



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 – Southern timber markets declined over the quarter, erasing some of the moderate gains experienced earlier in the year. Decreased log exports to China and lackluster domestic demand continue to hamper both Pacific Northwest and Northern hardwood markets. Panel and lumber prices decreased over the quarter, however, positive movement was seen during the final weeks of June, suggesting potential strengthening in markets.

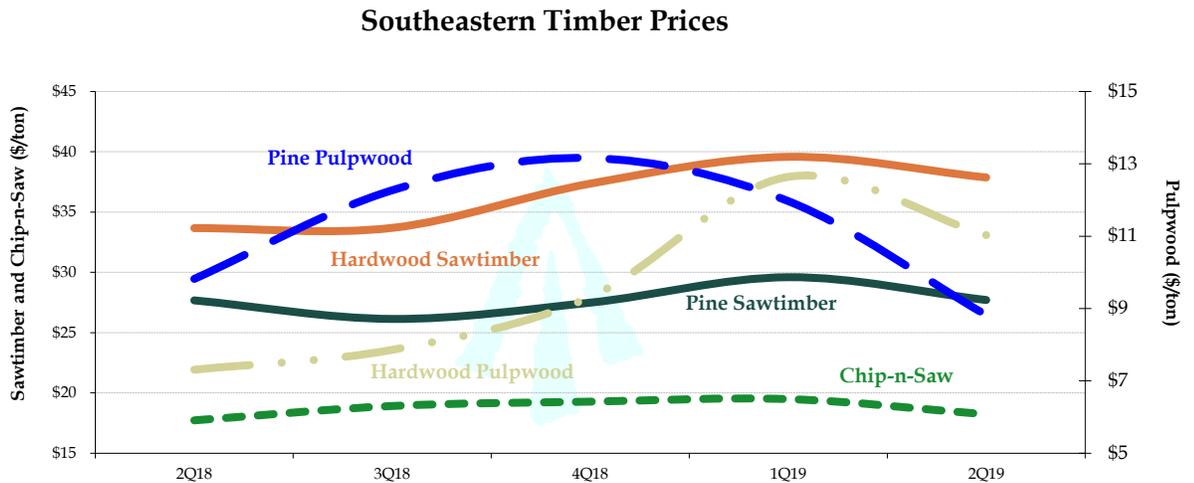
June housing starts were at a seasonally adjusted annual rate of 1.253 million units. The June 2019 rate was 0.9% below the revised May rate of 1.265 million units and 6.2% above the June 2018 rate of 1.180 million units. The average interest rate for 30-year fixed rate mortgages decreased for the seventh consecutive month, ending at 3.80% in June.

Timberland Markets – The headline deal of the second quarter was IKEA’s purchase of 17,000 acres in coastal South Carolina from Forest Investment Associates (FIA) for a record-setting price of over \$3,400/acre. Also active on the buy side last quarter, FIA purchased 40,500 acres from privately held SALTCO in Alabama for an undisclosed price. Molpus Woodlands Group also completed two long-running hardwood property sales in the second quarter. Finally, Southern Pine Plantations purchased two properties in Georgia from Weyerhaeuser and FIA, respectively.

While deal flow has been generally slow the first half of 2019, fresh offerings are starting to come to the market with more expected in the coming months. While activity is picking up, there continues to be a lack of large offerings, with no transactions topping \$100 million thus far in 2019.

Timber Prices

Southeastern – Timber markets across the South weakened over the second quarter. All major products experienced a retraction in prices, losing the gains experienced during the first three months of the year. Forest2Market® reported a 6.4% fall in Southern pine sawtimber prices over the second quarter of 2019. Sawtimber prices ended 0.1% above last year's level. Pine chip-n-saw prices decreased 6.5%, ending 2.8% above year ago prices. Pine pulpwood prices dropped a staggering 26.3%, ending the quarter down 10.2% year over year. Hardwood pulpwood and hardwood sawtimber prices decreased 12.7% and 4.3% respectively over the quarter.

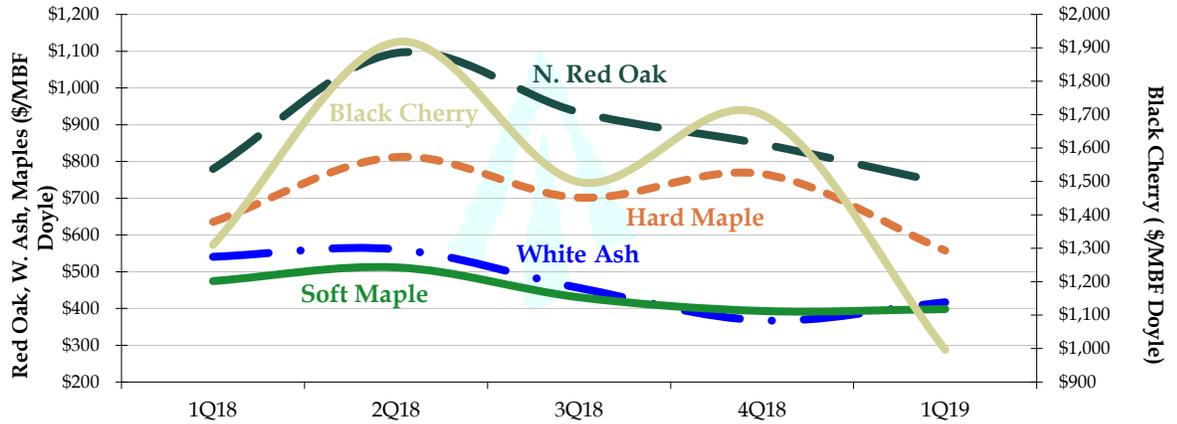


Source: Forest2Market®

Northern Hardwoods – Hardwood markets continue to be weak. Decreased log exports to China and sub-par domestic demand are to blame. According to the Pennsylvania Woodlands Timber Market Report, black cherry prices decreased 41.4% during the first quarter (the most recent publicly reported pricing), ending 23.9% below year-ago levels. Northern red oak prices fell 12.6% last quarter; the third consecutive quarterly price decrease. Hard maple prices decreased 27.2% over the quarter, ending down 12.3% year-over-year. Soft maple prices increased 1.3%, concluding the year 16.1% below last year's level.

In Wisconsin, demand for hardwood logs eroded during the second quarter. Hard maple, basswood, yellow birch and ash prices have retracted. There has been a marked decline in demand for veneer logs. Hardwood pulpwood markets continue to perform well.

Northeastern Hardwood Timber Prices

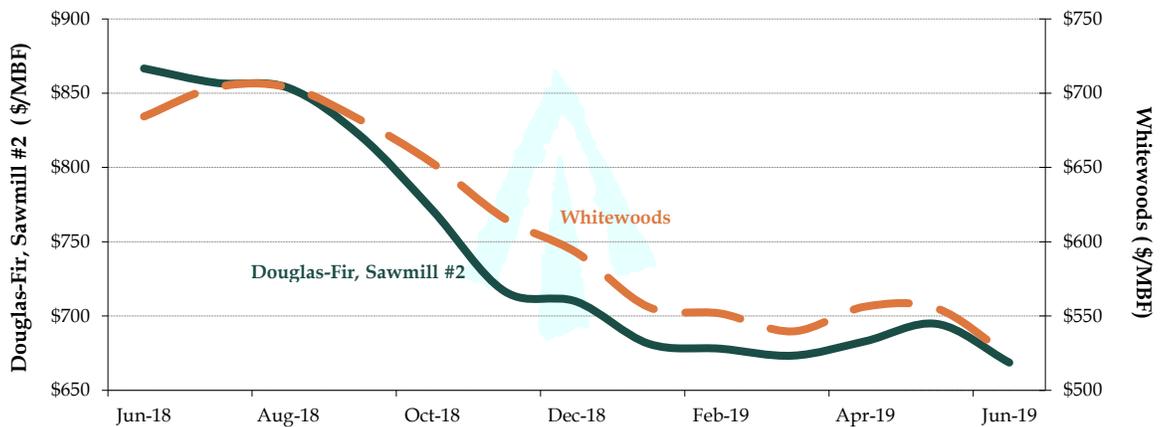


Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest – Pacific Northwest timber markets showed signs of stabilizing over the second quarter of 2019, ending the quarter at levels roughly seen in 2017. Log Lines® reported that Pacific Northwest average delivered prices for Douglas-fir #2 logs declined 0.7% over the second quarter, ending 22.8% below year-ago levels. Whitewoods (i.e., true firs and hemlock) average delivered log prices fell 3.1%, and prices ended the quarter 23.6% beneath year-ago levels.

Japanese and Chinese demand remains generally flat as tariffs continue to dampen export log purchases. Whitewood export tariffs jumped from 10% to 20%, causing extreme hesitation from Chinese exporters. Demand for logs at domestic mills has decreased in most regions. Favorable weather and ample supply have kept log yards full.

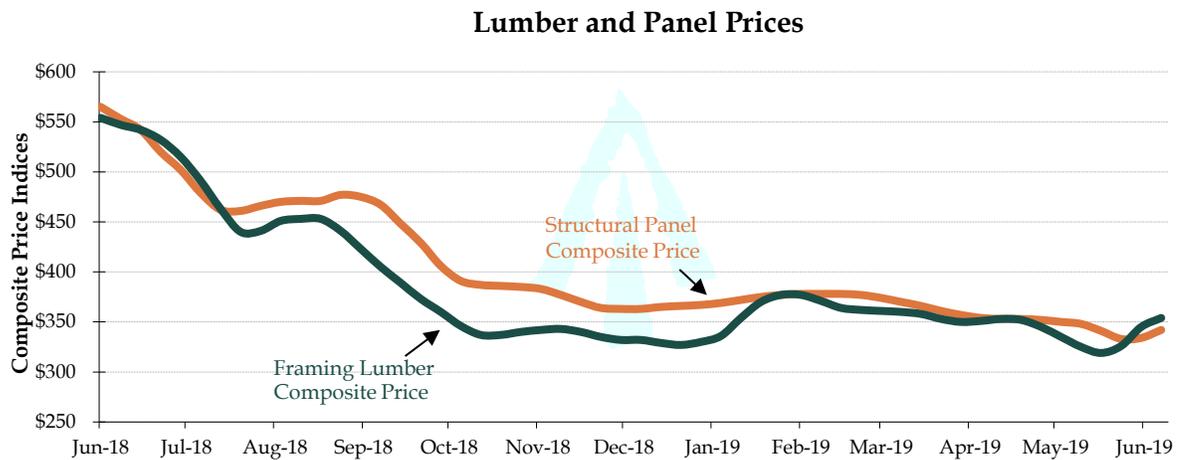
Pacific Northwest Log Prices



Source: Log Lines®

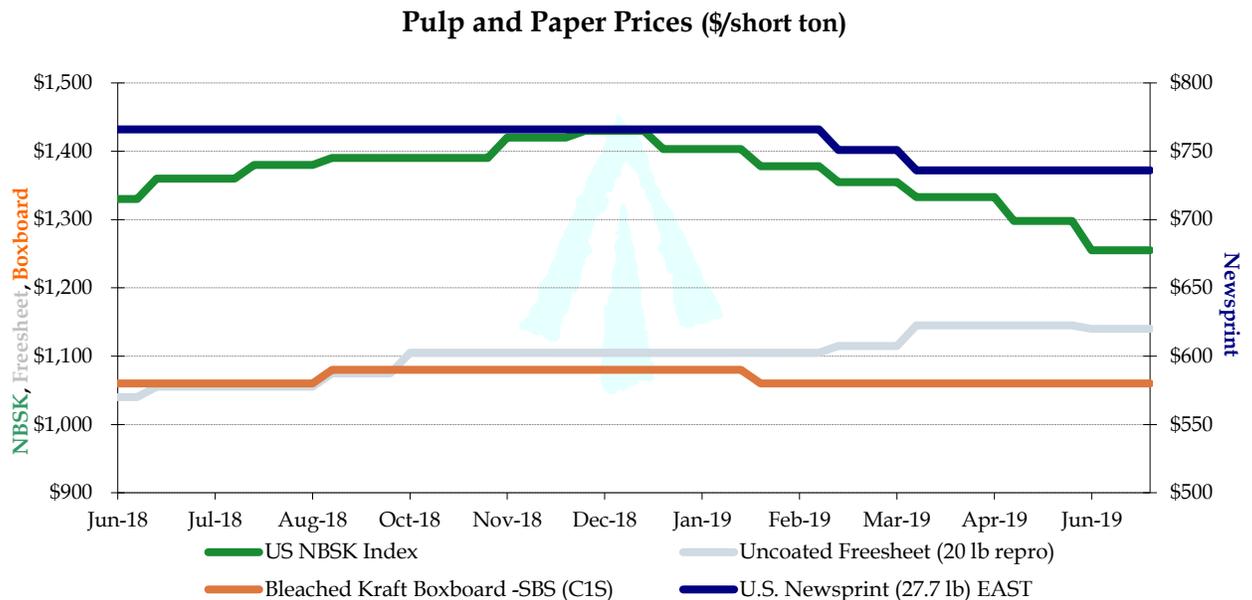
Product Prices

Lumber and Panels – Panel and lumber prices declined slightly over the quarter but showed signs of strengthening during the final month of the quarter. The Random Lengths® Framing Lumber Composite Price dropped 1.7% over the quarter, ending 35.3% below last year. The Structural Panel Composite Price decreased 7.6% over the quarter, ending the quarter 38.2% below year-ago levels.



Source: Random Lengths®

Pulp and Paper – Pulp and newsprint prices weakened over the quarter, while demand for fine paper and boxboard held steady. The benchmark NBSK (northern bleached softwood kraft) pulp price index dropped 7.4% over the quarter, ending 5.6% below year-ago levels. U.S. Newsprint (27.7 lb.) prices fell 2.0% over the quarter, ending the quarter 3.9% below last year’s level. Boxboard prices remained unchanged over the quarter, while uncoated freesheet (20 lb.) prices increasing 2.2%.



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

Timberland Markets

Transactions – In the South, IKEA purchased a 17,000-acre package in coastal South Carolina from Forest Investment Associates (FIA) for over \$58 million. At over \$3,400/acre, the transaction set a new high-water mark for southern timberland transactions. FIA also purchased 40,500 acres from SALTCO, a privately held ownership, in Alabama for an undisclosed price. Molpus Woodlands Group (MWG) closed two long-running southern hardwood sales in the second quarter, selling 100,000 acres in Kentucky and Tennessee to a conservation group for a reported price of \$70 million. MWG also sold a 31,000-acre hardwood property in Louisiana and Arkansas to a private buyer for a reported price of \$27.6 million. Southern Pine Plantations (SPP) was an active buyer in the second quarter, purchasing two properties in Georgia. SPP purchased 11,300 acres from Weyerhaeuser for \$15.3 million and a 7,300-acre package from FIA for \$9.2 million.

Transactions in Progress – Deal flow picked up late in the second quarter after a relatively slow start to 2019, with multiple offerings hitting the market. In the South, Hancock is marketing a 35,000-acre package in central Alabama, with bids due in July. In Texas, BTG Pactual is taking third quarter bids on 40,000 acres. Greenwood Resources took bids on a 14,000-acre package in Virginia late in the second quarter, but a buyer was not known at time of publishing.

In the Northeast, Danzer is taking third quarter bids on 40,000 acres across Pennsylvania, New York, and Indiana. In New Hampshire, The Forestland Group is marketing 146,000 acres of hardwoods.

While activity is picking up as we move into the second half of 2019, it is important to note the somewhat surprising lack of large transactions to date. No single deal has topped the \$100 million mark in 2019. With no large offerings currently on the market, deal flow continues to lag typical levels of prior years.

International Update

The trade war between the U.S. and China was rumored to approach conclusion late first quarter; however, the second quarter brought surprising news to the general public that the trade war will continue with possible escalation. Although the cause is debated by both sides, Q2 growth in the Chinese economy has slowed to an annualized 6.2% or the slowest rate in 27 years. Regardless of the cause, the slowdown in China's economic activity has reduced demand for wood products as most acutely observed in hardwood and softwood pulp markets. Additionally, recent reports out of New Zealand indicate a significant weakening of log prices for most grades due to increased inventory at Chinese ports.

Chile – As an export driven economy, Chile has not been immune to softness in global markets driven by the trade war. Headwinds have mostly manifested in the Chilean economy via lower copper prices and appetite for Chilean products. Per pound copper prices in USD decreased 11% during the second quarter of 2019. Chile's Central Bank decreased their GDP growth expectation for 2019 from 3.2% to 2.9%.

According to preliminary INFOR figures during the first quarter of 2019 (latest data available), Chilean forest product exports reached US \$1.6 billion FOB, a 2.6% decrease compared to the same period in 2018. However, exports in Q1 2019 were still 20% higher versus Q1 2017, confirming the competitiveness of Chilean forest products even under the current macroeconomic conditions. Some of the key drivers behind the dampening in exports have been lower global prices for bleached hardwood pulp, which began to decline in August of 2018. Weakness in eucalyptus pulp pricing was partially offset by larger volumes which were 3.7% higher than the first quarter of 2018. Some solid wood products continue to register increased export amounts. For example, volumes of exported plywood were 19.4% higher year over year.

Brazil – The Brazilian real appreciated 1.7% quarter-over-quarter. The consensus outlook for 2019 GDP expansion for Brazil is a weak 0.9% driven by weak manufacturing and consumer demand. In positive news subsequent to quarter end, the lower house approved a pension reform plan that would save almost one trillion reais over a 10-year period. This projected savings is on the high end of most economists' estimates which bodes well for current and future federal budgets. Next steps for the bill include another approval at the lower house followed by submission to the senate for final ratification.

Brazilian pulp producers have realized pulp price decreases due to five-year highs in market pulp inventories in both China and Europe. In response, Suzano, the world's largest pulp producer, announced reduced production by 10% across their system. Despite short-term headwinds, Klabin announced an expansion project called Puma II which will develop two new containerboard machines along with additional pulp integration.

Economic News

Housing – Housing starts slipped 0.9% to an annual pace of 1.25 million last month, with permits sinking 6.1% to a 1.22 million pace, the lowest level since mid-2017.

Mortgage Rates – 30-year fixed rate mortgages ended the quarter close to 3.75%, the lowest level since late 2016. Compared to this time last year, 30-year fixed rates were down by 78 basis points.

Jobs – The U.S. economy added 224,000 jobs in June, the best gain since January and running contrary to worries that both the employment picture and overall growth picture were beginning to weaken. The unemployment rate edged up to 3.7% as labor force participation rose.

Consumer Confidence – The consumer confidence index declined to 121.5 in June, bringing the index to its lowest level since September 2017.

Inflation – In the 12 months through June, the core CPI climbed 2.1%. This includes consumer prices increasing by the most in nearly 1.5 years in June amid solid gains in the costs of a range of goods and services, though these recent increases are not expected to change expectations the Federal Reserve will cut interest rates this month.

Trade Deficit – The U.S. trade deficit jumped to a five-month high in May as imports of goods increased, likely as businesses restocked ahead of an increase in tariffs on Chinese merchandise, eclipsing a broad rise in exports.

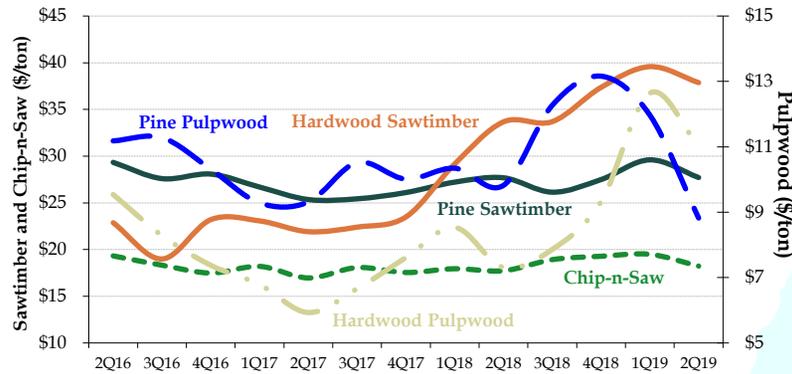
Interest Rates – Fed-fund futures show traders see a 100% probability of a rate cut when policy makers meet July 30-31. The bigger question is whether we will see a 25 or 50 basis point reduction in the Fed Funds Rate, which currently stands at 2.5%.

Oil Prices – Oil prices were volatile over the second quarter, trading between \$52 and \$66 per barrel (West Texas Intermediate), with prices ending up around \$59 as of the end of June.

U.S. Dollar – The U.S. dollar, as measured by the U.S. dollar index, traded in a tight range of between 96 and 98 throughout the 2nd quarter.

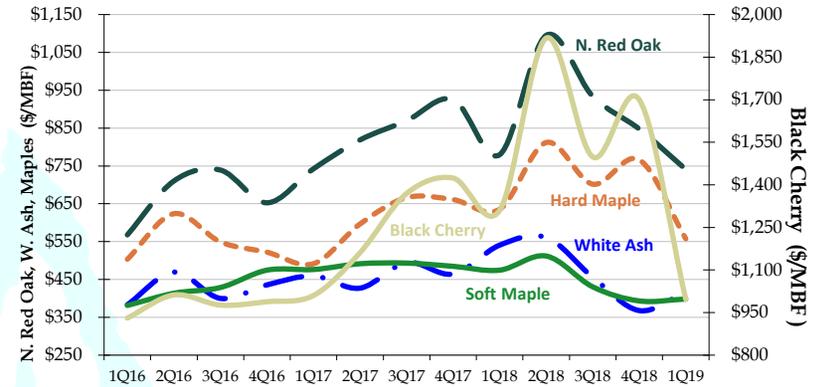
The FIA Timber Economics “Quarterly Dashboard”

Southeastern Timber Prices



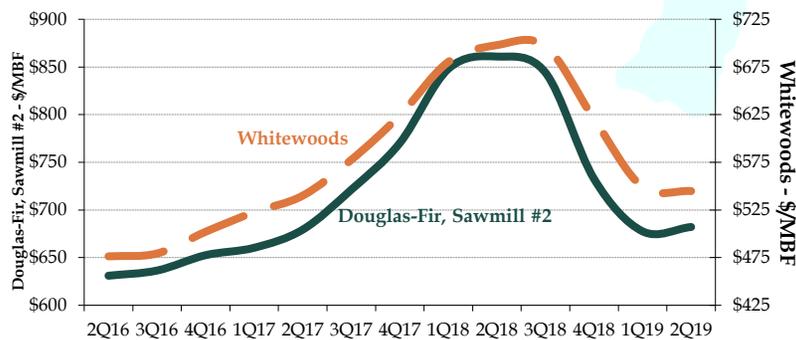
Source: Forest2Market®

Northeastern Hardwood Timber Prices



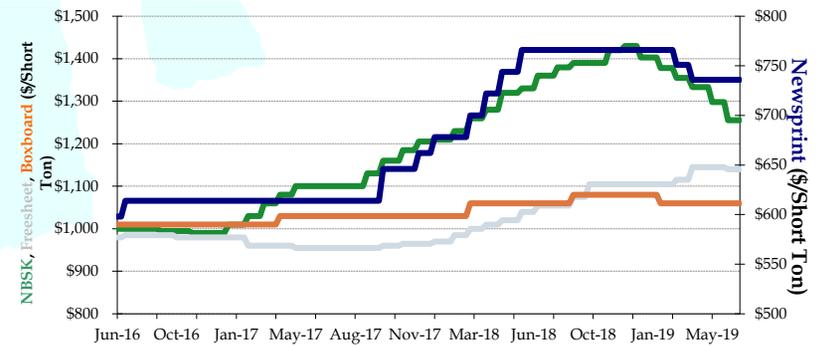
Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Pacific Northwest Timber Prices



Source: Log Lines®

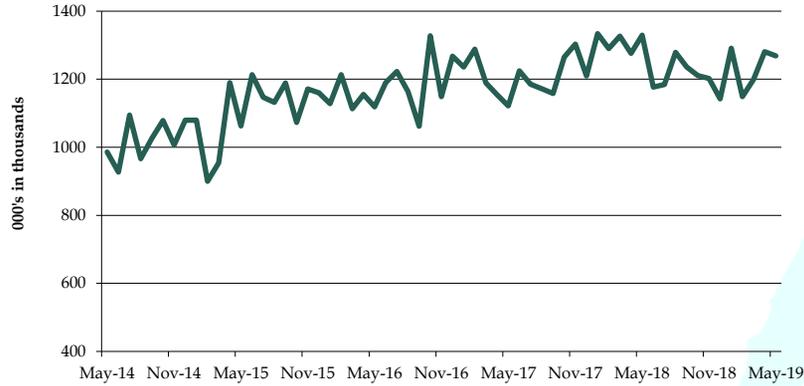
Pulp and Paper



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

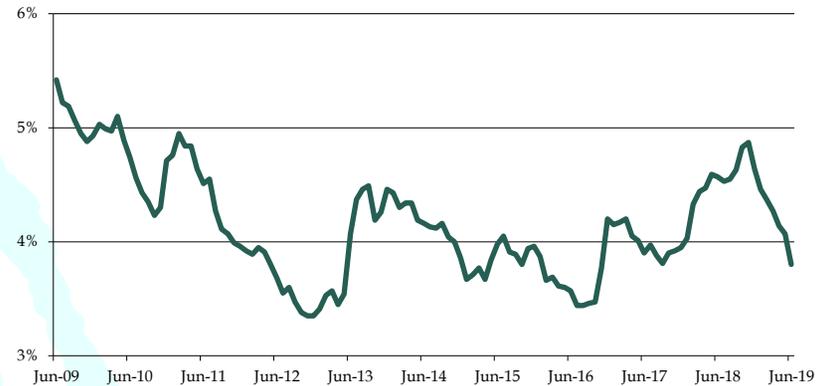
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Housing Starts



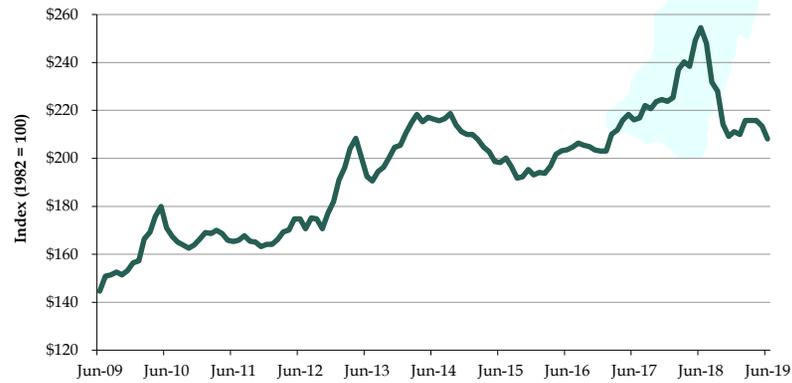
Source: NAHB.org - <http://www.nahb.org/>

30 yr. Mortgage



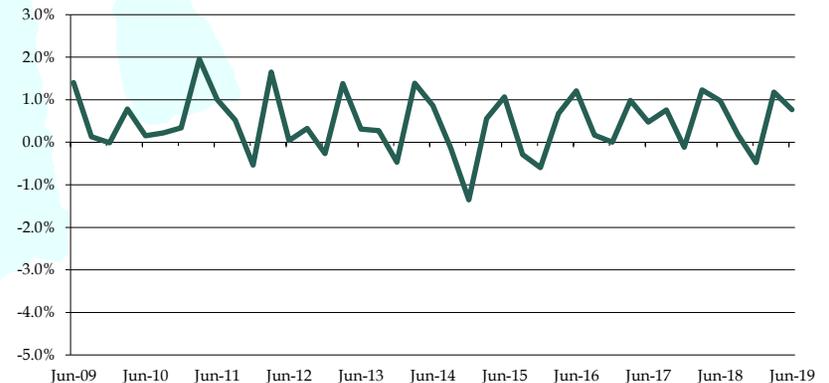
Source: The Federal Reserve

Lumber



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

Inflation (CPI)



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