

TIMBERLAND INDEX

TIMBERLAND PERFORMANCE OUTLOOK FOR 2023

The NCREIF Timberland Property Index (TPI) returned 1.75% in the first quarter of 2023, down from the 3.21% return posted in the first quarter of 2022. The appreciation component yielded a 1.10% return, down from the 4.18% posted in the appraisal-laden fourth quarter. The income component remained steady at 0.65%, down 6 basis points from the previous quarter. Interestingly, each regional subindex generated total return numbers in line with the total index. The overall market value of the TPI sits at \$24.662 billion, up nearly \$170 million from the previous quarter.

The South, the largest region in the TPI in terms of market value and acres, generated a total return of 1.79% in the first quarter. The appreciation component made up 1.10%, while the income return was 0.69%. These numbers are all down compared to the first quarter of 2022. Most of the timberland transaction activity in 2022 occurred in the South, providing ample comparable sales for appraisers and boosting the appreciation return for the region. It will be interesting to see if transaction activity remains robust in 2023 with increasing interest rates negatively impacting housing starts.

The Northwest, which makes up nearly 25% of the TPI's total value, produced a total return of 1.75% for the quarter, down from 3.04% a year ago. The appreciation component was 1.18%, while the income component returned 0.57%. Total returns in the Northwest have trailed those of the South by 3.48% over the past year, largely driven by a 3.84% gap in appreciation return.

The Northeast was the lone region with a higher total return in the first quarter of 2023 than the fourth quarter of 2022. The Northeast subindex generated a total return of 1.76% for the quarter, compared to 1.09% in the previous quarter. Appreciation return was the main driver, checking in at 1.14% this quarter compared to 0.49% in the fourth quarter of 2022.

The Lake States produced a total return of 1.71% this quarter, down substantially from the 9.35% return posted last quarter. However, it is worth noting that the Lake States region has produced the second highest return over the past year, trailing only the South.

In 2022, the TPI delivered a 12.90% return – the strongest performance for the asset class since 2007. Increasing inflation and overall stock market volatility showcased timberland's hedging benefits and generated attractive risk-adjusted returns in 2022. As many investors look to rebalance their portfolios, it will be interesting to see what role timberland plays. As inflation begins to level off, interest rates continue to rise, and the housing market remains volatile. Timberland will certainly be an asset class to follow in 2023.

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TIMBERLAND TOTAL RETURNS

	NPI	Total Timberland	Property Count	South	Northeast	Northwest	Lake States
1st Qtr 2023	-1.81	1.75	450	1.79	1.76	1.75	1.71
4th Qtr 2022	-3.50	4.89	464	6.01	1.09	2.20	9.35
One Year	-1.63	11.31		12.76	4.20	9.28	11.87
Three Years	7.15	8.09		7.61	10.35	8.90	9.02
Five Years	6.71	5.54		5.29	5.79	6.07	6.64
Ten Years	8.34	5.82		5.30	3.58	7.71	6.21

TIMBERLAND EBITDDA RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
1st Qtr 2023	1.01	0.65	0.69	0.57	0.62	0.62
4th Qtr 2022	0.95	0.71	0.72	0.69	0.60	0.87
One Year	3.92	2.93	2.87	3.29	2.60	2.61
Three Years	4.08	3.01	2.84	3.65	2.36	2.85
Five Years	4.26	2.95	2.78	3.53	2.58	2.55
Ten Years	4.64	2.85	2.65	3.49	2.49	2.29

TIMBERLAND APPRECIATION RETURNS

	NPI	Total Timberland	South	Northwest	Northeast	Lake States
1st Qtr 2023	-2.82	1.10	1.10	1.18	1.14	1.10
4th Qtr 2022	-4.45	4.18	5.29	1.51	0.49	8.48
One Year	-5.39	8.20	9.69	5.85	1.57	9.09
Three Years	2.98	4.97	4.68	5.11	7.85	6.04
Five Years	2.37	2.54	2.46	2.49	3.16	4.01
Ten Years	3.58	2.91	2.60	4.12	1.08	3.86