

Southern Timberlands: Markets & Mother Nature

Southern timberlands continue to enjoy strong interest from institutional and private investors, while southern timber suffered through a series of weather events that damaged millions of acres. Current evidence and previous research indicates that the weather-related damage – estimated at over \$1 billion from Hurricane Ivan alone – seems unlikely to dampen the relative attractiveness of southern timberlands, or to produce long-term consequences for timber and timberland returns.

TIMBERLAND TRANSACTIONS

In 2004, over 1.8 million acres of southern timberlands changed hands in transactions of 50,000 acres or larger for a weighted average price of \$908 per acre (Table 1). Boise Cascade's 2.2 million acre sale for \$1.65 billion to Forest Capital Partners – the single largest deal of 2004 – included approximately 720,000 acres in the South, mainly in Louisiana and Alabama. Earlier in the year, Boise sold 79,000 acres in Louisiana to Hancock Timber Resource Group.

Seller	State(s)	Acres	Price (\$millions)	\$/acre	Buyer(s)
Boise Cascade*	LA, AL	~720,000		750**	Forest Capital Partners
Boise Cascade	LA	79,000	84.1	1065	Hancock
Fountain Investments	TN	117,000	74	635	Forest Investment Associates (FIA)
Hancock	AL	83,000	94	1133	Rayoneer
Hancock	FL, AL, MS, SC, NC	321,200	321	999	FIA
IP	AR	56,800	63.4	1116	FIA, Southern Pines
MeadWestvaco	AL, GA	55,200	60.1	1089	private
Plum Creek	WV	137,500	33.1	240	The Forestland Group
Weyerhaeuser	GA	270,000	400	1481	Virginia Forest Investment; Georgia Fall Line Properties; Oaky Woods Properties; Copper Station Holdings

*Southern portion of 2.2 million acre sale; **average price/acre of total sale (southern acres likely higher)

Table 1. Southern timberland transactions over 50,000 acres in 2004.

Other integrated forest products firms also continued to divest timberlands. Weyerhaeuser sold most of its 304,000 Georgia timberlands to various buyers in Georgia and South Carolina for around \$400 million. Weyerhaeuser continues to manage the remaining 34,000 acres in long-term leases. MeadWestvaco sold 55,200 acres of timberlands in AL and GA, for \$1,300-\$1,550/ac and \$1,000-\$2,300/ac respectively, for an average purchase price of \$1,100/ac.

Hancock Timber Resource Group, after an unsuccessful bid for Weyerhaeuser's land in Georgia, sold its CalPERS southern timberland holdings totaling 321,200 acres to FIA, fetching on average \$1000/acre. Once the largest institutional owner in the U.S., CalPERS thus completed its exit from domestic timberland ownership. FIA also purchased 117,000 acres in Tennessee from Fountain Investments LLC and, along with Southern Pines, numerous smaller tracts in Arkansas totaling 56,800 acres for \$1,116/acre.

MAJOR WEATHER EVENTS

Seven hurricanes swept the South in August-September. All of the storms entered the region through Florida and Alabama and followed similar paths, destroying forests in Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina and Virginia (Table 2).

State	Hurricane/storm	Timberlands damaged (acres)	Timberlands damage (estimated \$)
Alabama	Ivan (09/15),	189,000 severely; 199,000 moderately	\$610.2 million
Florida	Bonnie(08/12); Charley (08/13); Ivan (09/15); Jeanne (09/25)	Up to 24 million	\$390 million
Georgia	Bonnie (08/12)	~2,500	
South Carolina	Bonnie (08/12); Gaston (08/29)	unknown	
North Carolina	Gaston (08/29)	unknown	
Virginia	Gaston (08/29)	unknown	
Texas	Ivan (09/23)	unknown	

Sources: Timber Mart-South, Alabama Forestry Commission, Florida Division of Forestry

Table 2. Major weather events affecting southern timberlands in 2004.

Although forestry and timberlands do not qualify for federal relief programs, timberland owners and investors may claim some casualty losses on 2004 income tax returns, helping reduce net year-end financial losses. Also, the USDA awarded \$131 million in funding for forests damaged in eight Southern States (those listed in Table 2 plus Tennessee). The Forest Service and states will use the funding to restore bridges, roads and infrastructure and repair endangered species habitat as well as limit the risk of potential insects and disease, forest fires and other hazards.

Previous research provides a perspective on how these weather events could affect timber markets. Prestemon and Holmes (1997) studied timber prices following a natural catastrophe.¹ In comparing stumpage prices before and after Hurricane Hugo in 1989, they concluded that, depending on the size of the event, there will be an initial decline in timber prices as short-term supplies increase from blow-down and damaged timber. This study went on to conclude that sawtimber prices recovered to pre-Hugo prices within seven quarters after the storm, while pulpwood prices remained depressed by 35%. Further research by Yin and Newman (1999) on how Hugo affected the timber supplied confirmed the initial analysis by Prestemon and Holmes that sawtimber prices returned to pre-Hugo levels.² The study showed that long-term pulpwood price impacts were not as dramatic as initially concluded by Prestemon and Holmes.

¹ Prestemon, J.P. and Holmes, T.P. 2000. Timber price dynamics following a natural catastrophe. *American Journal of Agricultural Economics*. 82: 145-160.

² Yin, R. and D.H. Newman. 1999. An intervention analysis of Hurricane Hugo's effect on South Carolina's stumpage prices. *Canadian Journal of Forest Research*. 29: 779-787.

TIMBER PRICES

Reported stumpage prices indicated improvement across all product classes in 2004, particularly in both pine and hardwood sawtimber (Figure 1). This corresponds to strong demand in sawtimber lumber markets, as evidenced by pricing in the traded lumber futures market. The Random Lengths lumber futures contract traded on the Chicago Mercantile Exchange (www.cme.com) started 2004 at \$300 per MBF and ended the year at \$360 per MBF, while exceeding \$400 per MBF mid-year and in the third quarter.

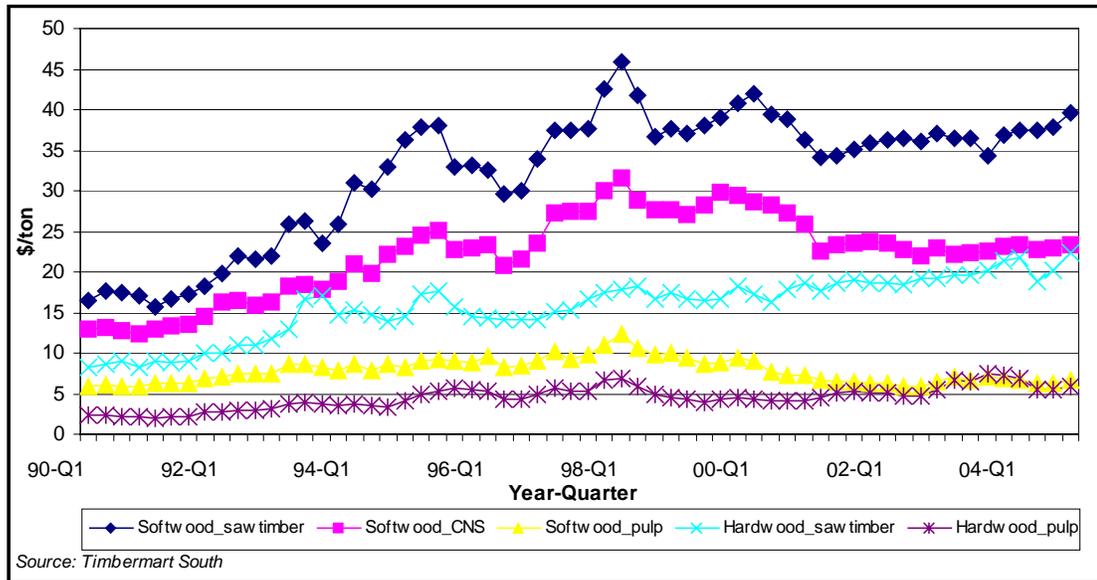


Figure 1. Southern southwide stumpage prices.

The reported stumpage prices did not reflect expected price declines following the hurricane season, possibly due to the strength of the housing and wood products markets, and/or the backwards-looking nature of the timber price reporting. First quarter 2005 may provide another test of the assumed relationship between catastrophic weather events and timber prices.

TIMBERLAND RETURNS

Southern timberland returns tracked and just trailed the Total Timberland Index, as reported by NCREIF (Figure 2). In 2004, the Total Index returned 11.2 % while the Southern Timberland Index showed returns of 9.5%.

Anecdotal evidence, coupled with Sewall's observations, indicate that institutional funds continue to search available timberlands, in the South and in other regions, for attractive acquisitions. These funds are attracted to the asset class for the historical long-term risk adjusted returns, the capital preservation, and the hedge against inflation. The continued appreciation and performance of the asset class in the NCREIF index helps explain the continued divestiture of corporate timberlands. Maturing TIMO accounts are comprising an increasing share of the offerings as well.

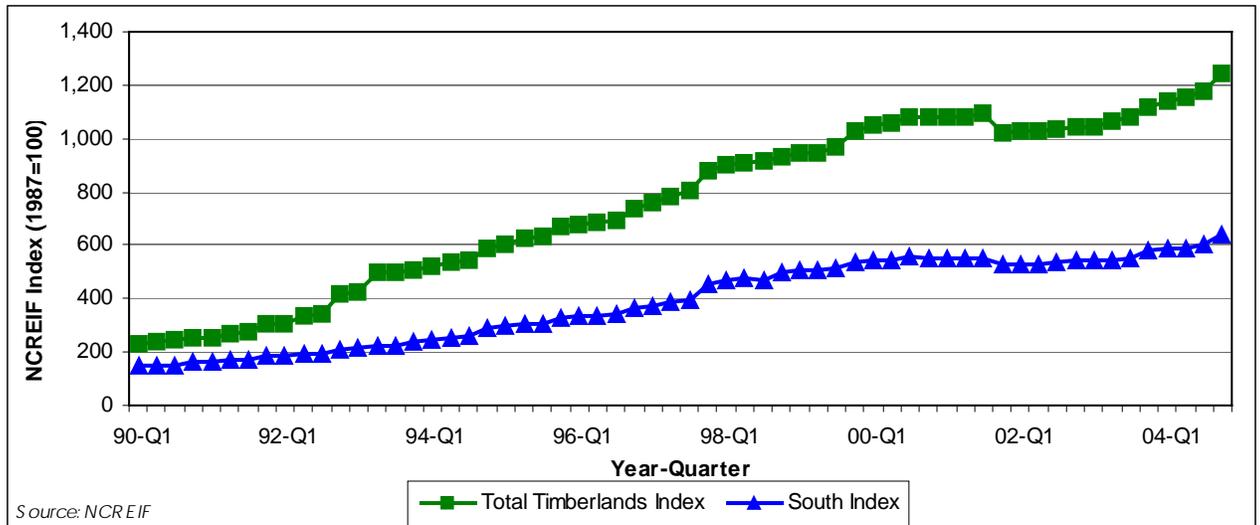


Figure 2. Southern timberland returns.

The paucity of transactions relative to huge amounts of available capital has pushed up timberland prices in the Northwest and Northeast, and perhaps to a lesser extent, in the South. During the last half of 2004, Sewall saw a marked increase in investments and queries among non-traditional investors such as private equity firms and hedge funds, reflecting the emergence of arbitrage plays, in contrast to the more familiar mid- to long-term equity investments.

CONCLUSION

Southern timberlands showed improved prices and continued interest in 2004. Expected short-term timber price impacts from severe weather events have yet to appear in region wide price indices, and may have been offset by strengthening demand for wood and wood products. The continued positive performance of timberland investments, as measured by accepted indices, supports the continuing transition of timberland ownership to those best positioned to maximize asset returns. The 2004 transactions, coupled with increased interest from non-traditional investors, support other signs that corporate owners will continue with large-scale timberland divestitures.

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