



Forest Investment Associates Quarterly Update

Fall 2004

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Summary Update

FIA Timber Partners – It has been a busy summer at Forest Investment Associates. The firm closed its first commingled investment vehicle in August, FIA Timber Partners (“FIATP”), with aggregate commitments of nearly \$390 million. FIA is very pleased to welcome the new partners in FIATP as its newest investors.

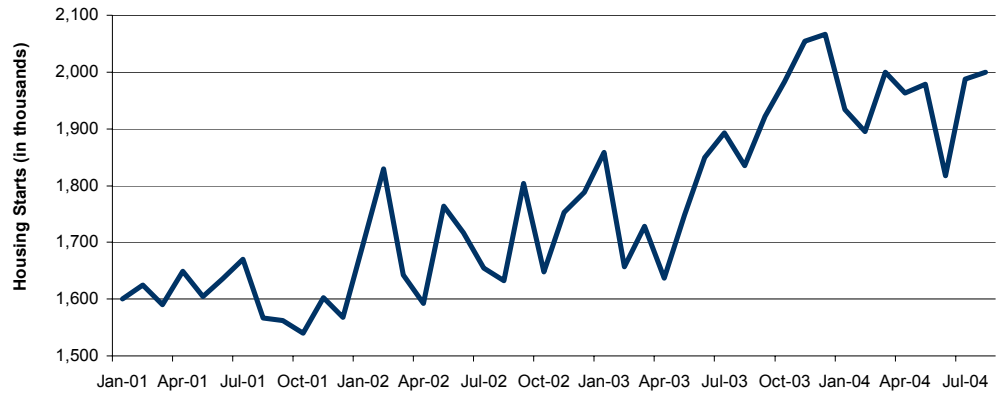
Hurricanes – Cumulative hits from Hurricanes Charley, Frances, Ivan and Jeanne finally led to timber damage on several client properties in South Georgia and North Florida this quarter. Wind damage was slight from the earlier hurricanes, but their heavy rainfall had saturated the ground in some areas before high winds from Jeanne, the fourth storm, finally toppled about 600 acres of timber. Salvage operations are already underway or planned on affected properties.

Even hurricanes can have silver linings, however, and this series of hurricanes will likely have a positive impact on regional timber prices, as well as on plywood, oriented strand board (OSB) and lumber prices. Timber prices may be expected to increase as a result of the extremely wet weather that curtails logging on wet soils and roads. These large, temporary supply reductions often boost timber prices considerably. In addition, both preventive maintenance (most obviously, the use of plywood and OSB to protect buildings) and rebuilding demand may increase regional prices for plywood, OSB and lumber as well.

Economic News

Housing – Mortgage rates lowered significantly over the summer, contributing to the continued health of the housing market. The U.S. Commerce department reported that new home sales increased 9.4 percent in August to a seasonally adjusted annual rate of 1.184 million units. “The fundamentals supporting the new-home market still are quite strong,” said National Association of Homebuilders Chief Economist David Seiders. “Long-term mortgage rates are running below six percent, one-year adjustable-rate loans are around four percent, and both job and income growth have strengthened. Under these conditions, new-home sales are definitely heading toward another record in 2004.” The pace of new home sales was down slightly, 0.4 percent, from August 2003. However sales were up by 10.8 percent on a year-to-date basis. Housing starts reported in July posted their biggest gain in nearly two years, making up almost all the ground lost in a June slump.

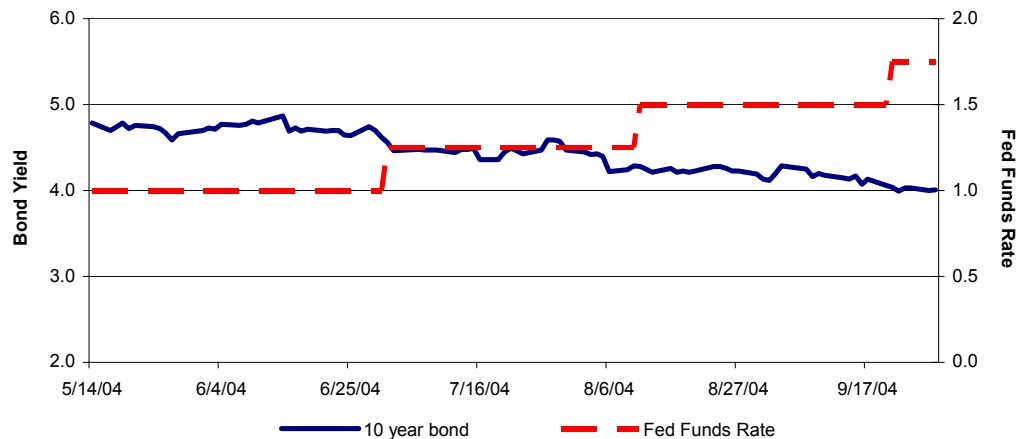
Housing Starts (2001 to present)



General Economy – The latest economic indicator available as of press time was the Conference Board's consumer-confidence index, which fell to 96.8 in September from 98.7 in August, with current conditions more worrisome for consumers than the economy's future prospects. "The recent declines in the index were caused primarily by a deterioration in consumers' assessment of employment conditions," Lynn Franco of the Conference Board said in a statement. "Soft labor conditions have clearly taken a toll on consumer confidence." In addition, the pace of hiring slowed this summer from the more than 200,000 new jobs created per month in March through June. Financial markets are awaiting the September jobs data to gauge whether a modest rebound in nonfarm payrolls seen in August points to a re-acceleration in hiring.

Interest Rates – Notwithstanding the Fed's tightening of its benchmark Federal Funds rate for the third time in a row, increasing by an aggregate of 75 basis points, yields on treasuries have dropped nearly as much in the same period of time. In fact, yields on the 10-year treasury have broken 4.0 percent for the first time since April.

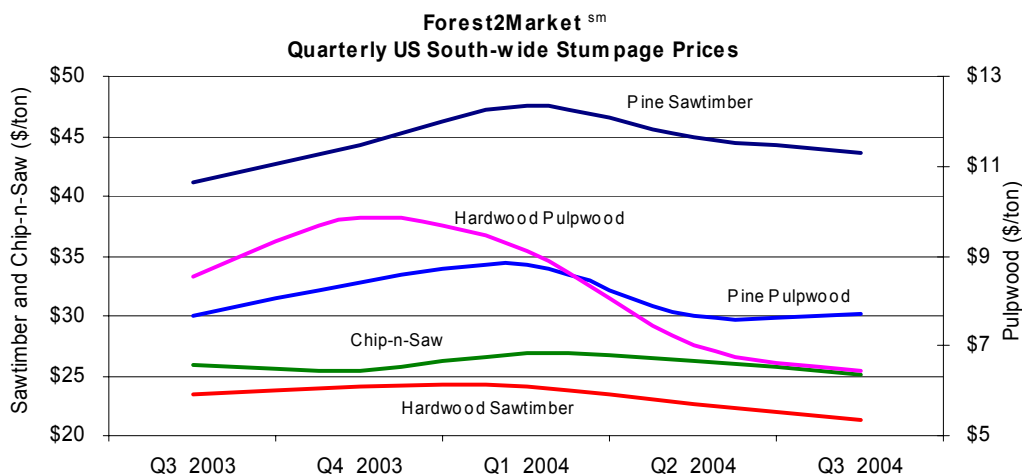
Fed Funds Rate & Yield on 10 year bond



U.S. Dollar – As of September 27th, the dollar was at a six-week high against the yen, boosted by the rising price of oil and its possible negative impact on the Japanese economy and currency. Against the dollar, the euro has been trading at levels around \$1.22. Nonetheless, high energy costs are potentially harmful to the U.S. economy and dollar, given the nation's status as the world's largest consumer of crude oil.

Timber Prices

Southeastern - Markets regressed on average for all product classes in the 3rd quarter, with the sole exception of pine pulpwood. Pine sawtimber and pulpwood prices remained up year-over-year. The average pine sawtimber price was down 2.9% for the quarter, but remained up 6.1% above year ago levels. The south-wide average chip-n-saw price was down for the quarter and the year, 2.9% and 6.1%, respectively. Pine pulpwood was essentially unchanged (up 0.4%) from last quarter, as well as year-over-year.



Average hardwood timber prices remained depressed in the Southeastern United States during the 3rd quarter, as well as from year-ago levels. The south-wide hardwood sawtimber price was down 5.5% for the 3rd quarter and remained down 9.4%, year-over-year. Hardwood pulpwood prices were down 8.5% for the quarter and 24.7% year-over-year.

Most paper and board markets, along with mill operating rates, are decidedly better today than at this time last year. Such strength should encourage mills to be more aggressive in securing necessary pulpwood over the coming months. Analysts speculate that prices in the 4th quarter will rise and could be quite volatile across the Southeastern U.S., as many mills are at seasonal inventory lows due to the recent hurricanes. However, scheduled future maintenance downtimes could moderate local price increases in certain areas.

Northeastern Hardwoods - Hardwood markets generally remained strong during the 3rd quarter throughout the Northeastern U.S., especially in the Appalachian Region. Prices increased during the first part of the quarter at a time when prices typically regress. This was due to a combination of strong domestic and international demand, along with production limitations, primarily due to weather, and lower inventories.

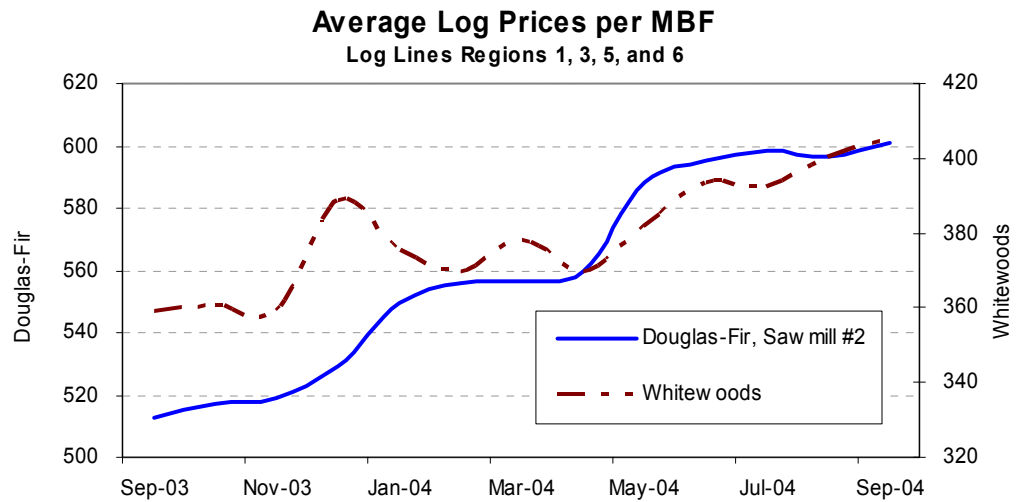
Improved weather conditions and increased stumpage availability during the latter part of the quarter caused price levels to flatten as purchasers became more selective.

Black cherry and red oak prices started the 3rd quarter strong but leveled off as the quarter progressed. Analysts expect the demand for black cherry and red oak to increase again this winter. Timber prices for hard maple, soft maple and white ash remained strong throughout the quarter.

The strong housing and remodeling markets resulted in continued strong domestic demand for high-quality hardwood products. There has also been increased interest in timber sales from export buyers. The stumpage demand for quality hardwood should remain strong through the 4th quarter.

Pacific Northwest - Log prices throughout Northern Oregon and Western Washington remained strong during the 3rd quarter. In anticipation of fire-weather curtailments during September and October, mills continued to build log inventories during the early part of the 3rd quarter. In early September, this expectation was significantly dampened as rain fell on the region with only a slight reduction in logging production. However, pricing remained steady despite ample log inventories.

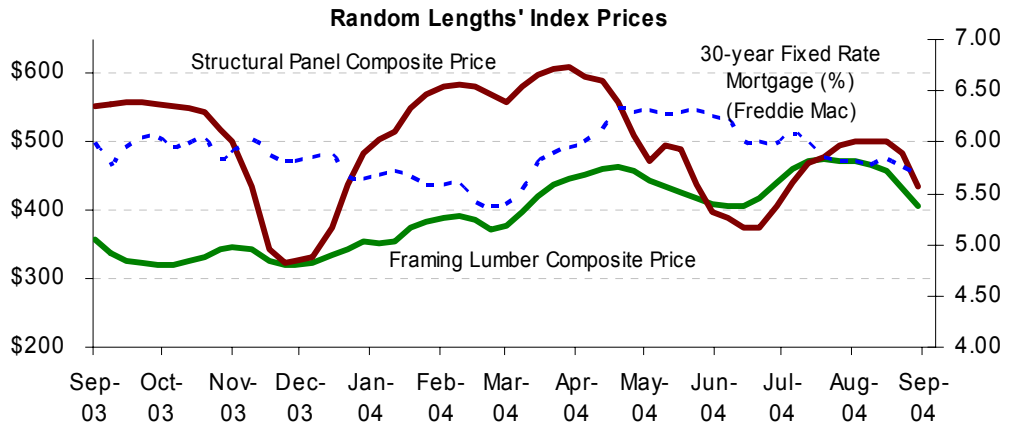
Both Douglas-fir and whitewood log prices were up again on average during the quarter. According to the Log Lines price reporting service, Douglas-fir, Sawmill #2 average log prices increased 0.9% during the quarter and remained up 17.1% year-over-year. Higher Douglas-fir log prices were associated with larger diameters and longer lengths. Average whitewood log prices increased 3.1% during the 3rd quarter and remained 12.9% above year-ago levels.



Log prices in the Pacific Northwest are expected to soften slightly over the coming months.

Product Prices

Lumber - Lumber and panel prices were mixed during the 3rd quarter. The Random Lengths® *Framing Lumber Composite Price* was down a slight 0.5%, from \$409 to \$407, during the 3rd quarter. However, the *Framing Lumber Composite Price* remained 14.0% above year-ago levels. The Random Lengths® *Panel Composite Price* rose 9.3% during the 3rd quarter but remained down 21.0% year-over-year. However, spot prices for panels varied widely during the 3rd quarter, depending on the region and proximity to the hurricane-ravaged Florida market.



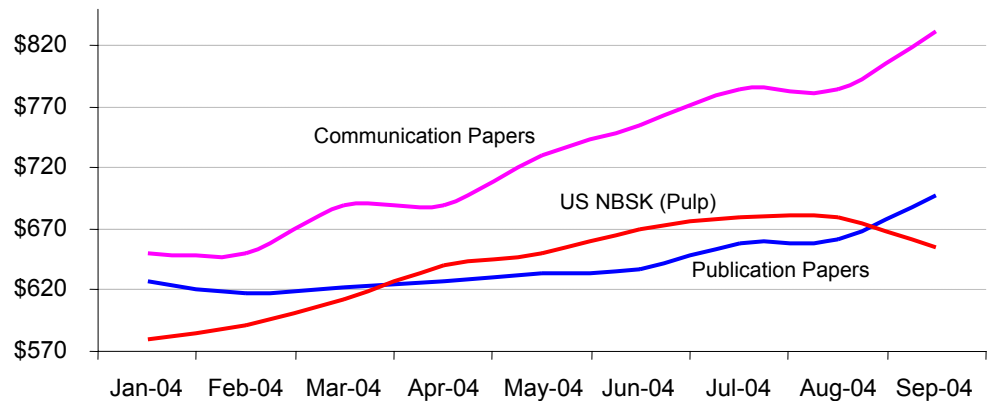
Canadian Lumber Dispute – In the latest volley in the softwood lumber dispute between the U.S. and Canada, a North American Free Trade Agreement (NAFTA) panel ruled that the U.S failed to prove its softwood lumber industry was materially injured by Canadian imports. The five-member NAFTA panel directed the U.S. International Trade Commission to rescind its justification for the average 27.2% tariff placed on Canadian lumber since May 2002.

The Assistant U.S. Trade Representative, Christopher Padilla, said the administration has concerns about the ruling and has not decided how to proceed. "It's in the interest of both the United States and Canada to try to reach a permanent solution to the softwood lumber dispute," Padilla said. The U.S. Department of Commerce is expected to complete its final determination in an Administrative Review, which is expected on December 13, 2004. Until a permanent resolution is in place, markets for both timber and wood products may be volatile.

Pulp and Paper - Paper prices continued to climb through the 3rd quarter, buoyed by favorable exchange rates and a recovering U.S. economy, while pulp prices decreased slightly. Communication grade papers were up 10.3% for the quarter and remain up 28.1% year-to-date. Publication grade papers were up 9.3% during the quarter and remain up 11.0% since the beginning of the 2004. Pulp prices (NBSK - Northern Bleached Softwood Kraft) were down 2.1% during the 3rd quarter, but remain up 13.1% for the year.

Total printing and writing paper production and demand were up 6.3% and 5.3%, respectively, year-over-year in August. However, several pulp and paper mills in the U.S. South were shut down during the latter part of the 3rd quarter due to hurricanes. These adjustments are expected to show up in the 4th quarter figures. Analysts expect 4th quarter pulp and paper prices to react in tandem with U.S. exchange rates and the overall economic environment.

Average Pulp and Paper Prices



Source: FOEX and Reel Time (Publication Grades include: 30# Newsprint, 35# Hi-Brite, 35# Soft-nip, 33# SC-B, 35# SC-A, 40# Coated #5, 60# Coated #3; Communication Grades include: 50# Offset Rolls and 20# Cut size)

Timberland Markets

The timberland market news over the last quarter has been dominated by the sale of all of Boise Cascade's timberlands (and the company's entire forest products business) to Chicago based buy-out firm Madison Dearborn Partners. With approximately 2.2 million acres located in nearly all the major timber growing regions of the U.S., this transaction is massive in every respect. The transaction documents indicate a value placed on these timberlands of \$1.65 billion, consistent with valuation estimates by Wall Street analysts. Most observers believe there is a substantial likelihood that all or part of the timberland may be resold within the foreseeable future. A press release detailing the financing of the transaction termed a \$1.225 billion, six-year loan as a "bridge loan that services the timberland assets and shares the same collateral with the other bank lines" with "the primary source of repayment [to be] from the sale, harvesting or securitization of timberland assets."

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