



Forest Investment Associates Quarterly Update

4th Quarter 2004

Contents

- Summary Update
- Economic News
- Timber Prices
- Product Prices
- Timberland Markets
- Dashboard

Summary Update

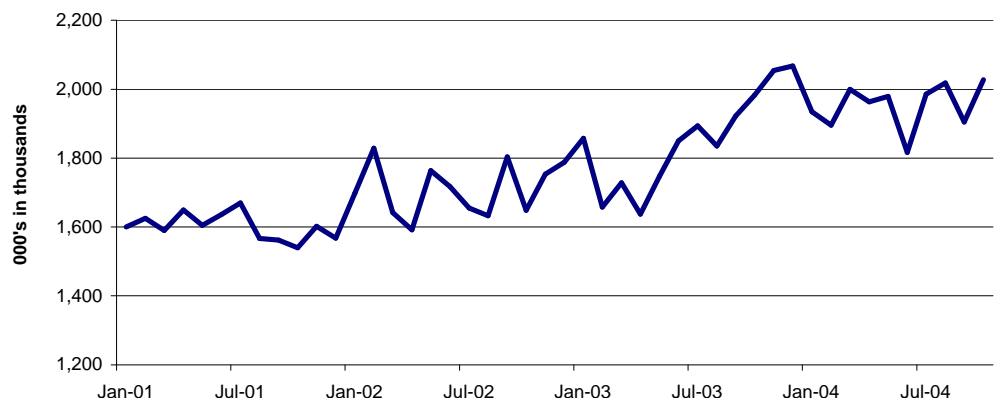
Closing of CalPERS Deal – In the 4th quarter of 2004, FIA closed a transaction on behalf of one of its clients to acquire approximately 319,000 acres of property from CalPERS located in Florida, Alabama, Mississippi, North Carolina and South Carolina for an undisclosed purchase price.

Timber Tax Reform Signed into Law - Timber owners across the U.S. will be eligible for more favorable terms when selling timber due to the federal tax bill that was signed into law in October. Qualifying sellers are now eligible for capital gains treatment on all timber sales, regardless of sale methodology. The tax law change includes benefits to non-taxable entities as well. There is no longer a provision requiring that landowners retain an economic interest in the timber after it is sold. Timber may now be transferred using a timber deed, thereby shifting the risk to the buyer. The new rules also allow longer terms for timber cutting contracts.

Economic News

Housing – Housing starts showed significant volatility this quarter, with October starts (revised upwards to 2.04 million) showing the strongest pace in 2004, and the 3rd strongest in the last 20 years. November numbers then evidenced the largest decline (13.1%) since January 1994. Nonetheless, the five strongest months for housing starts in the last 20 years have all occurred within the last 12 months, presumably driven in large part by low mortgage rates. Going forward, in six of the last eight months, permits to build have exceeded starts – a bullish environment for future starts. “The combination of payroll growth and wage growth, vigilant monetary policy and favorable demographics could produce the second-best housing sales [year] ever in 2005,” said John Herrmann, chief U.S. economist at Cantor Fitzgerald LP in New York. “We think it may come very close to this year's record pace.”

Housing Starts (2001 to present)



Jobs – Although October numbers were strong, job growth has been unremarkable this quarter. The last available job numbers showed first-time claims for unemployment insurance rising by 17,000, while remaining at a level that supports minimal labor market growth. In addition, the government has recently revised downward its official forecast for both US economic growth in 2005 (to 3.5%) and monthly gains in payrolls (to 175,000 new jobs per month.)

Consumer Confidence and Retail Sales – December consumer confidence numbers were exceedingly strong, with the consumer confidence index at 102.3, growing at more than twice the level expected. This gain follows a four-month string of declines, and is the highest level since July's figure of 105.7, perhaps driven in part by an improving job environment, a healthy stock market and lower energy prices. This confidence did not, however, translate into significant consumer spending for the holidays, as retail sales generally proved disappointing.

Inflation – In today's environment, it is difficult to remember that less than a year ago, economists were truly concerned about the prospect of deflation. A major driver of recent inflation has been energy prices, which rose quickly in 2004 on supply concerns, though they have since retreated from all time highs. The November Producer Price Index climbed 0.5% (5.0% year over year), while the core PPI rose 0.2% (1.9% year over year).

Trade Deficit – The trade deficit has continued to grow. In December, the Commerce Department reported that the accumulated U.S. trade deficit for 2004 grew to \$500.49 billion by October -- higher than the tally for all of 2003. Some of the increase in the trade gap may be due to the run-up in oil prices. Yet with the dollar at a "distressed" level relative to other major currencies, and despite the fact that U.S. companies are shipping goods overseas at a record pace, it's not clear that the deficit will come down anytime in the near future. According to the minutes of the Federal Reserve's November meeting, policy makers fear the trade balance could be "a continuing drag on U.S. economic expansion."

US Dollar - The dollar has been trading at or near all-time lows against the euro, weighed down by concerns over the U.S. trade and budget deficits. With no obvious deficit relief in sight, many economists expect the dollar to continue weakening. Though the Bush administration professes a "strong dollar" policy, most analysts believe the government is content to see the dollar fall as this aids export-dependent sectors of the economy.

Interest Rates – In mid-December, the Federal Reserve Board raised its target for the federal funds rate a quarter percentage point to 2.25%, the highest since October 2001. According to the Fed's brief announcement (virtually unchanged from the announcement of its November rate increase) monetary policy was still “accommodative” to economic growth, and policy makers have long talked of their desire to get the Fed funds rate to something more neutral (3% or more?). As a result, the majority of economists seem to anticipate continued quarter-point rate increases through next year.

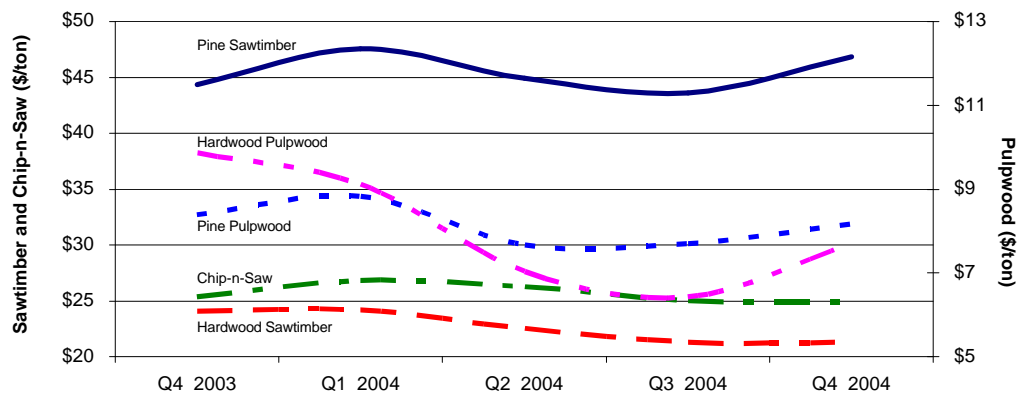
Mortgage Rates – At the end of December, fixed-rate mortgage rates edged upwards. The primary mortgage market survey, published by Freddie Mac, showed 30-year fixed-rate mortgages rising to 5.81%. That's still lower than a year ago, when the 30-year fixed-rate mortgages stood at 5.82%. The more meaningful news has been on the adjustable-rate mortgage front, with the one-year Treasury-indexed adjustable mortgage rate at 4.17%, with fees and points at 0.6%. A year ago, this rate stood at 3.77%.

Timber Prices

Southeastern – Prices were up on average across the U.S. South for all product classes during the 4th quarter, with the exception of pine chip-n-saw and hardwood sawtimber, which were essentially flat. Southwide average pine sawtimber prices were up 7.4% during the quarter and remain 5.7% above year-ago levels. Pine chip-n-saw prices decreased a slight 0.3% during the 4th quarter and remained down 1.6% year-over-year. Pine pulpwood prices increased 6% on average during the quarter, while remaining down 2.7% from year-ago levels.

Southwide average hardwood sawtimber prices were unchanged during the quarter and remained depressed year-over-year, down 11.4%. Hardwood pulpwood prices were up 19.4% during the 4th quarter but remained down 22.1% from year-ago levels.

Southeastern Timber Prices

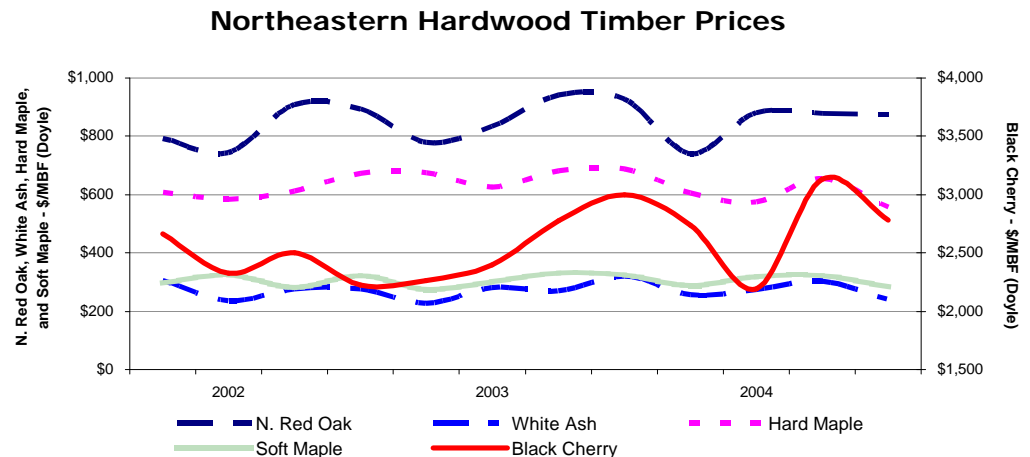


Source: Forest2Market

The volatility in timber prices in the Southeastern U.S. was partially due to the hurricanes that occurred in the second half of 2004. The central and western regions of the U.S. South received a lot of rain during the 4th quarter, making logging more difficult and creating upward price pressure on loggable timber. The Atlantic region of the U.S. South remained fairly dry, however.

Northeastern Hardwoods – Hardwood stumpage markets continued to be strong throughout the first part of the 4th quarter. Demand for certain species began to soften toward the later half of the quarter as supply of timber began to outpace demand throughout the Northeast and Appalachian Region. This, combined with reduced demand from foreign markets and an effort by buyers to reduce year-end finished product inventories, resulted in growing lumber inventories and a slight softening of prices at year end.

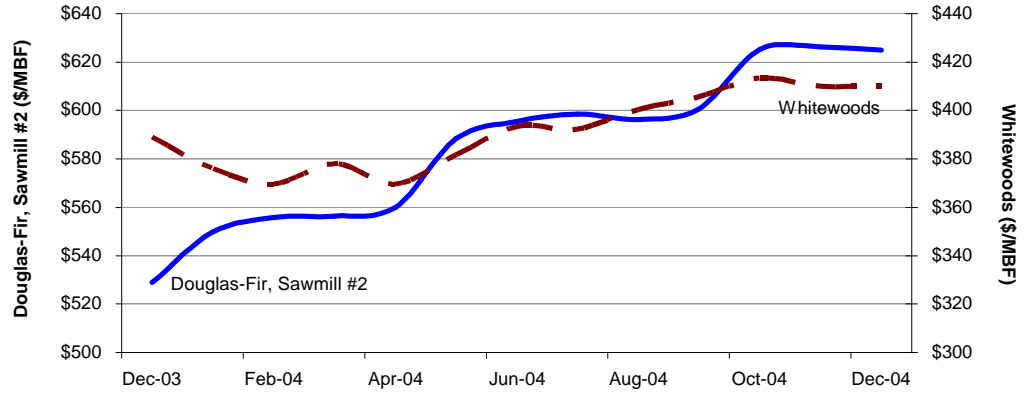
Red oak prices were the most negatively impacted by these factors, especially in those regions supplying lumber for the flooring market. Sugar maple continued to gain market share over red oak for cabinets. Prices for both hard (sugar) maple and soft (red) maple continued to be strong throughout the quarter as demand increased for light-colored woods. High quality black cherry sales remained strong through the 4th quarter, but lower grade sales showed a slight decline toward the end of the quarter.



Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest – Prices for logs throughout Northern Oregon and Western Washington strengthened further during the 4th quarter. Most of the gains came early as prices cooled as the quarter progressed. According to the Log Lines price reporting service, Douglas-fir, Sawmill #2 average log prices increased 4.0% during the 4th quarter and remained 18.1% above year-ago levels. Average whitewood log prices increased 1.2% during the 4th quarter and remained up 5.5% year-over-year.

Pacific Northwest Log Prices



Source: Log Lines

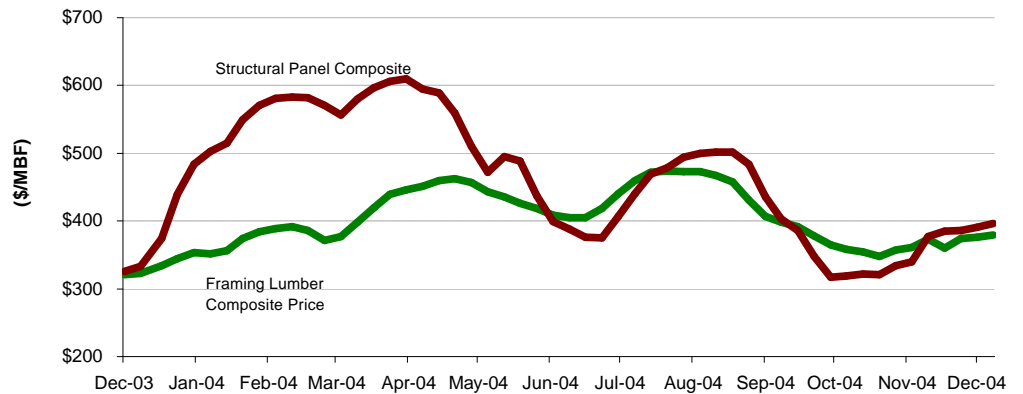
In the last half of the quarter, sawmills generally reduced lumber production in response to a softening lumber market. However, most of the larger timber producers had accelerated harvests early in 2004, causing them to slow production in the 4th quarter. This allowed mill inventories to remain flat as lumber prices fell, allowing for a slight increase in log prices.

Analysts expect log demand and pricing to remain strong during the first half of 2005.

Product Prices

Lumber and Panels – Prices for lumber and panels (plywood and oriented strand board) decreased during the quarter but remained up year-over-year. The Random Lengths® Framing Lumber Composite Price was down 6.6% during the 4th quarter. However, the Framing Lumber Composite Price remained up 17.6% year-over-year. The Random Lengths® Panel Composite Price decreased 9.2% during the 4th quarter but remained 18.9% above year-ago levels.

Lumber and Panel Prices



Source: Random Lengths

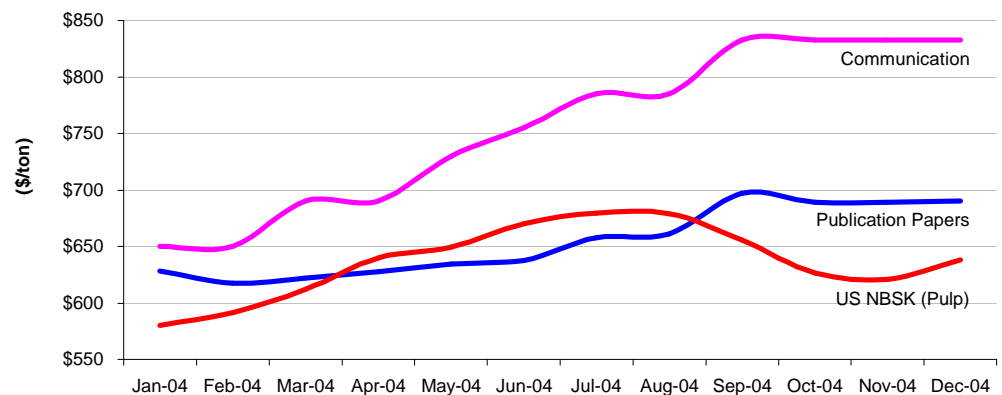
The weakening U.S. dollar, especially in relation to the Canadian dollar, is expected to increase the demand for lumber and panels from the U.S. Analysts expect mills to build inventories toward the beginning of 2005, which is expected to be more extensive than in early 2003 and 2004. However, if the housing market begins to cool, demand for lumber and panels will too, given that new housing represents approximately 45% of lumber consumption, while repair and remodeling represents 30% of the market.

Canadian Lumber Dispute – The U.S. Department of Commerce (DOC) completed its final administrative review in December. The duties on Canadian lumber shipments to the U.S. were reduced from 27.2% to 21.2%. This surprisingly high new rate will be charged going forward. The DOC had proposed in June to lower the combined duties to 13.2% in its preliminary review. This is better-than-expected news for U.S. timberland markets. However, legal action with the NAFTA panel continues on multiple fronts. Until a definitive resolution is in place, markets for both timber and solid wood products may be volatile.

Pulp and Paper –Paper prices remained relatively flat during the 4th quarter, while pulp prices decreased slightly. Publication grade papers were down 1.0% on average during the quarter, while remaining up 9.9% year-over-year. Communication grade papers were unchanged for the 4th quarter on average and remained 28.1% above year-ago levels. Average pulp prices (US NBSK - Northern Bleached Softwood Kraft) were down 0.5% during the 4th quarter, remaining up 11.5% for 2004. Analysts expect prices to increase in the 1st quarter for both pulp and paper.

Total printing and writing paper demand and production were up in November by 7.5% and 6.0% year-over-year, respectively. Operating rates were seasonally down in November, but remained at an ample 89%, which was 3% greater than a year ago. Inventories of printing and writing papers remained 11.3% lower than in November 2003.

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

A number of large-scale transactions have recently closed or were announced, including the following:

Sale of Boise Cascade timberlands to Forest Capital Partners – On December 21, 2004, Boise Cascade, LLC announced a definitive agreement to sell approximately 2.2 million acres of timberland located in the Pacific Northwest, Louisiana, Alabama and Minnesota to Forest Capital Partners, LLC of Boston, Massachusetts, for \$1.65 billion in cash. The transaction is expected to close in the first quarter of 2005, and is the single largest cash timberland acquisition in U.S. history. Boise Cascade, LLC is the company created in 2004 by Madison Dearborn Partners through their acquisition of Boise's paper, building products and timberland assets. It is possible that Forest Capital Partners will, in turn, divest portions of the property in the coming months. It is believed that a core component of the transaction is long-term fiber supply agreements to ensure the continued supply of fiber to Boise's pulp and paper mills and solid wood products facilities.

Purchase of significant Maine acreage by Plum Creek - Plum Creek announced an agreement to purchase 48,500 acres of timberland in Maine's Moosehead Lake and Sebec regions from Hancock Timber Resource Group for \$35.2 million. This will bring the company's ownership in Maine to 953,000 acres. Terms of the sale have not been disclosed.

GMO Renewable Resources LLC – GMO and International Paper announced a \$250 million transaction for 1.1 million acres in Maine and New Hampshire, reflecting a value of approximately \$277 per acre.

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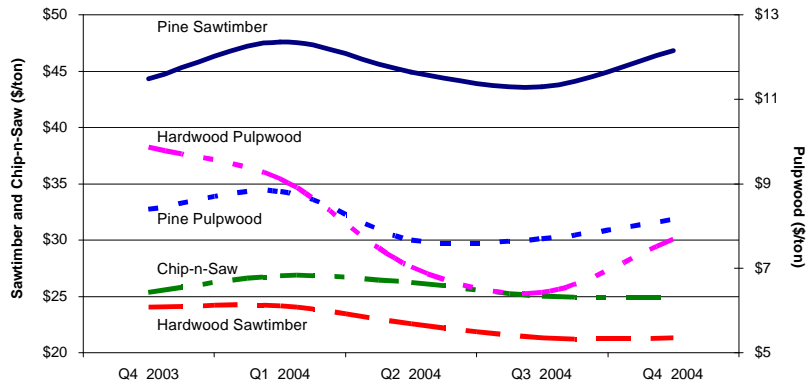
Fax:
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Quarterly "Dashboard"

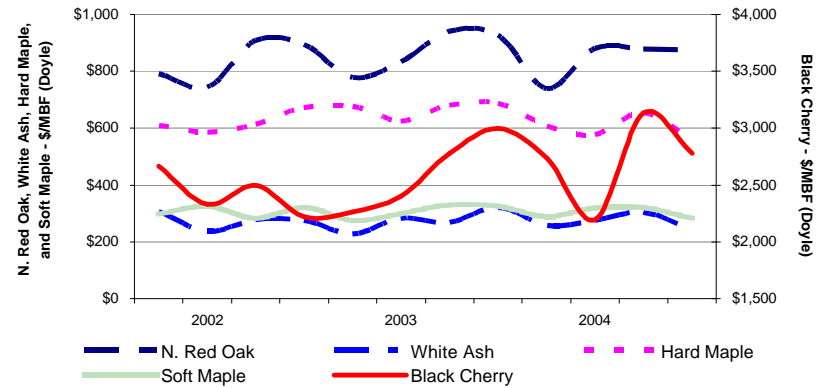
Timber Prices

Southeastern



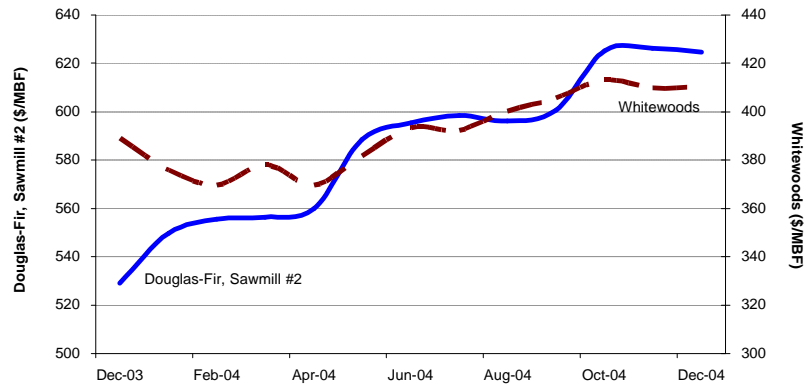
Source: Forest2Market

Northeastern Hardwoods



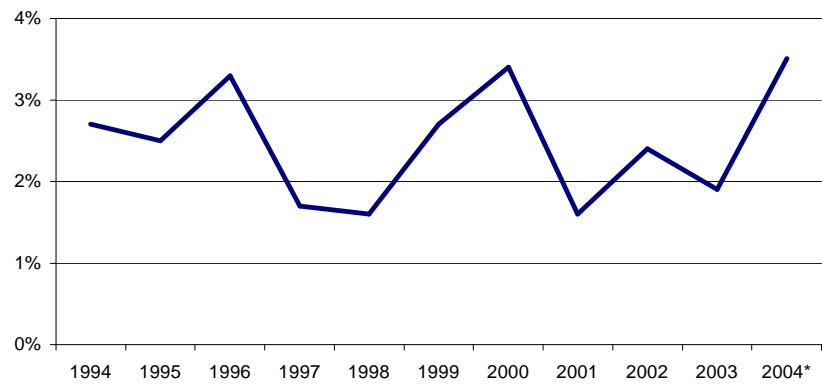
Source: Pennsylvania Woodlands Timber Market Report

Pacific Northwest



Source: Log Lines

CPI



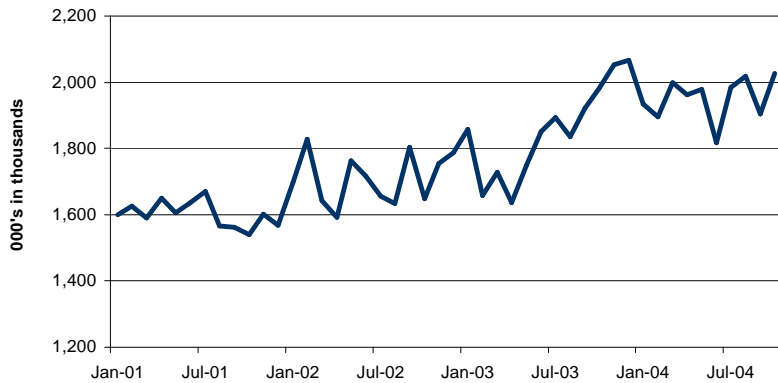
Source: <http://www.bls.gov/cpi/home.htm>

* Includes Dec 2003 to Nov 2004 price changes.

Quarterly "Dashboard"

General Economy

Housing Starts



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

30 yr. Mortgage



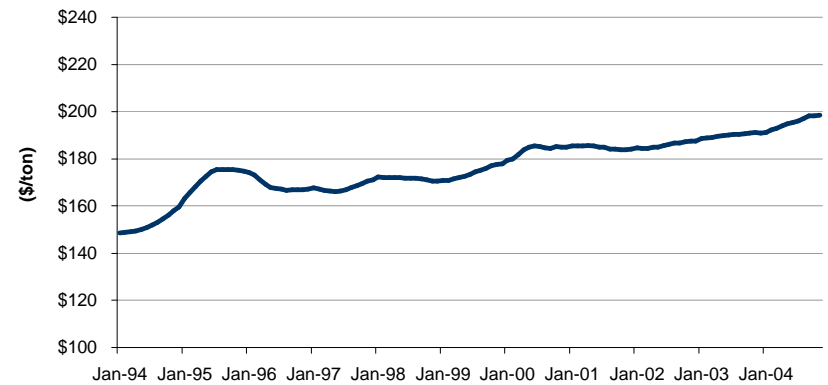
Source: The Federal Reserve

Lumber



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

Pulp and Paper



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