

# Timber Market Update

## Executive summary - 4Q 2020

### Valuations and returns

US timberland property-level 2020 return was reported at 0.81% by NCREIF. The income return in the fourth quarter was higher, but the total return was once again reduced by capital depreciation. This was driven by curtailments in the Northeast and, despite increased log prices, fire damage in PNW.

### Transactions

The fourth quarter was, globally, very active in timberland transactions. In the US, 50% of all 2020 transactions took place during the quarter, totaling around USD 1.2 billion. US transactions for 2020 amounted to around USD 2.3 billion, 10% higher than 2019, signaling that investor appetite is back. International transactions were also high for quarter, reaching almost USD 600 million.

### Market drivers

In the fourth quarter, US housing starts were up by 10% compared to a year ago, reaching 1.6 million per year. The increase was once again driven by single-unit starts, which reached 1.2 million – the highest level since 2006. Backlog of orders suggests that these levels are likely to continue for some time.

Australian housing starts increased by 4.5% in the quarter, compared to a year ago, driven by single-unit houses and government stimulus package. The domestic lumber production was up by 10% from a year ago, while lumber imports declined due to strong competition from the US. The Chinese import ban on logs from Australia could reduce Australian log exports and prices, despite strong demand in China. Export of woodchips to China was up by more than 80% over the quarter, driven by stronger global pulp prices.

In New Zealand, log production was back to normal. The recovery was driven by a rebound in exports and strong log export prices in China due to the strong US lumber prices, ban on Australian logs, and increased freight costs and higher sales prices for European suppliers. Despite strong demand from housing and building consents, being up by 5% over the year, the domestic market is struggling to compete with exporters.

Chinese wood imports increased by 6% in volume terms. Lumber imports were replaced by log imports, due to high global lumber prices.

In Europe, the reduced volume from beetle-infested wood and a strong lumber demand increased the log prices. Unless Chinese buyers will accept further price increases, the reduced supply of damaged wood and container shortage are expected to constrain log exports to China.

### Lumber and log price developments

2020 has been a turbulent year for wood markets. US lumber prices were at record highs, and while demand was up by 4.3% in 2020, supply was tight due to industry curtailments and postponed CAPEX during COVID-19. These factors will likely keep lumber prices above average the next two years.

In US S, sawlog prices remain low but have increased by 6.8% during the quarter, which is normal for the season. Lumber production in the region was up by 6.1% in 2020.

In PNW, sawlog prices also increased but as a result of higher lumber prices (Douglas-fir was up by 11% over the quarter). The log prices might decline in the spring when a significant volume of salvaged logs from the fires in Oregon come to market. This could last throughout the summer, when most salvage operations are expected to be completed.

In the Northeast, hardwood log prices pulled back despite improvements in hardwood lumber prices. The industry is slowly catching up with demand, which is attributed to a continued weak industrial lumber market for pallets. However, log price improvements are expected.