

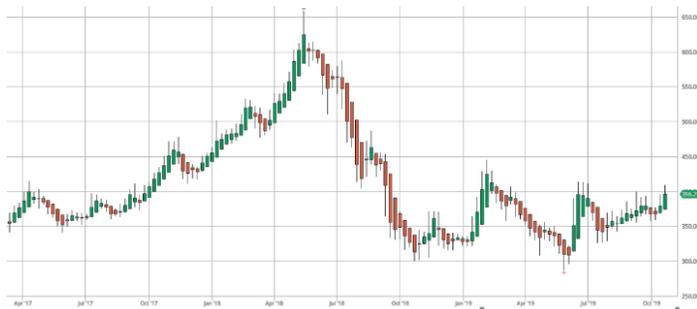
plant-a-tree fund - Forestry and Timber Info Sheet

Trends in Timberland and Wood Industry Investing

Welcome to this 8th edition of “plant-a-tree fund – Forestry and Timber Info Sheet”! More than presenting a global snapshot of the forestry and timber industry at the moment of publication, this short brief aims to present useful information on trends in timberland. These topics may cover diverse areas, such as geographies, species, markets, and price trends.

The lumber markets exhibited a price movement divergence among soft and hardwood segments. On the one hand, softwood lumber staged a rebound from its plunge, bottoming in Q4/2018 and rising on the back of capacity cuts by Canadian mills.¹ While the housing sector faces a mixed outlook, the futures market appears to have stabilized after last year’s sharp decline, which was partly spurred by storm and insect damage.

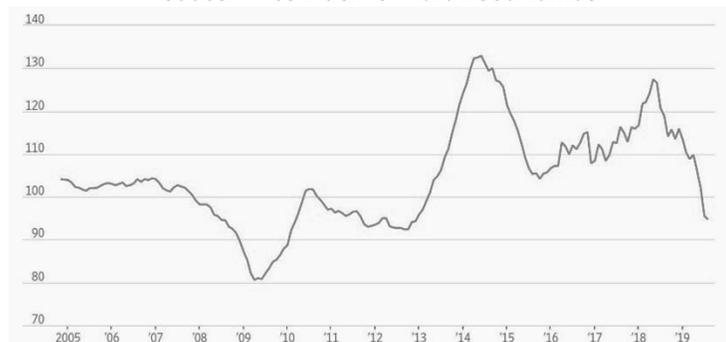
Lumber Futures, Nov 2019 Contract (Softwood), CME



Source: Barchart.com, accessed 28 Oct 2019

This situation stands in stark contrast to the US hardwood sector, which Lyme Timber Co. CEO, Jim Hourdequin, described as “...collateral damage in Trump’s trade war with China.”² Following China’s application of retaliatory tariffs reaching 25% on US hardwoods, exports fell 40% this year and prices plummeted as a consequence, prompting a string of mill layoffs and closures.³ In a single year, the US share of China’s hardwood imports fell 13%. The industry is worried that the dislocation may have lasting effects as timber exporters such as Russia and Gabon have rapidly increased their share of the Chinese hardwood market.

Producer Price Index for Hardwood Lumber



Source: US Labor Dept. cited in Hufford, A. *WSJ*. 26 Sep 2019.

US institutional investors have been wary about making large timberland commitments in the face of a rising interest-rate environment and fear of illiquid assets. Moreover, timber inventory growth in the US South outpaced harvests as recently as 2017.⁴ Both CalPERS and Harvard University have reduced exposure in recent years. European buyers have been more enthusiastic, partly due to the EU’s lower return environment. In July, IKEA grew its southern US timber holdings by 17,000 acres to a total of 64,000 acres and indicated interest in further US acquisitions.⁵ Timber and pulp manufacturer SCA and pension fund AMF, both Swedish, also made acquisitions. Wealthy families have demonstrated a growing appetite for timberland as a multi-generational sustainability play.⁶

David Brand, CEO of New Forests, a timber advisory, argues that the world has reached a tipping point as natural forests reach productivity limits and that nearly all incremental new wood supply will come from plantations.⁷ In the US, the conversion of old-growth forests to planted pine began in earnest as early as the 1950s.⁸ In Indonesia, 26 million hectares of primary forest have been lost from 2001-18, mainly for oil palm.⁹ 80% of Ivory Coast’s forests have been lost in the last 50 years driven largely by cocoa expansion.¹⁰ These processes will undergird the need for new sustainable timber plantations, “especially of high-quality tropical hardwood timbers, [which] presents the opportunity to establish both highly productive and highly valuable timber plantations.” While newsprint consumption has fallen in the digital age, emerging technologies to produce fuels, fabrics and plastics from wood fiber will boost demand.

Mr. Brand advocates a multi-dimensional timberland approach that incorporates greater reliance on local processing facilities, agroforestry techniques, and land-use optimization through selective agriculture on forest estates. A changing climate is likely to present both challenges and opportunities. Many TIMOs are looking to harness ecosystem services within their timberland, for example, by accessing the maturing California carbon offset market. Others seek to unlock property value by monetizing conservation easements in addition to traditional timberland revenue streams.

Sources: 1.) Robinson, A. “Lumber heads for best rally in 24 years on mill curtailments.” *Bloomberg News*. 13 Jun 19. 2.) Fleming, W. “Hard Times: New England Hardwood Industry Struggles Amid Trump’s Trade War.” *VPR*. 24 Sep 19. 3.) Hufford, A. “It’s a Crisis; Lumber Mills Slash Jobs as Trade War Cuts Deep.” *WSJ*. 26 Sep 19. 4.) Navedo-Perez. “Don’t axe your portfolio just yet.” *IPE Real Assets*. Mar/Apr 19. 5.) “Timber Market Update. Exec. Summary.” *IWC*. 2Q2019. 6.) Nguyen, L. “Wealthy Families Are Adding Forests to Their Portfolios.” *Bloomberg News*. 16 Jun 19. 7.) Brand, D. “Transforming the Forestry Asset Class.” *New Forests*. Mar 19. 8.) Davis, S. “A history of forests in the U.S. South.” *Woodworking Network*. 10 May 18. 9.) Schlanger, Z. “The global demand for palm oil is driving the fires in Indonesia.” *Quartz*. 18 Sep 19. 10.) Pearce, F. “The Real Price of a Chocolate Bar: West Africa’s Rainforests.” *Yale Environment 360*. 19 Feb 19.

Andrew Miller, Independent Forestry Consultant