

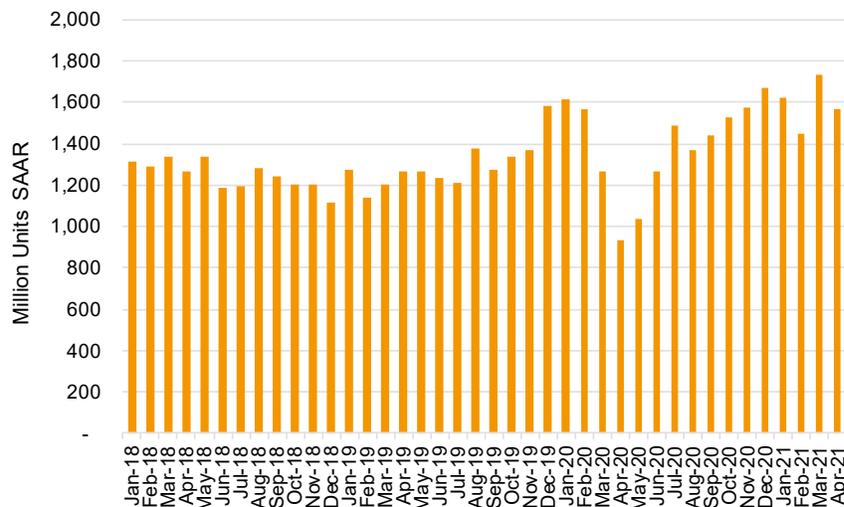


Lumber and Wood Panel Prices are Experiencing an Unprecedented Surge due to a Convergence of Unique Demand and Supply Events

Demand factors

The Covid crisis has triggered a huge rebound in residential construction activity, including both new construction and repair and remodeling of existing homes. The Covid lockdowns, school closures and an accelerated shift to working from home fueled the need for expanded/reconfigured living space to accommodate a much more home focused lifestyle. The increased residential construction activity was supported by low mortgage rates and boosted income from federal Covid assistance payments and augmented unemployment.

U.S. Housing Starts Bounce to Near-term Highs during Pandemic



Source: U.S. Census Bureau as of May 18, 2021

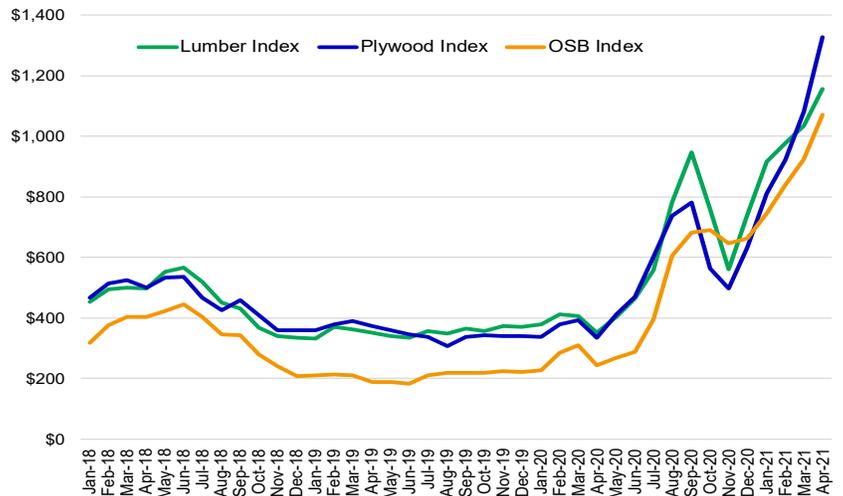
Supply factors

Lumber and wood panel producers sharply curtailed production at the start of the Covid crisis, draining the supply chain. As a strong recovery in wood products demand developed in the second half of 2020, the industry faced hurdles to ramp up production in response to increasing demand and higher prices due to difficulties in bringing workers back into the mills. Labor remains a constraint on mill production as laid-off workers have been reluctant to return to mills due to anxiety about Covid in the work-place and having the option of augmented unemployment. This has delayed the ability of mills to add shifts and substantially boost production. A shortage of trucks and truck drivers, which has been reported to be most difficult in the U.S. South, is an additional impediment to rebuilding adequate supplies for wholesalers, retail outlets and end-users, as well as raising the cost to deliver products.¹

¹ *The Trucker.com* as of October 8, 2020 <https://www.thetrucker.com/trucking-news/business/driver-shortage-tops-atris-2020-list-of-top-trucking-industry-issues-for-motor-carriers-insurance-makes-lists-for-first-time-since-2005>

With the mills currently the tight-spot in the lumber and wood panel markets, the excess profits in the sector are flowing to the mill operators and less of the current extraordinary profitability is being shared with the raw material supplier (timberland owners). However, this dynamic is not uniform across regions and is in the process of changing. In the Pacific Northwest, where timber supplies are relatively tight compared to the needs of the region's lumber mills, timber prices have moved higher and are near cyclical highs. The rate of increase in western timber prices has not matched the accelerated pace of price increases for lumber and wood panels, but western timber markets have also been moderated by substantial amounts of salvage material from last year's widespread wildfires in the region temporarily boosting timber availability. On the western properties under our management, we are running well above budget for 2021 YTD, and we expect the strong markets are going to extend at least through the end of this year.

U.S. Wood Product Prices Soar Amidst Supply-chain Disruptions



Source: Random Lengths as of May 6, 2021 Note: Lumber Index = Random Length Composite Lumber Index \$/MBF; Plywood index = Southern Plywood CDX/S.W. 15/32 3ply \$/MSF; OSB Index = N. Central 7/16, \$/MSF.

In the U.S. South, the impact of the strong prices and profitability in the lumber and panel sector has been much more muted for timber prices than in the western regions. The supply and availability of mature sawtimber is very favorable and moderating increases in timber prices. Still in recent months as mills increase production and more new capacity comes on line, southern timber demand has moved higher and prices are edging higher (up 5% in 2021:Q1 after an extended period of falling/flat pricing).²

The U.S. South is also attracting significant capital investments in new capacity. Forisk, a leading forest and wood products research consulting firm tracks North America sawmill investment, and estimates roughly \$1.7 billion in announced projects are in the pipeline in the U.S. South, which is anticipated to add over 4.5 BBFT of capacity between 2020 and 2022.³ This additional capacity is coming in the form of capacity increases at existing mills (ie: Interfor adding close to 100 MMBF to both their Thomaston, GA and Eatonton, GA mills; Vicksburg Forest Products in MS adding 80 MMBF; Pine Products Inc. in Martinsville, VA adding 100 MMBF and Jasper Lumber in Jasper, AL adding 130 MMBF).⁴ New facilities in the U.S. South have also been announced, such as West Fraser in Dudley, GA (190 MMBF); Westervelt in Thomasville, AL (250 MMBF); Mission Forest Products, in Northern MS (250 MMBF), Biewer in Winona, MS (350 MMBF), Idaho Forest Group in Lumberton, MS (250 MMBF), and the big kahuna, the purchase of the idled Klausner mega sawmills by Austria's Binderholtz Group in Live Oak, FL (350 MMBF) and Enfield, NC (175 MMBF).⁵ As the new and expanded capacity becomes fully staffed and operational, the increased regional demand for timber is expected to continue to move southern timber prices higher.

The current pricing situation in lumber and wood panels is not sustainable, and prices are expected to ease at some point in the second half of the year and continue to moderate in 2022. Increases in demand are expected to moderate as builders and buyers deal with higher costs and reduced affordability. Supply of lumber and wood panels is expected to increase as more capacity comes on line and imports rise. As these market dynamics come into play, the tight spot should shift from the mills back to the timber owner. As mill production increases (especially in the U.S. South where new investment is focused) timber demand is expected to continue to move higher and support higher timber prices and returns for timberland owners.

² Timber Mart-South, Q1 2021 as of April 4, 2021

³ Forisk Research Quarterly, Q1 2021, as of February 4, 2021

⁴ Forisk Research Quarterly, Q1 2021, as of February 4, 2021

⁵ Forisk Research Quarterly, Q1 2021, as of February 4, 2021

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