

Timber Market Update

Executive summary - 1Q 2021

Valuations and returns

The NCREIF US timberland property-level return increased 1.46% in 1Q21, driven by higher incomes for the quarter. The income return was highest in PNW due to the correlation between log and lumber prices.

Transactions

During the quarter, US timberland transactions totaled around USD 368 million and 231,000 ha. For the rest of the world, 172,000 ha were transacted for approximately USD 580 million. In the US, the transactions were also driven by HBU sales to individuals and real estate developers. Investments in the US over the last four quarters, reached USD 2.3 billion – a 10% increase from last year's total.

Market drivers

US timber markets were driven by historically high lumber prices. The industrial lumber production could not keep up with the high demand, coming from government stimuli, DIY-projects during lockdowns, COVID-fueled contractions in the supply chain, and increased housing starts (around 1.6 million), supported by low mortgage rates.

In Australia, the highest monthly single-unit approvals of 14,000 were observed in each February and March, driven by the government stimulus package. As in the US, the shortage of building materials and labor will postpone construction activities. Over the year, the lumber consumption increased by 10.7%, and was supported by imports since the domestic production is at full capacity. The Chinese log import ban is still causing export problems for Australia, but export woodchip sales have increased due to higher pulp prices.

Log prices in New Zealand increased, driven by higher prices on logs and lumber in China, increased shipping costs and a tight supply. NZ also held its first ETS auction, where 4.25 million NZU sold at NZD 36/tCO₂. These carbon prices are being reflected in the land prices, which are also increasing.

In Brazil, Suzano announced to build a 2.3 million tonnes pulp mill – an investment of USD 2.8 billion, expected to be up and running by 2024. According to Suzano, 85% of the wood required for the mill is already under contract.

Due to a strong demand in China, logistical constraints, and low inventory, pulp prices increased 30%. These increased prices also resulted in increased Chinese imports of woodchips for integrated pulp production.

Total Chinese wood imports are normally lower in the first quarter due to the Chinese New Year, but imports were still up by 8% compared to a year ago. Due to high global lumber prices, China is importing more logs and less lumber for domestic lumber production.

In Europe, the lumber industry was also running at full capacity, and there was an overall lift in log and lumber prices. As in New Zealand, the EU carbon market is on an upward trajectory, reaching USD 45/tCO₂. This increase was driven by tougher emission reduction targets and increased investor interest.

Lumber and log price developments

In the US, the development of the lumber prices has not gone unnoticed. In May, the record was set at 1,700 USD/mbf. This rapid increase was stimulated by above-listed factors. These are all short-term factors, but prices are expected to remain above pre-COVID levels for the remainder of the year, despite announced lumber capacity expansions in the US. US log prices did not follow lumber prices to the same degree due to supply overhang in the US South and salvage operations in Pacific Northwest, muting the effect from the increased log demand.