
The Outlook for Timber Markets

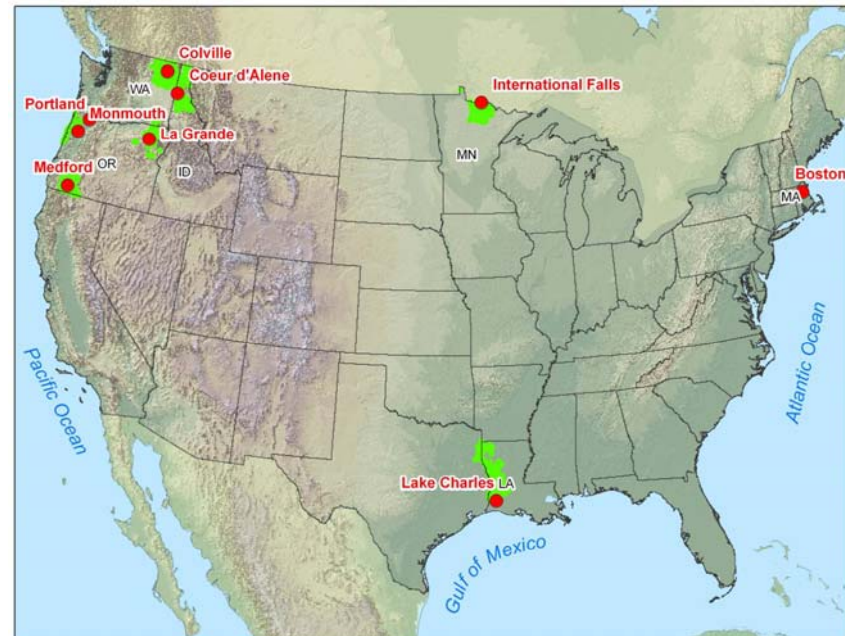
Keith Balter
Senior Economist

Western Forest Economists 43rd Meeting
May 6, 2008



Forest Capital Partners

- Private Forest Landowner
- SFI® Certified
- Founded 2000
- 2.1 Million Acres
- Forests: OR, WA, ID, MN, LA, TX
- HQ: Portland, Boston
- Long-Term Focus
- Pure Forest Landowner



No Shortage of Major Challenges

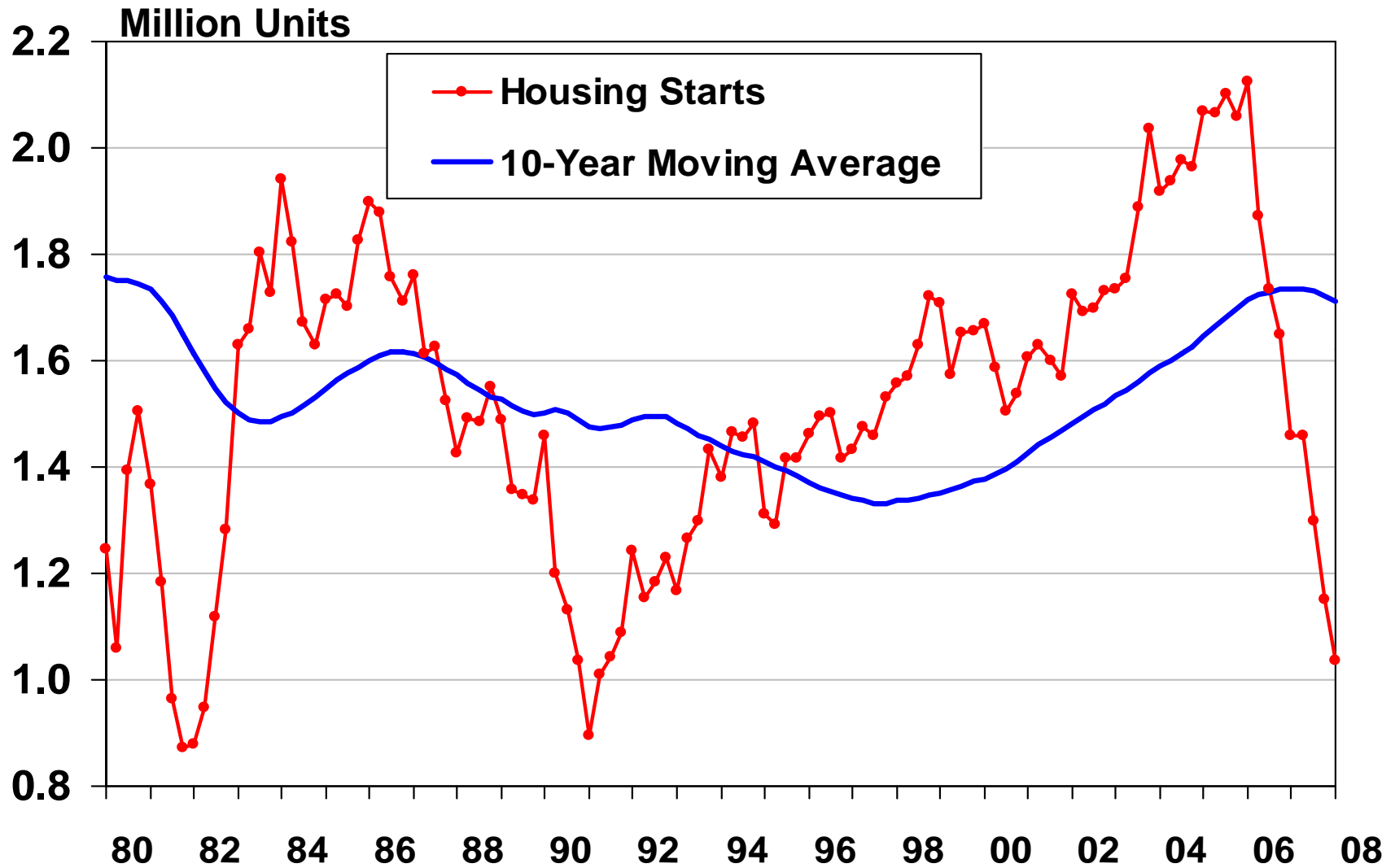
- Collapse in Housing, Weakening Economy and a Newly Restricted Consumer Undercut Demand for Wood Products
- Pulp and Paper Demand Is Vulnerable to Economic Slowdown and Changing Use Patterns
- Soaring Energy Prices Boost Logging and Haul Costs, Pushing Down Stumpage
- Real Estate/HBU Markets Impacted by Tighter Credit Conditions and Negative Wealth Effect
- Is There Any Light at the End of the Tunnel?

Housing Markets: The Bubble Bursts

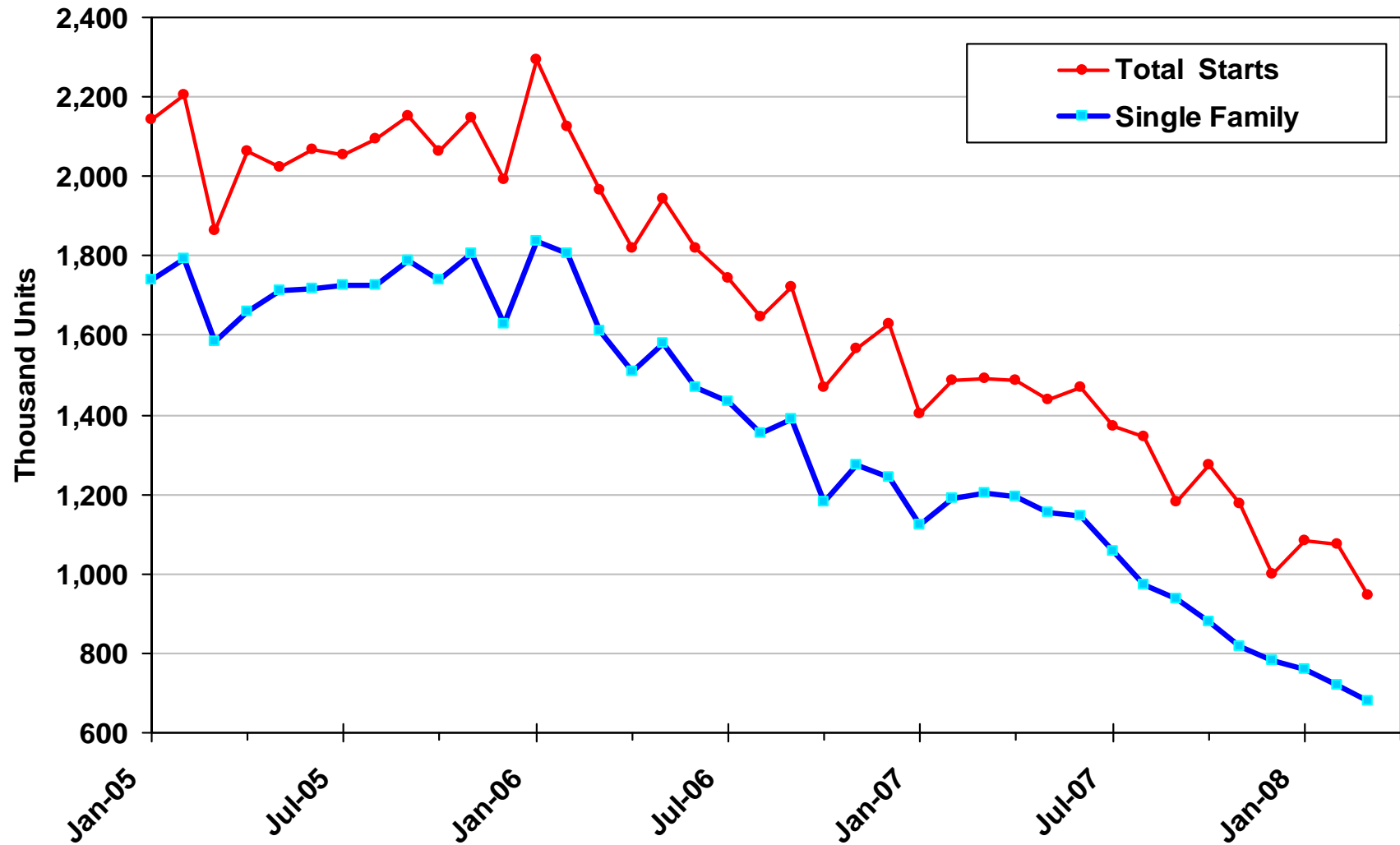
- **Tighter Lending Standards**
 - Rising Defaults End Easy Access to the Housing Market for Marginally Qualified Buyers
 - Mortgage Rates Stay High Relative to Short-Term Debt
 - Mortgage Defaults and Foreclosures Keep Inventory of Unsold Homes at Record Levels (10 months)

- **Falling Home Prices**
 - Home Prices are Down 14% from a Year Ago; Rate of Home Price Depreciation Gained Momentum in Q1:08
 - Home Debt Greater than Equity for the First Time Since 1945

U.S. Housing Sector in Retreat



U.S. Housing Still Looking for a Bottom



Economic Obstacles Extend Beyond Housing

■ Energy

- Oil over \$100/Barrel
- Higher Energy Prices Squeeze Both Consumers and Business

■ Employment

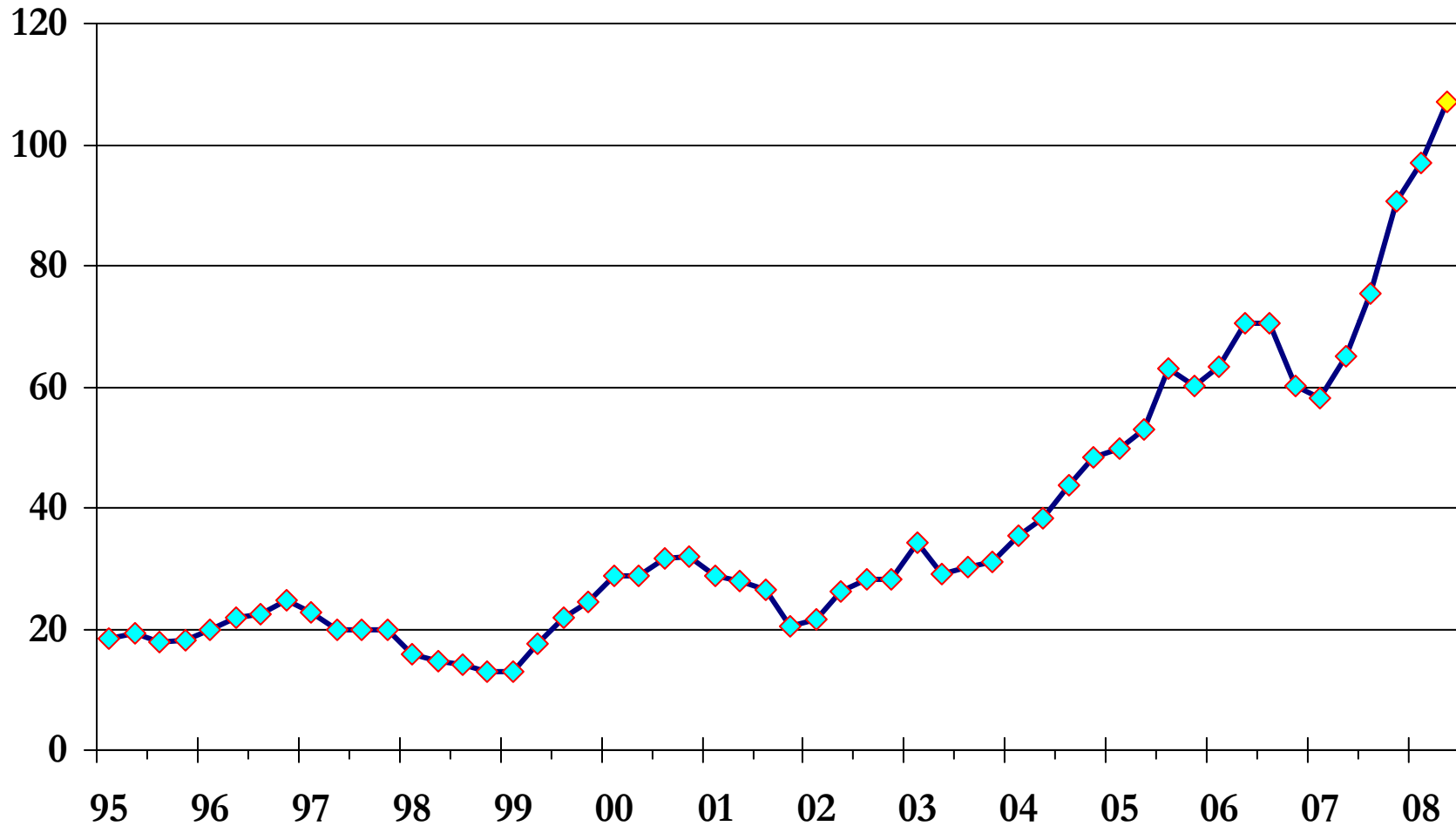
- Non-Farm Payrolls Lost on Average 80 Thousand Jobs per Month in Q1
- Unemployment Rate Creeps To 5.0%

■ Consumer Behavior

- Consumer Spending Stalls
- Delinquencies Rising on Credit Card, Auto, Consumer and Home Equity Loans

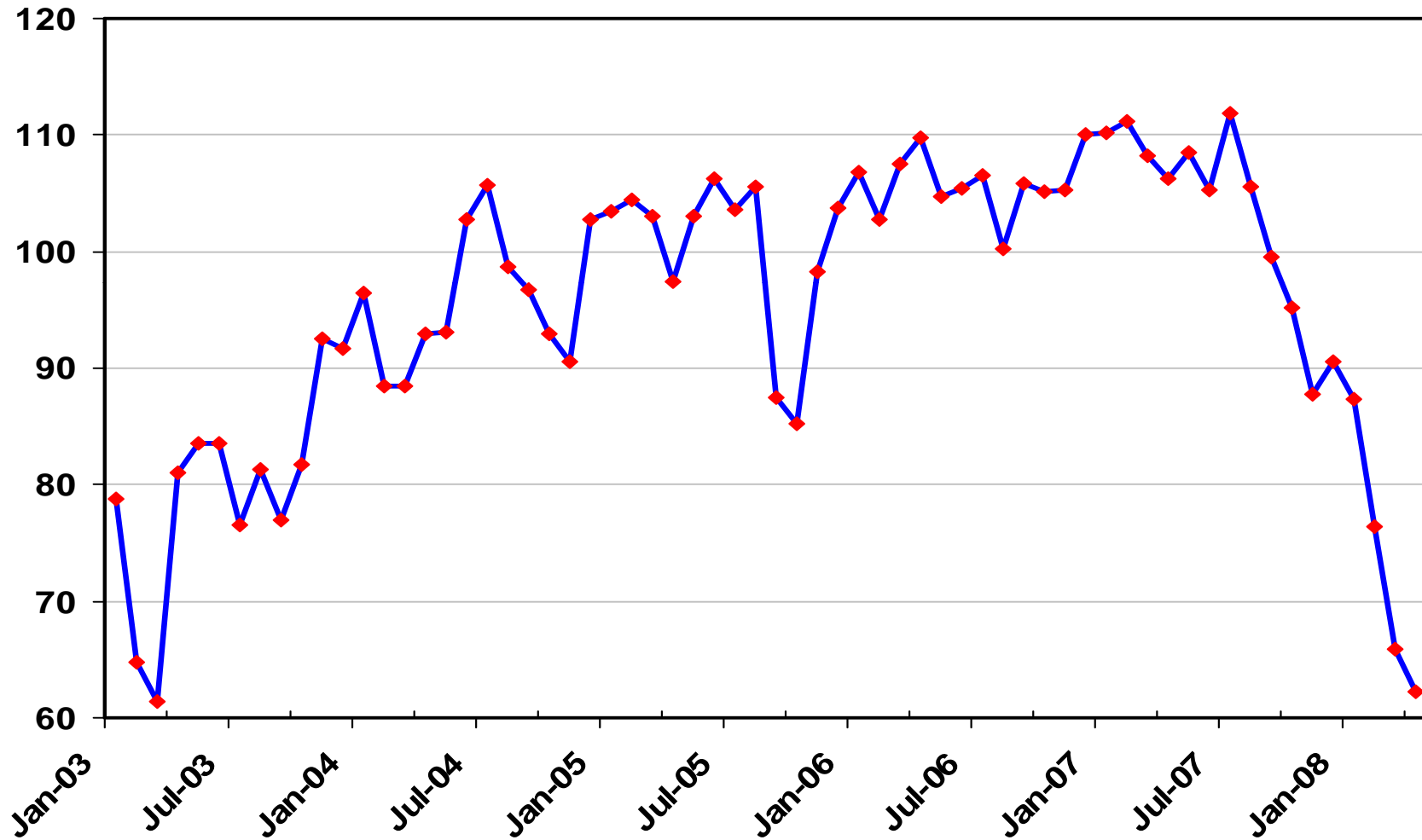
Oil Prices Surge To New Highs

WTI - \$/Barrel



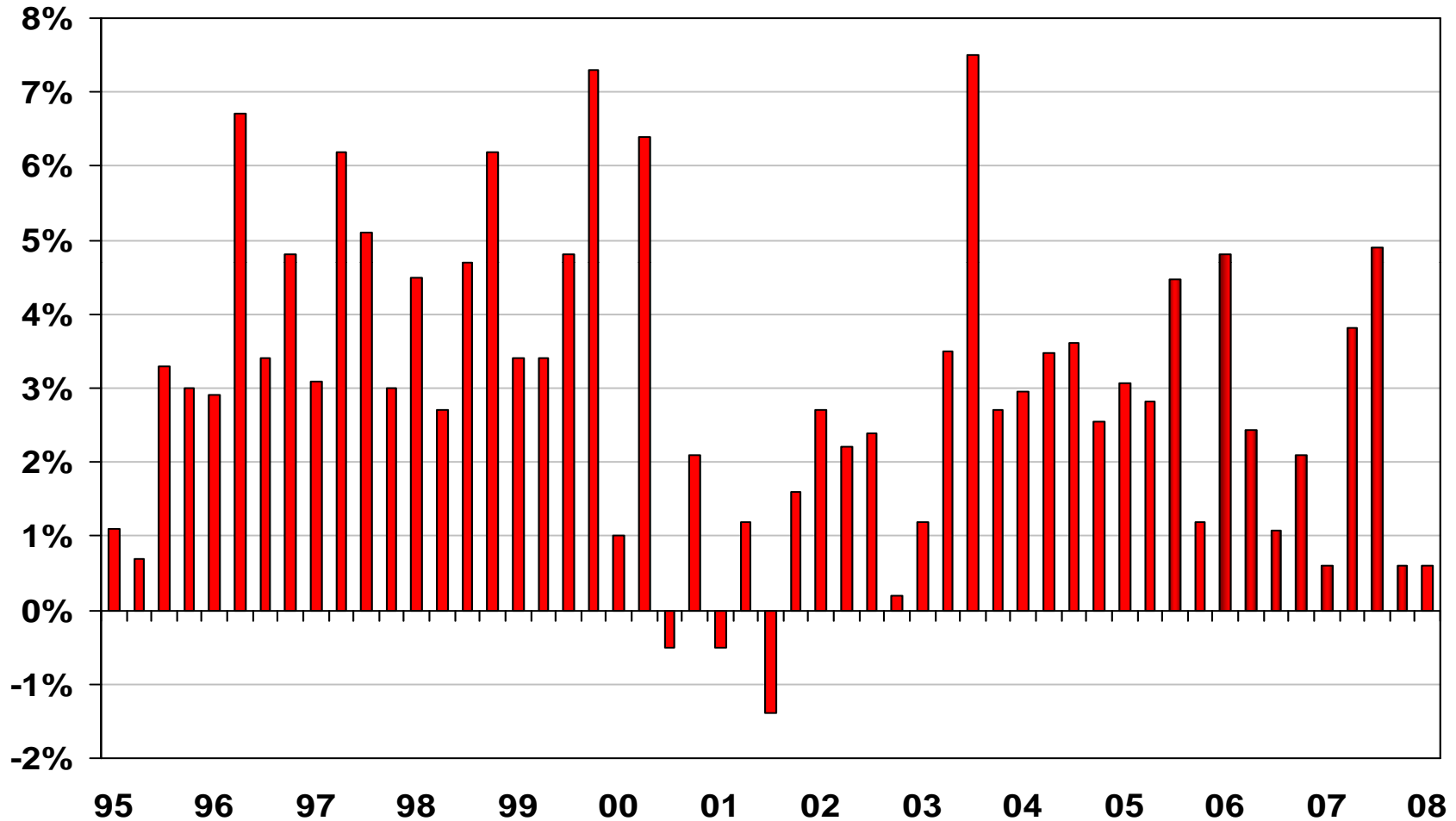
Consumer Confidence Index

Conference Board

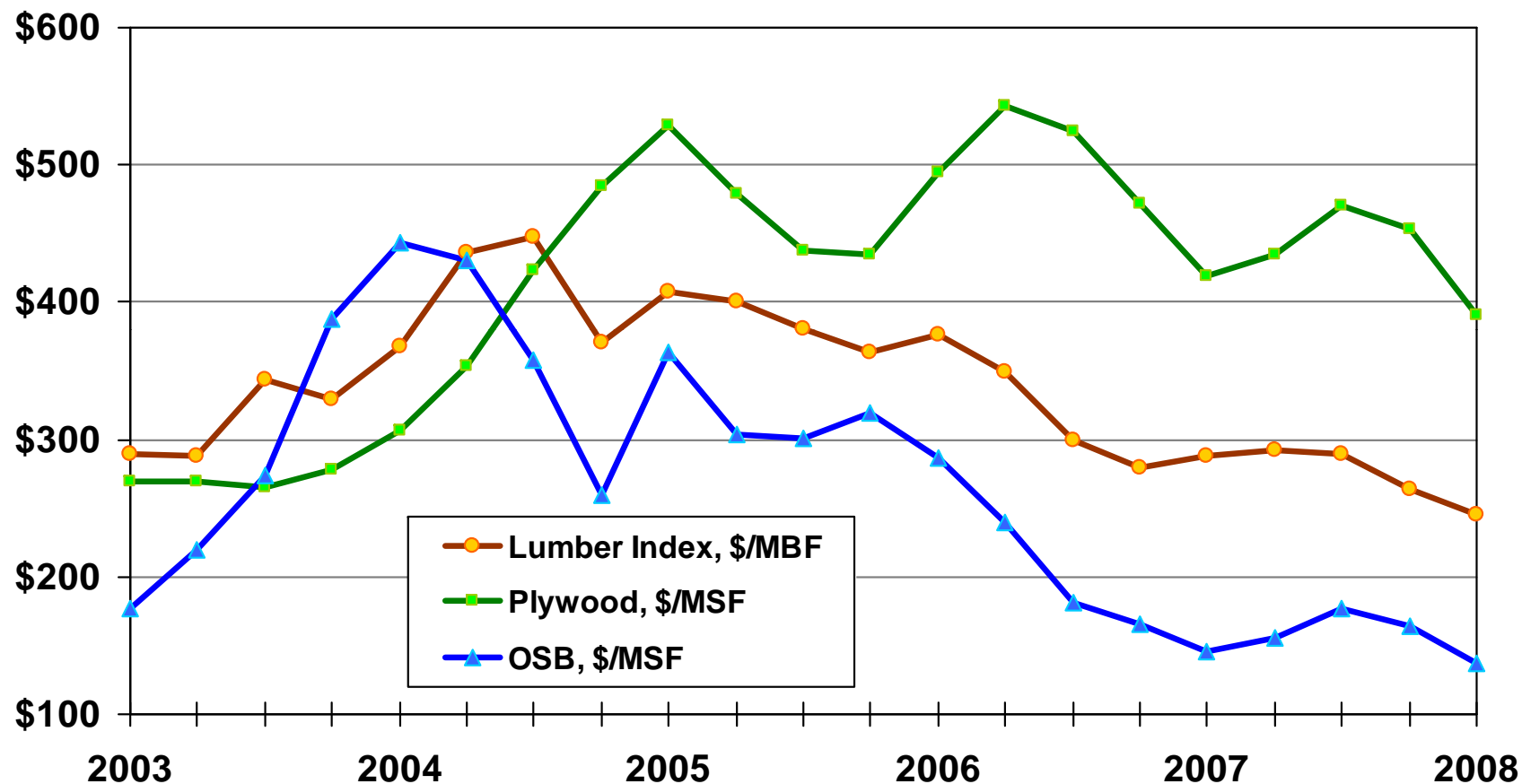


Economy Grinds To A Stop

Real GDP Growth, Annualized Percent Change



Weak Demand Coupled with Ample Capacity Drives Down Wood Product Prices



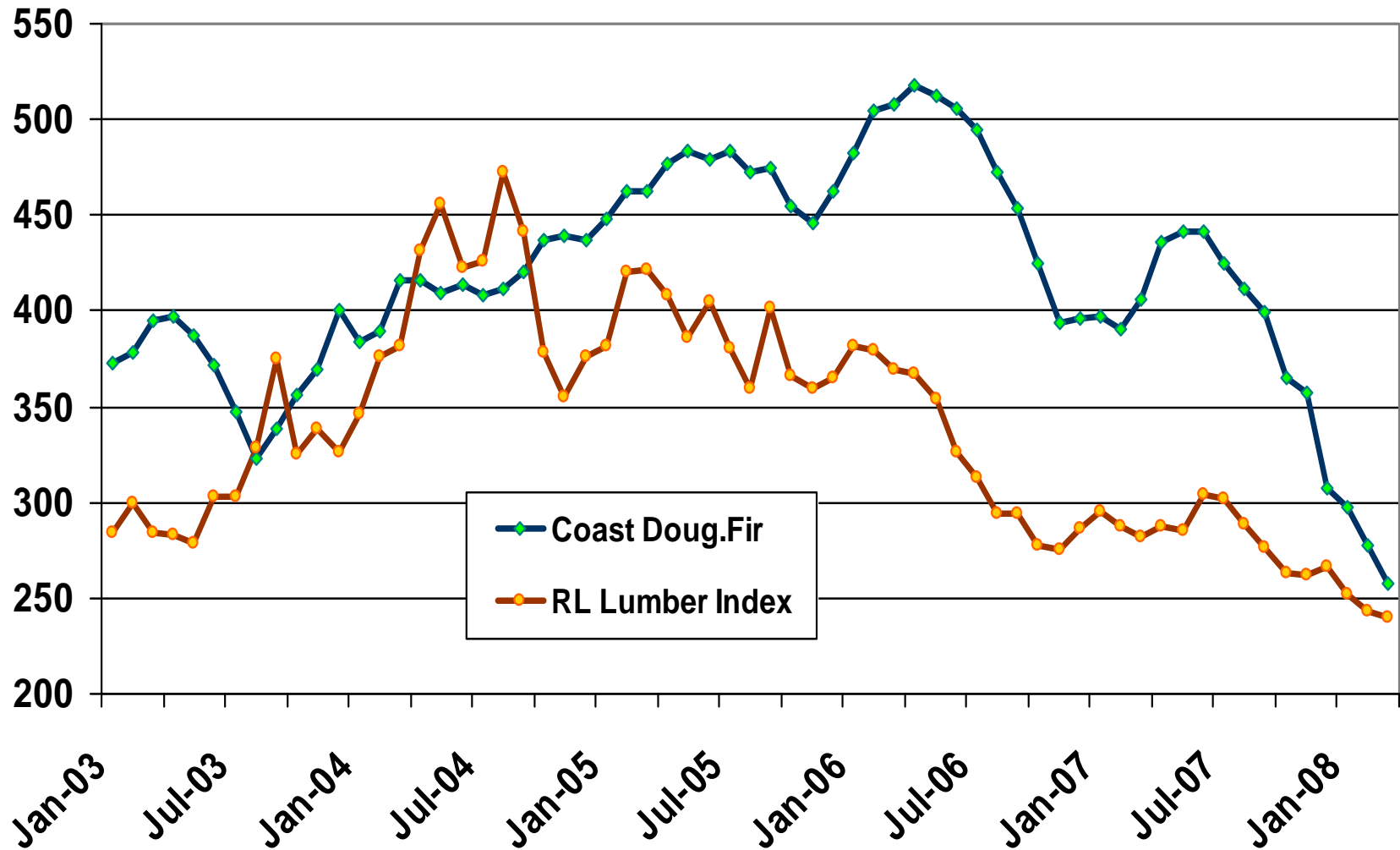
Lumber Index – Random Lengths Composite

Plywood – Western, 1/2-Inch basis

OSB – North Central, 7/16 basis

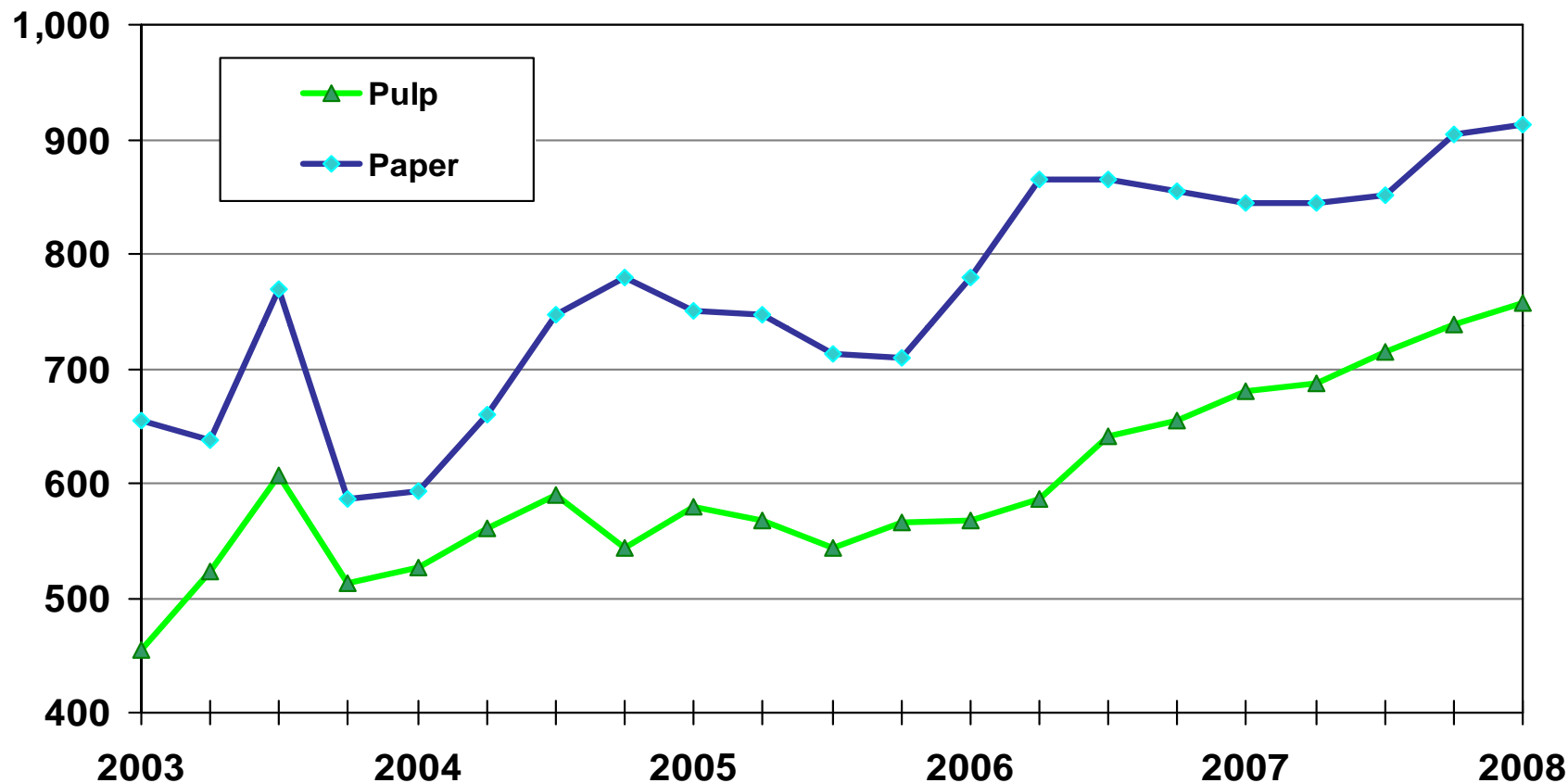
Sawtimber Stumpage Follows Lumber Down

\$/MBF



Pulp and Paper Prices Still Moving Higher, But Markets Face Headwinds In A Weakening Economy

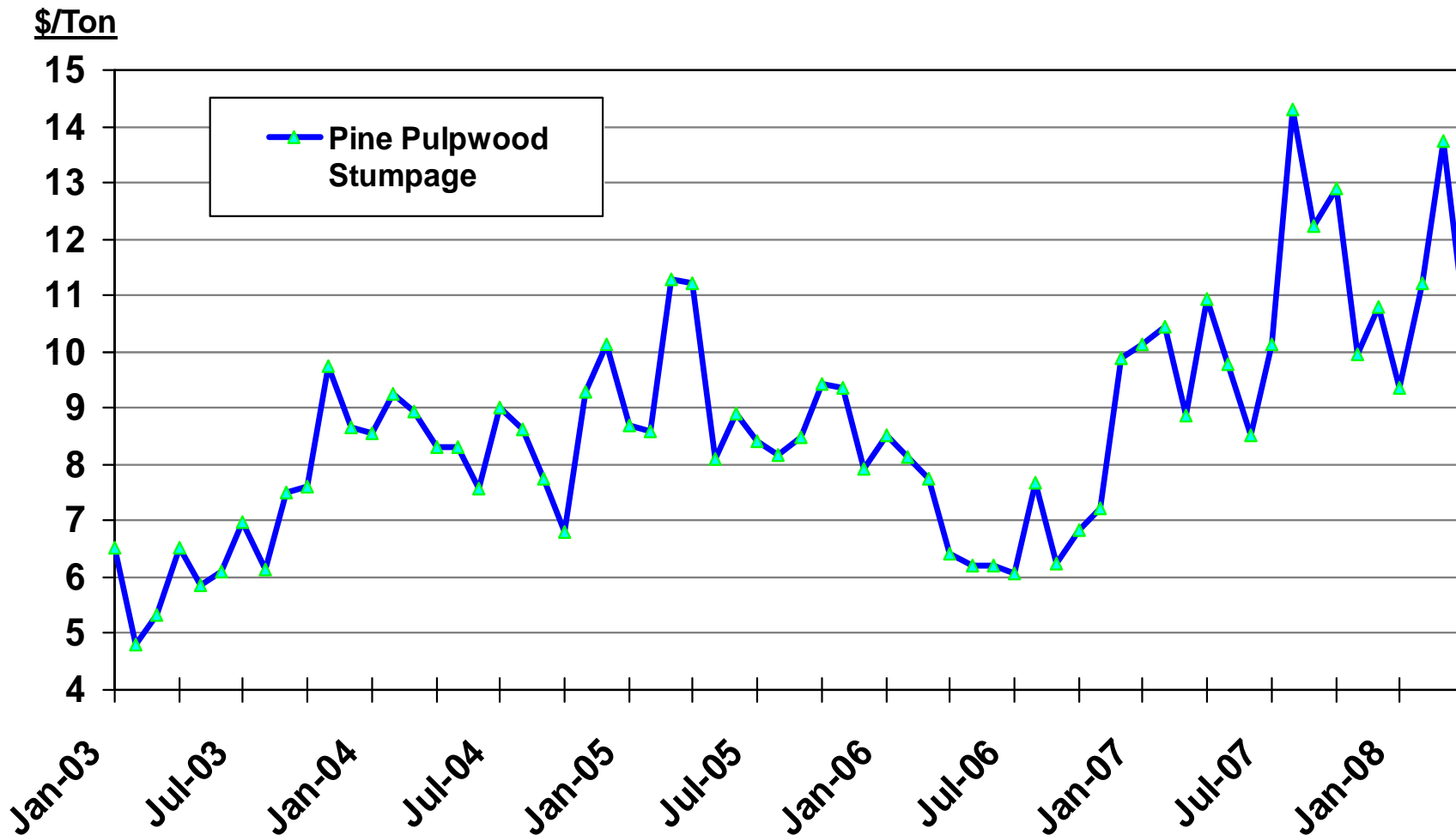
\$/Tonne



Pulp – SBSK

Paper – Uncoated Free Sheet, 50 lb. basis

Pulpwood Values Boosted By Restricted Chip Supply



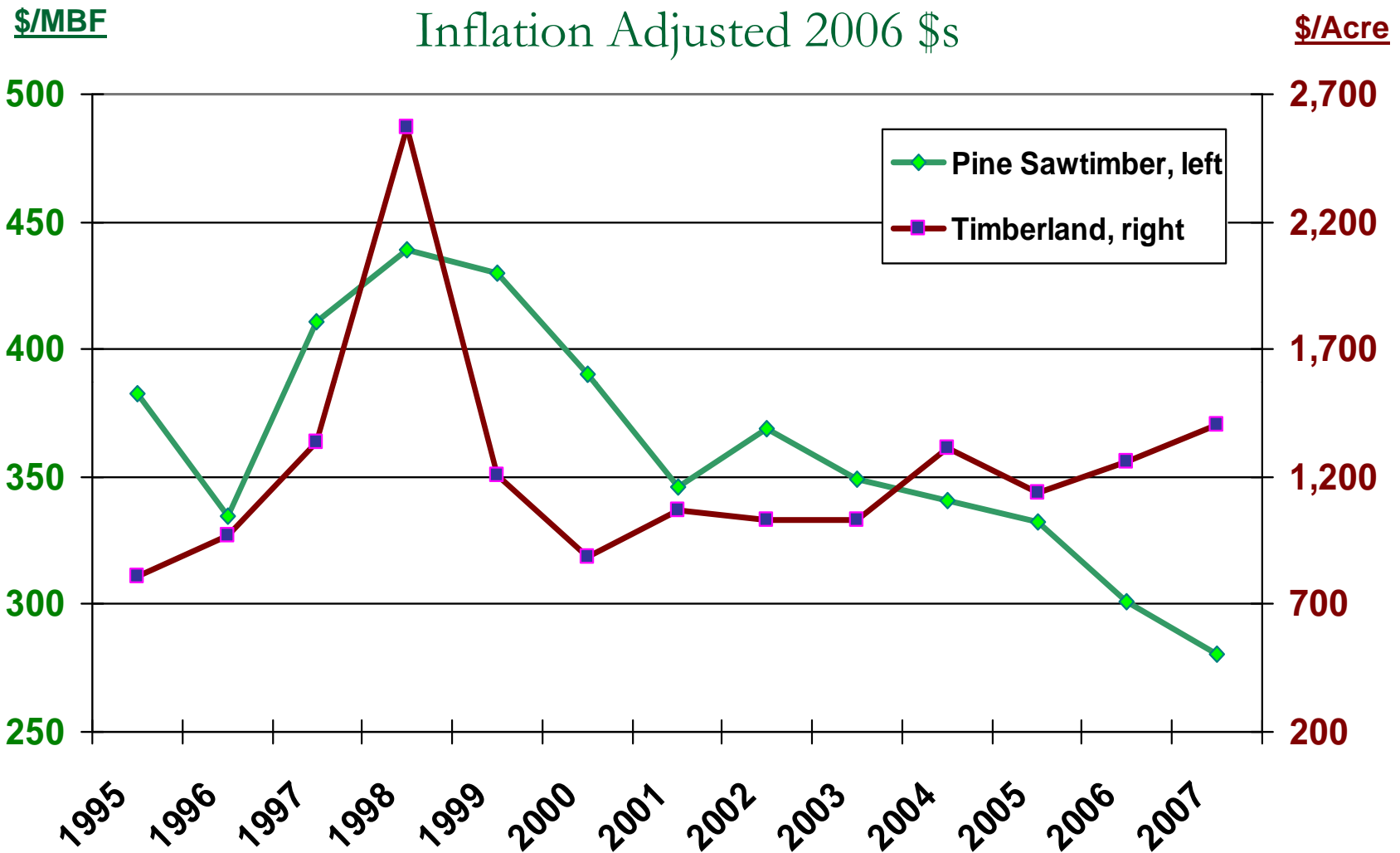
Source - F2M, West-South

Timberland Values Move Higher Despite Deteriorating Fundamentals:

- Abundance of Global Capital Drives North American Timberland Prices Higher
 - Physical vs. Financial Asset
 - Weak Dollar
 - Safe Haven in an Uncertain, Volatile Investment Environment

- Increased Pressure to Generate Non-Timber Revenue to Meet Projected Returns
 - Recreation Fees
 - Conservation Easements
 - Land Development
 - Energy/Mineral Potential

Southern Timberland Transaction and Stumpage Prices



Source - RISI

Light At The End Of The Tunnel?

- Revitalized Trade
 - Weak Dollar
 - Strong Economic Growth In Timber Deficient Regions

- Potential Constraints on Supply
 - Downward Adjustment in BC Post-Beetle Harvest
 - Russian Export Restrictions

- Emerging Markets
 - Wood Based Energy
 - Eco-Services