



TIMBERLAND  
INVESTMENT RESOURCES LLC

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Growing value for our clients every day

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## Will Recent Economic Headwinds Threaten U.S. Timberland Returns?

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26 June 2024



# Agenda

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- 01 Current Economy & Markets
- 02 Interest Rate Sensitivity
- 03 Inflation Hedging
- 04 Sensitivity to Economic Downturns

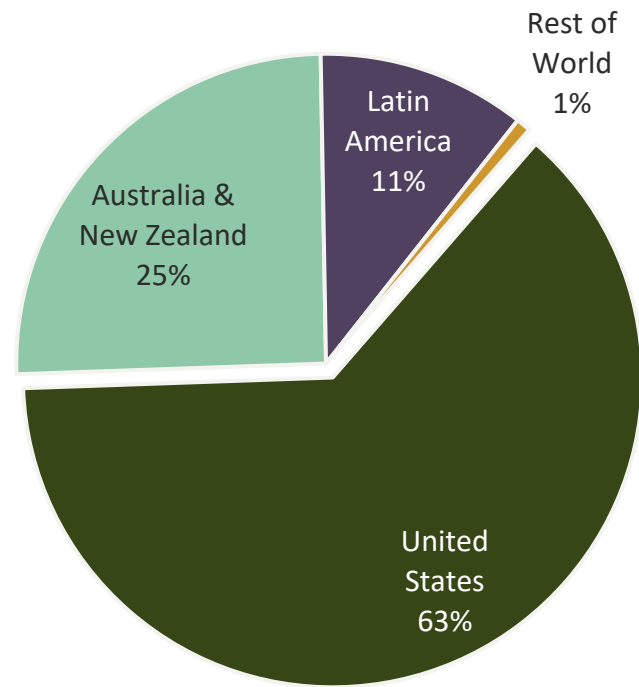




# Introduction to Timberland Investments in the U.S.

Institutional investment in timberland began in the early 1980's in the United States and has since spread globally.

Value of Managed Timberland Assets by Region (31 Dec 2023) in USD



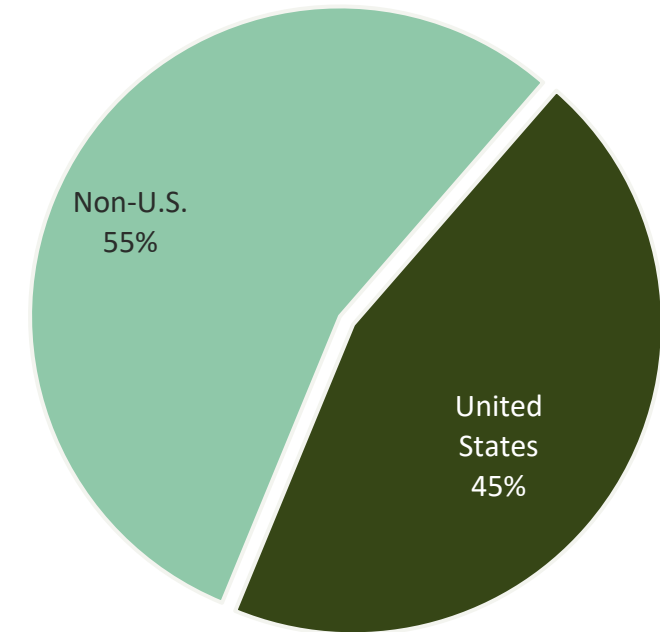
Source: Timberlink, *TIMO Survey Report* (31 December 2023)



## Reasons to Invest in Timberland

- ✓ Low correlation to other asset classes
- ✓ A hedge against inflation
- ✓ Capital preservation
- ✓ Biological growth a key source of return
- ✓ Provides nature-positive and climate-positive solutions

Investor Domicile of USD 58 Billion of Managed Timberland Assets



Source: Timberlink, *TIMO Survey Report* (31 December 2023)

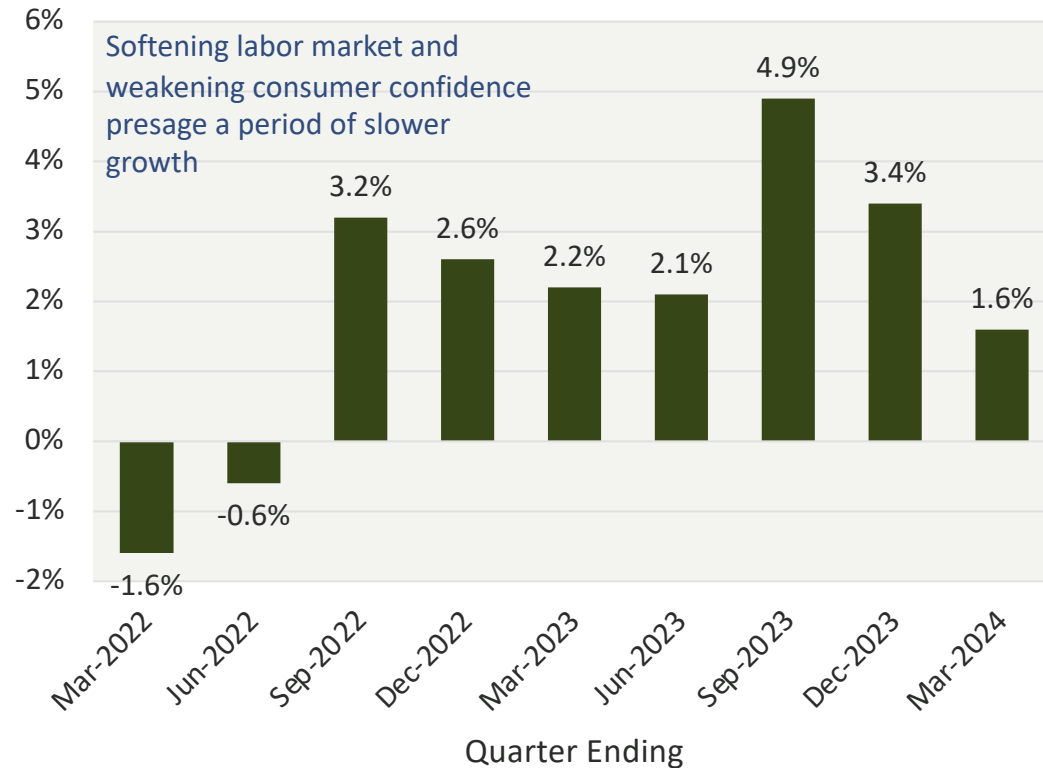


# U.S. Economy Quick View

The U.S. economy has shifted to a lower gear as the Federal Reserve keeps interest rates elevated and is not expected to lower it until the inflation pressures abate. Slower growth in 2024 is expected, with a downturn a real possibility.

### United States GDP Growth

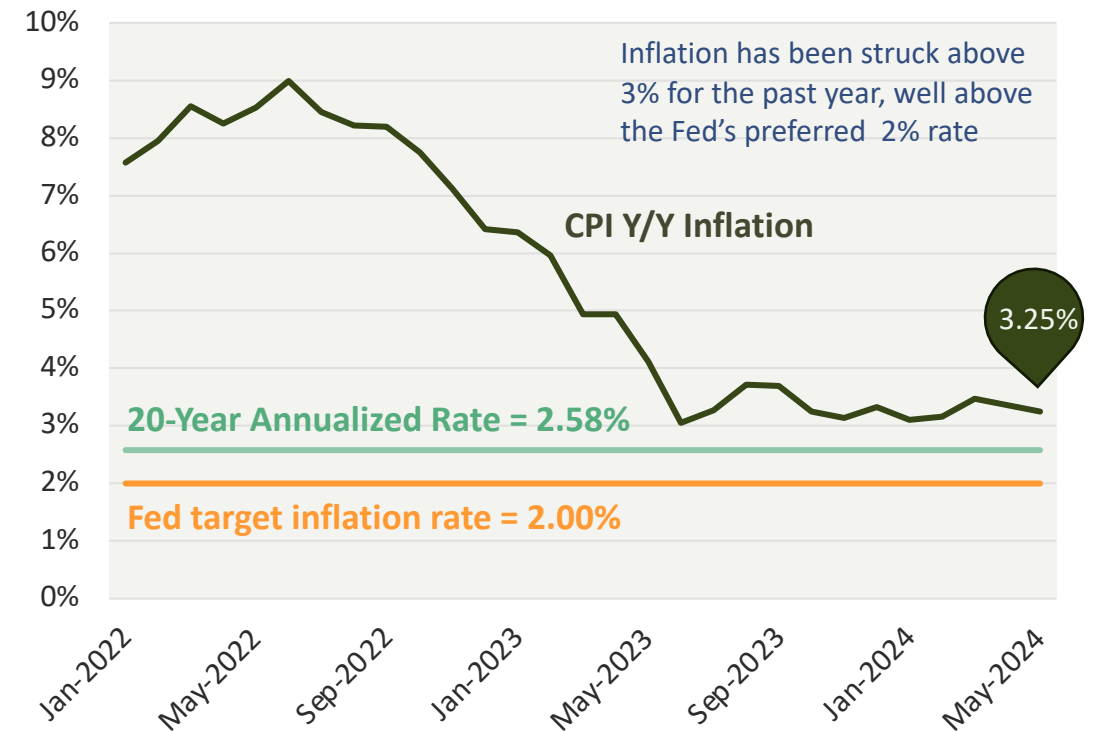
Seasonally Adjusted Annualized Rate



Source: U.S. Bureau of Economic Analysis

### U.S. Inflation Rate

Consumer Price Index, Year-on-Year Change



Source: U.S. Bureau of Labor Statistics



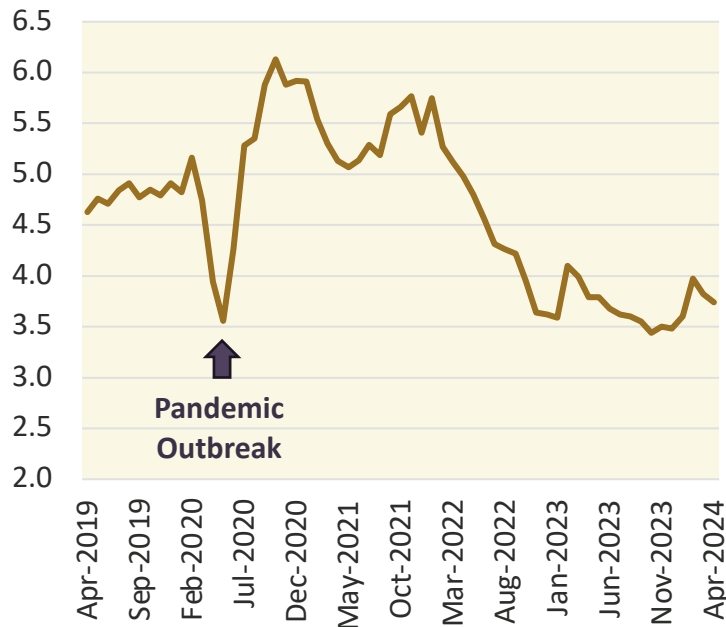
# End-Use Markets for Wood Products Weakened

Most home repair and remodeling activity is done shortly before or after a home is sold. With existing home sales falling to levels last seen during the Covid-19 outbreak, spending on home improvement has fallen.



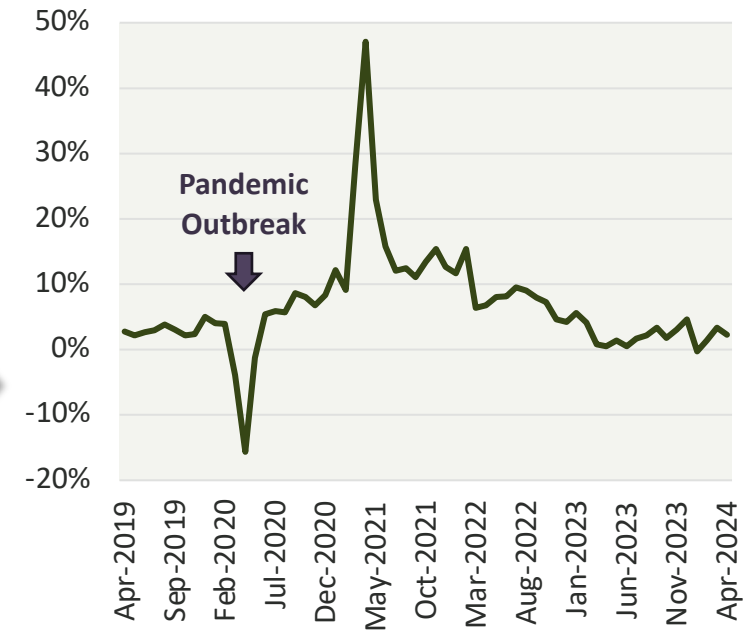
When pandemic restrictions lifted, consumers shifted spending away from goods and towards services (e.g., travel, dining out, and entertainment) in 2023. This caused a decline in demand for packaging papers such as containerboard. Households also destocked their accumulation of bathroom tissue.

Single Family Existing Home Sales  
Seasonally Adjusted Annual Rate (million)



Source: National Association of Realtors

U.S. Retail Sales  
Y/Y Change, Not Inflation Adjusted

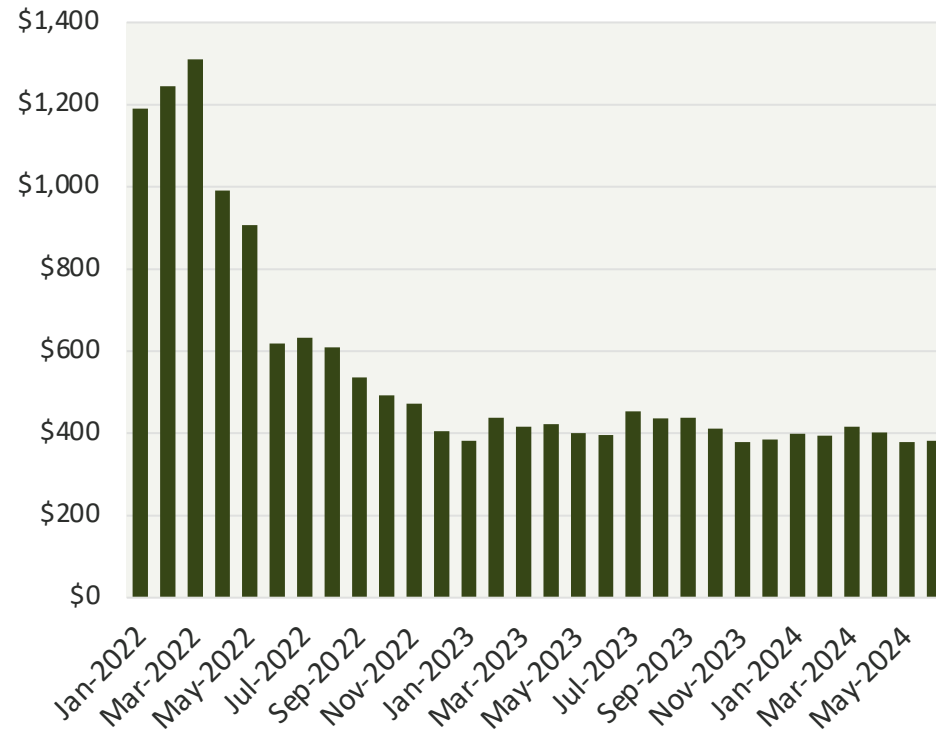


Source: U.S. Commerce Department



# Corresponding Correction in Wood Product Markets

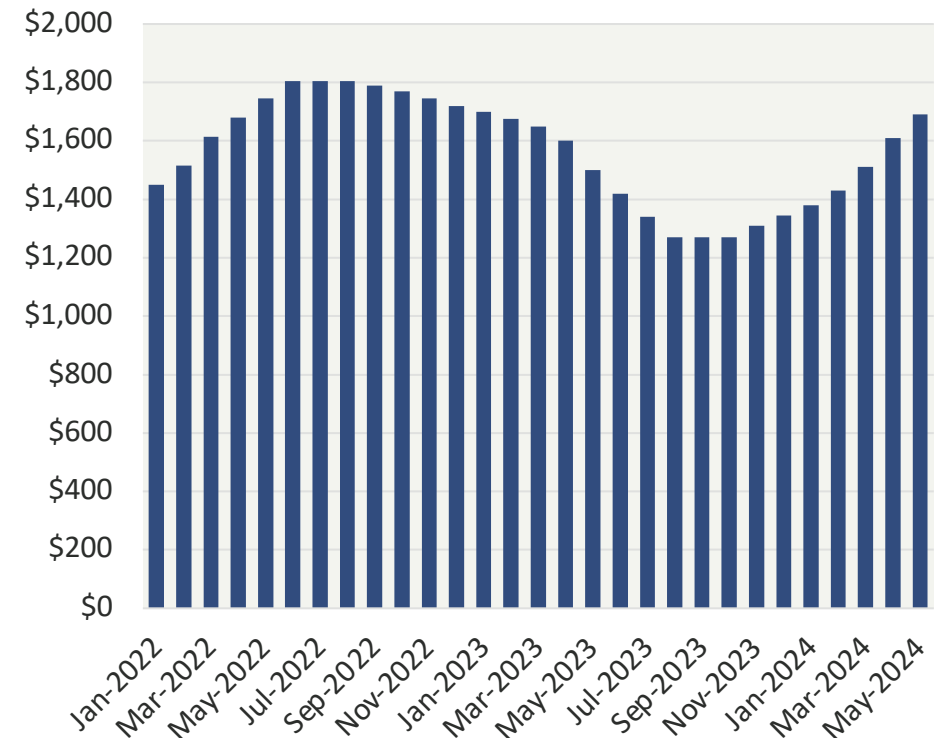
Random Lengths Framing Lumber Composite  
Monthly Average, USD per Thousand Board Feet



Weakness in home repair and remodeling helped push lumber prices to their lowest level since the start of the Covid pandemic in Q1 of 2020.

Source: Random Lengths

Northern Bleached Softwood Kraft Pulp  
U.S. Market, Delivered USD/tonne



Consumer shift towards services in 2023 reduced the need for paper and packaging. Pulp markets had begun to recover by late 2023.

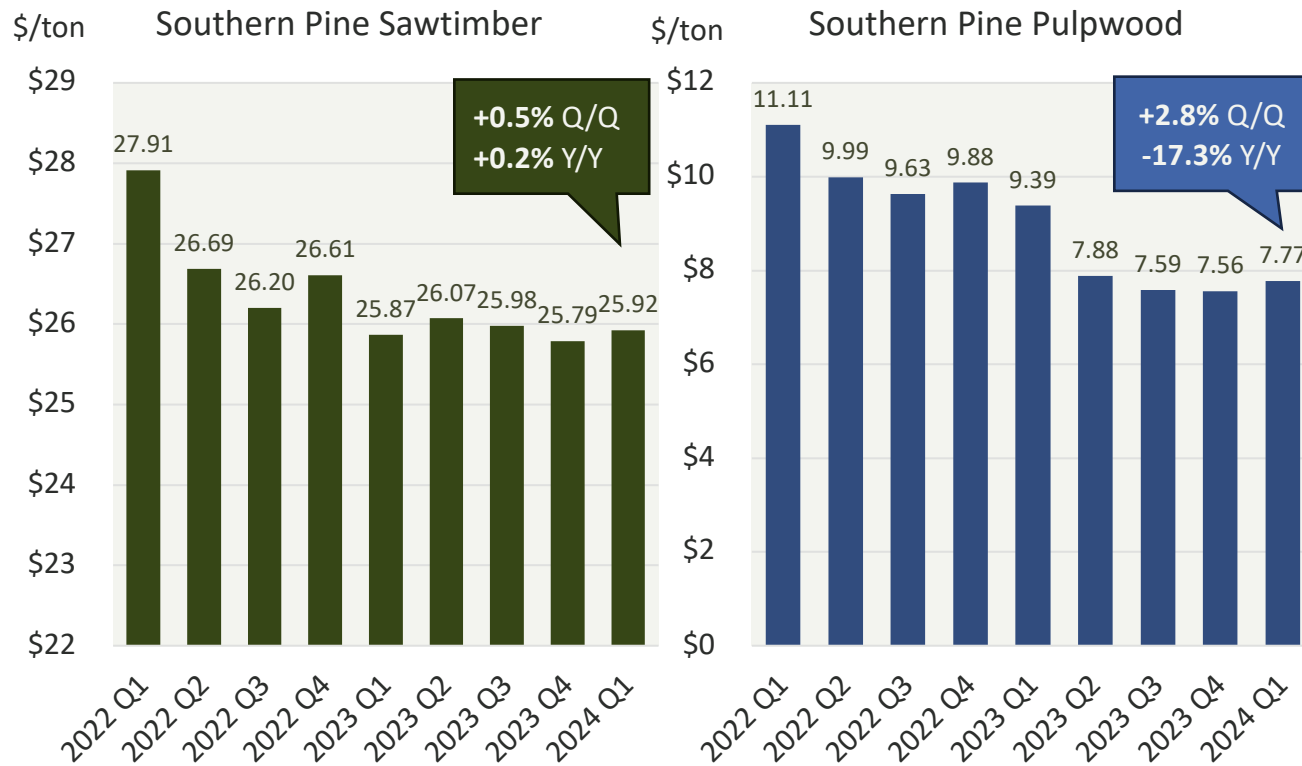
Source: Fastmarkets RISI



# Timber Prices Have Retreated Amid Weak Demand

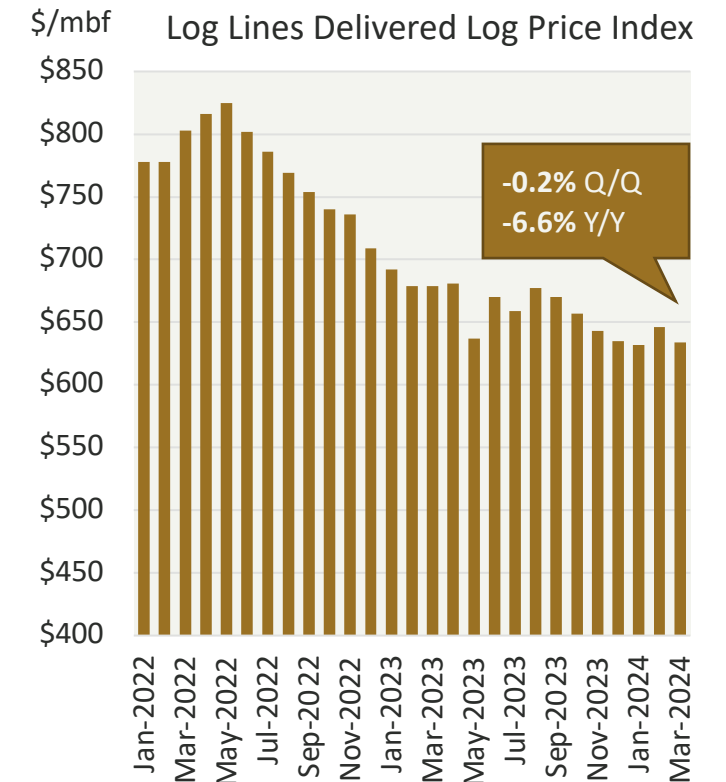
Depressed pulp and lumber markets translated into weakness in timber prices for 2023. Markets appear to have stabilized for 2024 and could see a recovery in 2025.

## U.S. South



Source: TimberMart-South

## U.S. Pacific Northwest

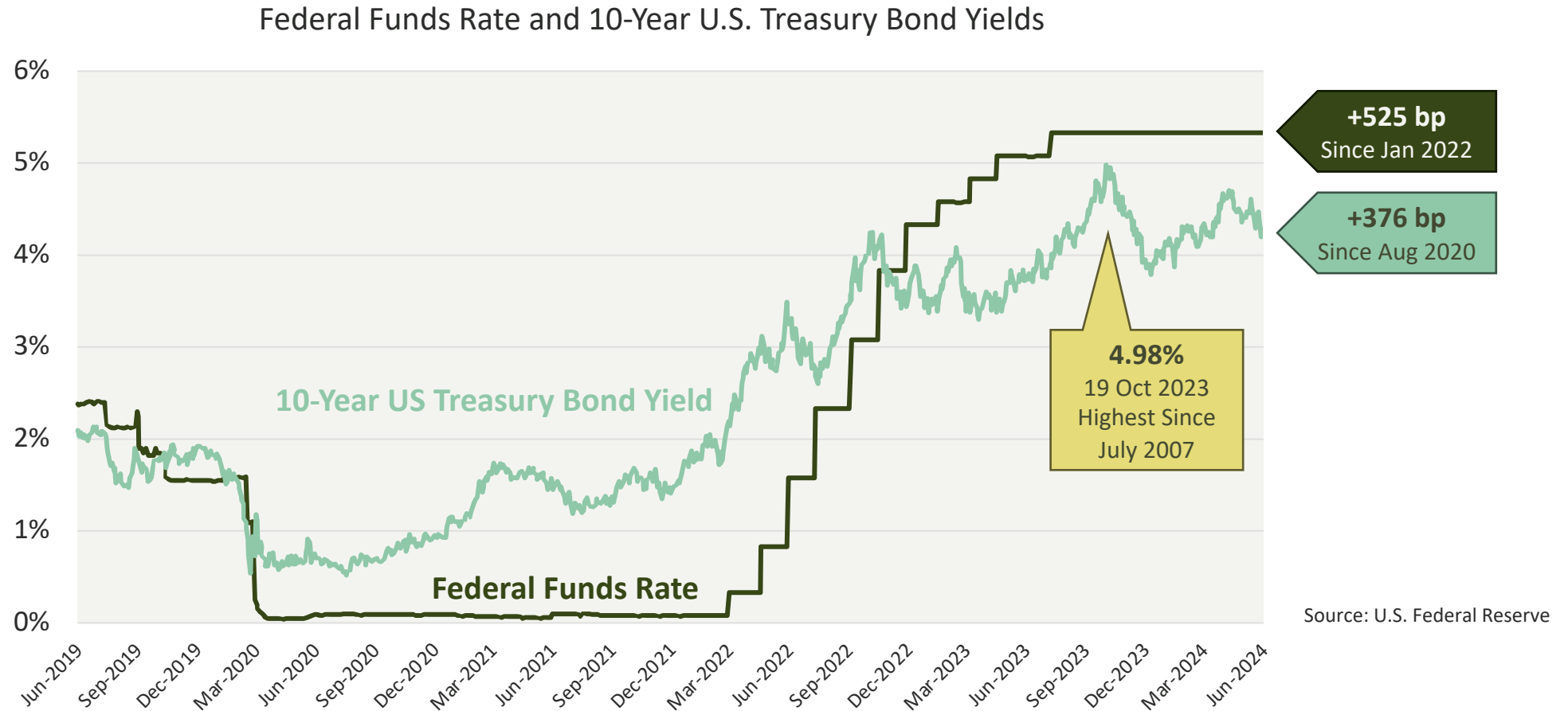


Source: Fastmarkets RISI



# Interest Rates Remain Elevated

The rise in interest rate could affect the discount rates for real assets such as timberland. It also impacts many end-use markets for wood such as the housing market, where many households rely on home mortgages to purchase a home.

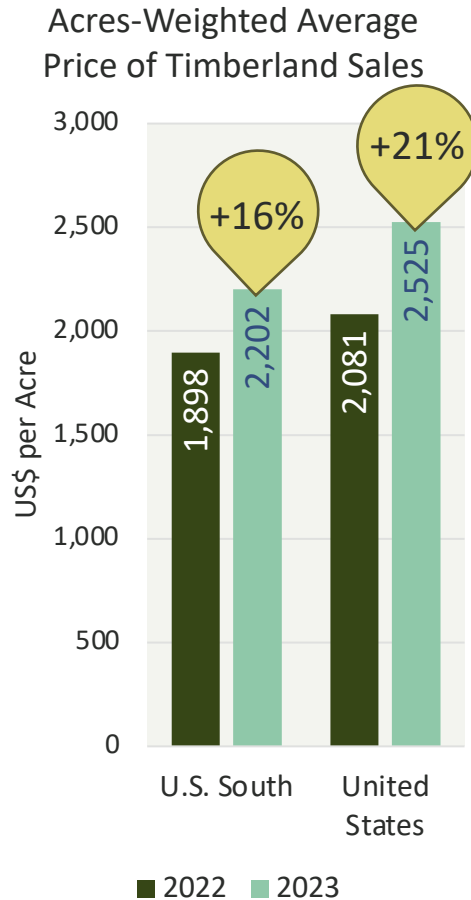




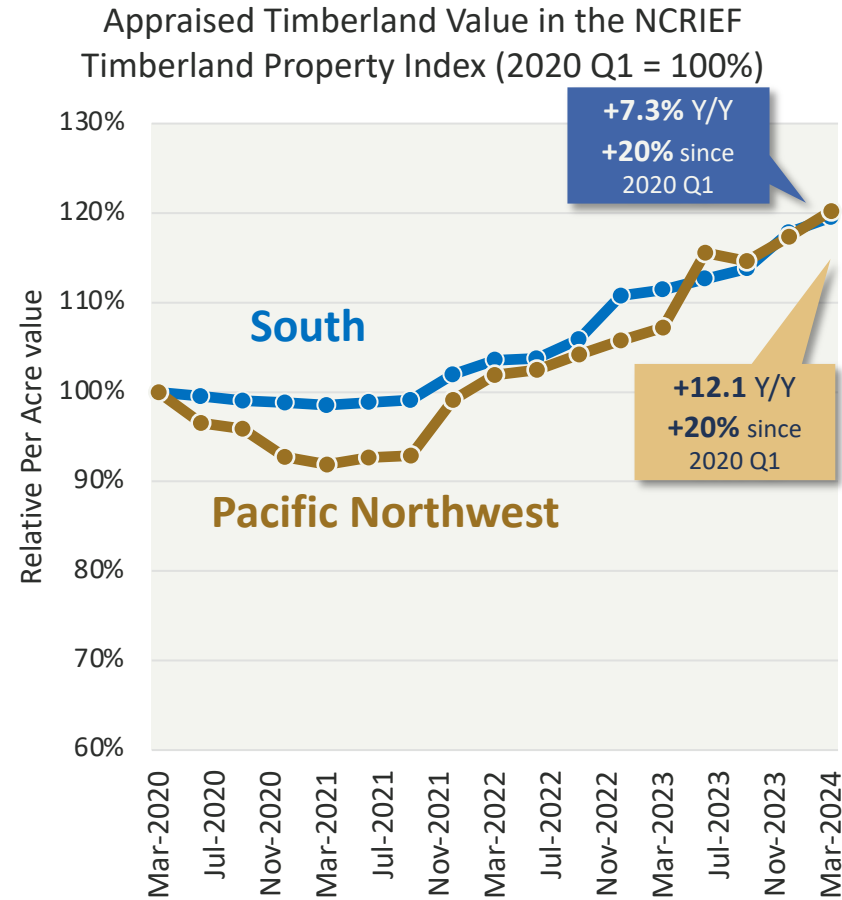


# Rise in Timberland Valuations Despite Higher Rates

Despite rising interest rates last year, timberland values reached record highs due to other market forces.



Source: Timber Mart-South



Source: NCREIF

## Resiliency of Timberland Value:

Buyers are likely factoring in a strong recovery in timber prices in their pro forma valuations

Large influx of investor capital into timberland – including those seeking to tap carbon credit markets and other natural capital solutions

Private individuals in the retail land market continue to seek timberland for long-term capital preservation, recreation, and legacy values

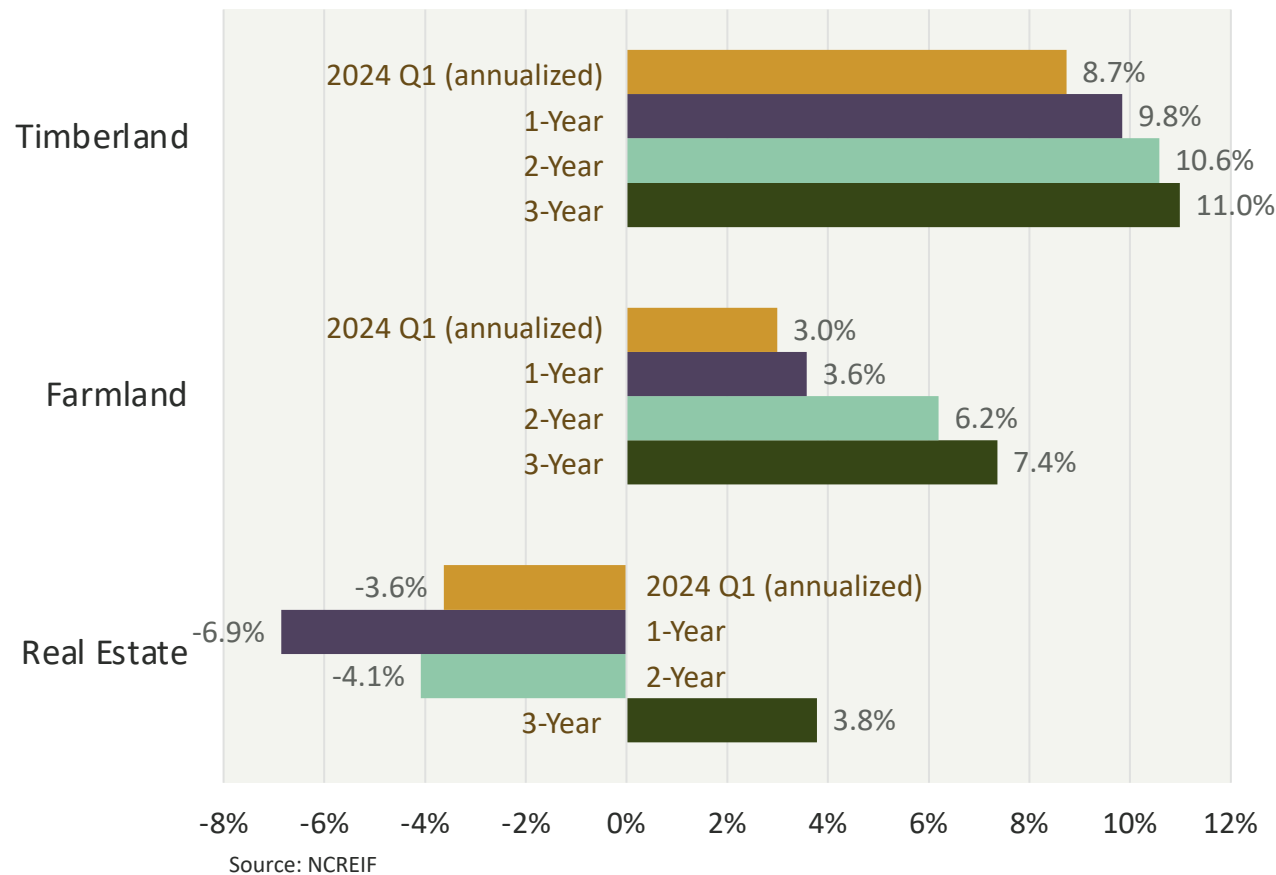
Alternative uses such as solar farms, wetlands mitigation banking, and conservation easements have gained momentum



# Timberland Returns Healthy Despite Headwinds

Falling timber values have been outweighed by rising land prices. This made U.S. timberland one of the better performing real assets for the past three years. This supports the argument for having a well-diversified portfolio.

### Total Return for U.S. Real Assets Ending 2024 Q1



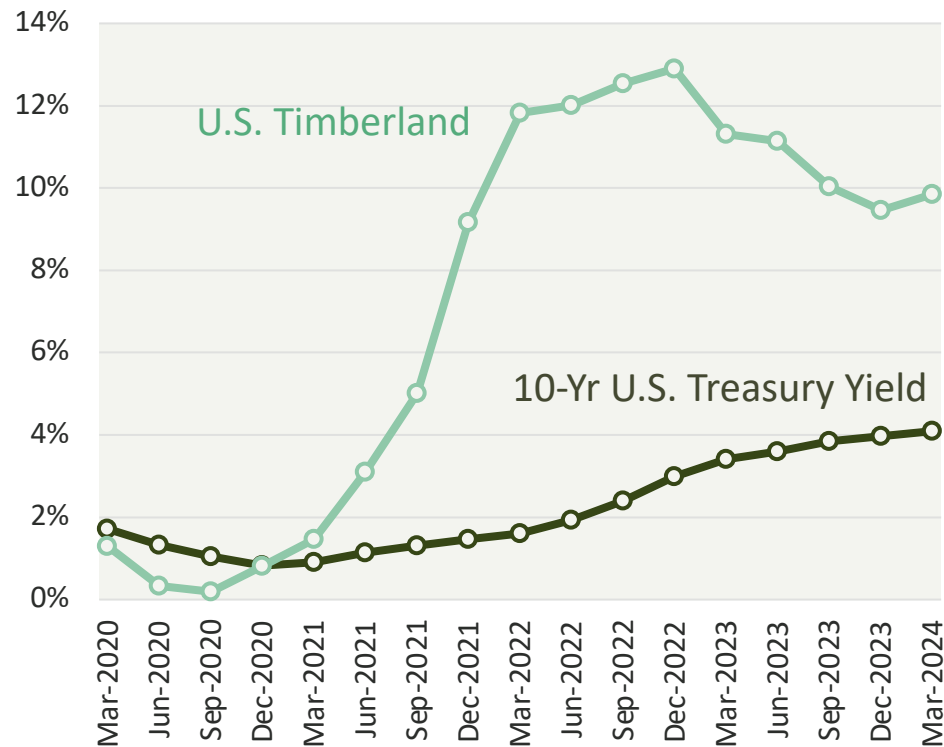


# Relationship of Timberland Returns with Interest Rates

Historically there has been a positive relationship between interest rates and timberland returns. Periods of higher rates are often associated with strong economic growth or increasing inflation pressure. Both factors can push timber and land prices higher.

## Short Term Relationship

Rolling 4-Quarter Timberland Returns and 10-Year U.S. Treasury Yields (2020 Q1 - 2024 Q1)



## Long Term Relationship

Rolling 5-Year Timberland Returns vs. 10-Year Treasury Yields (1987 Q1 – 2024 Q1)



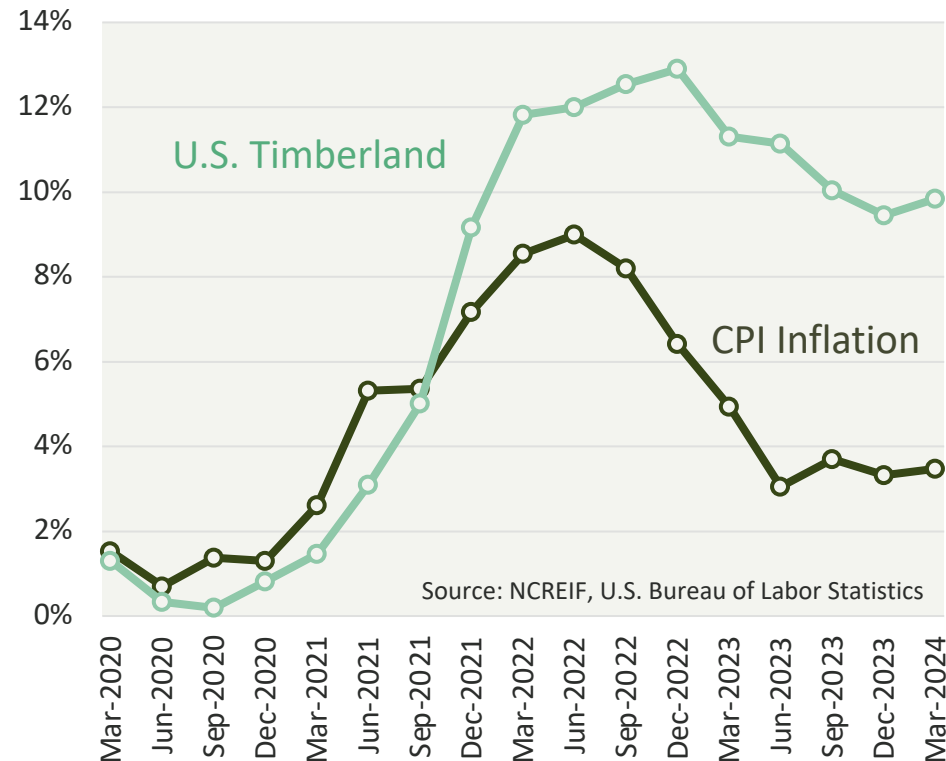


# Recent Relationship Between Timberland and Inflation

In an inflationary environment, higher pricing in end-use markets such as residential construction and consumer spending on goods could translate up the value-chain to the resource owner – including the forestland owner.

## Short Term Relationship

Rolling 4-Quarter Timberland Returns and U.S. CPI Inflation (2020 Q1 - 2024 Q1)



Home Construction



Lumber



Home Staples



Wood Pulp



Online Purchases



Containerboard



Timber

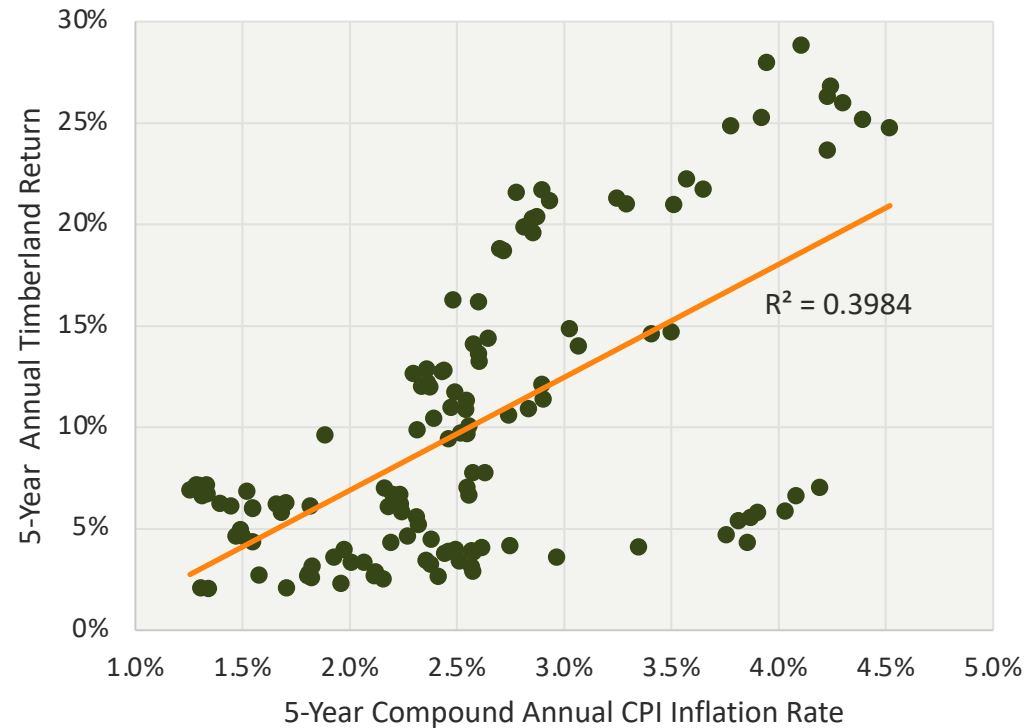




# Timberland as a Long-Term Inflation Hedge

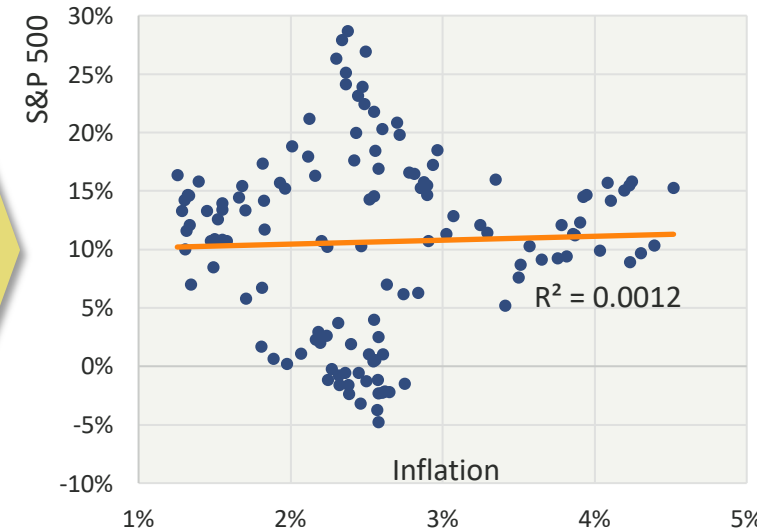
Over the long run, timberland offers a potential hedge against inflation risk compared to stocks and other real assets such as real estate.

Rolling 5-Year Timberland Returns vs. CPI Inflation (1987 Q1 – 2024 Q1)

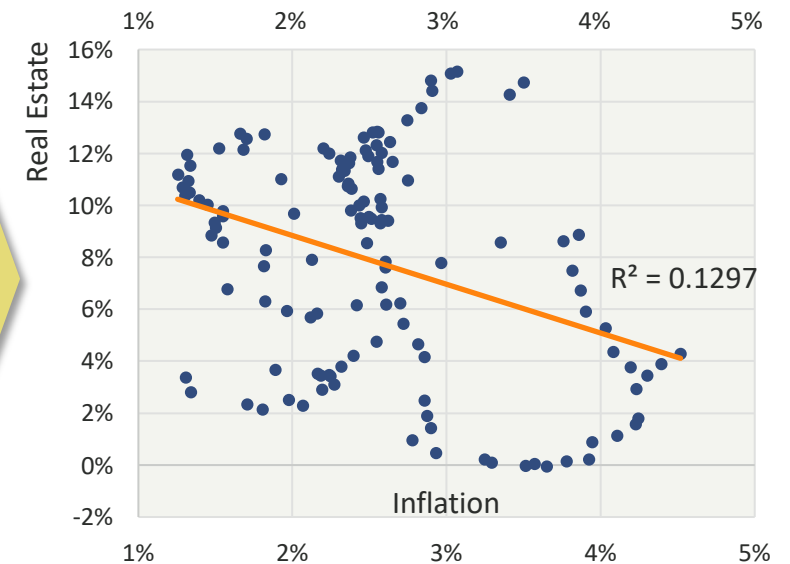


Indices: Consumer Price Index – U.S. Bureau of Labor Statistics  
NCREIF Timberland Property Index  
NCREIF National Property Index (classic)  
Standard & Poor's 500 Index

U.S. Large Cap Stocks (S&P 500)



U.S. Commercial Real Estate (NCREIF NPI)





# Timberland’s Resilience to Economic & Housing Cycles

Performance of timberland assets in the United States benefits from the health of the U.S. housing market. However, demand for timber and other forest products comes from many other parts of the economy. This makes timberland returns partly insulated from downturns in the housing sector and the overall economy.

### U.S. Timberland Returns During U.S. Economic Recessions

U.S. Recession	Timberland Total Return (Annualized) During Recession
July 1990 – March 1991	9.0%
March 2001 – November 2002	-1.7%
December 2007 – June 2009	10.6%
February 2000 – April 2000	5.7%

**Global Financial Crisis**

### U.S. Timberland Returns During U.S. Housing Downturns (Qualified as Three or More Consecutive Months of Below 50-Year Average for Housing Starts)

Housing Downturn	Timberland Total Return (Annualized) During Downturn
April 1989 – June 1989	71.6%
August 1989 – December 1989	36.6%
March 1990 – November 1993	23.3%
January 1995 – June 1995	14.8%
August 1995 – October 1995	22.5%
July 2007 – November 2019	5.0%
March 2020 – June 2020	0.4%



# Summary

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## Economic Headwinds

- ✓ Slower growth in 2024 expected as the U.S. Federal Reserve keeps interest rates elevated amid persistent inflation

## Timber Prices Reflect Recent Retreat in End-Use Markets

- ✓ A 2023 market correction in lumber and pulp markets has pushed timber prices lower

## Timberland Has Appreciated Despite Higher Interest Rates

- ✓ This indicates the weak link between interest rates and timberland return

## Timberland Has Inflation Hedging Track Record

- ✓ Timberland has a positive relationship with inflation compared to other asset classes such as public equities and real estate

## Timberland Performance Holds Well Against Economic Cycles

- ✓ Of the past four U.S. recessions, the NCREIF Timberland Property Index only had one period of negative return
- ✓ There are no U.S. housing downturns which led to a negative performance for timberland



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**Thank You**

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