

SOUTHERN TIMBERLAND PROVES TO BE A SOLID AND GROWING INVESTMENT OPPORTUNITY

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If you are searching for a new investment opportunity as an alternative or addition to such perennial favorites as stocks and bonds, maybe you should try looking up—at the trees.



That's because the outlook for the U.S. forest industry—especially in the South—is casting trees and timberlands in an increasingly attractive light as an investment opportunity that, with good management, will just keep growing in a sustainable cycle.

Forestland is a hard asset with intrinsic value, which can help to minimize volatility on returns from more traditional investments. Forestland values in the Southeast are, in inflation adjusted terms, down 40 percent from their high in 2008. Prices for some timber products are also at the lowest point they have been in years, expressed in 2012 dollars.

Prices for standing southern pine trees —known as “stumpage”—when expressed in current dollars are below historical averages, representing a low point in this specific commodity's



price cycle and setting up an opportunity to invest on the upswing. The forest products market is cyclical and reflects the general economic conditions in the U.S., as well as other factors such as the housing market and exchange rates.

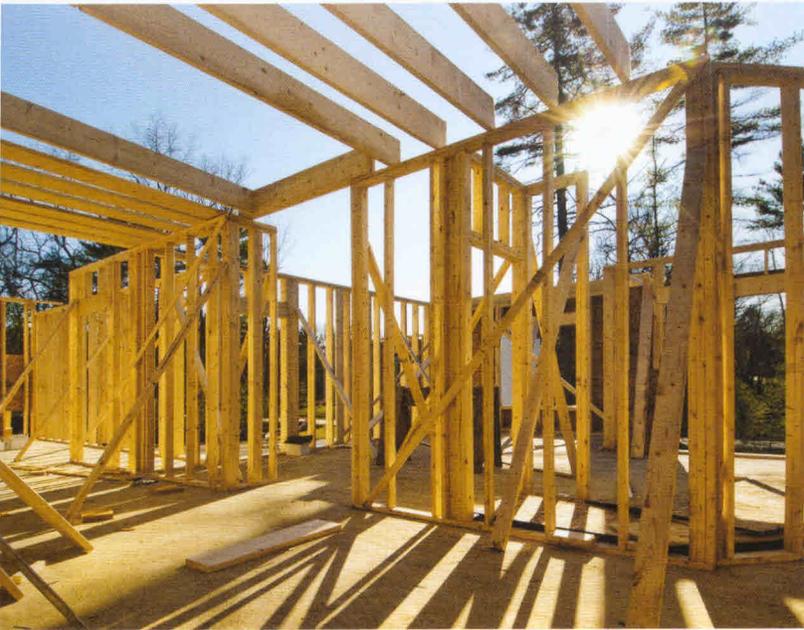
Stumpage prices are buffered somewhat against these cycles due to the ability to “store” trees in the forest thereby reducing supply in low markets. This also provides for the ability to sell quickly if prices rise, increasing supply in good markets. This “buffering” makes the current dramatic downturn even more noteworthy.

The present market dynamics indicate a growth opportunity in a green investment.

Forestland, and its trees, constitute a green investment because of the role of forestry in enhancing the environment, creating sustainable wood materials, and generating biofuel. When managed correctly, forests enhance the overall environment through improvements to air quality, water quality, and biodiversity.

Yet, trees, and the related wood products, also represent a renewable resource marketable to a number of industries from construction to bioenergy. The U.S. economy is expected to grow in the foreseeable future. Despite some mill closings, the U.S. pulp and paper industry—much of it concentrated in the South—has remained relatively strong throughout the economic downturn primarily because of increased demand for packaging and specialty pulp for such standard household items such as personal care products. Exports have also been relatively strong.

A relatively new market for trees is coming from the bioenergy field. Prior to the rapid growth in fossil fuel usage, wood had been the primary energy source in the U.S. Now, some traditional energy companies, and also start-ups, are looking for



alternatives to the world's energy crisis and viewing wood as a viable option. Existing and announced wood pellet plants in the U.S. are projected to consume 75.4 million tons of wood per year by 2023—36.6 million tons per year in the U.S. South alone, according to the Wood Bioenergy report published by Forisk Consulting.

One of the largest and growing markets for U.S. trees is European demand for wood pellets as a fuel replacement for coal to reduce carbon emissions from electric generating plants. Pellet exports from the U.S. South to Europe rose to more than 1.7 million tons in 2012 alone, shattering past records and showing no signs of slowing, according to the North American Wood Fiber Review. Some 68 pellet plants are in operation or have been announced for Southern states for this European export market.

The most significant and valuable market for tree products is the housing construction industry. At long last, new home construction is showing signs of recovery following a five year severe decline, which resulted in a sharp drop in demand and prices for large trees—known as sawtimber—used for lumber.

This decline in demand coincided with an oversupply of these large lumber-sized trees due in part to an unusual spike in tree planting in the 1980 and 90s in response to the federal Conservation Reserve Program (CRP) that paid landowners to convert cropland to trees. Perhaps the biggest challenge facing forest landowners is the overhang of mature and maturing sawtimber in the 25-30 year age range.

The U.S. housing industry is slowly recovering and new home starts are gradually increasing. It is expected that the demand for lumber—and therefore sawtimber trees—will return to trend as new home construction picks up momentum.

Traditional wood products manufacturers have ramped up production, reopened closed mills, and announced new mills.

Lumber and log export markets to China and other Far East countries are another plus for timberland investment. While most of these exports currently are from the West Coast and Canada, some shipments are being made from East Coast and Gulf ports, including Savannah. These shipments are likely to increase with the enlargement of the Panama Canal scheduled for completion in the next couple years, and with Savannah, Charleston, and other ports racing to deepen their channels to accommodate the next generation of gigantic container ships.

With the Southern pine belt within easy reach of these ports, forest landowners and investors are poised to grab a greater share of the huge Chinese log and lumber market.

Timberland is an investment that can just keep growing perpetually through good, sustainable management. When a timber crop is harvested at the end of the growth cycle, sustainable management calls for the site to be reforested with a new tree crop. With good management, each successive rotation can become more productive and yield more wood volume than the previous.

Forestland, a historically sound investment, offers a way to diversify your portfolio through a tangible asset with additional green benefits.

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