



WOODLAND

**Forest Management Co.
PROFESSIONAL FORESTERS**

News for Family Forests

November 2017

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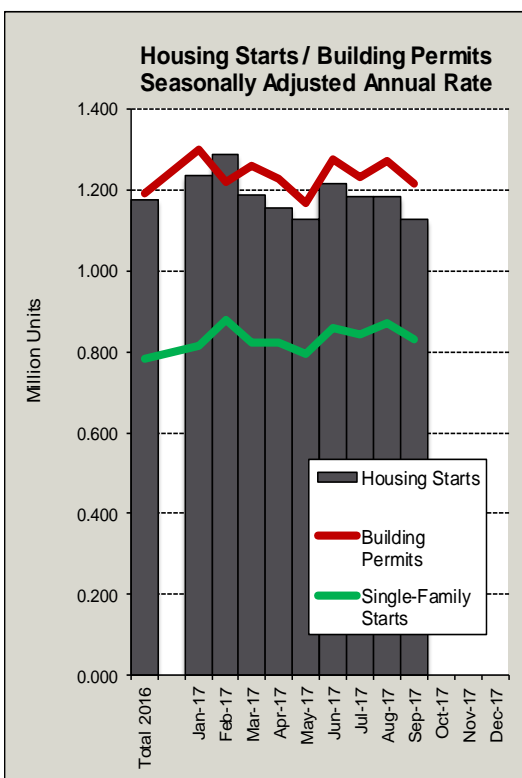
It's been said you should never burn before Thanksgiving. I'm not sure that's true, but the end of November is a good benchmark to consider slash burning. And if you have harvest units that need to be planted this winter/spring, don't delay in ordering seedlings. Most nurseries still have seedlings available, but inventories will vanish in the next few months.

I said last month there's nothing that indicates there'll be a decline in the high log prices any time soon – then prices rose in November. I expect prices will be strong throughout the winter. It is an excellent time to sell your timber. The additional cost of preparing roads for the rainy season is much easier to absorb when markets are up.

If you need help with any aspect of your reforestation, or want to plan a timber harvest, give me a call at (503) 654-2221 or email me at bkeller@woodlandmgmt.com. In addition to reforestation and timber harvests, Woodland offers a variety of services – including timber cruising, management plans, pre-commercial thinning, competition control in plantations, forestland valuations, and road maintenance.

- Brent

MARKET WATCH: HOUSING, LUMBER AND LOGS



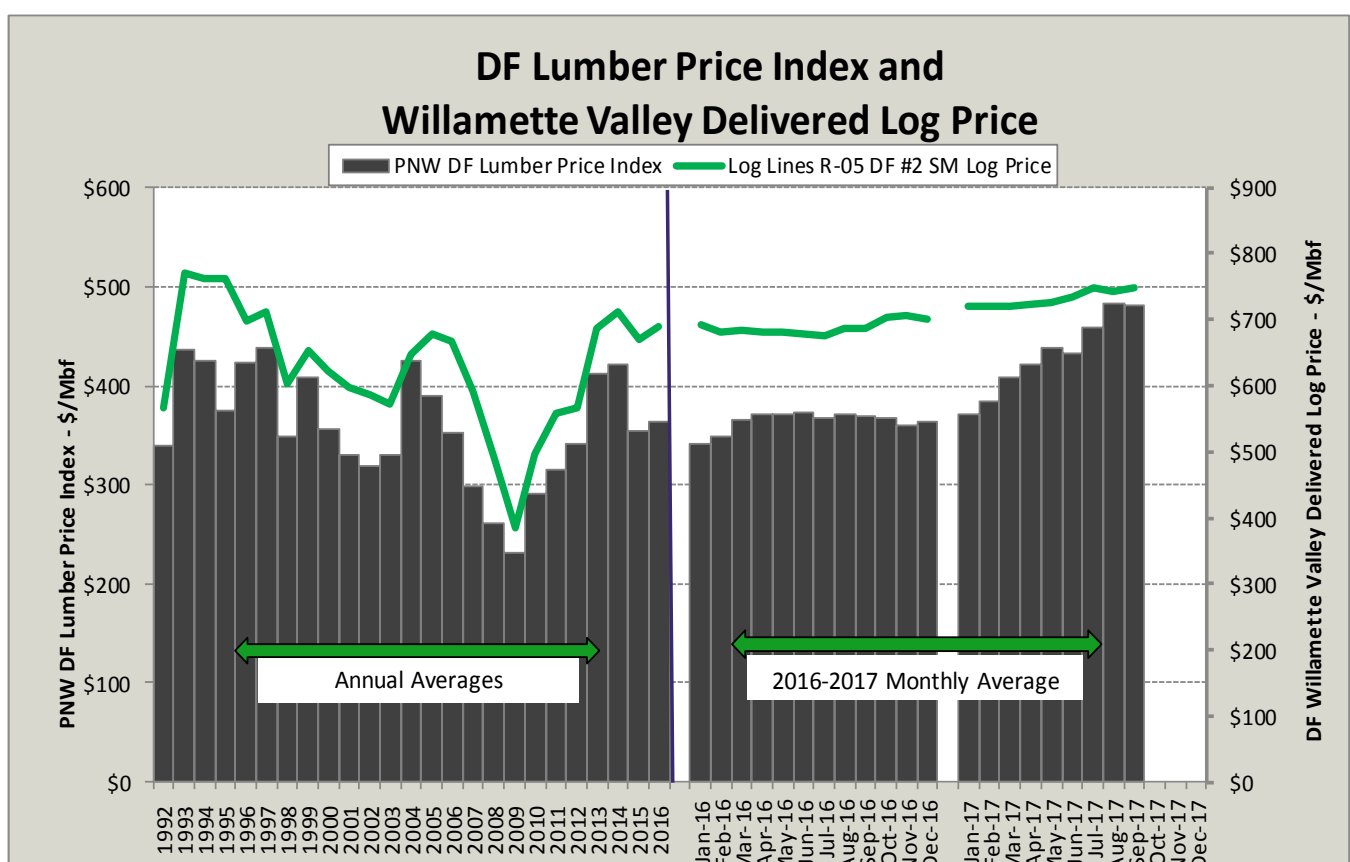
HOUSING STARTS

U.S. housing starts in September slipped again to 1.13 million units (SAAR), down 4.7% from the revised August estimate, but still 6.1% above one year ago. Single-family starts dropped to 0.829 million units (SAAR), down 4.6% from August but 5.9% higher than September 2016. September permits were also down, decreasing 4.5% below August. Poor performance for this month is blamed on delays related to hurricanes and floods. (Wall Street Journal, 10/18/17)

September 2017 Housing Starts (million units, seasonally adjusted):					
	September 2017	August 2017	Change from Previous Month	September 2016	Change from Previous Year
All Starts	1.180	1.190	-0.8%	1.164	1.4%
Single-Family Starts	0.851	0.838	1.6%	0.727	17.1%
Building Permits	1.215	1.272	-4.5%	1.270	-4.3%
Single-Family Building Permits	0.819	0.800	2.4%	0.749	9.3%

Source: U.S. Census Bureau

LUMBER & LOGS



Lumber and log prices leveled out in September 2017. Lumber prices decreased 0.3% and log prices increased 0.9%. Both are still substantially above the figures from one year ago and in fact, are the best markets seen for several years. (Note that lumber and log prices are on different scales in the chart above.)

- September DF #2S log prices, as reported by Log Lines, increased \$7 to \$749/Mbf, which is 0.9% better than last month, 8.9% higher than September 2016, and 12.6% above the 5-year average.
- At \$482/Mbf, the DF lumber index price for September 2017 was 0.3% below last month. However, September lumber prices were 30.4% higher than one year ago and 28.3% above the 5-year average. Again, we note that high lumber prices are due more to the CVD than to strength in the housing market.

September 2017 Douglas-fir Prices:

	September 2017	August 2017	Change from Previous Month	September 2016	Change from Previous Year	5 Yr Annual Average	Current month compared to 5 Yr Annual Average
Logs	\$ 749.00	\$ 742.00	0.9%	\$ 688.00	8.9%	\$ 664.95	12.6%
Lumber	\$ 481.68	\$ 483.29	-0.3%	\$ 369.47	30.4%	\$ 375.47	28.3%

Sources: Log Lines Willamette Valley DF #2S monthly average price & WWPA Pacific NW Coast Douglas-Fir monthly lumber

MARKET NEWS

OPTIMISM IN HOUSING MARKET: WILL IT TRANSLATE TO SALES?

The job market is steady. Renters increasingly report that now is a good time to purchase a home. Home values are up, and home owners are optimistic in their belief that now is a good time to sell their homes. We should be on the brink of a robust housing market, but are we?

Maybe not, according to Lawrence Yun, National Association of Realtors chief economist. He stated, "Buyer demand is robust this fall, but the disappointing reality is that sales will continue to undershoot their full potential until supply levels significantly improve." He also stated that saving up a sufficient down payment is the key hurdle. (*National Association of Realtors, 9/25/17*)

HOME IMPROVEMENT PRODUCTS MARKET FORECAST

The home improvement products market has outperformed many other segments of the economy. It has had good growth in 2016, and 2017 is expected to be 4.9%. Growth is also projected over the next few years. A favorable projection is good news for timber and lumber producers. Repair and remodeling still account for more U.S. softwood lumber consumption than does new construction. (*Home Improvement Research Institute, 9/22/17*)

NO TAX INCREASE FOR INHERITED TIMBERLAND

In October, the Treasury Department responded to an executive order from President Trump by announcing that proposed regulations in IRS Rule changes, Section 2407(b), would be withdrawn. The proposed changes would have effectively doubled the estate tax valuations for timberland and other family businesses by removing legitimate valuation discounts for estate, gift, and generation-skipping taxes. This is touted as a significant victory for family forest owners. If implemented, the proposed valuation requirement would have approximately doubled estate tax valuations for timberland. (*Forest Landowners, 10/4/17*)

OREGON COUNTIES GRAPPLE WITH POSSIBLE AERIAL HERBICIDE SPRAY BAN

In May 2017, Lincoln County residents passed a ballot measure to ban aerial herbicide spraying. Now Lane County has been issued a petition with enough signatures to put the issue on the May 2018 ballot in that county. Timber companies say it is uneconomical or impractical to apply herbicide on foot across large, rugged areas. Critics believe the herbicides can harm human health, and the spray mist can drift onto neighboring properties. (*The Register-Guard, 9/30/17*)

NFC REPORT ON THE LUMBER AND LOGS MARKET

In their September 30 Market Snapshot, Northwest Farm Credit (NFC) reported on the strong lumber and log market. These are some of the highlights:

- In April 2017, lumber and panel prices reached a four-year high of \$430/Mbf and \$421/thousand square feet (MSF) respectively.
- Lumber prices had a short-term 2% price hike following the devastating hurricanes. However, the impacts to building are expected to be negligible because builders can only re-build at a certain pace, making recovery happen over a long period of time.
- West Coast and Inland Northwest lumber capacities have stayed relatively constant over the last 10 years. Much of the increase in lumber supply is driven by the U.S. South and Canadian imports.
- Softwood Lumber Agreement (SLA) talks have stalled. Uncertainty in the lumber market is keeping prices high.
- Exceptionally strong log prices continued throughout the 3Q2017 due to tight supplies in most Northwest regions and log buyers competing to fill their yards.
- Log prices are expected to remain strong into the winter months as supply pressures are expected to continue. (*Northwest Farm Credit, 9/30/17*)

TIMBERLAND INVESTMENT OUTLOOK

New Forests recently released its 2017 Timberland Investment Outlook, the latest in a biennial market analysis series that explores trends and opportunities for investors in the international forestry sector. New Forests' CEO David Brand commented, "Forestry, or timberland, investment is maturing as an asset class, and investment managers must increasingly demonstrate how they add value, such as through active management, re-segmenting mature markets, or positioning investments to benefit from structural market shifts or technological advances. Some of the key investment trends related to timber markets, sustainability, and technology are highlighted below:

- Investor appetite for timberland assets is still strong.
- The overall market outlook for timber and wood fiber appears positive.
- There is a growing emphasis on sustainable investment initiatives. Sustainably-managed timberland can create positive social and environmental impacts that are not only important to comply with institutional investor policies, but also increasingly essential to maintain political support for international investment.

The increasing demand for renewable materials and low carbon inputs are supporting growth of the bio-economy, including demand for new timber and wood fiber products. (*Press Release, 9/14/17*)

CAUSE OF CATASTROPHIC WILDFIRES: FOREST MANAGEMENT OR GLOBAL WARMING?

Jim Geisinger, Executive V.P. of Associated Oregon Loggers, acknowledges climate change, but he points to forest management, or the lack of management, as the reason for the increasingly large and intense wildfires in the U.S. Because climate change does not differentiate between private, state, federal or private forest lands. It seems an unlikely disparity that 95% of the large wildfires have burned on federal forest lands.

Geisinger reports that approximately 672,500 acres have burned in Oregon this fire season. Of those, about 632,500 acres have burned on federal land and less than 40,000 acres on private land and forests managed by the BLM. Why this huge disparity if climate change is the cause of the catastrophic wildfire season? (*The Outlook, 9/26/17*)

Geisinger is not alone in this line of thinking. In the first week of October, it was reported that 65 groups representing forestry, agriculture, wildlife conservation and, local government sent a letter to

Congressional leadership urging swift action on federal forest management and wildfire suppression funding reforms. (*Press Release*, 10/2/17)

Another news story that seems to support Geisinger's perspective came from reports of timberland that had recently received active management through thinning and prescribed burning. When the Chetco Bar fire roared through this area a few months later, trees had largely survived and nearby homes were saved because the fire burned at a lower intensity and moved at a slower rate through the area, allowing the responders to use effective suppression tactics. (*AP*, 10/16/17)

REPUBLICANS AND DEMOCRATS FIND COMMON GROUND IN WILDFIRE FUNDING AND PREVENTION

In a move to replenish various funds that were drained to cover this season's \$2 billion-plus firefighting costs, the U.S. Senate has approved \$576.5 million to aid the West's recovery from a devastating wildfire season. The bill enjoyed bipartisan support, passing 82-17 in the Senate. (*Daily Inter Lake*, 10/25/17)

FIRES AT TIMBER PRODUCTS AND FORE LUMBER

An October 11th fire at the Timber Products Mill in Medford was located in the particle board facility. All 96 plant employees escaped injury, but it is uncertain when they will be able to return to work. The adjacent plywood and veneer mills were unharmed and remain in operation. (*Mail Tribune*, 10/11/17)

Three teens have been arrested in relation to the Fore Lumber Mill fire in Creswell. The fire started on Sunday evening, October 22nd, while no employees were on the premises. The fire burned the office's computers and supplies in the warehouse. The large stacks of lumber were not ignited by the fire. (*Register-Guard*, 10/23/17 & 10/26/17)

CONSERVATIONISTS TRY A NEW LEGAL TACTIC

In a legal petition, a Denver lawyer and an environmental group are asking a judge to recognize the Colorado River as a person in a first-of-its-kind federal lawsuit. The petitioners are hoping the Colorado River could be granted rights. If the motion is successful, it would upend environmental law, possibly allowing the river, or through precedent - several other natural areas, to sue individuals, corporations, and governments over resource pollution or depletion. While experts do not believe the petitioners will succeed, this will be an interesting case to follow. (*New York Times*, 9/26/17)

CLT HOLDS GREAT POTENTIAL FOR OREGON ECONOMY

Cross-laminated timber, or CLT, is quickly becoming the building material of choice for mid-rise office and residential construction. CLT provides a smaller carbon footprint than steel and concrete structures. It also provides cost savings because it saves construction time, compared to the use of traditional materials. With



CLT manufacturing facilities currently operational and planned in the near future, Oregon and SW Washington are well-positioned to become a manufacturing hub for CLT and have the potential to create 2,000 to 6,000 directly-related jobs.

D.R. Johnson became the first U.S. company certified to manufacture CLT in 2015, and is making it at its Southern Oregon plant in Riddle.

Two more companies could open production lines here within the next two years. Those are Columbia Vista Corp., based in Vancouver WA and American Laminators in Swisshome OR. In addition, Frères Lumber Co. Inc. plans to make an alternative to CLT, which it calls Mass Plywood Panel, at its Lyons plant in the Santiam River Valley. (*Sustainable Life*, 10/26/17)

WHAT DO SPOTTED OWLS REALLY WANT?

Scientists at the University of Washington have been using Light Detection and Ranging imaging (LiDAR) to study spotted owl habitat. LiDAR was used to measure the height and distribution of tree foliage and forest gaps across 1.2 million acres of California's Sierra Nevada forests. They found the owls seek out forests with unusually high concentrations of tall trees measuring at least 105 feet tall but preferably taller than 157 feet. The canopy of trees is important for the owls, not the understory trees.

"This could fundamentally resolve the management problem because it would allow for reducing small tree density, through fire and thinning," said lead author Malcolm North, a research forest ecologist with UC Davis' John Muir Institute of the Environment and the USDA Pacific Southwest Research Station. (*University of Washington Press Release*, 10/4/17)

LOGGERS SAFELY DISMANTLE ENVIRONMENTALIST ROADBLOCK IN WILLAMETTE NATIONAL FOREST

Willamette National Forest spokeswoman, Judith McHugh, confirmed that loggers removed part of a roadblock on October 25th, restoring access to a controversial timber sale and to a popular trailhead. Activists with Eugene-based Cascadia Forest Defenders set-up the roadblock three days prior to its dismantling. One of the protestors was on an 80-foot platform that was supported by the roadblock. The loggers attached a chain and a haul hitch to a pickup truck that was part of the roadblock and pulled it out of the way, freeing the roadway and bringing down the platform. The protestor came down unharmed after the roadblock was removed. The controversial timber sale is one of more than 70 pieces of the 2,452-acre Goose Project, which has been the subject of debate for more than five years. (*The Register-Guard*, 10/26/17)

WAS PG&E RESPONSIBLE FOR NORTHERN CALIFORNIA FIRE?

Two state agencies, Cal Fire and the California Public Utilities Commission, are investigating whether Northern California's largest utility (PG&E) could be at least partly responsible for the fires that ignited October 8th and burned in Sonoma and Napa Counties. At least 14 people were killed in the event and about 5,700 homes and businesses were destroyed.

While no charges have been pressed, speculation abounds and the stock price of parent company PG&E Corp. has plunged amid investor jitters that the utility could be held responsible. Investigators are likely examining whether inadequate maintenance of poles and/or inadequate trimming of vegetation caused the utility's electric lines to fall and spark during high winds, igniting some of the fires. (*Sacramento Bee*, 10/17/17)

WILL OREGON UP-LIST THE MARBLED MURRELET?

A new report from the Oregon Department of Fish and Wildlife shows that despite previous protections, the marbled murrelet is still declining. The state is considering whether to up-list the sea bird from “threatened” to “endangered” under the state’s endangered species act. The Fish and Wildlife Commission is expected to decide about additional protection in February 2018. By increasing the marbled murrelet protection to endangered, the state would be required to develop an official plan to protect the bird. The most direct effects of this added protection would be on state-owned lands, but private forest lands could be affected as well. Changes in management of murrelet habitat could curtail some timber harvest. (*KUOW*, 10/2/17)

THE VANCOUVER DECLARATION: TAKING FOREST SUSTAINABILITY TO A NEW LEVEL

In October, the Forest Stewardship Council (FSC) launched an ambitious new initiative, called the Vancouver Initiative, to increase the use of materials from responsibly managed forests. The Vancouver Declaration invites businesses to pledge their commitment to increase responsible wood product sourcing. Global companies like IKEA, H&M, SIG, Marks and Spencer, Jysk, Mitsubishi Paper Mills and Fuji Xerox have already pledged support to the initiative. The aim is to get more businesses across the entire supply chain on board. (*FSC Press Release*, 10/13/17)

LEGENDARY CONSERVATIONIST SUPPORTS TARGETED LOGGING

Jerry Franklin is known as a conservationist whose research in the 1980s helped lead to the controversial 1994 plan, protecting millions of federal acres of old-growth forests in the Pacific Northwest from logging. Today, in the twilight of his life, the 80-year-old scientist has become a champion of a far different landscape, which he sees as vital to supporting a full range of forest species. That change has again thrust Franklin, a professor at the University of Washington in Seattle, to the center of a debate over the future of the Northwest's forests—including a potential rewrite of that seminal 1990s Northwest Forest Plan. This time, Franklin is drawing the ire of conservationists for promoting forest management techniques—including targeted logging—designed to create more of the scraggly patches of protoforest that ecologists call “early seral” communities. (*Sciencemag*, 10/5/17)

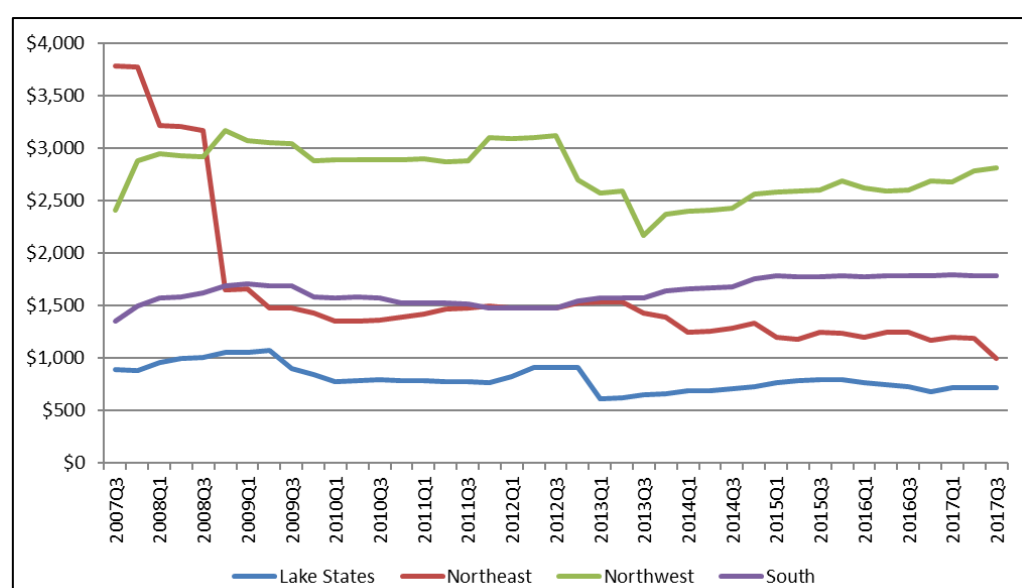
TIMBERLAND MOVEMENT

- The Hancock Timber Resource Group (HTRG) has completed the acquisition of 78,986 acres of timberlands in northwestern Wisconsin. The timberlands were acquired from investment funds managed by The Lyme Timber Company, a private timberland investment management organization based in Hanover, New Hampshire. (*PR Newswire*, 9/22/17)
- Roseburg Resources Co. announced the acquisition of approximately 158,000 acres of investment-grade timberland in the southeastern United States from Forest Investment Associates (FIA) on Sept. 28, 2017. The timberland is located within the coastal region of North Carolina and southeastern Virginia. Roseburg owns and sustainably manages over 630,000 acres of timberland in Oregon and California, largely composed of Douglas fir. (*Press Release*, 9/28/17)
- Roseburg Forest Products has also agreed to sell 170,000 acres of its Californian timberland in Siskiyou and Shasta counties to New Forests, a management company headquartered in Sydney, Australia. The sale is expected to close by early 2018 and RFP will retain ownership of its veneer facility in Weed. Both this transaction and the one detailed above are part of a 1031 exchange (*News Review*, 10/20/17).
- Twin Creeks Timber LLC, a joint venture co-founded by Silver Creek Capital Management and Plum Creek Timber (which later merged with Weyerhaeuser), will acquire 100,000 acres in the Southern part of the U.S. from Weyerhaeuser. Twin Creeks will also acquire 21,000 acres located in the Pacific Northwest from Green Diamond Resource Company. Also, Green Diamond will become a new equity partner in Twin Creeks, replacing Weyerhaeuser, as of January 1, 2018. (*Institutional Investor*, 10/12/17).
- CatchMark Timber Trust, Inc. announced an agreement to acquire 14,923 acres of prime timberlands near the southeast coast of Georgia for \$43.3 million. The to-be-acquired timberlands will expand CatchMark's positioning in one of the most competitive wood baskets of the U.S. South, increasing its regional holdings by 36%. Closing of the Coastal Georgia transaction is expected by the end of the year. (*Press Release*, 10/12/17)

NCREIF TIMBERLAND PROPERTY INDEX

The National Council of Real Estate Investment Fiduciaries (NCREIF) has released third quarter 2017 results of the NCREIF Timberland Index. The index returned 0.60% for the quarter, down from 0.70% last quarter and 0.67% in the third quarter 2016. The EBITDA return at 0.74% was up from 0.62% last quarter and 0.68% a year ago. After three quarters of slight appreciation, overall timberland experienced depreciation of 0.15% in the third quarter.

Timberland Market Value per Acre by Region from NCREIF



However, in the Northwest, values continued to rise over the quarter and the year, to \$2,809 per acre in the third quarter. The chart below shows the appreciation by region. (*Press Release*, 10/25/17)