

# A GLOBAL PERSPECTIVE ON TIMBERLAND VALUATION



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## Basic Attributes of Global Timberland Economy

### Market Alignments

- Supply
  - Productive Timberland
  - Effective Linkage to Conversion - Labor & Capital
  - And/or Transportation to Demand Centers w. Labor & Cap.
- Demand - Forest Products Consumption
- Government Regulatory Environment
  - Social
  - Environmental
  - Economic - Financial



## **Timberland Investment Alignments**

- Available Investment Capital
- Defined Investment Returns and Goals
- Acceptable Investment Target Markets with Reasonably Priced, Available Productive Timberland with Effective Linkages

## **Ecosystem Services Alignments**

- Demand for Ecosystem Values - Consensus of Goals - Examples:
  - Carbon Budget Management
  - Protection of Ecosystems
  - Mitigation of Ecosystems
- Market Structure Development - Somewhat Artificial
  - Dominated by Government, but Also Greatly Influenced by ENGOs



## Timber Supply - Before Turmoil Began

- Low rates fueling worldwide boom.
- Delivery systems were humming.
- Pricing was at peaks for most commodities, including **land, often at record prices.**
- Russians gaming system with tariffs and political gas policy.
- Canada beetle salvage timber supply growing
- Large investments being made in plantations
  - Growing area and production in Brazil, Chile, Australia, New Zealand, Uruguay, South Africa, Indonesia, China, Malaysia
- Conversion technology - New technologies expanding rapidly throughout developed, developing and emerging economies
  - High energy costs incentivizing wood-based energy technologies



## Government & Regulatory - Before Turmoil Began

- Low rates and thriving economies supplied almost too much investment capital. In retrospect, too much encouragement and not enough restraint.
- Some governments encourage timberland investment more than others
  - Pro
    - Uruguay, Chile, Brazil, Australia, Columbia, US, Canada
  - Con
    - Argentina (±), Venezuela, Russia, Paraguay
- Certification gradually growing, reflecting ecosystem services
- Growing concern over climate warning
- Realization of impacts of global environmental linkages



## Demand - Before 2008 Market Turmoil

- Steady moderate growth in developed markets
- Rapid growth in developing countries
- Growth in many emerging countries
- Low value commodities constrained by shipping, i.e., high volume and full capacity
- Increasing prices for most forest products and other commodities
- Consumers accepting increasingly global product mix
- Packaging fibers really humming, due to global shipping



## Supply - After Turmoil

- Timber supplies relatively unchanged, less cutting and continuing growth
- Cheaper transportation loosening up tight inventories
- Economic slowdown is demand problem

## Demand - After Turmoil

- Whatever source, world wide demand for all products is contracting rapidly.
  - Virtually all products except a few scarce, high end materials such as teak & mahogany lumber, etc.
- Worldwide trade dropping by 25% to 50%.
- Rapid declines in virtually all pricing
  - Russian tariff increase delayed





## Government Regulatory - After Market Turmoil

- Primarily financial, trying to provide stimulus
  - Low Rates
  - Bailout of banks to encourage credit & liquidity
  - Tighter regulation of financial markets
- US government now liberal
  - Increasing regulation further restricting federal timber, restricting energy supplies and general level of regulation
  - Increasing taxes, particularly on energy
  - May change orientation of US markets, economic growth outcome?
- As US is #1 global forest products market, green restraints will likely slow growth and market recovery
- Developing markets may do better, this time around





## Timberland Valuation Issues

### Timberland Markets - Before Turmoil

- Highly competitive, despite weakening fundamentals
- Very well funded
- Low and dropping IRRs
- Searching developing and emerging markets for suitable investments
- China demand having deep effect on all wood markets
- Technology - New conversion technologies available globally
  - Embracing alternative energy production
    - Some, not all, TIMOs interested in social/environmental timberland investments
    - Cellulosic energy might be largest revolution in wood technology in generations
    - Wood pellet and biomass energy projects spreading rapidly



## Timberland Valuation Issues

### Timberland Markets - After Turmoil

- Very recent FIA survey of institutional timberland investors indicates appetite and capital for timberland remains very strong.
- Timber Supply - Not much impact in short term; sustained supply growth may affect future price appreciation at some point
- Appraisal Effect - Unique to timberland
  - Valuation delay
- Dropping demand weakens fundamentals
  - Land prices weakening for both agricultural and timber lands
  - Forest products pricing is dropping
  - Cash flow requirements of timberland investments challenged
  - Risk to returns increasing in short term



## Timberland Valuation Issues

### Timberland Markets - After Turmoil

- Regulation
  - Low, stimulus rates still encouraging low timberland IRRs
  - Financial market losses encouraging acceptance of low IRRs
  - Currency issues not too important
    - Dollar gaining, but everyone has dollars

## Ecosystem Services Markets

- Stimulus packages in developed countries funding all sorts of “green” initiatives, both domestically and internationally
- “Green” initiatives encouraging influence of ENGOs
- Likely growth in volume and diversity



## Timberland Market Conclusions

- Higher Rates? Depend upon:
  - Competition... Will it continue?
  - Income Requirements... How important is this in mix?
  - Risk assessment... In eye of buyer
- Lower Values? Depend upon:
  - Declining Land Values
  - Weaker Timber Markets
    - Will energy wood demand become important driver?
  - Analysts must deal with trough and recovery in projections

