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Hancock Timber Research Brief

Determining an Advantageous Entry Point for Timberland Investments

The strong forward-looking market fundamentals of timberland have attracted strong interest to the asset class. In 2017 timberland transaction activity slowed, possibly signaling a move to reduced competition for properties and more normalized pricing. Timberland markets are not uniform across regions, and a goal of geographical diversification in building a portfolio of properties opens opportunities to capture favorable returns.

In the larger global perspective, current pricing for timber is not at cyclical peaks, and in a number of key timber producing regions (most notably the U.S. South, Europe and Brazil) sawtimber prices remain well below past high points. Responding to a protracted period of depressed timber prices, the establishment of new commercial plantations has slowed significantly, and investment in intensive management on existing plantations has ratcheted lower. The scaling back in investment in the commercial timber resource will have a moderating effect on timber supply going forward.

Prospects for growth in timber demand remain healthy, bolstered by a more optimistic outlook for global economic growth fueled by a generally positive outlook for the U.S. economy, and the pick-up in momentum in Europe. A number of key wood consuming regions in the developed world, including the U.S., U.K., Ireland and continental Europe, are in need of expansion and improvement of their current housing stock. While in the developing economies, the continuing trend of urbanization coupled with rising per capita income will also be a positive driver of construction activity and timber demand over the coming decades.

By the mid-2010s, the favorable longer-term fundamentals for timber markets had already been recognized and had spurred increased purchases of timberland by institutional investors adding real assets to add to their portfolios. Demand for timberland was also boosted by new interest from non-institutional investors, such as pools of high-net-worth individuals, forest products companies, conservation groups and publically traded REITS.

In 2017, the level of activity in timberland markets showed signs of cooling, with a diminished number of bidders competing in auction processes, instances of failed bid-processes and a pick-up in negotiated sales limited to a restricted number of potential buyers. This more recent shift in the market suggests that timberland markets may already be moving past a possible cyclical peak in 2014-2015 in the direction of more normalized valuation and pricing.

Recent signs of cooling in timberland market :

- diminished number of bidders
- instances of failed bid-processes
- pick-up in negotiated sales

The trends for timber prices and the underlying market demand/supply fundamentals are generally positive, but they are not uniform across regions or product classes. Geographical diversification can be a powerful tool in avoiding the pitfalls of poor market entry resulting from property purchases in overheated regions or market segments. HNRG has an active presence in the key investable timberland regions of the world, and regularly benchmarks and compares risk adjusted returns across regions to actively focus acquisition efforts in those regions where the most favorable returns can be generated. 🌲

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