



QUARTERLY UPDATE

FOURTH QUARTER 2011

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Summary Update

Timber & Product Prices — Southeastern stumpage prices increased slightly throughout the fourth quarter due to a combination of mills increasing inventories in preparation for the winter months and pockets of wet weather limiting available supply in certain areas. Prices in the Pacific Northwest remained relatively flat in the fourth 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 continue to carry limited inventories due to poor demand for finished wood products.

Pulp prices continued to fall from the all-time high reached over the summer, but remained quite strong overall. Framing lumber and structural panels saw slight price increases throughout the fourth quarter due to a slight rebound in the housing market. Housing starts and newly issued building permits reached their highest levels in over a year during the fourth quarter; however, starts are still well below their long-term trend. Also, the average rate for 30-year mortgages reached a record low in December, bottoming out at just under 4%.

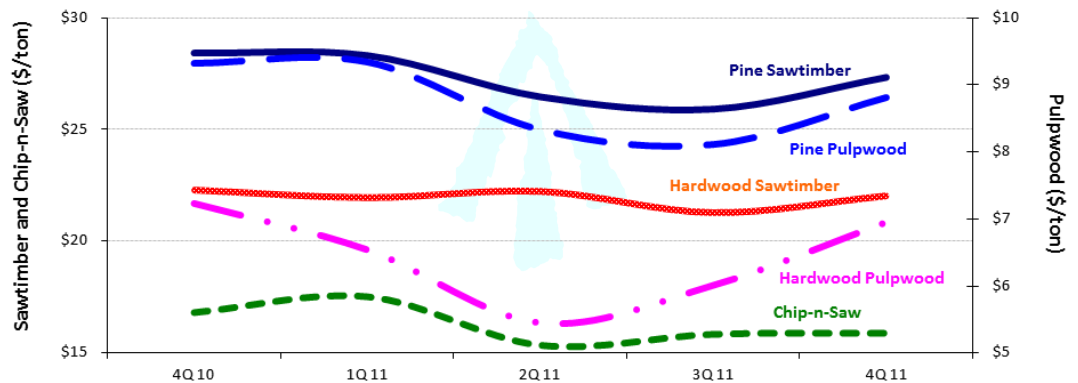
Timberland Markets — Timberland transactions in the U.S. have increased this year from 2010, but are still significantly lower than the peak levels from 2006 to 2008. Much of the increase can be attributed to aggressive acquisitions by REITs that will generally pay more than institutional buyers. One notable transaction this quarter was Wausau’s sale of two packages totaling 80,000 acres in Wisconsin to Lyme Timber and The Forestland Group for a combined \$42.9 million. International markets remain active with investors learning of large sales in Australia and Brazil.

Timber Prices

Southeastern — Mills increased their inventories throughout the fourth quarter in an effort to prepare for the winter months. This increase in demand, coupled with pockets of wet weather limiting available supply in certain areas, caused prices to increase slightly. According to Forest2Market®, south-wide average prices for pine sawtimber increased 5.5% during the quarter, finishing 3.8% below year-ago levels. Chip-n-saw prices increased by 0.3% during the fourth quarter, finishing 5.5% below year-ago levels. Pine pulpwood prices rose by 8.6% during the quarter, but fell 5.5% short of last year's prices.

Hardwood markets also saw increased demand throughout the fourth quarter, as average hardwood pulpwood prices increased 15.6%, but remained 3.9% below year-ago levels. Average prices for hardwood sawtimber increased by 3.7% during the quarter, finishing 1.2% below year-ago levels.

Southeastern Timber Prices

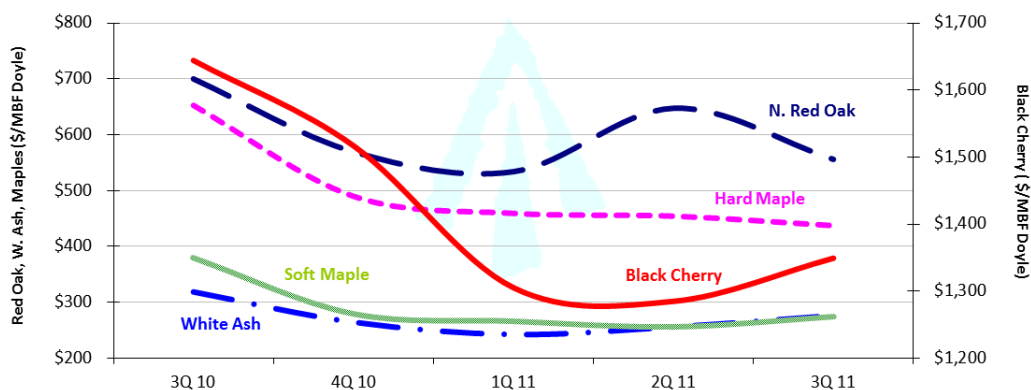


Source: Forest2Market®

Northern Hardwoods — In Pennsylvania and New York, mills have been reluctant to carry large lumber inventories in this weak demand environment. Wet weather conditions in November and December also hampered log inventories in the area. Black cherry prices increased 5.0% during the third quarter (the most recent publicly reported pricing), falling 17.9% short of year-ago levels. Prices for northern red oak decreased by 14.1% last quarter, finishing 20.6% below year-ago prices. Hard maple stumpage prices decreased 3.7% during the quarter, finishing 33.0% lower year-over-year. Soft maple prices rose by 7.3% last quarter, but were still down 28.1% from year-ago levels. White ash prices increased 7.9% last quarter, but finished 13.3% below last year's prices.

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

Northeastern Hardwood Timber Prices

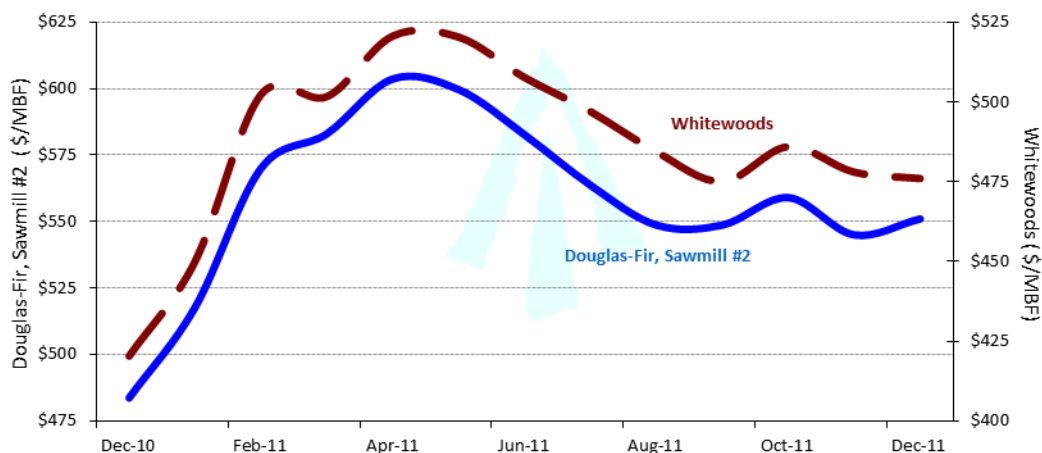


Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest — According to Log Lines®, Pacific Northwest (PNW) average delivered prices for Douglas-fir #2 logs increased 0.4% during the fourth quarter, finishing 13.9% above year-ago levels. Whitewood (i.e., fir and hemlock) average delivered log prices increased 0.2% during the quarter, remaining 13.2% above year-ago levels.

The domestic demand for logs continued to be relatively flat throughout the fourth quarter. Asian export demand also remained unchanged after weakening throughout the second half of 2011. 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

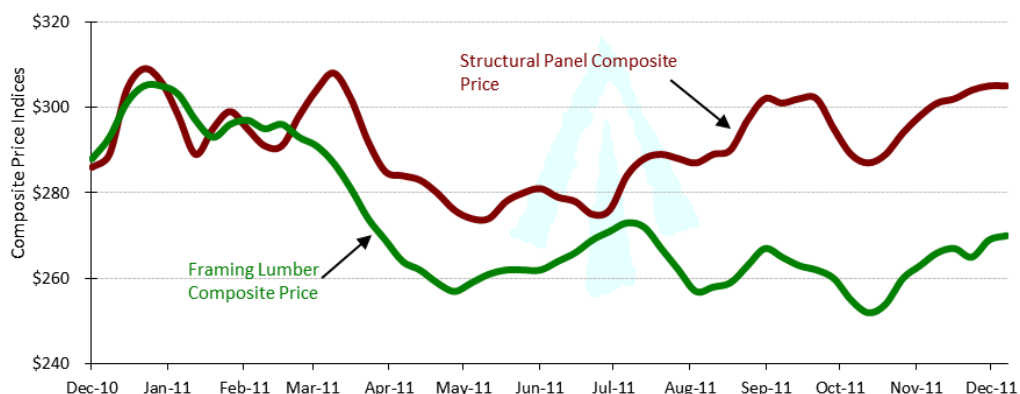


Source: Log Lines®

Product Prices

Lumber and Panels — Housing starts and remodeling projects saw a slight bump, but remained historically low throughout the fourth quarter. The Random Lengths® Framing Lumber Composite Price increased by 1.9%, but remained 7.8% below year-ago levels. Likewise, the Structural Panel Composite Price increased by 1.3% for the quarter, finishing 5.5% above year-ago levels.

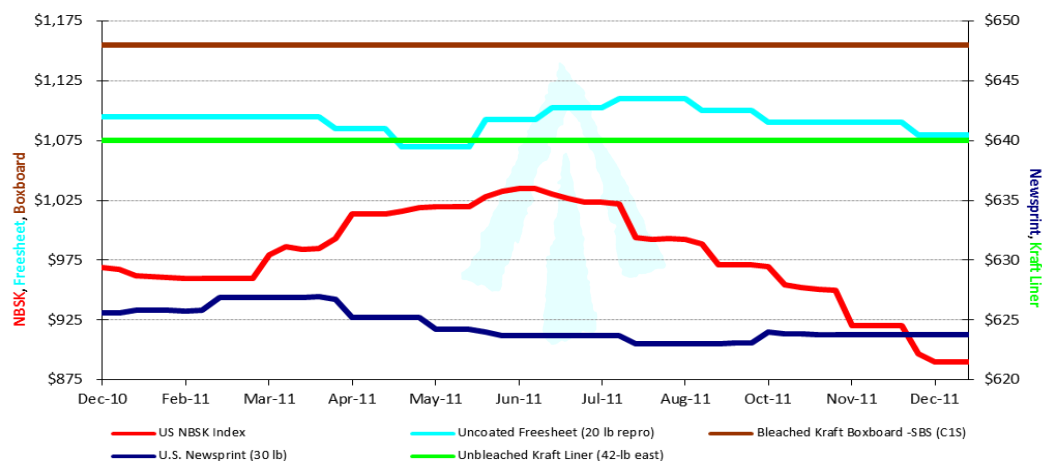
Lumber and Panel Prices



Source: Random Lengths®

Pulp and Paper — Pulp prices continued to fall throughout the fourth quarter, while paper product prices remained relatively stable. The benchmark NBSK (northern bleached softwood kraft) pulp price index fell 8.3% during the quarter, finishing 8.1% below year-ago levels. U.S. Newsprint (30 lb.) increased 0.1% during the quarter, but remained 0.3% below year-ago levels. Uncoated freesheet (20 lb.) decreased by 1.8% for the quarter, remaining down 1.4% year-over-year. Linerboard and boxboard prices remained unchanged for the quarter and the year.

Pulp and Paper Prices (\$/short ton)



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

Timberland Markets

Transactions — Wausau Paper completed a sale of 80,000 acres in Wisconsin to Lyme Timber and The Forestland Group for a reported \$42.9 million; lower than analyst expectations. Lyme timber will acquire 73,000 acres of mostly pine plantations in Northwest Wisconsin which have higher potential conservation value than timber production potential. The Forestland Group is set to acquire 7,000 acres in smaller tracts in central Wisconsin.

Total transaction value of domestic acquisitions reached approximately \$1.6 billion in 2011. Although this is double the value from 2010, it is still significantly lower than in years past. REITs were very active buyers in 2011, accounting for more than a third of transaction value. Over the past ten years, REITs have only accounted for about 12% of annual transaction value. Their increase in market share came at the expense of TIMOs and institutional buyers who accounted for only 40% of transaction value in 2011, compared to an average of almost 70% each year since 2001. Looking ahead to 2012, we expect to see the REITs remain active in acquisitions, but to also sell non-strategic properties.

Deals in Progress — The fourth quarter did not see the usual year-end flow of properties to the market. LandVest is running a process on 9,500 acres in central New York known as the Harden Timberlands. Investors are expecting at least one large Southern property to come to the market early in 2012, with other sellers likely to follow suit. Sellers also continue to offer smaller properties in exclusive negotiations with potential buyers or in extremely limited offerings. Although many of these sellers have high price expectations with small chances of selling, we expect to see a few deals close over the course of the next six months.

International Markets – International markets continued to be more active than U.S. markets at year-end. In Australia, the assets of defunct Managed Investment Scheme (MIS) manager Willmott Forests were sold to Global Forest Partners for a reported US\$77 million. Also in Australia, Forestry Tasmania announced the sale of its assets to New Forests for US\$152 million. Global Forest Partners (GFP) is in the process of selling the Corisco asset in Brazil to a partnership of local forest product companies Klabin and Arauco for US\$473 million. Forestry South Australia also announced plans to sell cutting rights on its 200,000-acre estate, and several U.S. TIMOs are already aggressively positioning themselves in what will likely be a very competitive sale process.

Economic News

Housing — Housing starts and building permits jumped to their highest levels in over a year in November. Starts rose to a seasonally adjusted annual rate of 685,000 units, the highest since April of 2010. Building permits also rose to 681,000, the highest since March of 2010. Notwithstanding this recovery, starts are still only a third of the all-time peak of more than 2 million annual starts in 2005 and well below a long-term run-rate demand of 1.5 million units.

Mortgage Rates — Rates for 30-year fixed-rate mortgages stood near their lowest levels on record (since 1971), at 3.95%. With the Federal Reserve having pledged to keep interest rates "exceptionally low" until at least mid-2013, most analysts expect mortgage rates to remain at or near this level for the foreseeable future.

Jobs — The jobless rate increased to 8.7% in December from 8.6% the prior month, the lowest level since March 2009. Employers added 1.45 million workers through November 2011, bringing total job losses since the recession started in December 2007 to 6.28 million.

Consumer Confidence — The consumer confidence index rose to 64.5 in December, up nearly 10 points from November. November was also up 15 points from October's 40.9 point level, the lowest level since the recession. December's number was the highest reading since April 2011 (66).

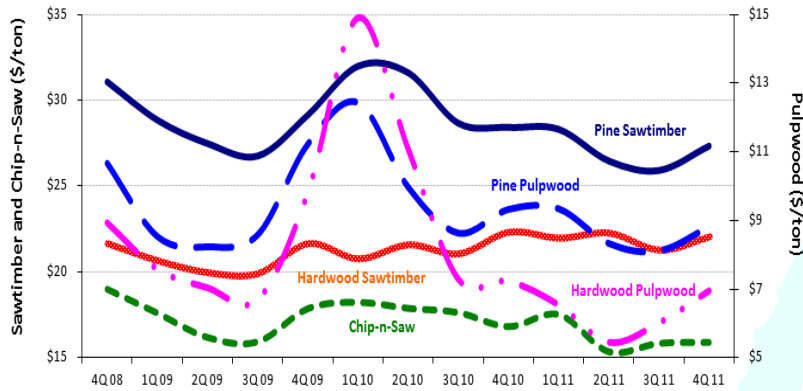
Inflation — The Consumer Price Index for All Urban Consumers (CPI-U) was unchanged in November on a seasonally adjusted basis. Over the last 12 months, the all items index increased 3.4% before seasonal adjustment.

Trade Deficit — The most recently available information indicated that the U.S. trade deficit narrowed in October to its lowest point of the year as Americans bought fewer foreign cars and imported less oil. The Commerce Department said the trade deficit shrank 1.6% to \$43.5 billion. That's down from September's revised figure of \$44.2 billion. The overall deficit is running at an annual rate of \$361 billion, about half the \$696 billion total for all of 2008.

Interest Rates — The federal funds rate remains at a range between zero and 0.25%. Federal Reserve officials announced plans to begin detailing their forecasts for short-term interest rates, a move that could show the central bank's easy-money policies will remain in place for years and give the economy a boost. The yield on the 10-year Treasury Note ended the quarter at less than 2%.

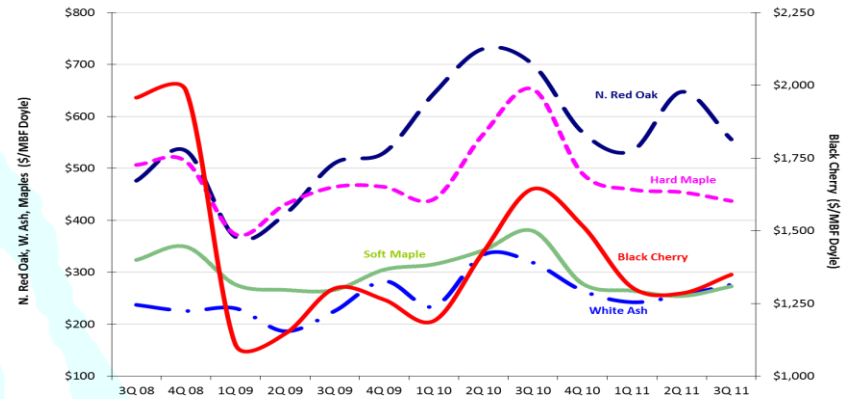
The FIA Timber Economics “Quarterly Dashboard”

Southeastern Timber Prices



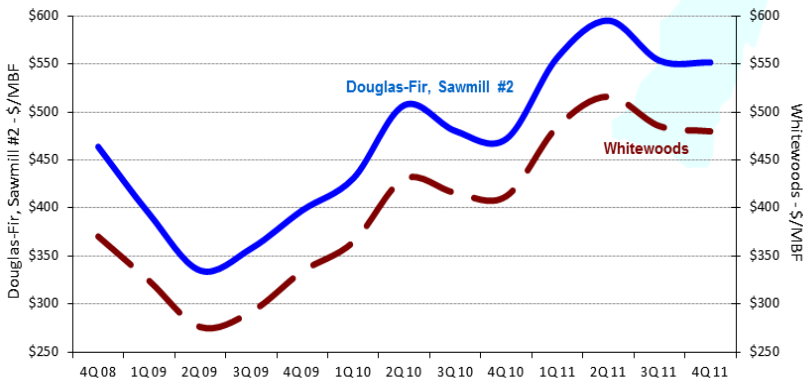
Source: Forest2Market®

Northeastern Hardwood Timber Prices



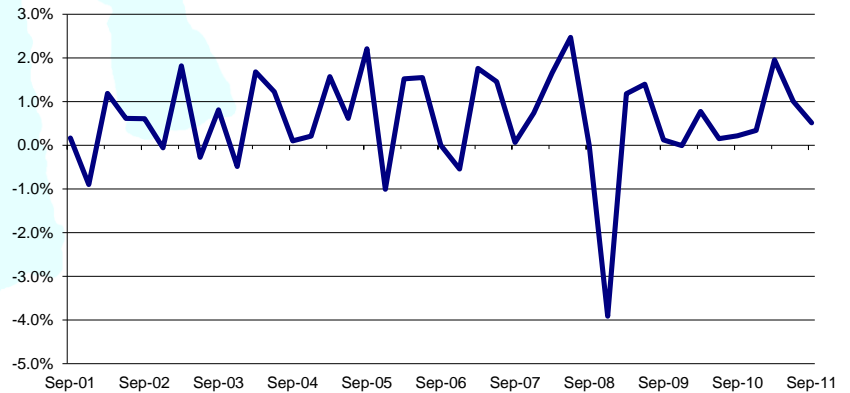
Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest Timber Prices



Source: Log Lines®

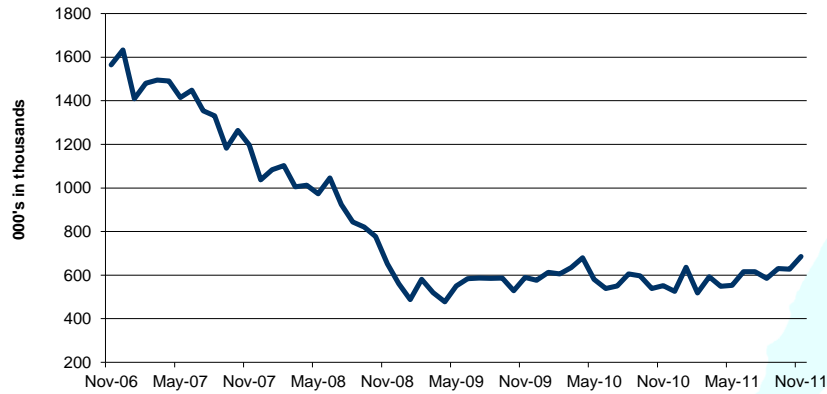
Inflation (CPI)



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

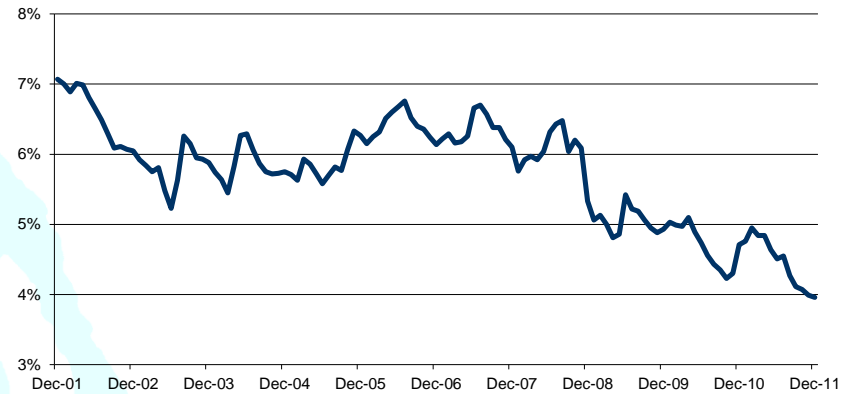
The FIA Timber Economics “Quarterly Dashboard”

Housing Starts



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

30 yr. Mortgage



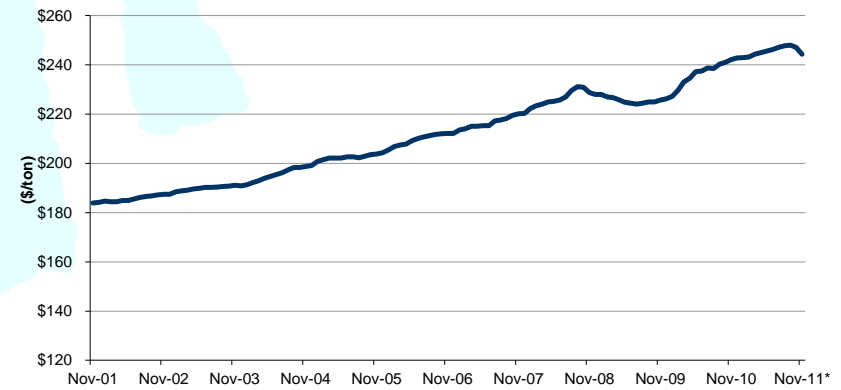
Source: The Federal Reserve

Lumber



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

Pulp and Paper



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