



# Forest Investment Associates Quarterly Update

3<sup>rd</sup> Quarter 2007

## Summary Update

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**Timber & Product Prices** – As a whole, sawtimber stumpage prices decreased in the 3<sup>rd</sup> quarter, driven in large part by further downturns in the U.S. housing market and extreme drought conditions in the eastern half of the country. Average pulpwood prices, on the other hand, continued to recover, largely attributable to strong global demand for pulp and paper products, particularly the explosive growth of Asian markets.

**Timberland Markets** – As summarized in the Timberland Markets section, two large transactions were signed in the 3<sup>rd</sup> quarter: the \$2.4 billion acquisition by the Campbell Group of 1.55 million acres in Texas & Louisiana from Temple-Inland, and the \$400 million acquisition by Wells Timberland of 320,000 acres in Georgia & Alabama from MeadWestvaco. In general, analysts believe both transactions represent new highs in the amount paid for large-scale, high quality timberland properties.

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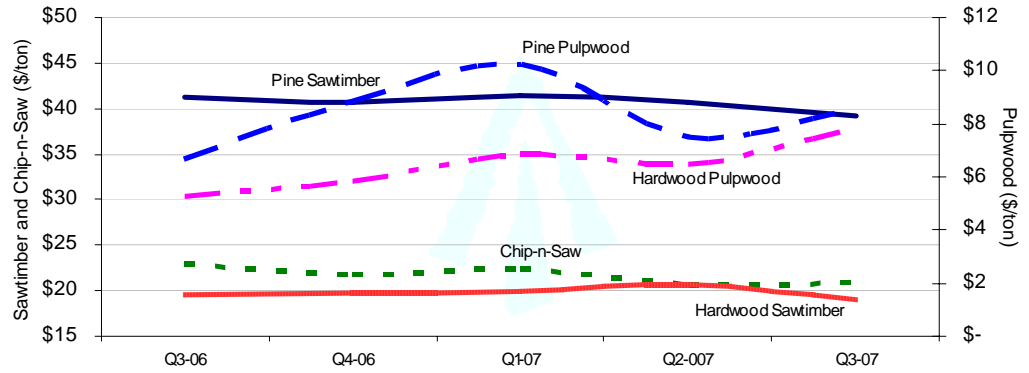
## Timber Prices

**Southeastern** - The upward trend in pine and hardwood prices over the past two quarters largely stalled in the 3<sup>rd</sup> quarter as nearly all products gave up ground. According to Forest2Market®, south-wide average prices for pine sawtimber fell 4.1% for the quarter and are 5.3% below year-ago levels. Chip-n-saw prices increased slightly at 1.6%, but remain 8.8% below year-ago levels. Pine pulpwood prices climbed 13.6% during the quarter and 27.7% over the year.

Average hardwood pulp prices followed the strong pine trends, increasing 20.9% during the quarter and finishing 47.5% over year-ago levels. In similar fashion, average prices for hardwood sawtimber followed pine sawtimber trends, decreasing 8.5% during the quarter and ending 3.7% below year-ago levels.

Strong demand and mill inventory needs ameliorated a volatile pulpwood market. The plunge of U.S. housing starts, compounded by extreme drought conditions, had a strong negative impact on sawtimber and chip-n-saw prices.

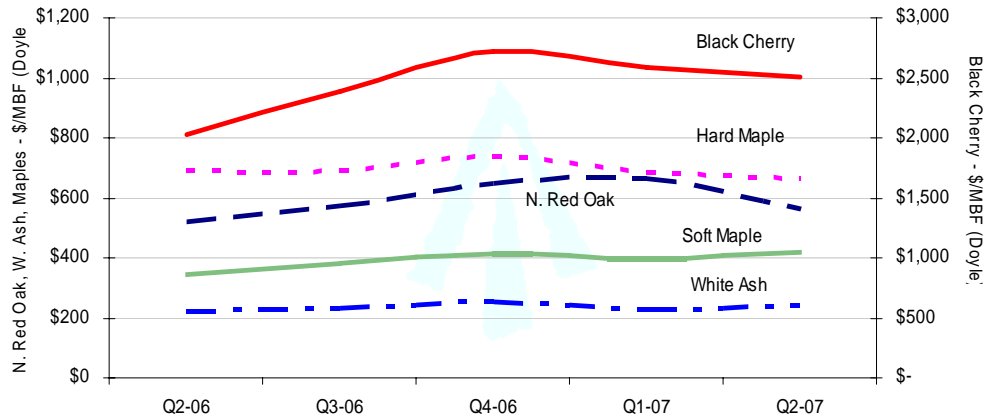
## Southeastern Timber Prices



Source: Forest2Market®

**Northern Hardwoods** – White ash and soft maple shared quarterly price increases of 8.4% and 5.6%, respectively. On an annual basis, these species increased 9.2% and 22.4%, respectively. Quarterly prices for northern red oak, black cherry and hard maple followed similar trends, with quarterly price decreases of 15.1%, 3.1% and 3.5%, respectively. Northern red oak and black cherry increased 8.9% and 23.6% over year-ago levels, respectively. Off all the northern hardwood species, only hard maple experienced annual price decreases, ending 4.2% below year-ago levels.

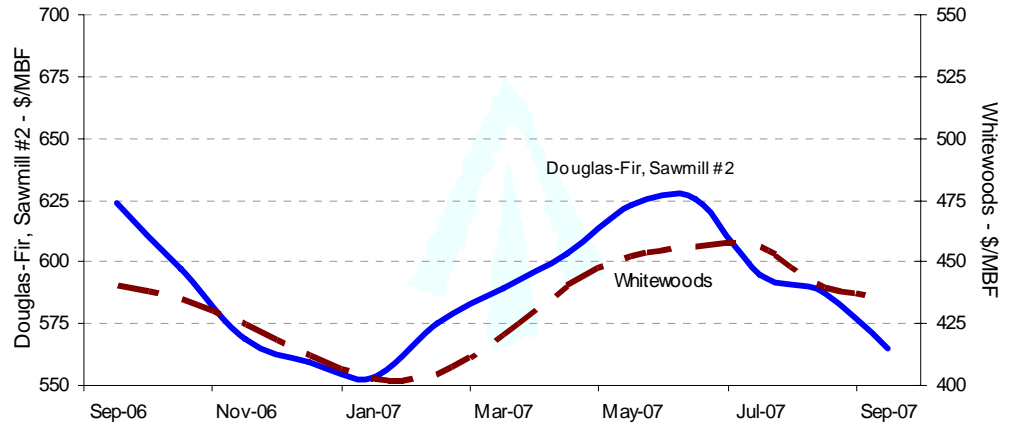
## Northeastern Hardwood Timber Prices



Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

**Pacific Northwest** – According to Log Lines®, Northwest average prices for Douglas-fir #2 and whitewoods (i.e., fir and hemlock) sawmill grade stalled on upward recovery trends and descended to near 1<sup>st</sup> quarter 2007 levels. Douglas-fir #2 decreased 9.7% over the quarter and 9.5% from year-ago levels. Whitewoods decreased 4.4% over the quarter and 0.9% over year-ago levels. While the downturn in the U.S. housing market continues to exacerbate price decreases, recovery may arrive in an ever-expanding log export market to China and India, as well as the continuing strike in British Columbian mills in Canada.

### Pacific Northwest Log Prices

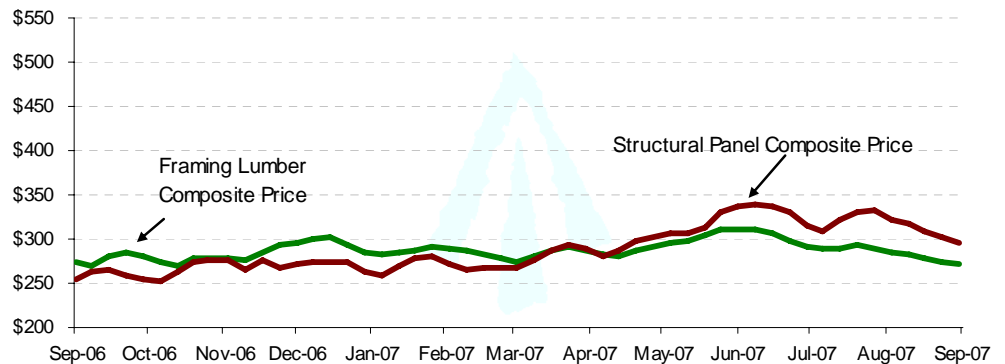


Source: Log Lines®

## Product Prices

**Lumber and Panels** – The Random Lengths® Framing Lumber Composite Price dropped 12.9% for the quarter and is only 1.1% below year-ago levels. The Structural Panel Composite Price was down 12.4% for the quarter, but remained positive at 16.1% above year-ago levels. The indices are closely aligned with housing market indicators, and analysts predict further decreases as inventories are adjusted throughout the coming year.

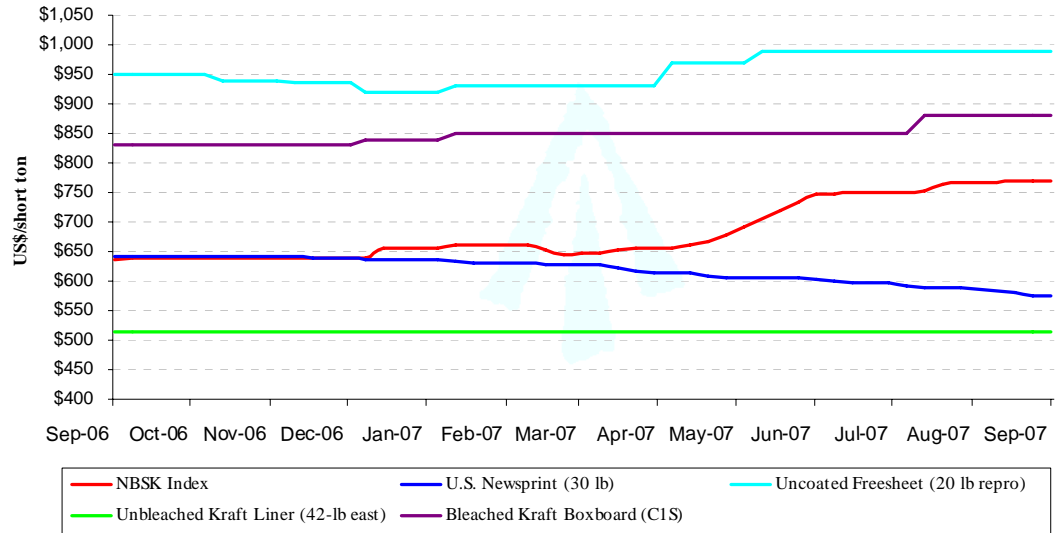
### Lumber and Panel Prices



Source: Random Lengths®

**Pulp and Paper** – The benchmark NBSK (northern bleached softwood kraft) pulp price index continued another quarter of recovery at 4.3% and ended 10.1% above year-ago levels. In expected fashion, U.S. Newsprint (30 lb.) continued its slide, losing 3.9% during the quarter and ending 13.3% below year-ago levels. Uncoated freesheet (20lb.) remained flat during the quarter and finished 4.2% above last year’s levels. Linerboard improved at an even 7.8% for the quarter and year. Boxboard climbed 3.5% for the quarter and 6.0% over year-ago levels. A strong global demand for pulp and paper products, including the explosive growth of Asian markets, continues to drive modest increases in almost all sectors.

### Pulp and Paper Prices



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

**Canadian Lumber Dispute** – The panel selection for the arbitration process is winding up, and the latest reports indicate a final binding decision around early April, 2008. The U.S. has insisted upon two separate panels through the London Court of International Arbitration (LCIA) to address two separate Softwood Lumber Agreement (SLA) issues: the failure of Canada to apply a surge mechanism on export volumes and unfair Canadian subsidies aiding the lumber industry. The final decision by the LCIA is binding and cannot be appealed.

The arbitration process is spurred by a failure of U.S. and Canadian officials to settle differences, primarily related to the surge mechanism, during an April meeting in Ottawa. The SLA was optimistically signed only a year ago after decades of disagreements on both sides.

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# Timberland Markets

**Temple-Inland** – The Campbell Group emerged as the successful buyer of Temple-Inland's 1.55 million acres, primarily in East Texas and Louisiana, for \$2.38 billion (\$1,535 per acre). Market participants consider the price to be particularly aggressive given the lack of any meaningful HBU component on the property.

**MeadWestvaco** – Wells Timberland REIT successfully closed on the acquisition of approximately 228,000 acres of MeadWestvaco timberland in Georgia and Alabama, and long-term leaseholds on an additional 95,000 acres, for \$400 million (\$1,238 per acre).

**Plum Creek** – Plum Creek announced a disposition offering of 99,000 acres of largely hardwood timberland in Wisconsin. The sale is to occur in six parcels between 12,000 and 24,000 acres in size. Bids are due in late October, and closing is expected by year-end.

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## Economic News

**Housing** – Housing starts fell 2.6% in August to a seasonally adjusted annual rate of 1.3 million units, down 19.1% from a year earlier and falling to the lowest level in 12 years.

**Mortgage Rates** – Rates on 30-year mortgages ended the quarter at around 6.4%. A year ago, 30-year mortgages stood at approximately 6.3%.

**Jobs** – The Labor Department reported a 110,000 job increase in September non-farm payrolls, which is better than expected, but generally in line with estimates. August payroll data was revised to a rise of 89,000 vs. a previous estimate of a 4,000 decline.

**Consumer Confidence** – The Conference Board Consumer Confidence Index, which had declined in August, fell further in September to 99.8.

**Inflation** – The price index for personal-consumption expenditures (the Fed's preferred inflation gauge), rose 1.8% in August. This is compared to a year earlier, when the 1% to 2% comfort zone of some central-bank officials was achieved. Importantly, in cutting interest rates by half a percentage point in September, the Fed abandoned its early-August stance that inflation was the economy's biggest threat.

**Trade Deficit** – The long-widening U.S. current-account deficit appears to have begun reversing course as U.S. growth slowed. The current-account deficit at the end of 2005 hit an all-time record of 6.8% of the gross domestic product. During the second quarter of this year it was down to 5.5%. The global economy may be undergoing a fundamental shift as American exporters are finding more receptive overseas markets for their products, and U.S. consumers are beginning to temper spending with the housing crunch.

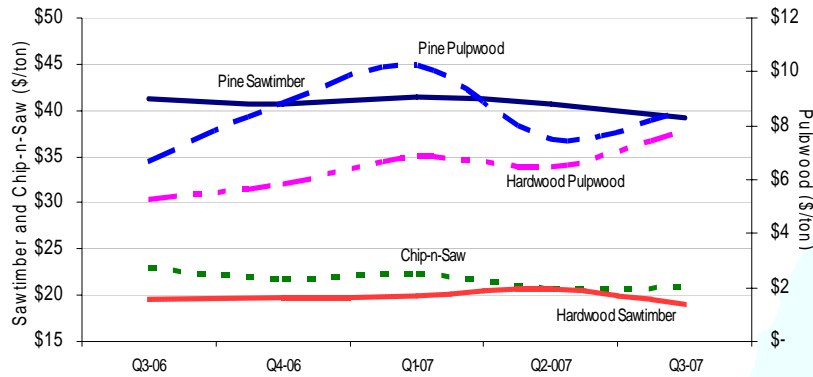
**Interest Rates** – At the end of the quarter, the 10-year treasury note yielded approximately 4.6%.

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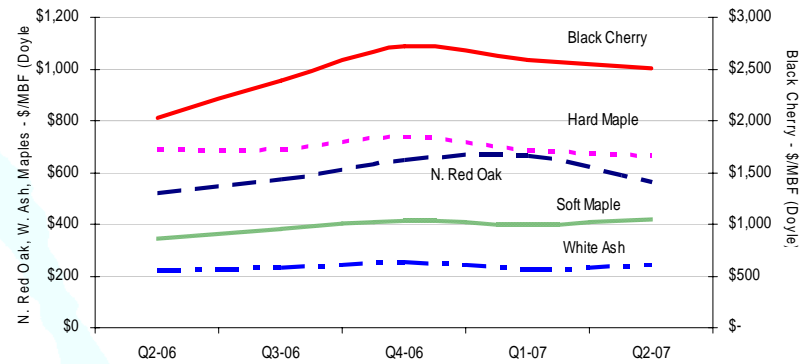
# The FIA Timber Economics “Quarterly Dashboard”

## Southeastern Timber Prices



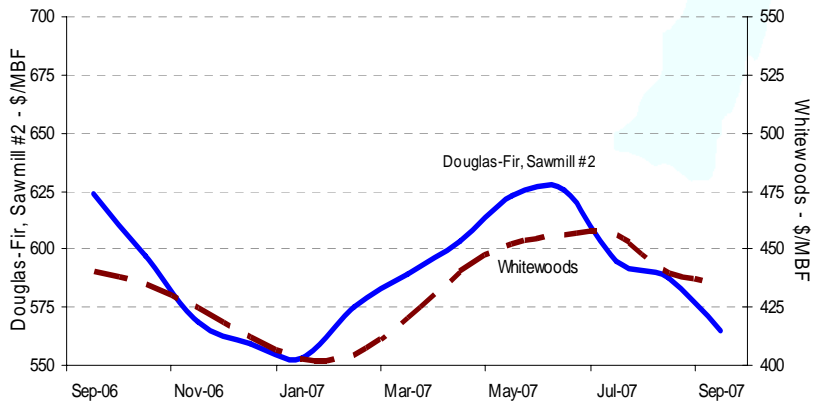
Source: Forest2Market®

## Northeastern Hardwood Timber Prices



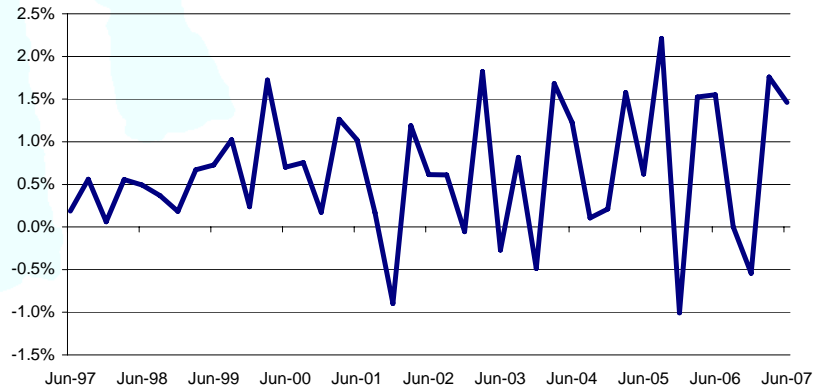
Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

## Pacific Northwest Timber Prices



Source: Log Lines®

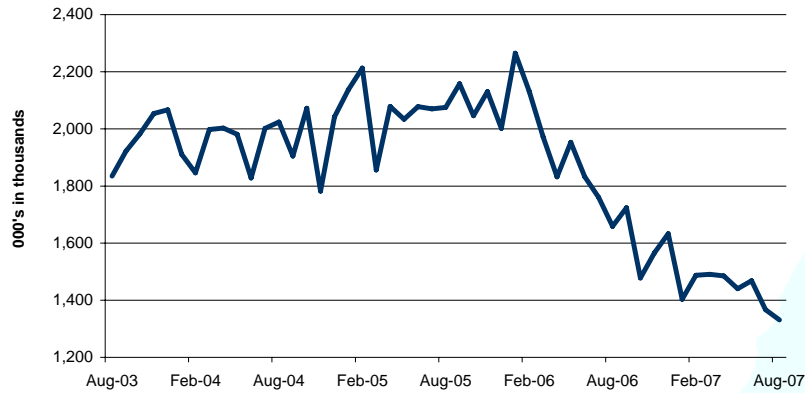
## Inflation (CPI)



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

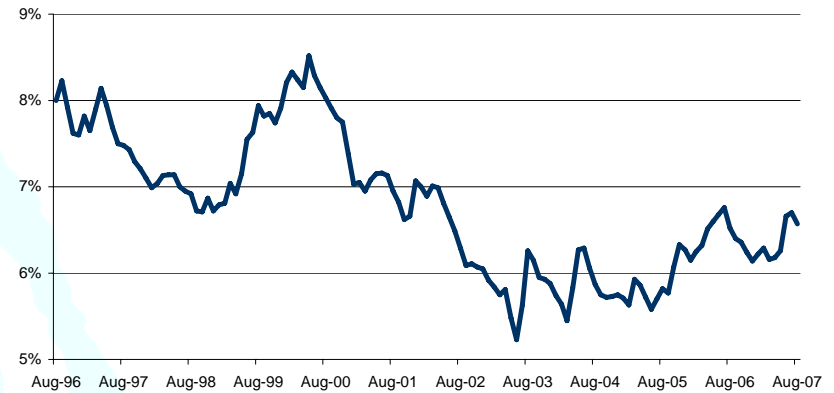
# The FIA Timber Economics “Quarterly Dashboard”

**Housing Starts**



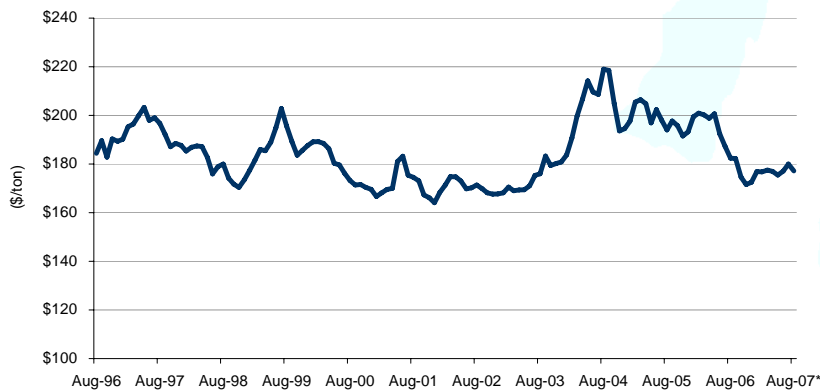
Source: NAHB.org – <http://www.nahb.org/>

**30 yr. Mortgage**



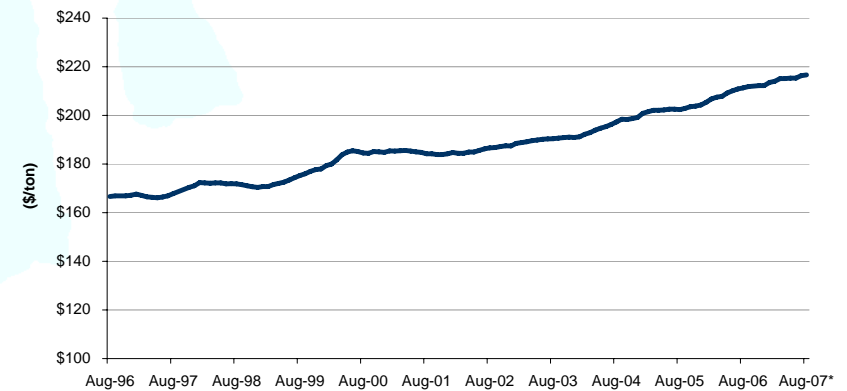
Source: The Federal Reserve

**Lumber**



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

**Pulp and Paper**



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