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Subject line: Forisk News: Timber Price Forecast – Forest Supplies – Bioenergy – Timberland Investing

Timber Price Forecast

Recently, we featured a series of posts related to forecasting U.S. timber prices and forest supplies:

- [Forisk Forecast: US Housing Starts Outlook, Q3 2015 Update](#)
- [Forisk Forecast: Projecting US Paper and Paperboard Production](#)
- [Forisk Forecast: Israeli Generals and Canada’s Softwood Sawmill Capacity](#)
- [Forisk Forecast: How the Ability-to-Pay for Wood Dictates Forest Industry Economics](#)
- [How Do Housing Markets Affect Timber Supplies?](#)

The Q3 2015 edition of the *Forisk Research Quarterly (FRQ)* includes industry analysis and forecasts through 2024 for timber prices, logging costs, lumber production, structural panels production, paper and paperboard production, forest supplies, and wood bioenergy. The first feature article examines current timber supplies in the South and tests the effects of two housing scenarios on timber supplies by state over the next 25 years. The second feature article evaluates benchmarking best practices for private timberland investments. Select *FRQ* findings include:

- **Macro:** key measures of U.S. economic productivity remained positive in Q2 2015, while potential headwinds from inflation, unemployment and capital costs remained muted or improved. Forisk’s Score of 3.1 for the U.S. economy was the 16th consecutive quarter the Forisk Score remained above the “no growth” baseline of 2.0.
- **Softwood Lumber:** in the Base Case, the South produces 54% of total U.S. softwood lumber by 2021. At 1.11 million housing starts, we forecast 2015 softwood lumber production of 14.97 BBFT in the West, 17.19 BBFT in the South, and 1.55 BBFT in the North.
- **Pine Sawtimber:** prices increase 6.9% on average in 2015 in the Base Case over 2014; states such as Arkansas, Florida, Georgia and South Carolina project stronger growth given the opening of new mills and increased investment. Overall, pine sawtimber prices benefit from shifting additional production in Forisk's projections from the Pacific Northwest to the South.
- **Pine Pulpwood:** three factors drive local price changes: new wood bioenergy projects; existing OSB capacity; and high volumes of softwood sawmill residual chips, which serve as a pulpwood substitute and mitigate price increases. South-wide prices increase 10.6% in the Base Case over 2014, while price changes vary significantly at the state level.
- **Domestic Douglas-fir and Hemlock:** average log prices for 2015 decrease ~2% across products when compared to 2014; the key change in the Base Case was the additional shift of nearly 1 BBFT in softwood lumber production to the South as housing markets return to 1.5 million starts. This reduced the estimated longer-term growth.

To learn more about the *Forisk Research Quarterly (FRQ)*, click [here](#) or contact Brooks Mendell at bmendell@forisk.com, 770.725.8447.



U.S. Housing Starts and Forest Supplies

From 2005 through 2009, U.S. housing starts declined 73%. This, along with historic federal incentive programs associated with the USDA's Soil Bank Program and Conservation Reserve Program, fundamentally reshaped the forest profile. Given the forest we have today, how would different housing start forecasts affect estimates of forest inventories and supplies South-wide and in local markets? Key findings from Forisk's research include:

The timing of the recession contributes to pine grade inventory growth in the next 25 years because it occurred during a time of already increased pine grade supply. The planting wave from the 1980's reached harvesting maturity as the recession hit. This remains true whether or not U.S. housing starts return to 1.5 million or more. Pine pulpwood supplies are more sensitive to past changes in harvesting activity than future changes in residual chip supplies: pine pulpwood inventories respond, first and foremost, to the age profile of the forest. The effects of future housing scenarios on local supply markets vary. The recurring theme throughout this analysis is that the existing age profile of the forest trumps housing assumptions as a determinant of future forest supplies.

Wood Bioenergy

Overall, the wood bioenergy outlook remains stable in the U.S.; any meaningful growth, if realized, will occur in the next five years. Regionally, the U.S. North still has the largest share (46%) of viable wood bioenergy projects while the South accounts for 54% of the potential wood use for bioenergy. Nationwide, wood bioenergy project failures continue to outpace successes, especially as reflected in the wood biofuels sector, which made little commercial progress YTD in 2015.

Project Tracking: As of July 2015, there were 429 projects in Forisk's *Wood Bioenergy US* database. All announced and operating projects could use a total of 119.7 million green tons of wood per year by 2024. The 302 projects that pass viability screens could consume 86.5 million tons of wood per year.

To download the free *WBUS* summary, click [here](#).

Timberland Investment Benchmarking

Institutional investors continue to compare, test and seek the ability to evaluate and compare the performance of new asset classes to alternative investments. Benchmarking provides a useful, and often necessary, tool for evaluating the performance of alternative investments – such as private timberlands – and alternative investment managers – such as TIMOs. While benchmarks serve as a tool for evaluating alternative investment performance, they are often incomplete indicators. In the Q3 *FRQ*, Forisk published the first phase of a long-term project on timberland investment analysis. This article (1) summarizes best practices and criteria for robust alternative asset benchmarks; (2) reviews available timberland indices in light of these criteria; and (3) recommends proper applications of available measures of private timberland performance for investors.



In studying the literature and speaking with investors, we observe that decades of “nightly news” exposure to investment indices such as the Dow Jones and S&P 500, with their long histories and deep data sets, make us take investment indices for granted. In practice, compiling relevant benchmarks for specialty sectors – such as timber – require work, resources, processes, consensus and transparency.

Two themes remain constant in evaluating benchmark quality and criteria. First, data quality dictates what is possible. Regardless the methodology or technology involved, confidence and clarity in the underlying data, where it came from, and how it’s managed drives the utility of benchmarks and indices. Second, objectives matter. How will the benchmark be used? Benchmarks designed to track asset-level or sector performance can differ from those used to evaluate manager performance and investment strategies.

*On October 8, Forisk will teach a new class titled "**Investing in Timberland and Timber REITs**" in Atlanta, Georgia. This one-day course details the operations, investment performance, market risks and supply chain/ management costs associated with available timberland investment vehicles. The course includes comparative analysis of typical TIMO fund structures, timber REITs and direct private investments. Key topics emphasize benchmarking investment performance, implied valuations based on public-private comparables, and sources of variance in operational costs, returns and forest management fees by region in the United States. [Click here to learn more and to register.](#)*

Upcoming Events & Classes:

- On **September 16**, Brooks Mendell will present "Timberland Investment Vehicles and Performance" at "[Who Will Own the Forest?](#)" in Portland, Oregon.
- On **September 22**, Shawn Baker will present “The Current Logging Force and Future Wood Markets” at the [US Industrial Pellet Association Annual Meeting](#) in Miami, Florida.
- On **October 7**, Brooks Mendell will present "Factors Driving Wood Demand" at the Arkansas Forestry Association Annual Meeting in Hot Springs, Arkansas.
- On **October 8**, Forisk will teach [Investing in Timberland and Timber REITs](#) in Atlanta, Georgia.
- On **October 15**, Brooks Mendell will present "Financial Assets, Ecosystem Markets, and the 'New' Forest Products Industry" for the William Main Distinguished Visitors Series at the University of California, Berkeley.
- On **October 15**, Amanda Lang will present “Southeast Forestry Outlook” at the Tennessee [Forestry Association Annual Convention](#) in Chattanooga, Tennessee.

Forisk provides research and educational services to executives and analysts making decisions related to timber REITs, timberlands, and wood-using energy and manufacturing facilities.