FOREST INVESTMENT ASSOCIATES

QUARTERLY UPDATE

THIRD QUARTER 2011

Contents

Summary Update

Timber & Product Prices — Southeastern stumpage prices decreased slightly throughout the third quarter due to subdued demand from a weak housing market and drier weather conditions leading to more readily available timber. Prices in the Pacific Northwest remained relatively flat in the third quarter, as Asian demand for exports has slowed since the beginning of the year. In the Northeast, prices were down overall for the quarter, as many mills in the region have slashed production due to poor demand for finished wood products.

Pulp prices fell slightly from the all-time high reached last quarter, but remained quite strong overall. Framing lumber and structural panels saw slight price increases throughout the third quarter despite a lackluster housing market. Although housing starts fell slightly this quarter, newly issued building permits reached their highest level since last December. Also, the average rate for 30-year loans reached a record low in September, bottoming out at approximately 4.1%.

Timberland Markets — Rayonier’s announced acquisition of 250,000 acres across the South for $330 million and 50,000 acres in Louisiana for more than $80 million are the biggest news items of the quarter, and continue a trend of REITs being the most active buyers this year. Several other small deals hit the market, including a 14,800-acre property in Georgia that UBS is selling out of foreclosure. International markets remain very active with a number of properties for sale in Australia, New Zealand, and Brazil.

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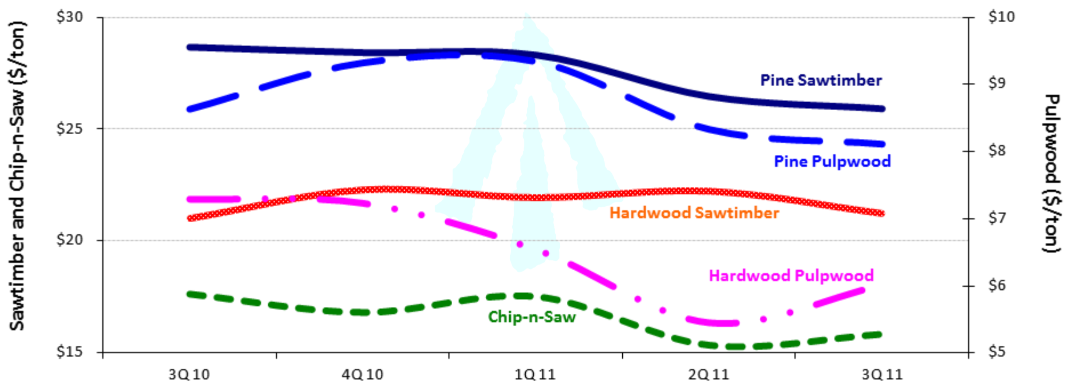
Timber Prices

Southeastern — Mills continued to carry large inventories throughout the third quarter as dry weather conditions provided ideal accessibility to most tracts. These large inventories, coupled with a continued lack of demand, caused prices to fall slightly. According to Forest2Market®, south-wide average prices for pine sawtimber decreased 2.1% during the quarter, finishing 9.6% below year-ago levels. Chip-n-saw prices increased by 3.2% during the third quarter, finishing 10.2% below year-ago levels. Pine pulpwood prices fell by 2.6% during the quarter, and fell 6.0% short of last year's prices.

Hardwood markets also remained relatively stable throughout the third quarter, as average hardwood pulpwood prices increased 10.3%, but remained 17.6% below year-ago levels. Average prices for hardwood sawtimber fell 4.5% during the quarter, finishing 1.0% above year-ago levels.

Southeastern Timber Prices

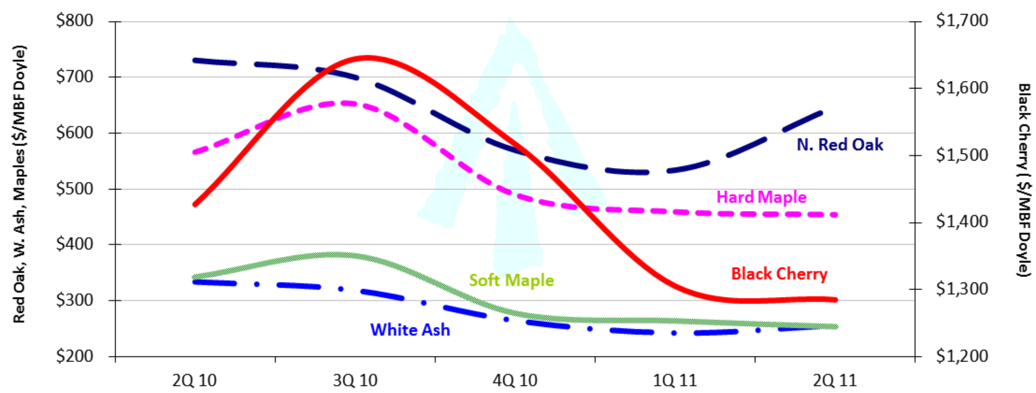


Source:Forest2Market®

Northern Hardwoods — In Pennsylvania and New York, sawmills continued to run single shifts, while holding low to moderate log inventories. Despite the lack of overall production, white ash demand seemed to strengthen throughout the third quarter. Black cherry prices decreased 1.6% during the second quarter (the most recent publicly reported pricing), falling 10.0% short of year-ago levels. Prices for northern red oak increased by 21.3% last quarter, but remained 11.4% below year-ago prices. Hard maple stumpage prices decreased 1.1% during the quarter, finishing 19.8% lower year-over-year. Soft maple prices fell by 3.8% last quarter, and were down 25.7% from year-ago levels. White ash prices increased 5.6% last quarter, but finished 23.4% below last year's prices.

In Wisconsin, veneer markets continued to see relatively low demand throughout the quarter. Stable sawlog inventories at most mills in the region caused lumber and sawlog prices to remain unchanged.

Northeastern Hardwood Timber Prices

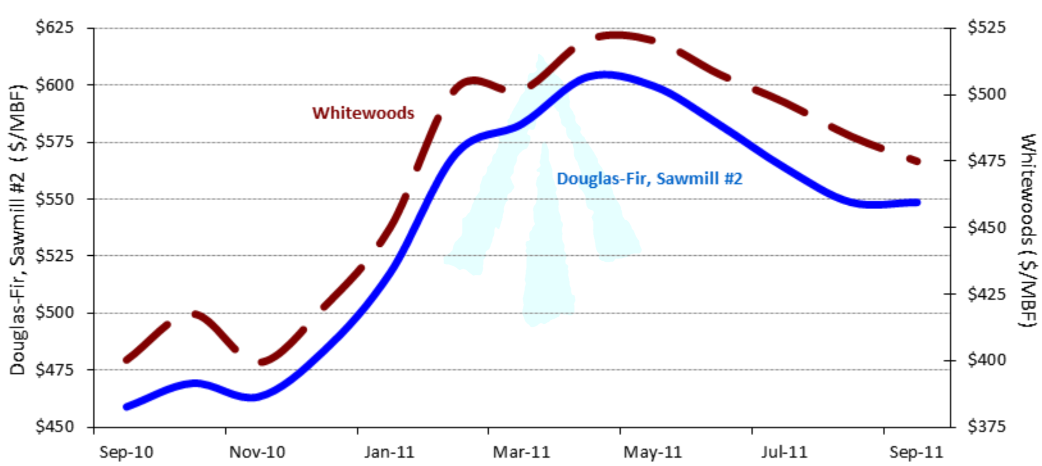


Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest — According to Log Lines®, Pacific Northwest (PNW) average delivered prices for Douglas-fir #2 logs decreased 5.8% during the second quarter, but still finished 19.5% above year-ago levels. Whitewood (i.e., fir and hemlock) average delivered log prices fell 6.4% during the quarter, but remained 18.7% above year-ago levels.

The domestic demand for logs was relatively flat throughout the third quarter. Asian export demand also remained unchanged after weakening slightly last quarter. While demand is not expected to pick up in the immediate future, many analysts expect that the supply of logs from Russia will not increase significantly in the moderate term. This continued supply constraint should create a sustainable Asian demand for PNW Douglas-fir and whitewood logs for the foreseeable future.

Pacific Northwest Log Prices

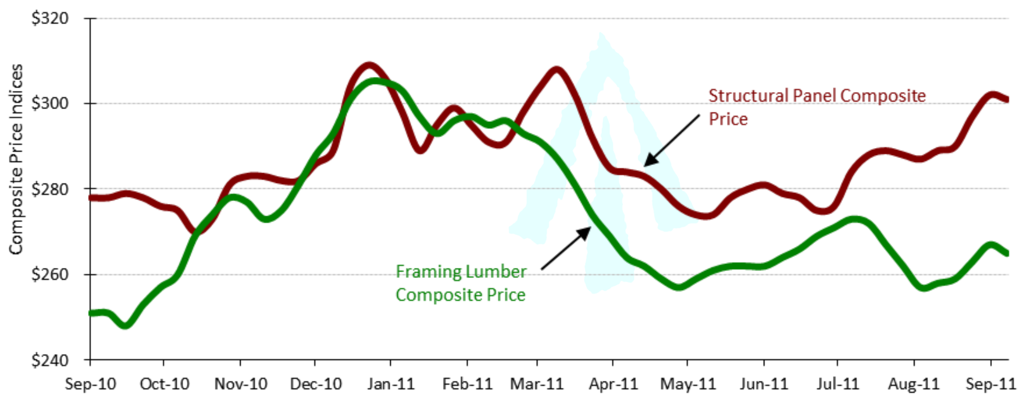


Source: Log Lines®

Product Prices

Lumber and Panels — Housing starts and remodeling projects remained low throughout the third quarter; however, the Random Lengths® Framing Lumber Composite Price increased by 1.1%, finishing 5.6% above year-ago levels. Likewise, the Structural Panel Composite Price increased by 7.1% for the quarter, finishing 8.3% above year-ago levels.

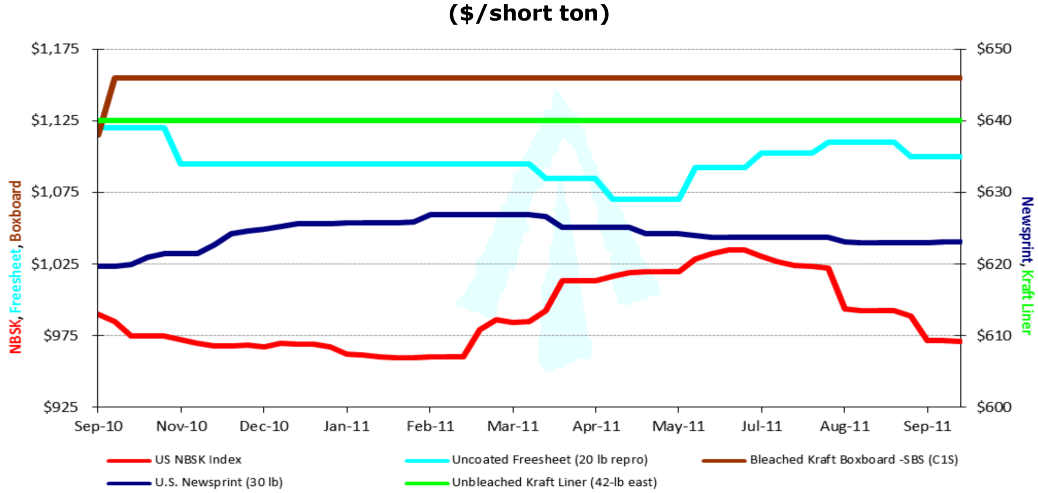
Lumber and Panel Prices



Source: Random Lengths®

Pulp and Paper — Pulp prices fell slightly from an all-time high during the third quarter, while paper product prices remained relatively stable. The benchmark NBSK (northern bleached softwood kraft) pulp price index fell 6.2% during the quarter, finishing 1.9% below year-ago levels. U.S. Newsprint (30 lb.) decreased 0.1% during the quarter, but remained 0.5% above year-ago levels. Uncoated freesheet (20 lb.) increased by 0.7% for the quarter, but remained down 1.8% year-over-year. Linerboard prices remained unchanged for the quarter and the year, while boxboard prices were flat for the quarter and up 3.6% year-over-year.

Pulp and Paper Prices
($/short ton)



Source: FOEX Indexes, Ltd., RISI Pulp & Paper Week

Timberland Markets

Transactions — Rayonier made headlines recently as the most active timberland buyer in the market. The company announced in late September that it would acquire 250,000 acres in Oklahoma, Louisiana, Alabama and Georgia from Molpus Woodlands Group for $330 million. The property, formerly owned by Bernie Ebbers, consists reportedly of very young timber, as Ebbers harvested heavily early this decade. Rayonier was also the high bidder for Forest Capital's 50,000-acre package in Louisiana, paying a reported $82 million in a complicated transaction including cash and stock.

Deals in Progress — UBS, after foreclosing on a 14,800-acre property in Southeast Georgia earlier this year, sought bids at the end of September and more than a dozen potential buyers submitted bids. Other properties remain on the market, including Timbervest's 143,000-acre package in the northeast. Several smaller deals, ranging in size from 5,000 to 9,000 acres, hit the market in south Mississippi and the Florida panhandle. With REITs becoming active buyers and TIMOs having capital to deploy, sellers should recognize a hungry market and offer more properties in upcoming months.

International Markets – International markets continued to be more active than U.S. markets throughout the third quarter. In Australia and New Zealand, several sale processes are underway, including Willmott Forests, a collapsed managed investment scheme asset, which is attracting a lot of attention. Global Forest Partners (GFP) had a collection of smaller properties in New Zealand and a large property in southern Brazil for sale. GFP reportedly withdrew the New Zealand properties from the market after receiving first-round bids, and the future status of the sale is unknown. The latter property, likely the largest timberland investment held by a TIMO in Brazil, attracted significant interest from both TIMOs and vertically integrated forest products companies. Potentially the largest timberland transaction following the Brazilian restrictions placed on foreign ownership of property, market participants are closely following its outcome.

Economic News

Housing — Housing starts fell in August to a seasonally adjusted annual rate of 571,000, down 5% from July, and nearly 6% year-over-year. In a small bright spot, builders appear to be ramping up for more construction projects. Newly issued building permits rose 3.2% from the prior month to an annual rate of 620,000, the highest level since last December.

Mortgage Rates — Rates for 30-year loans dropped to record lows at the end of the quarter, falling to just over 4.1%.

Jobs — The nation's unemployment rate held at 9.1% in September, unchanged from the month prior. Private, non-farm employers added approximately 90,000 jobs throughout the month.

Consumer Confidence — Consumer confidence ticked up slightly in September after hitting its lowest level in nearly three years. The Thomson Reuters/University of Michigan final index of consumer sentiment rose to 59.4 in September from 55.7 in August. Before the recession began in December 2007, the index averaged 89 for the five years prior.

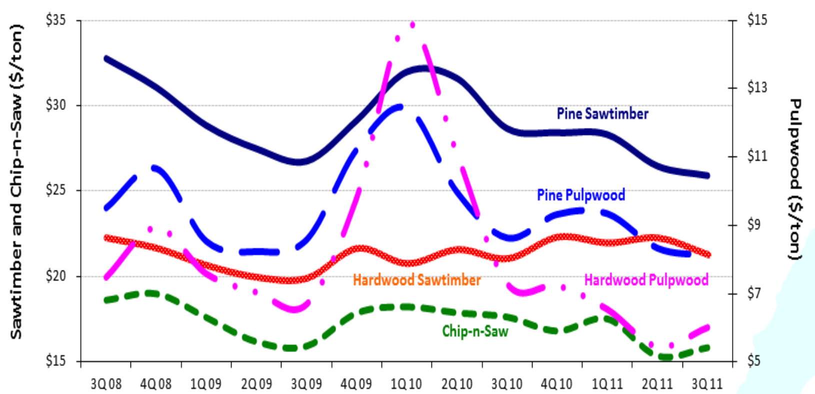
Inflation — The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4% in August on a seasonally adjusted basis. Over the last twelve months, the all-items index increased 3.8% before seasonal adjustment. The seasonally adjusted increase in the all-items index was broad-based, with continuing increases in the indices for gasoline, food, shelter and apparel.

Trade Deficit — The most recently available information for the U.S. trade deficit showed July exports of $178.0 billion and imports of $222.8 billion, resulting in a goods and services deficit of $44.8 billion. This figure is down from $51.6 billion in June. While substantial, the current trade deficit is far lower than the peak seen in 2006 of nearly $820 billion.

Interest Rates — The federal funds rate remains at a range between zero and 0.25%, a level it has maintained for more than two years. Yields on the 10-year note ended the quarter at less than 2.0%, a historic low. In an unconventional move, the Fed said it would invest $400 billion in long-term Treasury securities over the next nine months, using money raised by selling its holdings of short-term federal debt, in an attempt to drive down interest rates on mortgage loans, corporate bonds and other forms of credit.

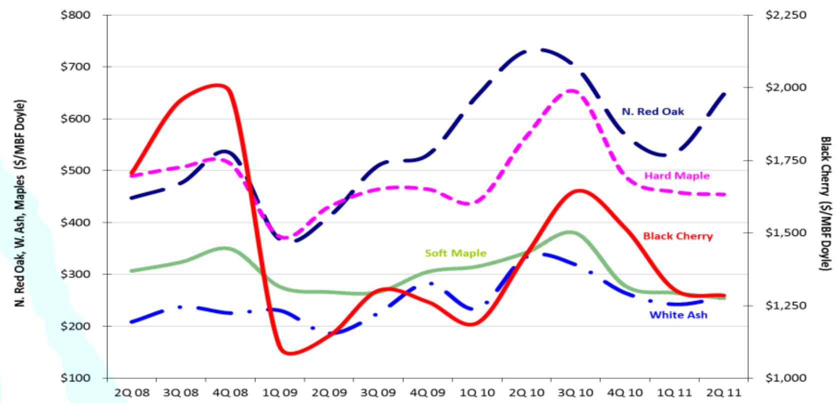
The FIA Timber Economics "Quarterly Dashboard"

Southeastern Timber Prices



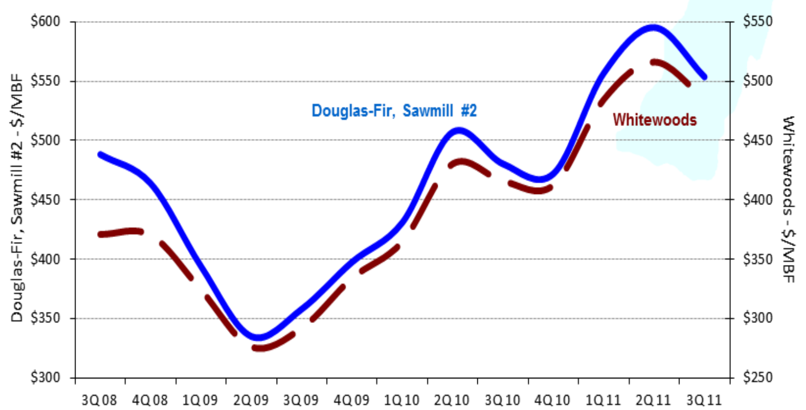
Source: Forest2Market®

Northeastern Hardwood Timber Prices



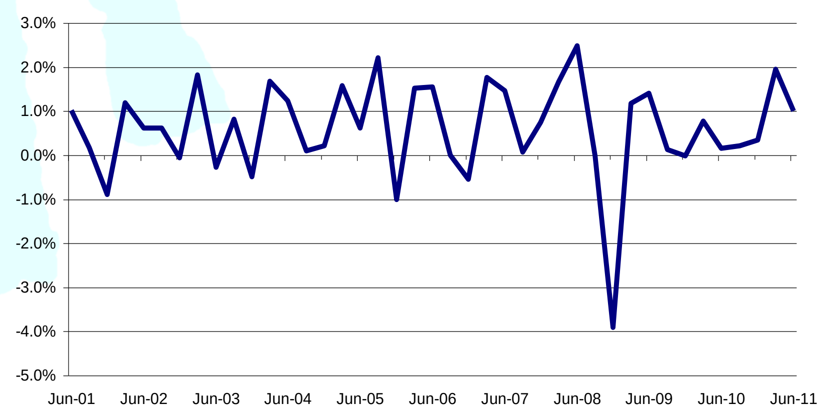
Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest Timber Prices



Source: Log Lines®

Inflation (CPI)



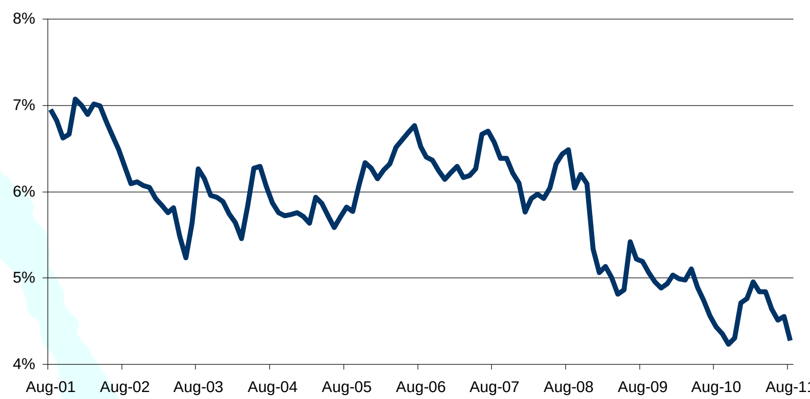
Source: http://www.bls.gov/cpi/home.htm

The FIA Timber Economics "Quarterly Dashboard"

Housing Starts

Source: NAHB.org – http://www.nahb.org/

30 yr. Mortgage

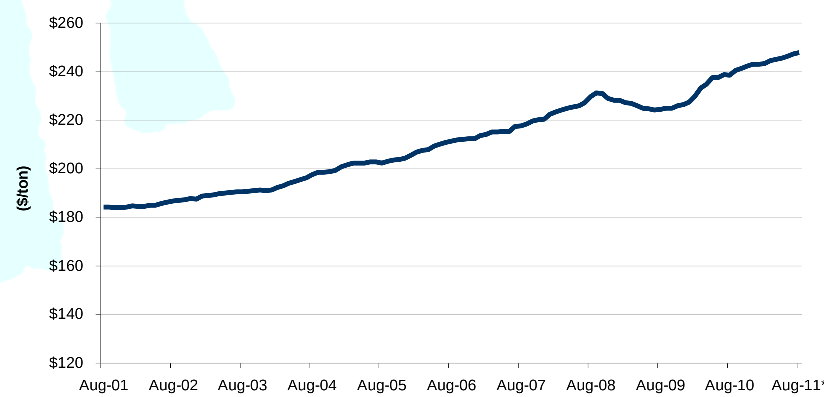


Source: The Federal Reserve

Lumber

Source: U.S. Department of Labor, Bureau of Labor Statistics

Pulp and Paper



Source: U.S. Department of Labor, Bureau of Labor Statistics