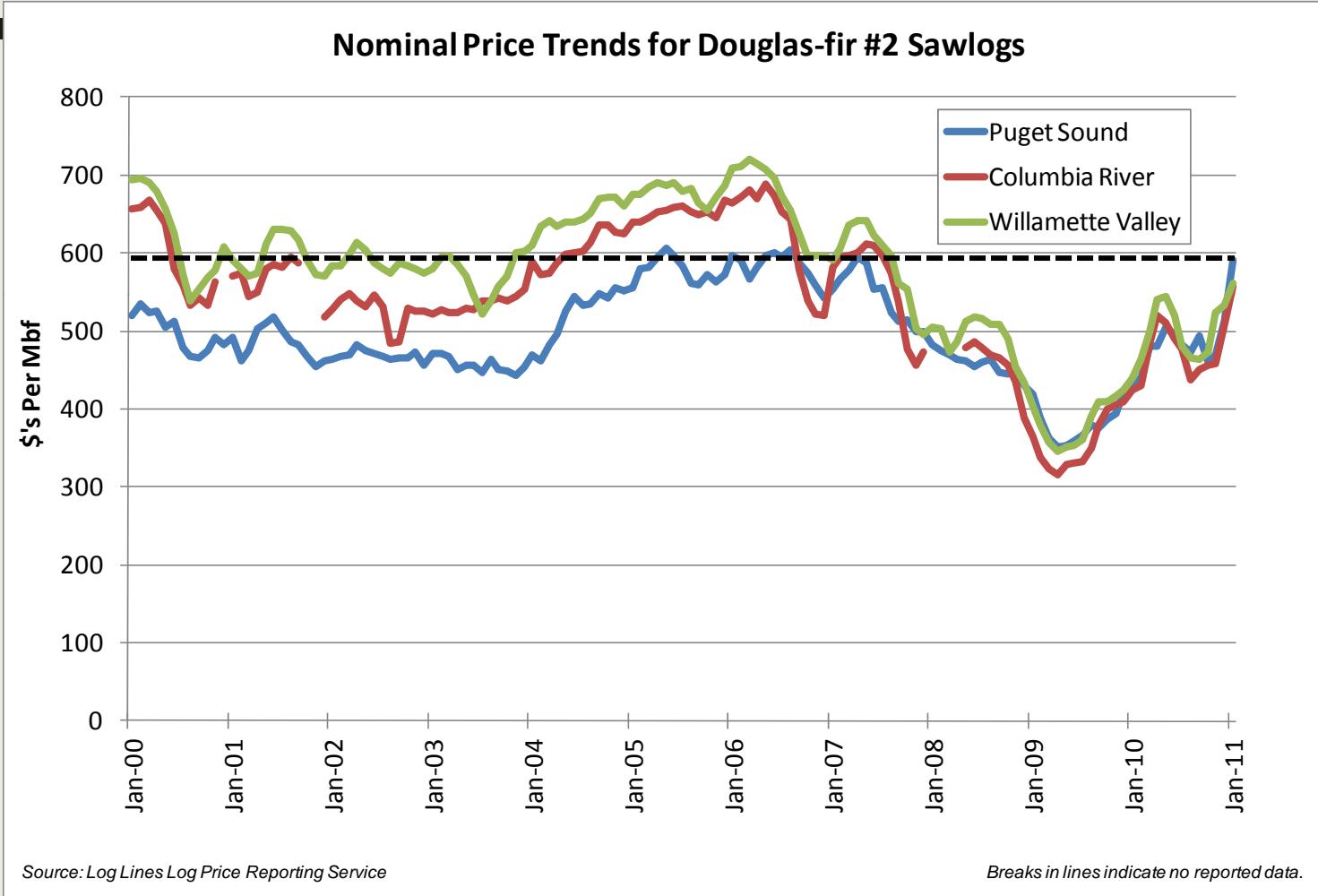
- Log prices have recovered sooner and stronger than expected just 6 months ago
- Whitewoods well above trend prices
- Appears to be sustainable indefinitely
  - China
  - Northern Japan reconstruction



# Hemlock Prices



# Douglas-fir Prices





# Conclusions

- Probably have moved beyond the low point in timberland prices and sales pace
- Estimated \$1 – 3 billion “on the sidelines”
  - Lots of demand for deals
- A few sales are in the pipeline
- Buy/sell gap will close
  - Sellers have good reason to hold firm on prices
  - Buyers will have more reason to give ground

Questions?