



Quarterly Update

Forest Investment Associates

FOURTH QUARTER 2017

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Summary Update

Timber and Product Prices – While exports remain the primary demand driver in Northeastern markets, demand from domestic sources has been noticeably stronger in the region. Pacific Northwest markets continue to exceed expectations as both domestic and export markets reached highs not seen in decades. Lumber and panel prices remain at high levels, despite moderate price decreases over the fourth quarter.

November housing starts increased to a seasonally adjusted annual rate of 1.297 million units, 3.3% above the revised October rate of 1.256 million units, and 12.9% above the November 2016 rate of 1.149 million units. The average interest rate for 30-year fixed rate mortgages increased for the third straight month, rising from 3.92% in November to 3.95% in December.

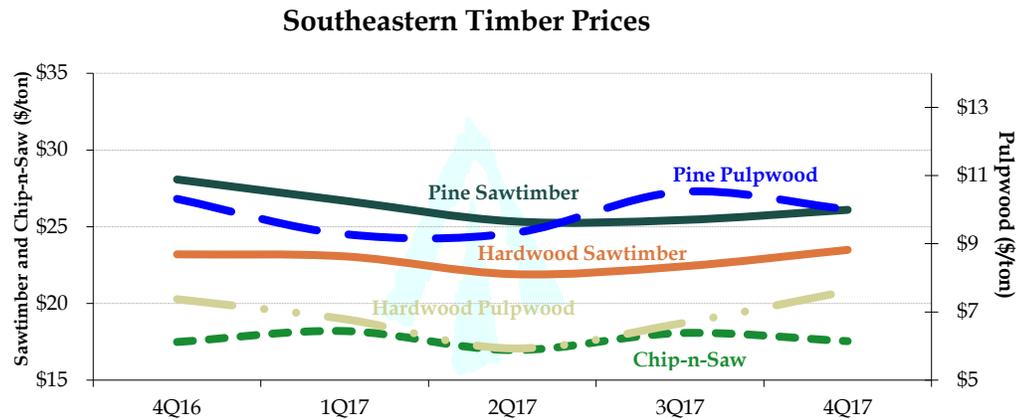
Timberland Markets – All eyes remained on Texas in the fourth quarter, as investors continued to wait for word on the 1.1 million-acre Caddo offering from Campbell Global. Unless Caddo trades successfully, 2017 will go down as a below average year in terms of total domestic transaction value.

The headline transaction of the fourth quarter was Twin Creeks’ purchase of 100,035 acres in Mississippi and Georgia from Weyerhaeuser for \$202.5 million. Twin Creeks also announced that Green Diamond had contributed 21,000 acres in Washington to its portfolio, marking the joint venture’s entry into the Pacific Northwest. As part of the deal, Green Diamond becomes an equity partner with Twin Creeks and will manage the timber portfolio, located primarily in the U.S. South.

On the international front, OneFortyOne Plantations, a Campbell Global managed company, announced it reached an agreement to acquire Nelson Forests from Global Forest Partners. The property consists of over 62,000 productive hectares on the northern portion of New Zealand’s South Island.

Timber Prices

Southeastern – Pine stumpage prices showed little improvement during the fourth quarter. Forest2Market® stated a 2.6% increase in pine sawtimber, ending the year 7.0% beneath year-ago levels. Pine chip-n-saw decreased 2.9% over the quarter, ending 0.3% above last year’s level. Pine pulpwood prices declined 4.8%, finishing 3.0% below year-ago prices. Hardwood markets continue to strengthen as hardwood sawtimber and pulpwood increased 4.87% and 14.26% respectively over the fourth quarter.

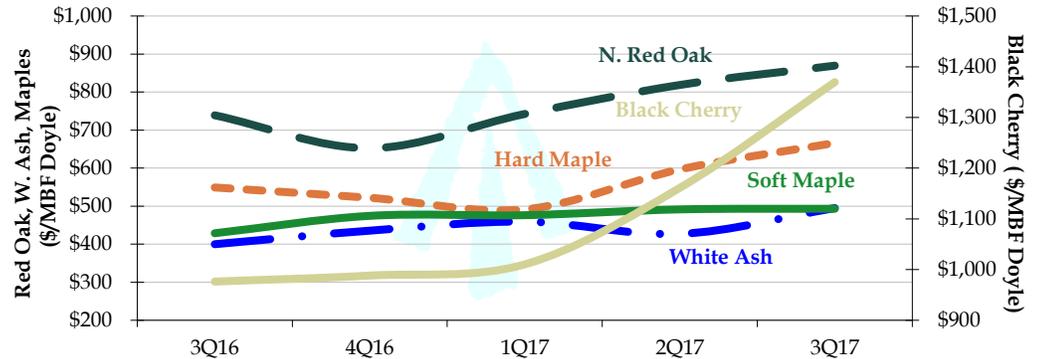


Source: Forest2Market®

Northern Hardwoods – Domestic demand is noticeably stronger within Northeastern timber markets, however log exports continue to be the primary market driver in the region. Black cherry demand has strengthened, most notably in the export markets, however domestic demand has shown increases. According to the Pennsylvania Woodlands Timber Market Report, black cherry prices improved 18.0% during the third quarter (the most recent publicly reported pricing), ending 40.3% ahead of year-ago levels. Northern red oak prices increased 6.2% last quarter, finishing 17.7% above year-ago prices. Hard maple prices improved 11.6% over the quarter, ending up 21.3% year-over-year. Soft maple prices improved marginally, rising 0.3%, ending the quarter 15.0% above last year’s level.

Wisconsin markets strengthened throughout the fourth quarter as demand increased for both hard maple sawlogs and veneer logs. This trend should continue into the first quarter as mills strive to build log inventories for the wet season. Demand for ash continues to be very strong, while demand for yellow birch and basswood has leveled.

Northeastern Hardwood Timber Prices

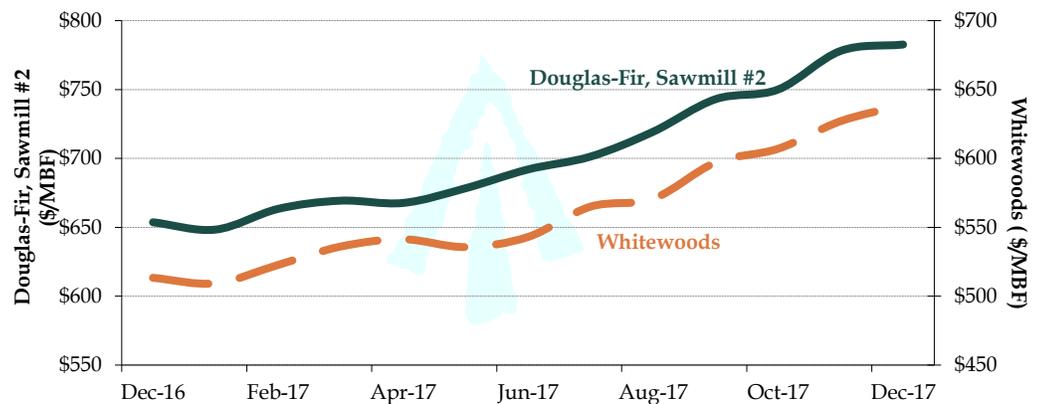


Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest – Timber markets in the Pacific Northwest (PNW) are producing near record timber prices, reaching levels not experienced since the mid-1990s. According to Log Lines®, Pacific Northwest average delivered prices for Douglas-fir #2 logs increased 5.3% over the fourth quarter, ending the quarter 19.7% above year-ago levels. Whitewoods (i.e., true firs and hemlock) average delivered log prices grew 7.0%, and ended the quarter 24.4% ahead of year-ago levels.

Japanese export demand continues to be very strong with no end in sight. Chinese demand has leveled off as inventories reach reasonable levels. Domestic demand is expected to remain very strong as limited mill inventories continue to apply pressure on many markets. Markets with quality export and domestic demand are expected to see strong prices leading into early 2018.

Pacific Northwest Log Prices

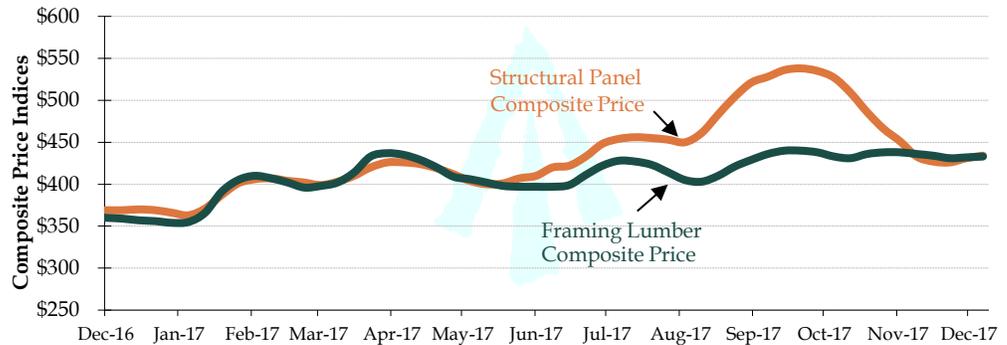


Source: Log Lines®

Product Prices

Lumber and Panels – Panel prices retreated from the high levels seen in September, while lumber prices appeared flat over the fourth quarter. The Random Lengths® Framing Lumber Composite Price dropped 0.7% over the fourth quarter, however prices remain 20.6% above last year’s level. The Structural Panel Composite Price retracted 17.8% over the quarter, ending 17.6% ahead of year-ago levels.

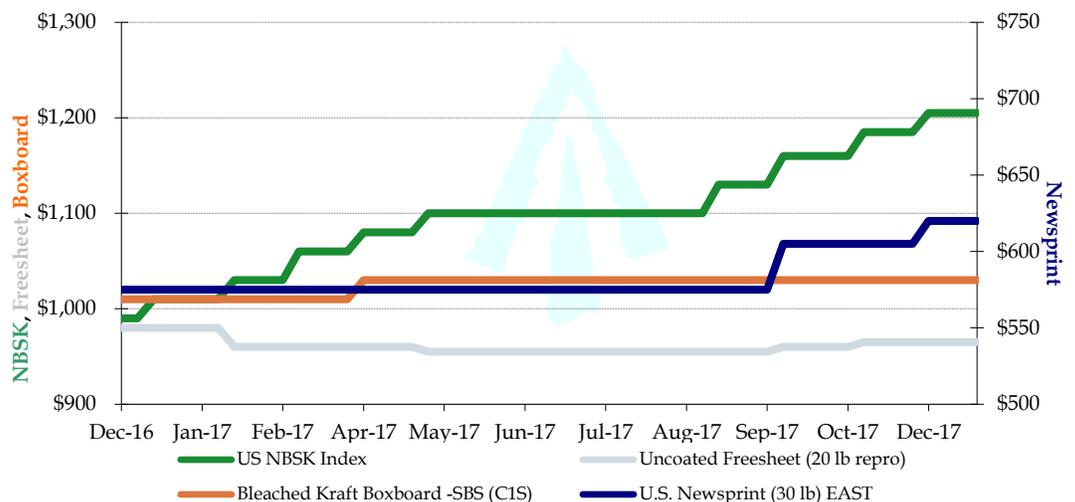
Lumber and Panel Prices



Source: Random Lengths®

Pulp and Paper – The benchmark NBSK (northern bleached softwood kraft) pulp price index improved 6.6% over the fourth quarter, marking its fourth consecutive quarterly increase, ending the quarter 21.7% over year-ago levels. U.S. Newsprint (30 lb.) increased 7.8% over the quarter, while uncoated freesheet (20 lb.) and boxboard prices experienced little change over the quarter.

Pulp and Paper Prices (\$/short ton)



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

Timberland Markets

Transactions – In the South, Twin Creeks announced the purchase 100,035 acres in Mississippi and Georgia from Weyerhaeuser for \$202.5 million, or \$2,025/acre. The property is located predominately in Mississippi, with the remaining 20% in Georgia. Elsewhere, CatchMark announced the acquisition of 14,923 acres in coastal Georgia from Forest Investment Associates (FIA) for \$43.3 million. The \$2,900/acre price reflects the quality and productivity of the plantations. CatchMark also announced the purchase of 4,641 acres in South Carolina from a private seller for \$10.9 million. Finally, Hancock (HTRG) purchased a 15,800-acre package in Oklahoma from Molpus Woodlands Group for a reported \$14.5 million.

In the Northeast, Lyme purchased a 48,200-acre package in Pennsylvania from HTRG for an undisclosed price. Lyme also completed the purchase of 164,000 acres in West Virginia from The Forestland Group for an undisclosed price in the fourth quarter.

In the Pacific Northwest, Conservation Forestry purchased 15,000 acres in Washington from a private seller for a reported price of \$41 million. Green Diamond contributed 21,000 acres in Washington to the Twin Creeks joint venture for an undisclosed price. Green Diamond also announced it had become an equity partner with Twin Creeks and will manage the timber portfolio, located primarily in the U.S. South.

Transactions in Progress – The 1.1-million-acre package known as Caddo in east Texas from Campbell Global continues to linger in the market. Investment banker Perella Weinberg took third quarter bids on the massive property, held by CalPERS. There are many rumors swirling about the deal, but investors continue to wait for final details. Also in the South, BTG Pactual took fourth quarter bids on a 155,000-acre package in Alabama, Mississippi, and Tennessee. In the Northwest, HTRG took fourth quarter bids on a 33,000-acre package in Washington, with closing expected in the first quarter of 2018.

Assuming the Caddo package in Texas does not close, 2017 deal flow will be down from recent years. With total transaction value of around \$1.5 billion, the year would fall well short of an approximate \$2.5 billion “run-rate” for domestic transactions. The makeup of 2017 transactions has been anything but normal. There have been very few transactions this year, with a few large deals dominating the market. REITs and private buyers have dominated the market in 2017, and have been more competitive on these larger transactions in the South. Many large offerings have gone unsold, and will likely be re-packaged in the near future.

International Update

During the fourth quarter, log prices in New Zealand pushed above 24-year highs for A-grade export logs. While increased freight and fuel costs are slightly affecting timberland owners' margins, the market remains strong. Carbon markets in New Zealand also saw upward pricing as the price per tonne of carbon approached NZ\$20. In transaction news, OneFortyOne Plantations, a Campbell Global managed company, announced an agreement to acquire Nelson Forests and its over 62,000 productive hectares on the northern portion of New Zealand's South Island from Global Forest Partners subject to the approval of the Overseas Investment Office.

In Chile, after experiencing the worst fire season in recent history during early 2017, Chilean companies and the government have invested record amounts to acquire new equipment and manpower in preparation for the upcoming Chilean summer. The Chilean market saw Arauco, the country's largest forest products company (controlled by Empresas Copec S.A.) continued to benefit from strong pulp prices. Arauco sustained its investment program to expand its business in both pulp and panel markets. During the quarter, it became the world's second largest panel manufacturer after it acquired Masisa's industrial facilities in Brazil for \$102 million and in Mexico for \$245 million.

Chile concluded its presidential elections during the quarter. Sebastian Pinera (center right) won the second-round runoff election held on December 17th by a margin of 9.2% over Alejandro Guillier (center left). This will be Mr. Pinera's, a Chilean businessman, second term as the president of Chile.

Strong pulp prices continue to drive impressive results for the Brazilian pulp sector. With this strong performance, pulp companies are signaling their desire to expand capacity through consolidation or via installation of new industrial facilities. Fibria, Suzano, Klabin, Arauco, CMPC and Eldorado (recently acquired by Paper Excellence) have publicly shared growth ambitions and plan to make definitive announcements by the second half of 2018. Similar to the third quarter, the gate price for softwood logs in the southern states of Brazil remains stable. However, higher harvesting and transportation costs have put slight downward pressure on stumpage prices as mills rejected attempts from suppliers to increase price.

The Brazilian economy continues to recover despite ongoing political challenges. Key events to monitor during 2018 are the congressional vote on public pension plan reform in January and the presidential election in October. The presidential election has no clear front-runner at this time, though former president Lula is appealing his corruption conviction, which if overturned, could thrust Lula back into the spotlight of presidential politics.

Economic News

Housing – As of November, housing starts hit a seasonally adjusted annual rate just short of 1.3 million units. Single-family starts jumped 5.3% to 930,000, highest since September 2007.

Mortgage Rates – As of the beginning of January, the 30-year fixed-rate was at nearly 4%.

Jobs – The U.S. labor market ended a year of solid growth on a disappointing note in December with 148,000 net new jobs, down sharply from an upwardly revised 252,000 net new jobs added in November.

Consumer Confidence – Consumer confidence hit 122.1 in December, slightly below the 17-year high of 128.6 set the month prior.

Inflation – As of the beginning of January, underlying U.S. consumer prices recorded their largest increase in 11 months on strong gains in the cost of rental accommodation and healthcare, bolstering expectations that inflation will accelerate this year.

Trade Deficit – The U.S. trade deficit rose to \$50.5 billion in November, the largest imbalance in nearly six years, as imports and exports both hit records. The November deficit was 3.2% higher than October's \$48.9 billion imbalance.

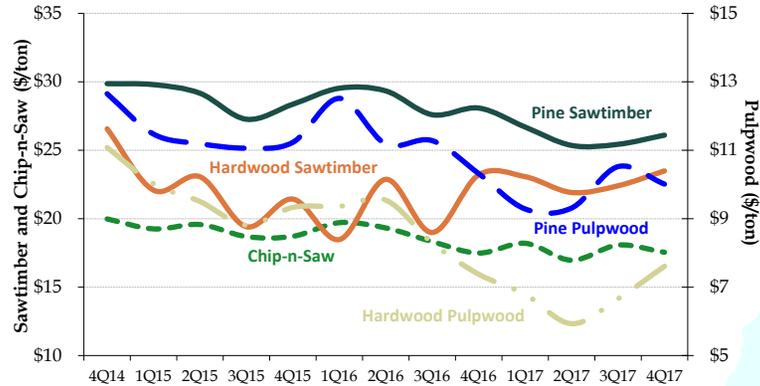
Interest Rates – As of the beginning of 2018, yields on the 10-year U.S. Treasury hit a nine-month high and eclipsed 2.5%.

Oil Prices – As of the beginning of 2018, oil prices reached a three-year high, reaching nearly \$70 a barrel.

U.S. Dollar – Despite a 75 basis point increase in the Federal Reserve's targeted rate, the U.S. dollar lost ground against most major currencies in 2017.

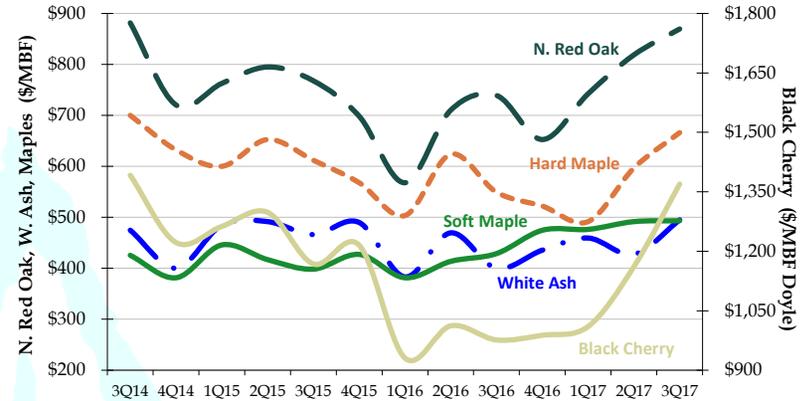
The FIA Timber Economics “Quarterly Dashboard”

Southeastern Timber Prices



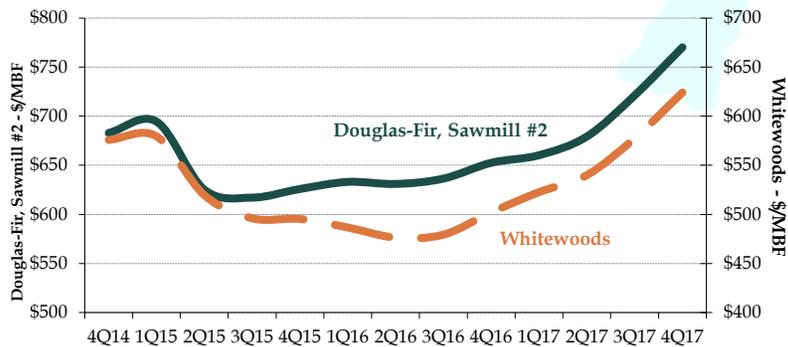
Source: Forest2Market®

Northeastern Hardwood Timber Prices



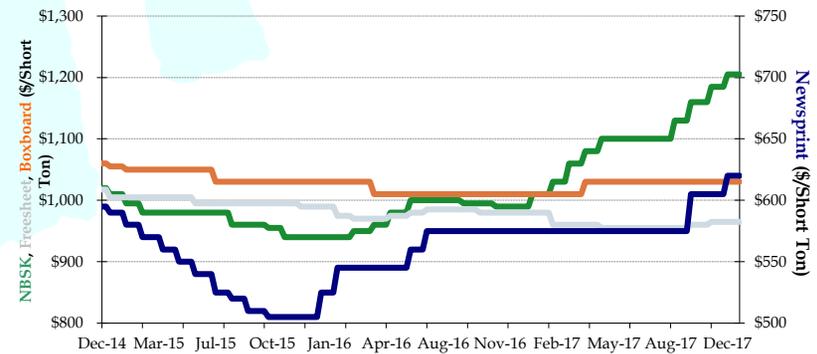
Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest Timber Prices



Source: Log Lines®

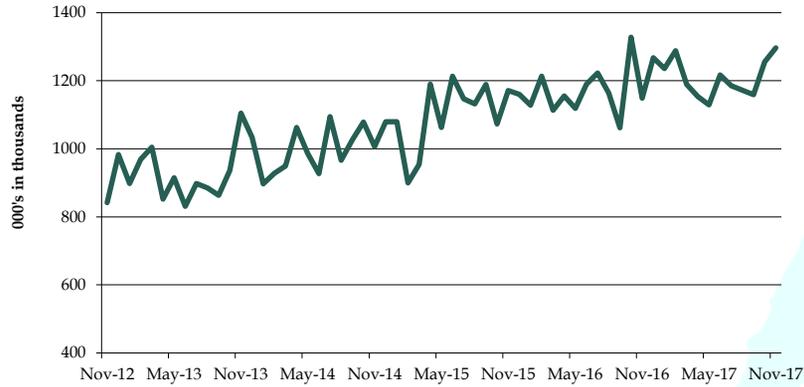
Pulp and Paper



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

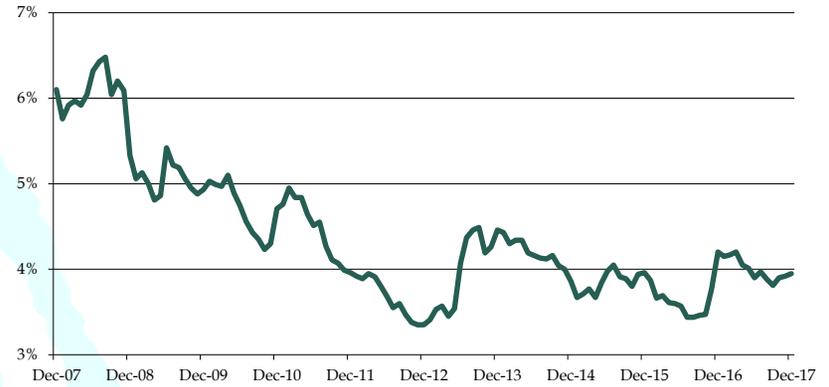
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Housing Starts



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

30 yr. Mortgage



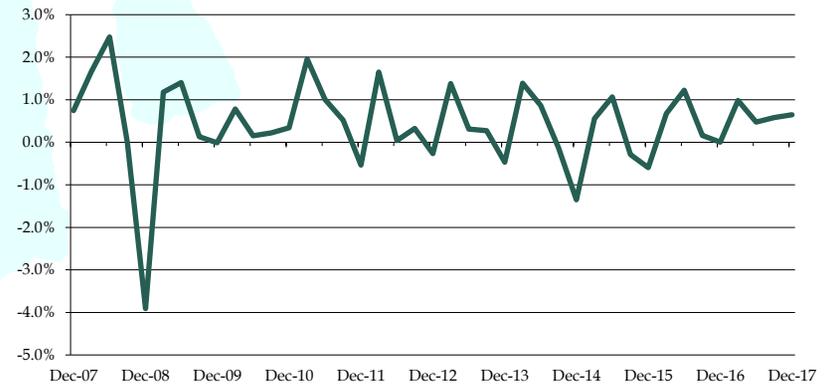
Source: The Federal Reserve

Lumber



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

Inflation (CPI)



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