



Contents

- Summary Update
- Timber Prices
- Product Prices
- Timberland Markets
- International Update
- Economic News
- The FIA “Quarterly Dashboard”

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Summary Update

Timber and Product Prices – Wet weather and slight increases in demand pushed Southeastern stumpage markets upward over the last quarter of 2018. Pacific Northwest markets continue to retreat from highs seen earlier in the year. Hardwood markets in the Northeast experienced a decline in prices for many species, however demand remains steady in Lake State markets. Panel and lumber prices ended the year substantially lower than the record highs seen earlier in the year and year-ago levels.

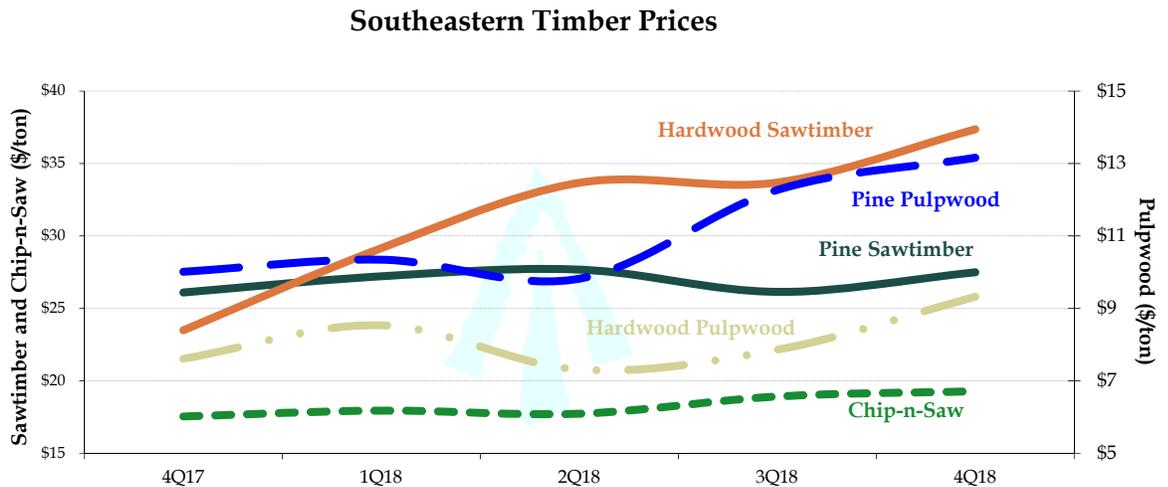
November housing starts increased to a seasonally adjusted annual rate of 1.256 million units. The November 2018 rate was 3.2% above the revised October rate of 1.217 million units, but 3.6% below the November 2017 rate of 1.303 million units. The average interest rate for 30-year fixed rate mortgages decreased over the quarter, falling from 4.83% in October to 4.64% in December.

Timberland Markets – Forest Investment Associates (FIA) was active in the fourth quarter, closing two large transactions in Texas and Louisiana. FIA acquired 181,000 acres in the region from Hancock for an undisclosed price, and another 56,000 acres from CatchMark for a reported \$78.5 million. Green Diamond/Twin Creeks was also active in the final months of 2018, closing two large deals in the South totaling 133,000 acres for over \$180 million.

Several other deals that lingered throughout much of 2018 transacted or were contracted in the fourth quarter, pushing yearly transaction values well ahead of 2017 levels. However, much of that difference from the previous year was due to the large \$1.39 billion Caddo transaction closing earlier in the year.

Timber Prices

Southeastern – Substantial rainfall across many parts of the South combined with moderate increases in demand pushed stumpage prices upward in many wood baskets. All benchmark pine and hardwood product prices increased over the fourth quarter. Forest2Market® reported a 5.2% increase in Southern pine sawtimber prices over the fourth quarter of 2018; prices ended 5.3% above last year’s level. Pulpwood prices rose 7.3% and 18.5% for pine and hardwood, respectively, over the quarter. Hardwood sawtimber prices jumped 10.9%, ending 59.1% above last year’s pricing levels.

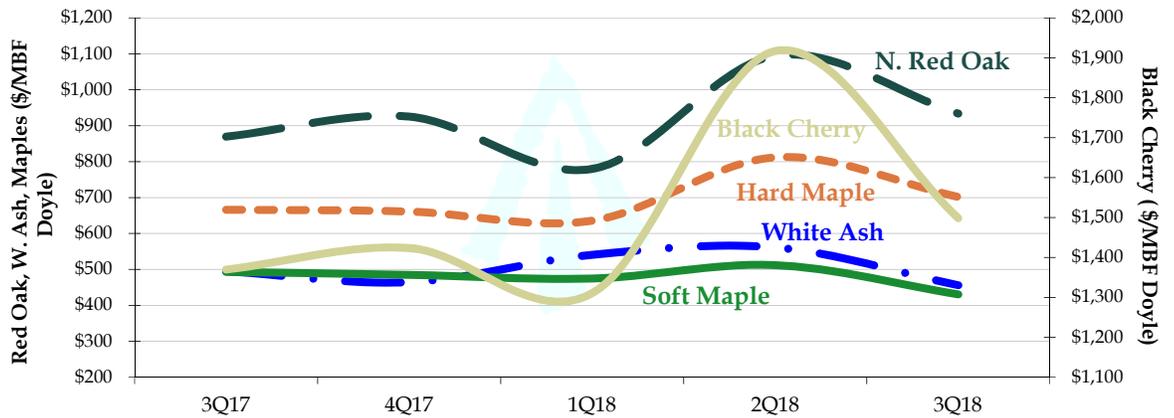


Source: Forest2Market®

Northern Hardwoods – Hardwood markets continued to decline over the last months of 2018 mainly due to poor lumber and log exports to China. Exporters have been able to shift some production to other outlets; however they have not replaced all excess volume that historically went to China. According to the Pennsylvania Woodlands Timber Market Report, black cherry prices declined 21.8% during the third quarter (the most recent publicly reported pricing), ending 9.4% above year-ago levels. Northern red oak prices fell 14.7% last quarter, concluding 7.4% above year-ago prices. Hard maple prices decreased 13.6% over the quarter, ending up 5.3% year-over-year. Soft maple prices declined 15.9%, ending the year 12.7% below last year’s level.

In Wisconsin, hardwood lumber markets are stable. Sawmill inventories are manageable as the annual “winter build” begins. Veneer log markets are strong, as they traditionally are this time of year. Boltwood prices continue to be respectable as demand for flooring remains stable. Pulpwood markets are good and are expected to remain constant or possibly increase as mills begin their winter inventory build.

Northeastern Hardwood Timber Prices

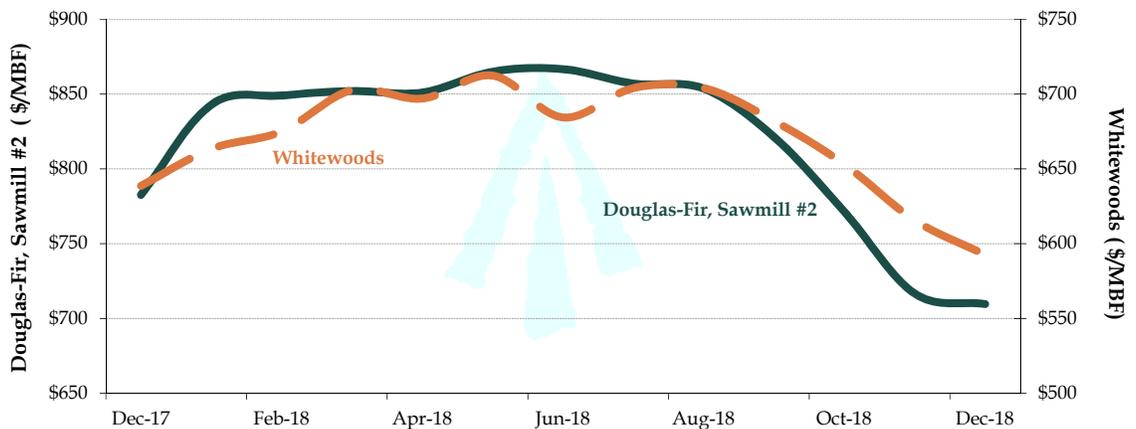


Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest – Pacific Northwest timber markets softened over the final quarter of 2018. Log Lines® reported that Pacific Northwest average delivered prices for Douglas-fir #2 logs declined 13.6% over the fourth quarter, ending the quarter 9.3% below year-ago levels. Whitewoods (i.e., true firs and hemlock) average delivered log prices dropped 13.1%, and prices ended the quarter 7.2% beneath year-ago levels.

Favorable weather has continued to keep mill inventories high in most regions which has softened demand from domestic purchasers. Demand for Japan quality Douglas-fir is strong; however, prices have decreased. Demand from Chinese buyers has been stable, keeping prices from falling dramatically.

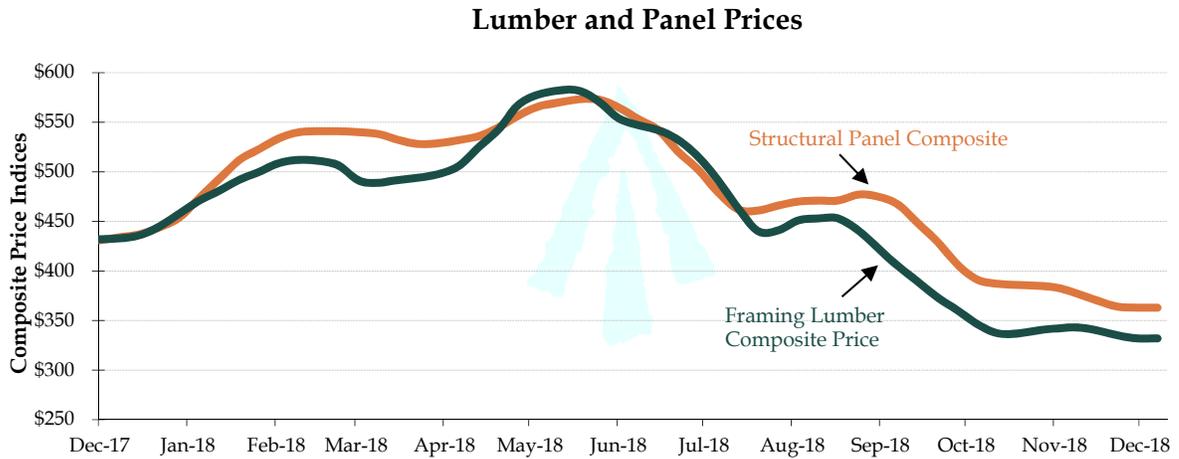
Pacific Northwest Log Prices



Source: Log Lines®

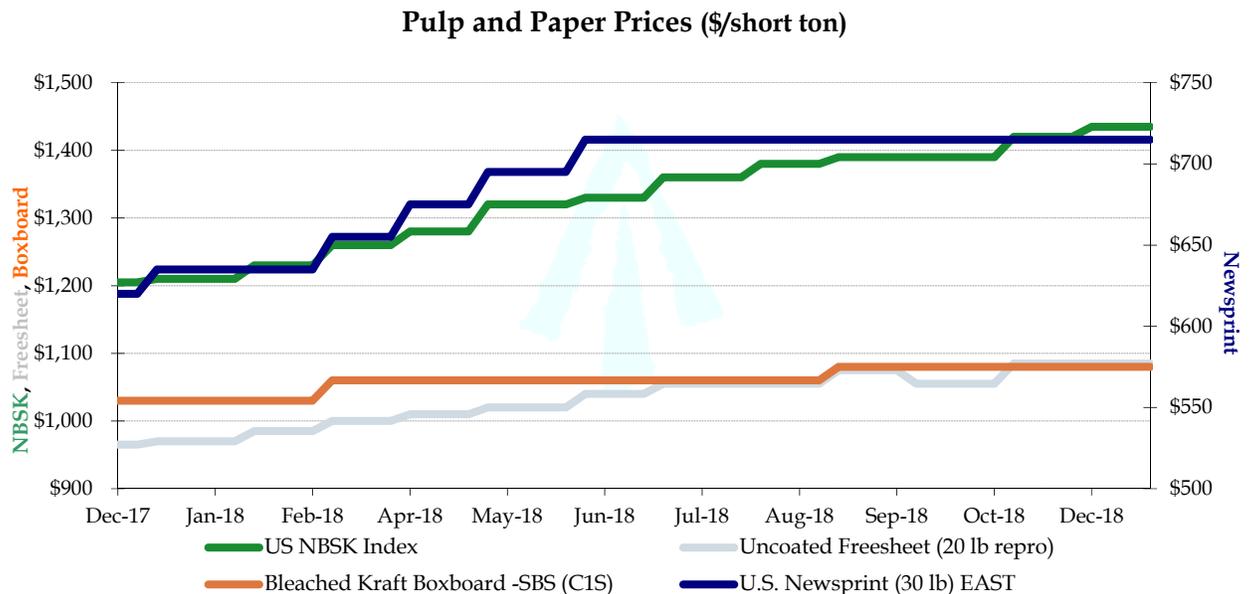
Product Prices

Lumber and Panels – Panel and lumber prices continued to decline over the fourth quarter, ending the year well below year-ago levels. The Random Lengths® Framing Lumber Composite Price retreated 18.0% over the quarter, ending the year 23.3% below 2017 prices. The Structural Panel Composite Price decreased 22.3% over the quarter, ending 16.4% below year-ago levels.



Source: Random Lengths®

Pulp and Paper – Pulp and paper prices experienced little change over the final quarter of 2018. The benchmark NBSK (northern bleached softwood kraft) pulp price index improved 3.2% over the quarter, ending 19.1% above year-ago levels. U.S. Newsprint (30 lb.) prices remained unchanged over the quarter, ending the year 15.3% above last year’s level. Uncoated freesheet (20 lb.) experienced a small 0.9% increase while boxboard prices remained flat over the quarter.



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

Timberland Markets

Transactions – In the South, Forest Investment Associates (FIA) closed on its purchase of 181,000 acres in Texas and Louisiana from Hancock Timber Resource Group (HTRG) for an undisclosed price. The large size of the offering coupled with the inability to bifurcate due to the wood supply agreements restricted competition for the asset. Molpus Woodlands Group reportedly reached an agreement to sell a 92,000-acre package in northern Alabama to Green Diamond/Twin Creeks. Although an exact price was not known at time of publishing, analysts expect the asset to trade for over \$100 million. Green Diamond/Twin Creeks also purchased 41,000 acres in Alabama, Georgia, and Florida from Domain Timber Advisors for an undisclosed price. FIA completed its purchase of a 56,000-acre package in Texas and Louisiana from CatchMark (CTT) for a reported price of \$78.5 million (\$1,409/acre). Finally, IKEA purchased 17,900 acres in east Texas from HTRG for a reported price of \$35.8 million (\$2,002/acre).

In the Pacific Northwest, Olympic Resource Management purchased the 9,400-acre Issaquah property in Washington from HTRG for a reported price of \$32.3 million. Also in Washington, Conservation Forestry sold 15,300 acres known as Green River to BTG Pactual for an undisclosed price. In Oregon, HTRG reportedly sold two packages in the fourth quarter. The first, a 7,750-acre block, sold to Weyerhaeuser, while another 12,125 acres went to Greenwood Resources. In California, Green Diamond announced the purchase of 9,400 acres from a private seller, but a price was not disclosed.

Internationally, the publicly listed (London Exchange) Phaunos Timber Fund Limited was acquired and subsequently delisted by Stafford Capital Partners Limited. The final purchase price for the fund was \$259.1 million, an increase of approximately \$15 million from the initial offer. The fund's assets are located in Brazil and Uruguay, in addition to a valuable 23% interest in the Matiriki property containing approximately 120,000 plantable hectares in New Zealand.

Transactions in Progress – Many of the deals that lingered on the market throughout 2018 closed in the fourth quarter, but a few remain unresolved. The largest carry-over deal is Molpus' 31,000-acre package in Arkansas and Louisiana. Although nothing has been officially announced, analysts expect the deal to close in the first quarter of 2019. BTG Pactual took bids on a package containing approximately 12,000 acres in Virginia late in the fourth quarter and will look to complete the transaction in the coming months.

Total transaction value in 2018 was much higher than the previous year, but the difference was driven by the \$1.39 billion Caddo transaction in east Texas. With only a couple known deals coming to the market in early 2019, and most of the large-scale transactions of the mid-2000s settled, deal flow is likely to lag in 2019.

International Update

Key international trade flows exposed to China are seeing cracks in price support levels. Export softwood log pricing from the U.S. Pacific Northwest, New Zealand and Australia are all off from peak levels. No doubt some of this relates to the perceived economic slowdown in China; however, the Chinese government has signaled that stimulus, both monetary and fiscal, could be in the offing. Weakness in Australian housing is causing broader calls for economic malaise in Australia which could affect demand for local logs tied to those markets. On the trade front, U.S. and Chinese officials announced during the recent G-20 meetings in Buenos Aires, Argentina that the U.S. would postpone the implementation of increased tariffs from 10% to 25% on \$200 billion of Chinese goods while the two parties resumed negotiations.

Chile – Late-year estimates put Chile’s 2018 GDP growth at 4.0% which represents some of the strongest growth in years. According to the Chilean Central Bank, this positive trend should continue in 2019 within a range of 3.25% and 4.25%. Inflation is projected to remain stable at, or near the 3% target providing a favorable macroeconomic backdrop for 2019. The forest industry enjoyed brisk export markets during 2018 with November YTD exports at \$6.14 billion which already eclipsed 2014’s record-setting level of \$6.09 billion. Significant gains in plywood (~\$400 million) and lumber (~\$870 million) exports were important factors driving strong pricing to landowners for their softwood logs.

INFOR, Chile’s forestry institute which falls under the direction of the Ministry of Agriculture, published preliminary results from a study to determine Chile’s annual wood availability for the next thirty years. This study was launched as part of the government’s response to the historic 2017 fire season and is a continuation of a series of studies launched in 1985. Key findings indicate that annual pine volumes decreased by approximately 4.8 million m³ for the 30-year period (24.1 million m³ vs. 28.9 million m³ in the previous version of the study). Expected annual pine demand for the period is estimated to be 29.8 million m³. The study also reported that expected annual eucalyptus globulus volumes were down 1.5 million m³ for the 30-year period (9.1 million m³ vs 10.6 million m³). Annual demand for eucalyptus globulus for the period was estimated at 10.9 million m³. Future annual volumes for eucalyptus nitens increased from 7.0 million m³ in the previous study to 10.0 million m³ in this update; however, the updated estimates represent less volume than the projected annual demand of 10.5 million m³ for this species.

Brazil – Brazil’s 2018 GDP growth is estimated by most economists to be around 1.3% with continued stable inflation for the year of 3.7%. The weak growth rate is anticipated to expand under most scenarios during 2019 and should reach the mid-2% range as the broader domestic market continues its recovery.

The general election concluded on October 28th when a required second-round vote was conducted. The voting results for the president of Brazil ushered in a historical shift in Brazil’s modern-day political landscape. Promising zero tolerance on corruption, liberal economic policies, less intervention from the federal government and anti-left ideology, right wing Jair

Bolsonaro won over the Labor Party (PT) candidate, Fernando Haddad. President Bolsonaro will take office January 1, 2019. In additional political developments, both legislative houses had significant seats in play during the general election. Along similar lines as the presidential race, a transformative shift of political party representation took place during the elections. Several traditional political figures were left without a seat creating a new legislative environment for President Bolsonaro to navigate as he works to implement his agenda. New Congress and Senate members will take their seats on February 1st and will most likely address Public Pension reform which is one of Bolsonaro's top near-term priorities. Markets responded positively to these developments with advances in the Brazilian stock market (Ibovespa), a stronger Brazilian Real and reduced sovereign credit default spreads.

The Brazilian forest sector posted strong results during 2018. Forest product exports from January to November registered 24.4% year-over-year growth, reaching \$9.6 billion. Increased year-over-year exports were led by pulp (31.2%), wood panels (7.1%) and paper (5.0%). Domestically, the Brazilian wood panel market enjoyed a 4.3% gain in consumption from January to November while paper use was up 0.9%. In pulp sector news, recent reports indicate that the Eldorado mill in Mato Grosso do Sul is operating at 200,000 tons above its nominal capacity, bringing the total capacity of the one-line mill to 1.7 million tons of bleached eucalyptus kraft. Additionally, the massive Suzano and Fibria merger received approval from the Brazilian antitrust regulator (CADE) and is now scheduled for final close on January 14th. The newly merged firm will be called Suzano.

Economic News

Housing – Housing starts increased 3.2% to a seasonally adjusted annual rate of 1.256 million units in November, but construction of single-family homes fell to a 1½-year low, pointing to deepening housing market weakness that could spill over to the broader economy.

Mortgage Rates – After a climb in rates over the fall, the 30-year fixed-rate average declined over the 4th quarter and into the new year, down to around 4.5%. That's up half a percent from a year ago.

Jobs – The December jobs report came in very strong, at 312,000, most in the private sector. The average for the last three months, a more reliable gauge of underlying trends, is an average gain of 254,000 jobs, a pace of over 3 million per year.

Consumer Confidence – The Conference Board's consumer confidence index dropped to 128.1 in December, down from 136.4 in November. The October index reading of 137.9 was the highest since 2000.

Inflation – As of November, the Consumer Price Index, which was the weakest in eight months, dropped 0.3% following a 0.2% increase in October. In the 12 months through November, the CPI rose 2.2%, the smallest gain since February, after advancing 2.5% in October.

Trade Deficit – The U.S. trade deficit jumped to a 10-year high in October as soybean exports continued to fall and imports of consumer goods rose to a record high, suggesting the Trump administration's tariff-related measures to shrink the trade gap likely have been ineffective.

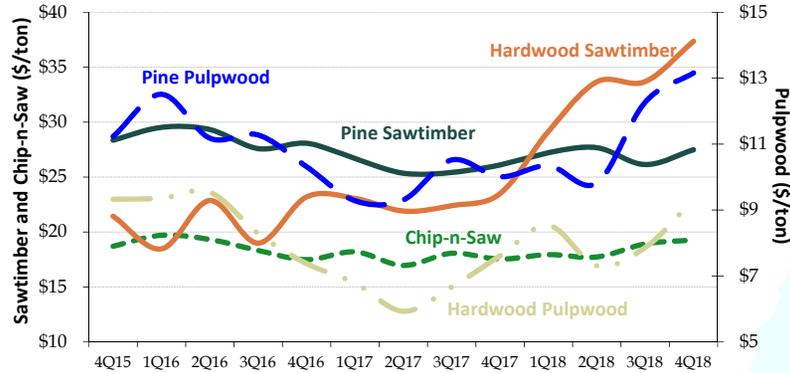
Interest Rates – After spiking in the 4th quarter to multiyear highs of around 3.15%, the yield on the benchmark 10-year Treasury note began the 1st quarter closer to 2.75%.

Oil Prices – Oil prices declined precipitously in the 4th quarter, as U.S. crude oil production remained at record levels.

U.S. Dollar – The U.S. dollar, as measured by the U.S. dollar index, traded in a tight range of 95 to 97.5 throughout the 4th quarter.

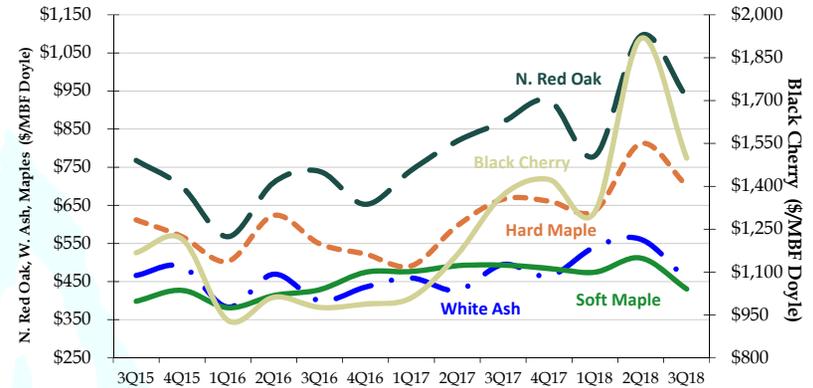
The FIA Timber Economics “Quarterly Dashboard”

Southeastern Timber Prices



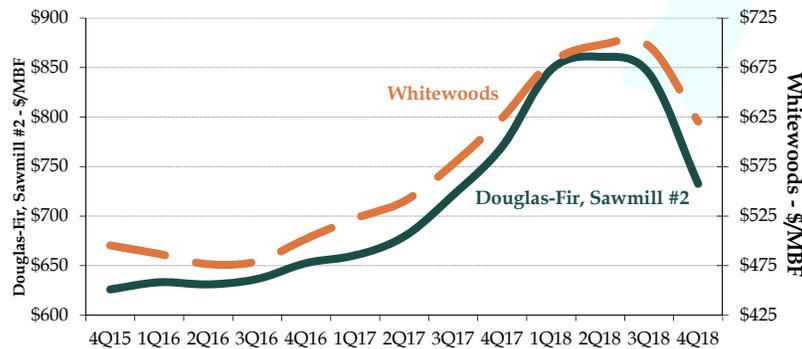
Source: Forest2Market®

Northeastern Hardwood Timber Prices



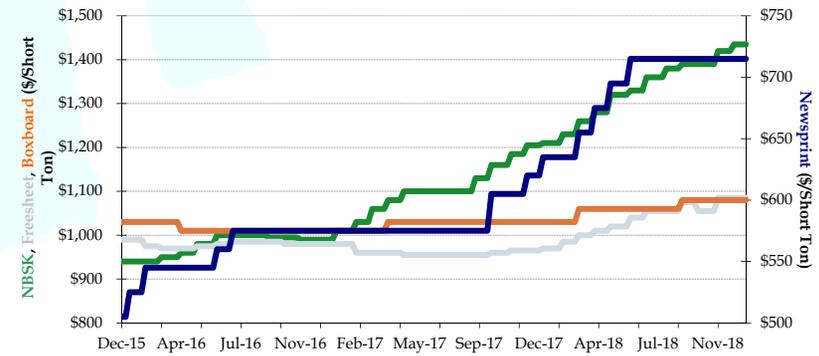
Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest Timber Prices



Source: Log Lines®

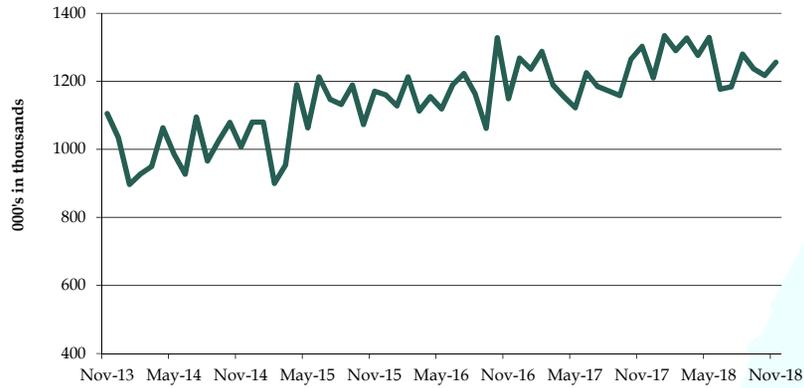
Pulp and Paper



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

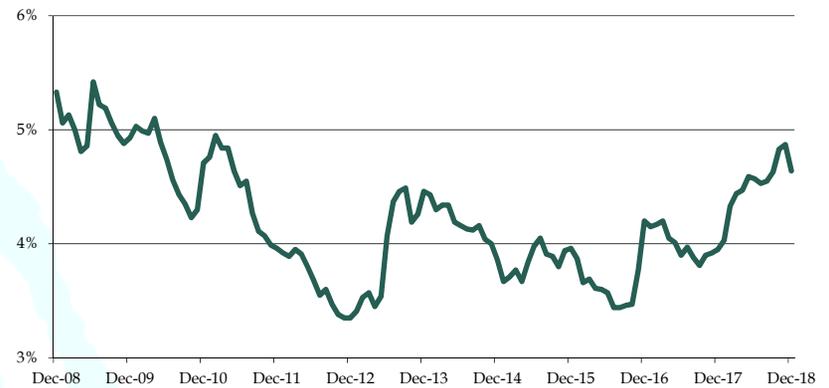
The FIA Timber Economics “Quarterly Dashboard”

Housing Starts



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

30 yr. Mortgage



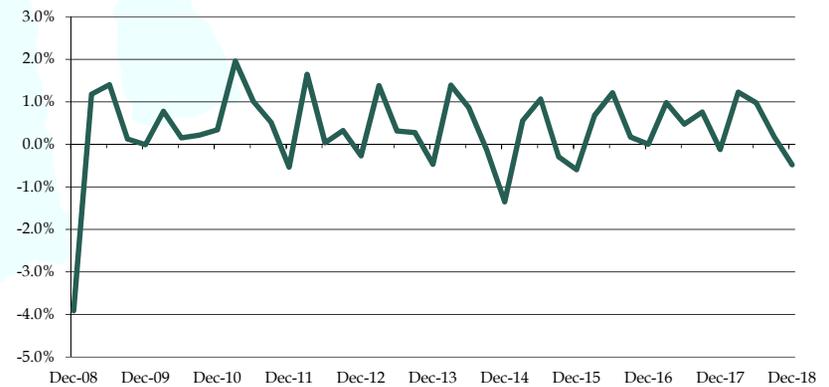
Source: The Federal Reserve

Lumber



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

Inflation (CPI)



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