

Timber Market Update

3Q 2019 – Executive summary

Copenhagen, December 2019

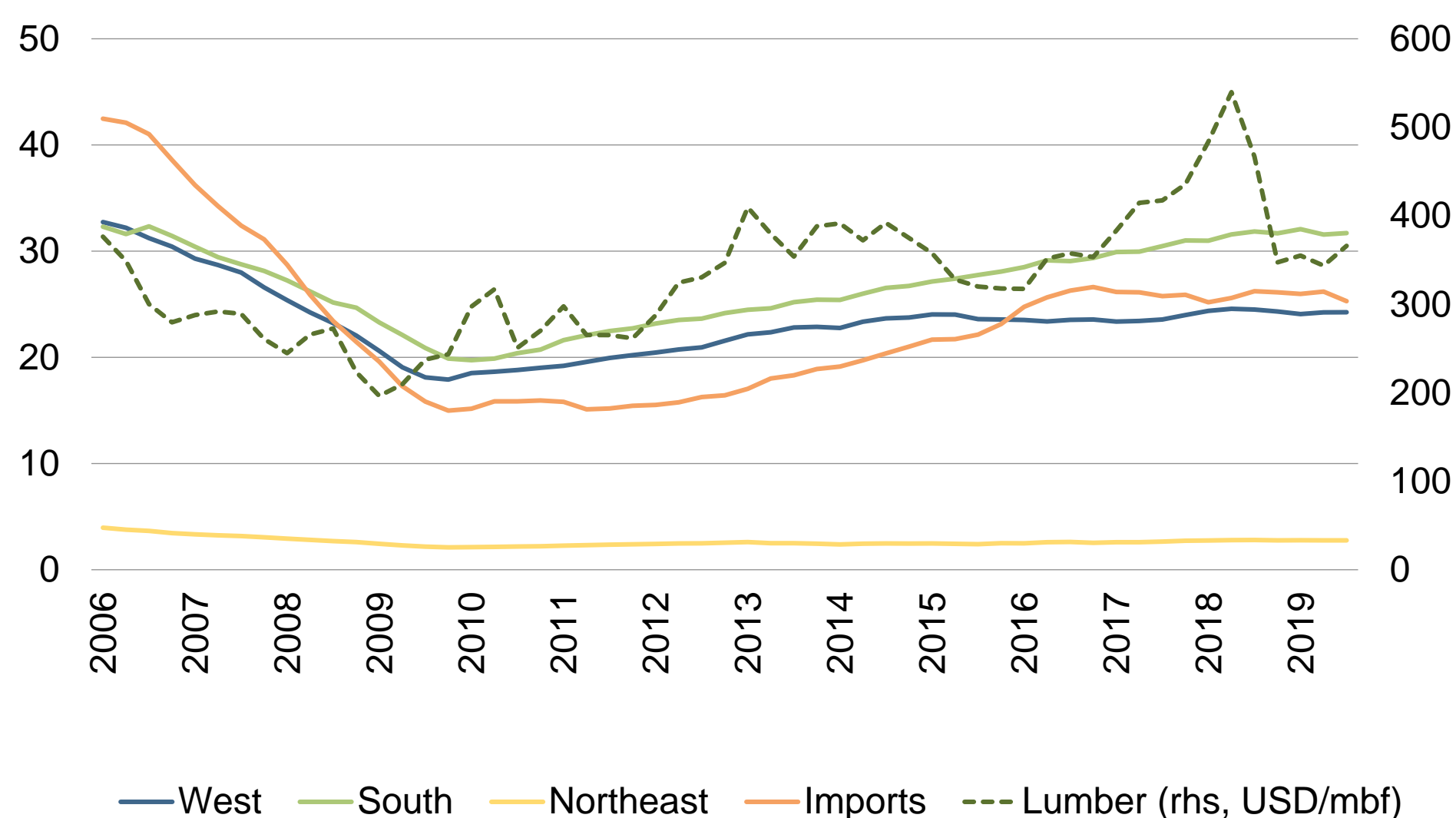
Executive summary

Timberland transactions and returns

During the third quarter, falling lumber and log prices in the US Pacific Northwest and Northeast led to capital depreciation in timberland in both regions, while the US South was not affected to the same degree due to a more modest log price correction. On the US market, Lyme Timber's USD 300 million acquisition of 550,000 acres of timberland from Weyerhaeuser was among the most notable transactions of the quarter. Moreover, this could signal a broader disposition of Northeastern timberland on the part of Weyerhaeuser.

Brookfield's disposition of Acadian Timber to Macer Forest Holdings for USD 128 million reflects the company's strategy to exit the North American timber market, while still managing 0.5 million hectares in Brazil. Given the clear gap between valuation and transaction price for large timberland properties in Sweden, the two large integrated forest companies, Holmen and SCA, decided to apply the sales comparison approach in timberland valuations, leading to a doubling of their booked timberland values.

Figure 1 US softwood lumber production, imports (mio m³) and prices



Source: International Wood Markets Group. The composite lumber price improved in the third quarter, up 3.4% compared to last quarter. Moreover, lumber prices are expected to improve slowly, depending on how lumber supply develops going forward.

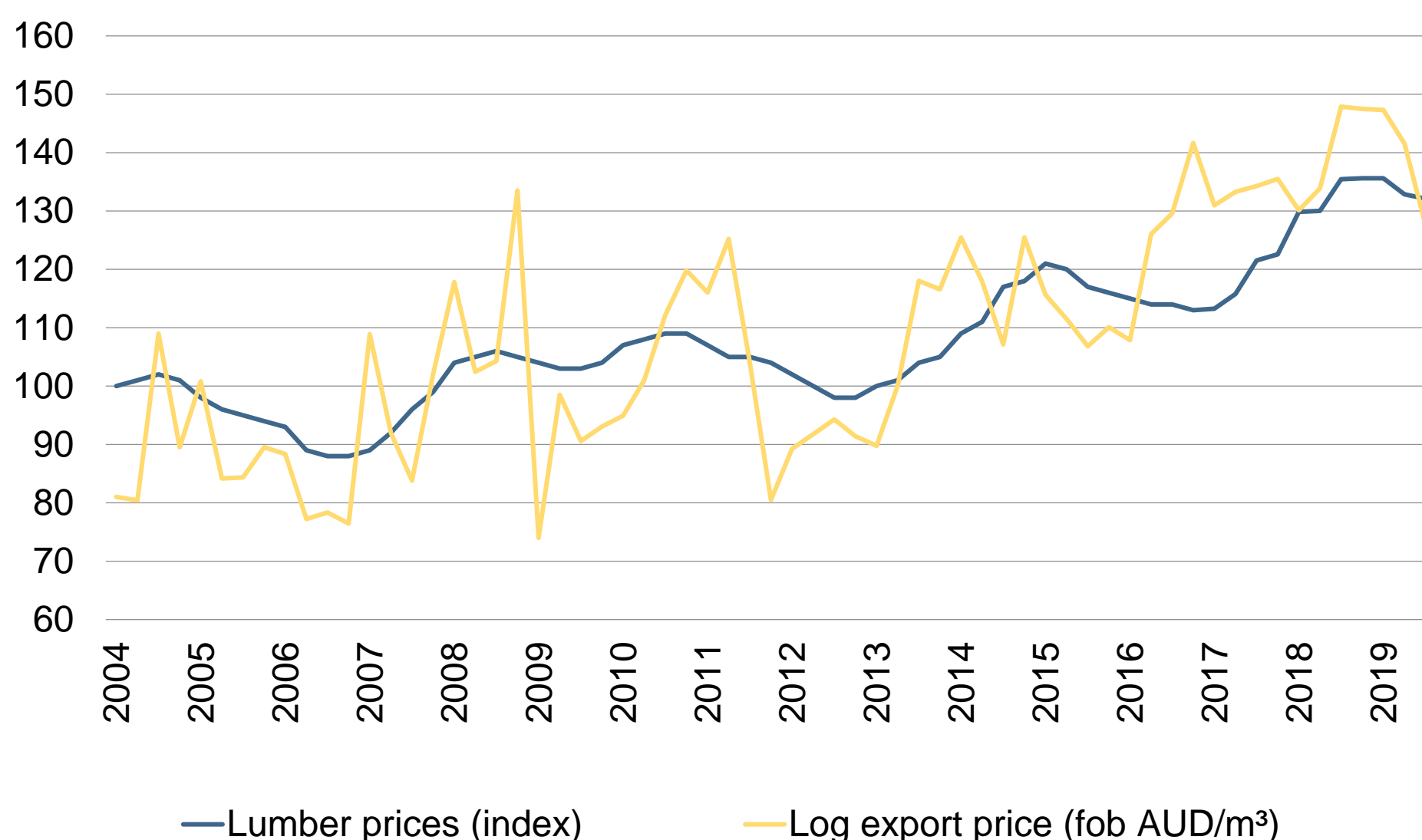
Regional price developments and market drivers

Though US housing starts improved significantly in August, on average for the quarter, housing starts were up by 2%. Lower mortgage rates have been the main driver for this rebound. US lumber prices improved in the third quarter, up 3.4% compared to last quarter, but 23.6% below last year's price level. As a result of the recent lumber price

correction, mill curtailments of about 3 million m³ (14% of capacity) in British Columbia (BC) took out significant volume from the market, bringing lumber supply more in balance with demand. Continued tariffs on log and lumber exports to China reduced demand by up to 50%, leading to a decline in US hardwood log prices.

In Australia, housing approvals decreased in the third quarter, down 22.2% compared to a year ago. Meanwhile, lumber demand declined by about 10% during the quarter, especially affecting lumber imports, while domestic lumber prices declined by a mere 0.6%. At the end of the quarter, Australian hardwood chip exports were down 1.1% compared to 3Q 2018, as a result of suppliers holding back on volumes in order to sustain prices. Still, woodchip prices retracted by 1.6% over the course of the quarter, due to lower pulp prices and Chinese woodchip demand.

Figure 2 Australian structural timber and log prices (softwood)



Source: International Wood Markets Group. Domestic lumber prices retracted modestly by 0.6%.

In New Zealand, log export prices recovered after the sharp price correction earlier in the year. In November 2019, export log prices rebounded to 110 NZD/m³, which is 10-15% below prices before July. On the domestic market, weaker export prices precipitated some structural log price correction, while pruned log prices remained steady due to smaller timberland owners reducing supply. This also supported pruned log export prices.

In Europe, log prices corrected during third quarter as salvage wood from beetle infested forests continues to oversupply the market. The European lumber industry is facing strong competition from the general oversupply situation, which has led to a stark decline in lumber prices of up to 40% for lower quality grades. Europe also exported more lumber and logs to Asia, which caused log prices to drop in the region last quarter. Meanwhile, Wood imports to China declined by 5% in the third quarter, mainly due to log imports. Pulp imports, on the other hand, increased by 2%, reflecting the Chinese pulp buyers' purchase of building inventory at a time when pulp prices are low.