



KPMG's Timberland Investor Sentiment Survey

Positive but tempered expectations

Fall 2017

kpmg.com





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Executive summary

Timberland investment continues to be an attractive alternative investment strategy for many, with institutional investors, hedge funds, and private equity funds increasing allocations to timber investments throughout the United States and the rest of the world. Generally, these investors are drawn to stable cash flows, current yields, and the inflation hedging characteristics of the asset class. While interest in timberland investment remains strong, the increasing number of market investors has led to a rise in sophistication and concern that attractively priced investments may be in shorter supply. Additionally, investors are considering the potential impact of macroeconomic trends and globalization on the industry, including household formation patterns of millennials and softwood lumber market dynamics between the United States and Canada.

U.S. housing starts approached all time highs toward the end of 2016 and in early 2017, which coupled with tariffs on Canadian imports led to a rise in U.S. lumber prices.¹ However, housing starts have slowed somewhat in Q2 of 2017 due to labor and land shortages. Demand from China may also drive growth, where commercial logging has been temporarily banned nationwide. It is anticipated China will increase its imports in the near-term, while establishing national forest reserves to cut long-term dependence on imports to less than 30 percent by 2030.²

KPMG LLP's (KPMG) Timberland Investor Sentiment Survey provides insights into investor profiles, attitudes and certain underwriting criteria, as well as forward looking sentiment on timberlands as a distinct investment class.

The KPMG survey

KPMG's Forest Products practice conducted a survey of a broad array of entities that invest in timberland assets throughout North America. Nineteen responses were received. Overall observations from the results of the survey include:

- Discount rates have remained relatively flat compared to the 2016 KPMG Timberland Investor Sentiment Survey results.
- While respondents continue to be on an overall basis net buyers of timberland, significant investments outside North America continue to follow a downward trend.
- The majority of survey participants expect log pricing to remain the same or increase slightly in the next five (5) years, as prices have started to trend to pre-recession levels.
- The majority of respondents noted they utilize no real growth rate over the term of their investment for harvesting, operational, and management costs.

Survey objectives

The survey's objectives are to accumulate and evaluate feedback from a variety of market participants regarding key investment underwriting assumptions and forward-looking investment sentiment relative to timberland investments over the next 12 months.

Methodology

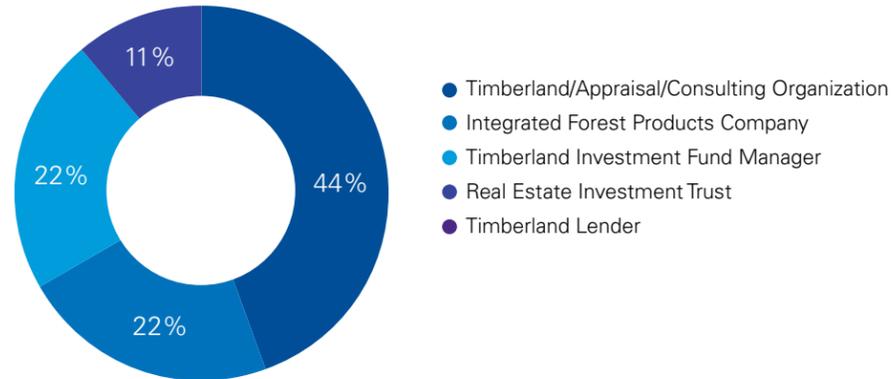
KPMG conducted this Web-based survey during July 2017. The survey was distributed to timberland industry executives. Survey results are distributed in this annual publication on a blind basis to ensure confidentiality for survey participants.

¹Source: Census Bureau

²Source: China State Forestry Administration

Demographics

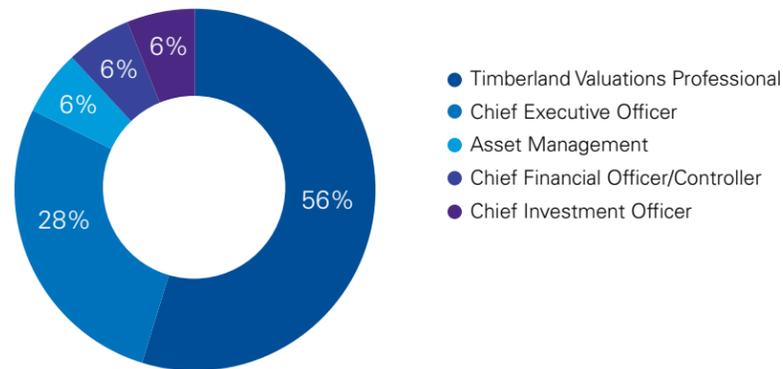
1 Please describe your firm's structure.



May not equal 100% due to rounding

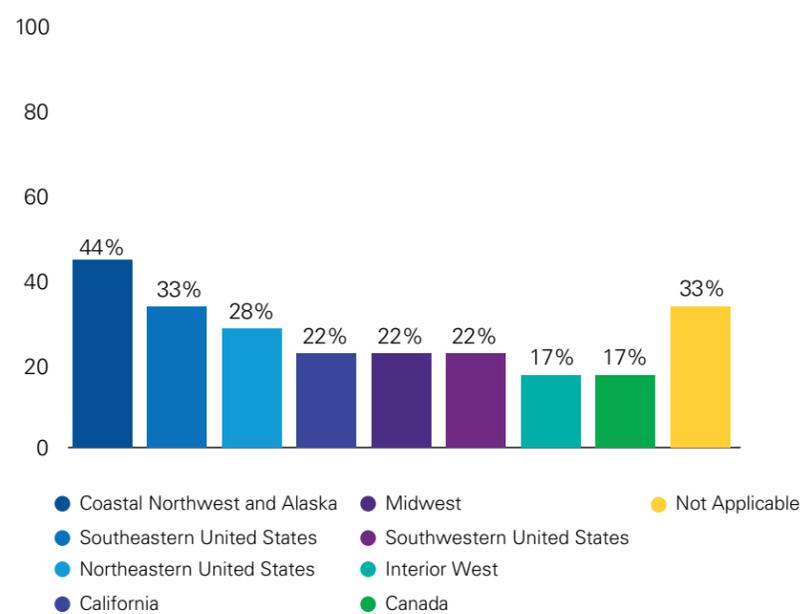
Respondents represent a variety of business types, with the largest number of respondents from timberland appraisal or consulting organizations. Respondents also represented integrated forest products companies, TIMOs, REITs, and timberland lenders.

2 Please describe your role.

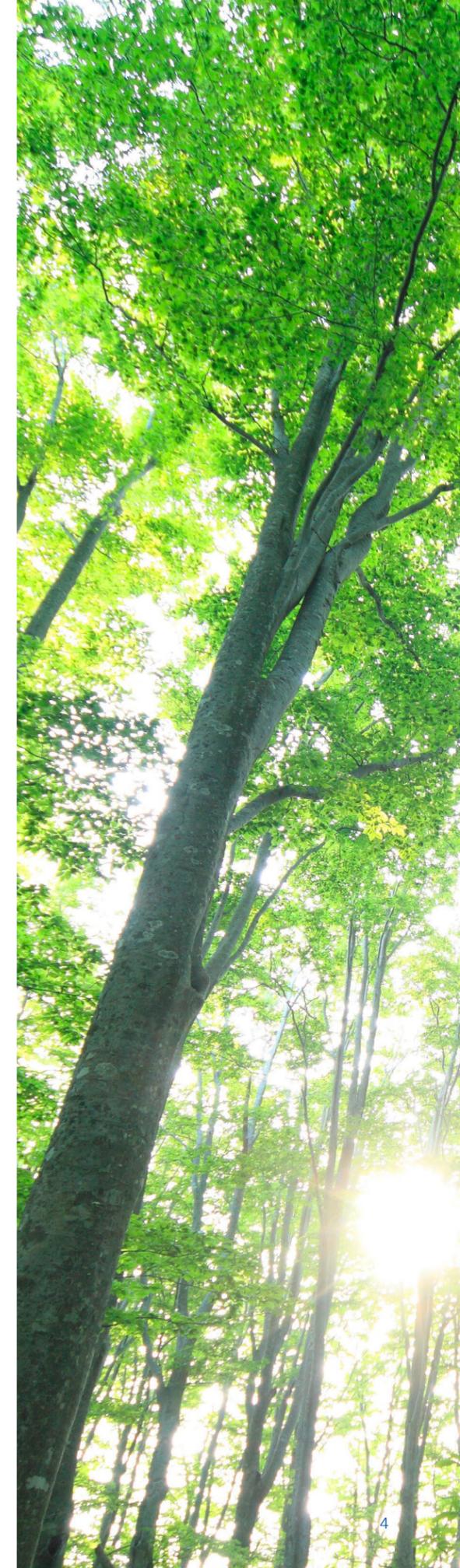


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3 Where in North America are your timberland investments located? (select all that apply)

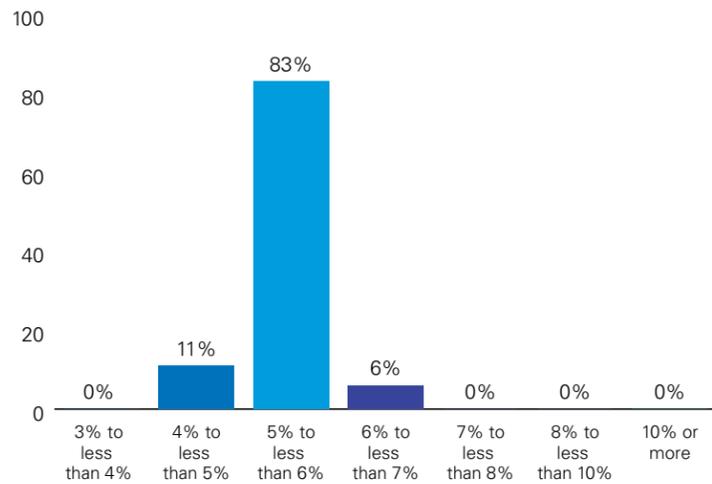


Multiple Responses Allowed



Investment assumptions

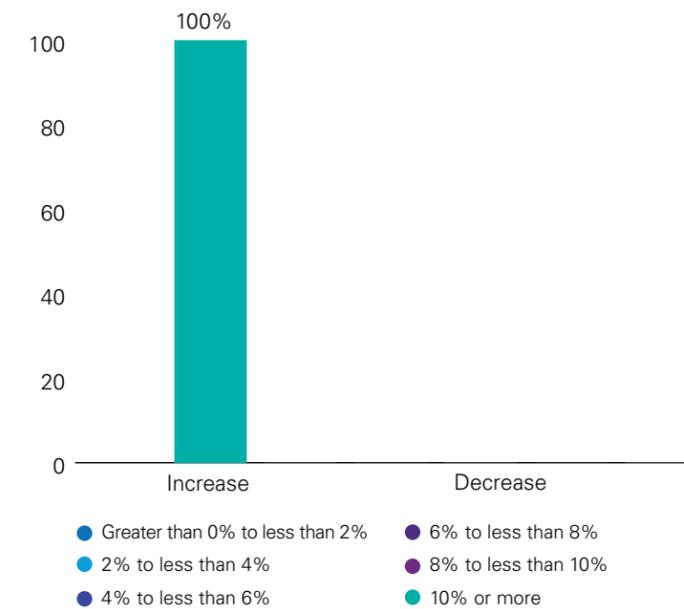
4 What real discount rate do you use when evaluating new acquisitions of timberland assets?



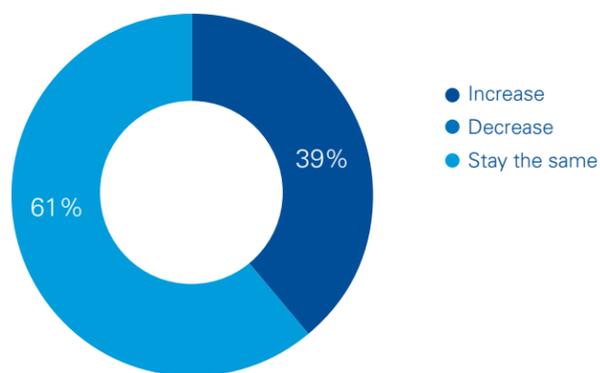
May not equal 100% due to rounding

Consistent with both the 2015 and 2016 KPMG Timberland Investor Sentiment Surveys, the majority of respondents in 2017 expect a real discount rate between 5 and 6 percent. The percentage of respondents expecting a real discount rate above 6 percent declined from the 2016 KPMG Timberland Investor Sentiment Survey.

5a&b Among those who expect the real discount rate to change over the next 2-3 years, by how much do you expect it to change?



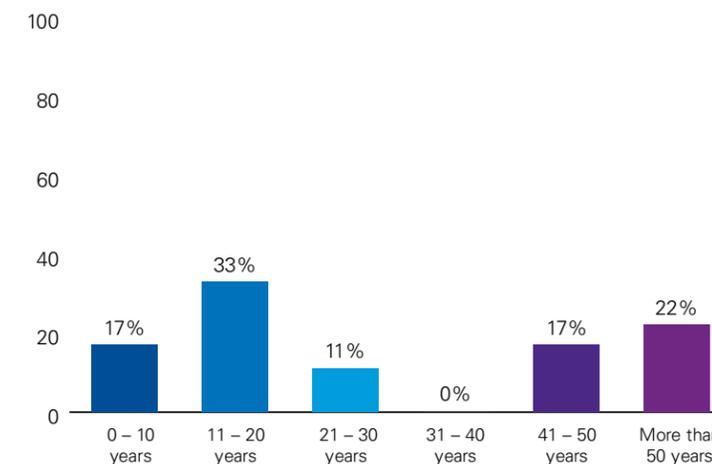
5 Over the next 2 – 3 years do you expect the real discount rate to increase, decrease or stay the same?



May not equal 100% due to rounding

The majority of this year's respondents expect real discount rates to stay the same, although more respondents are expecting discount rates to increase than in the 2016 KPMG Timberland Investor Sentiment Survey. No respondents expect discount rates to decrease, indicating the industry may view discount rates as having bottomed out.

6 What is the typical investment term you utilize in your analysis?

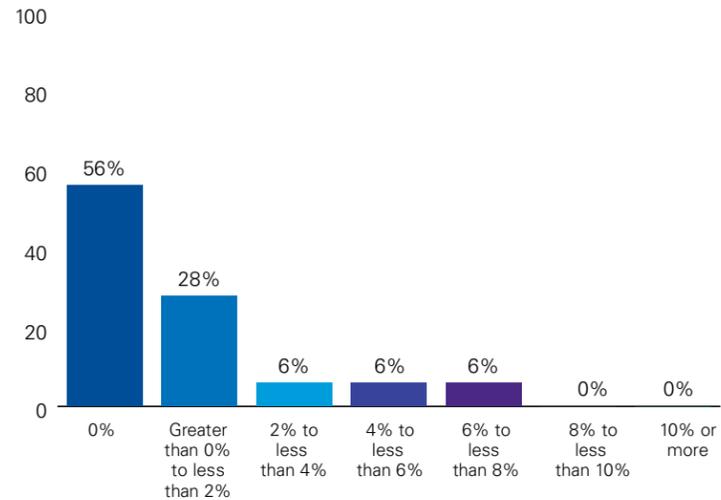


May not equal 100% due to rounding

The majority of respondents continue to utilize an investment term between 0 to 20 years although compared to the 2016 KPMG Timberland Investor Sentiment Survey, more respondents are using a term of 21 years or greater. Fewer respondents are utilizing investment terms of 10 years or less, which may indicate the desire to capture a full economic cycle.

Investment assumptions (continued)

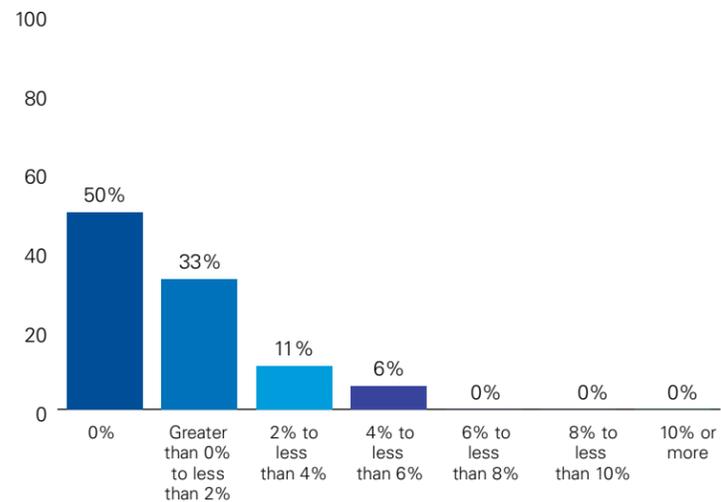
7 What growth rate for timber harvest costs (on a real basis) do you assume per annum over the term of your investments?



Similar to the 2016 KPMG Timberland Investor Sentiment Survey, the majority of respondents noted they utilize no real growth rate over the term of their investment. For respondents that utilized a real growth rate, the majority utilized a growth rate less than 2.0 percent.

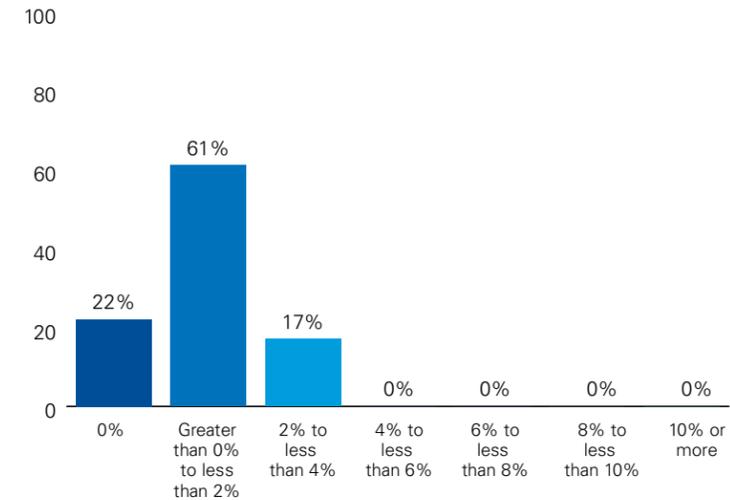
May not equal 100% due to rounding

8 What growth rate for operation and management costs (on a real basis) do you assume per annum over the term of your investments?



May not equal 100% due to rounding

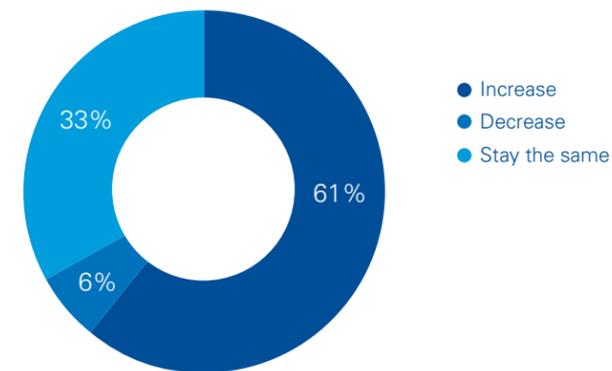
9 What growth rate do you assume for log prices (on a real basis) per annum over the term of your investments?



The majority of respondents indicated they assume a real growth rate of 0 percent to 2 percent, with more respondents expecting no growth compared to the 2016 KPMG Timberland Investor Sentiment Survey. No respondents assumed growth rates greater than 4 percent.

May not equal 100% due to rounding

10 Over the next 5 years do you expect log prices (on a real basis) to increase, decrease or stay the same?



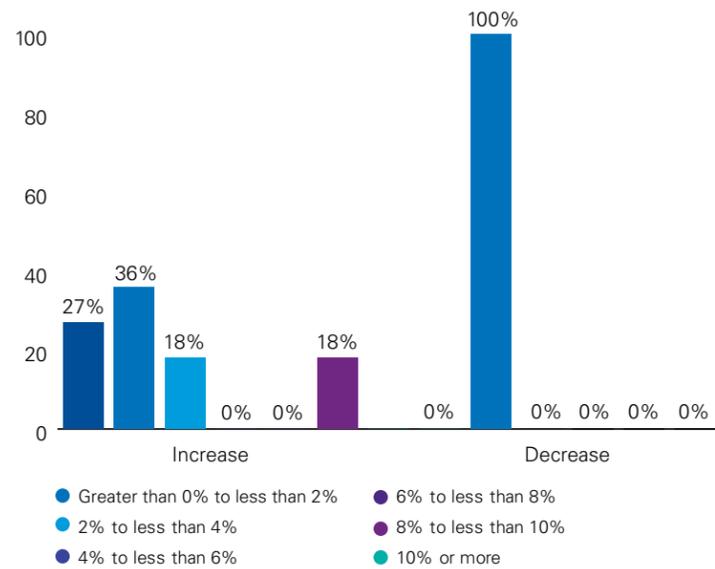
May not equal 100% due to rounding

The majority of respondents still expect log prices to increase (on a real basis), similar to the KPMG 2016 Timberland Investor Sentiment Survey. However, the percentage of respondents expecting an increase is lower, while the percentage of respondents expecting log prices to stay the same is higher.

Investment assumptions (continued)

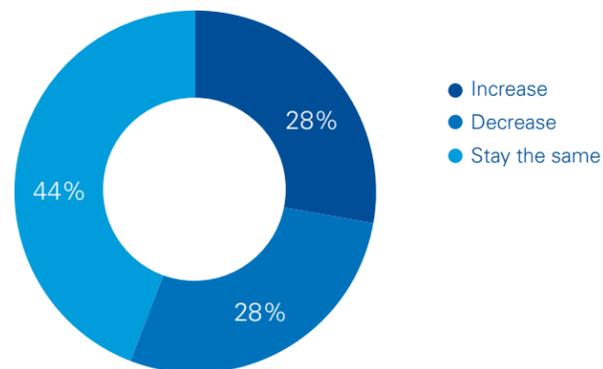
10a&b

Among those who expect the log prices (on a real basis) to change over the next 5 years **By how much do you expect log prices to change?**



11

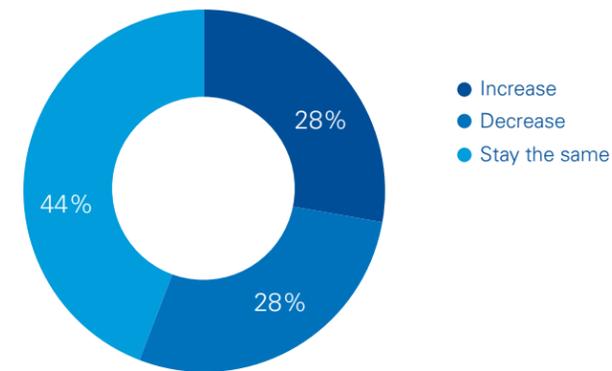
Do you expect market export volume to increase or decrease in the next 3-5 years?*



Respondents were split on market export volume changes, with equal number of respondents predicting increases as decreases.

12

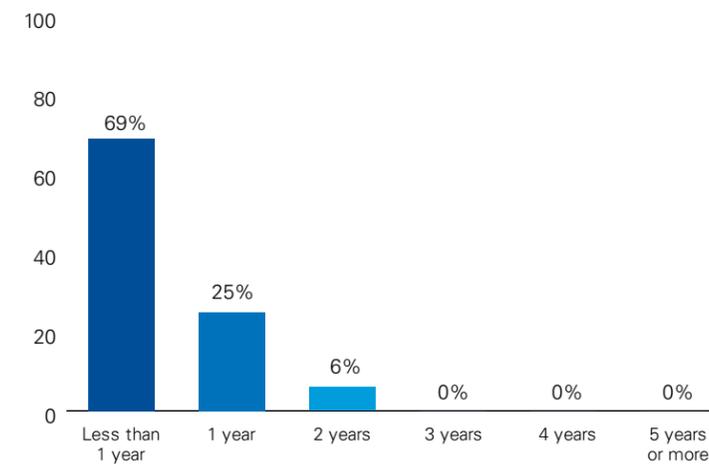
Do you expect an increase or decrease in the number of domestic sawmills in operating circles over the next 3-5 years?*



*Not asked in 2015

13

How long do you assume it takes to market and sell your timberland investments?



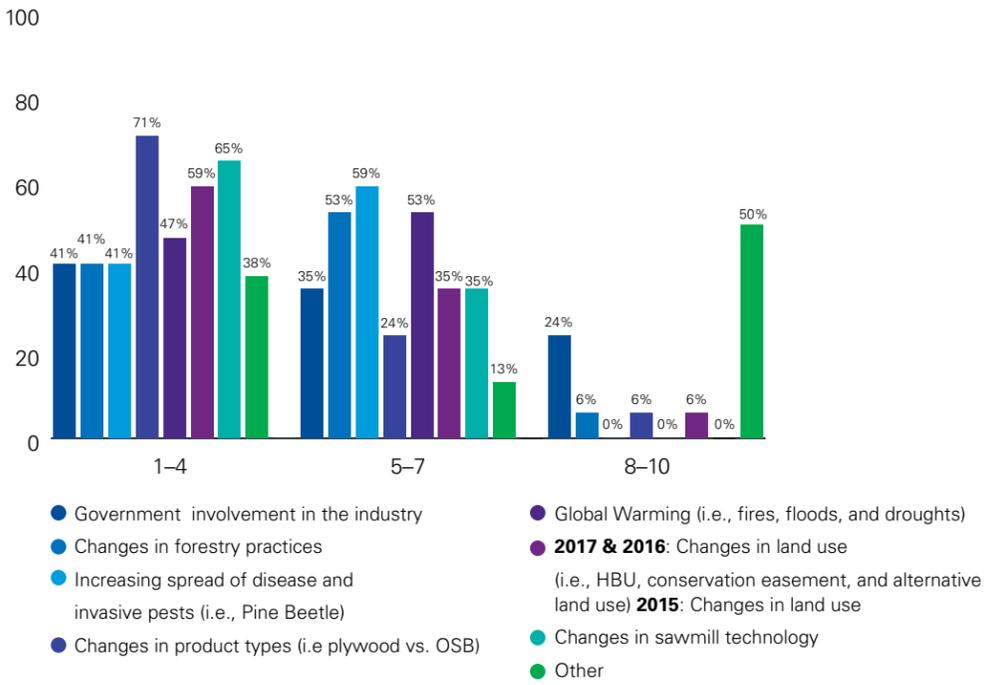
May not equal 100% due to rounding

The majority of respondents continue to expect marketing to take less than one year, consistent with the 2016 KPMG Timberland Investor Sentiment Survey.

*Not asked in the 2015 KPMG Timberland Investor Sentiment Survey
May not equal 100% due to rounding

Investment assumptions (continued)

14 What is the most significant variable to your risk profile? For each, please rate on a 1 to 10 scale, where 1 is not significant, 5 is significant and 10 is very significant.



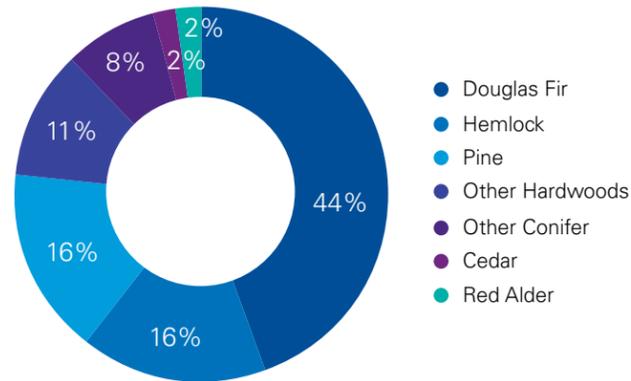
May not equal 100% due to rounding

Respondents note increasing risk profiles in the industry, with the mean significance of each variable increasing from the 2016 KPMG Timberland Investor Sentiment Survey. While government involvement in the industry continues to be the most significant of the identified factors, other variables including macroeconomic factors and their potential impact on pricing and discount rates are of concern to respondents. Changes in land use and changes in sawmill technology are the least significant factors.



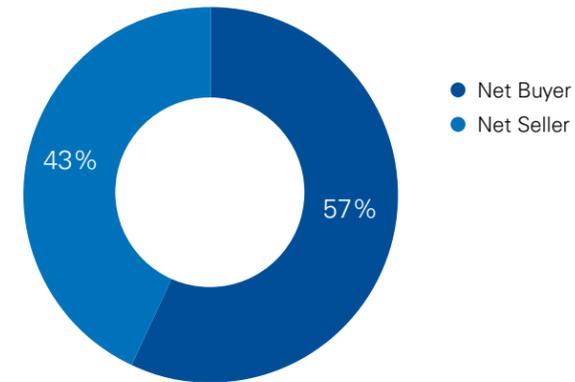
Investor sentiment

15 What is your portfolio species mix (per MBF)?



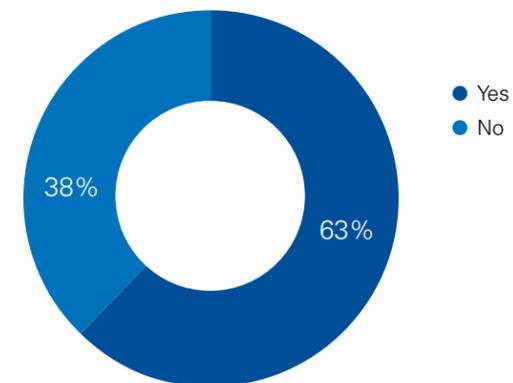
Data is calculated by taking the average of percentages

16 Do you anticipate being a net buyer or net seller of timberlands?



The majority of respondents, 57 percent, continue to be net buyers of timberlands, indicating that markets continue to be competitive.

17 Do you plan on making any significant timberland acquisitions in the next 12 months?

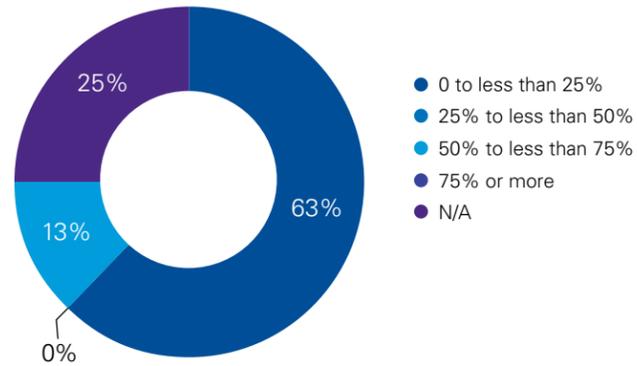


May not equal 100% due to rounding.

63 percent of respondents plan on making significant timberland acquisitions in the next twelve months. This represents an 8 percent increase from the 2016 KPMG Timberland Investor Sentiment Survey.

Investor sentiment (continued)

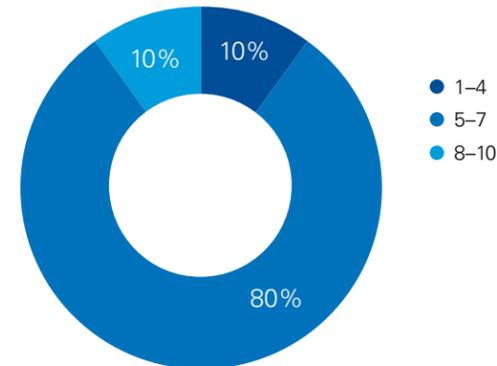
18 What percentage of your annual harvest do you plan for export in the upcoming year?



May not equal 100% due to rounding

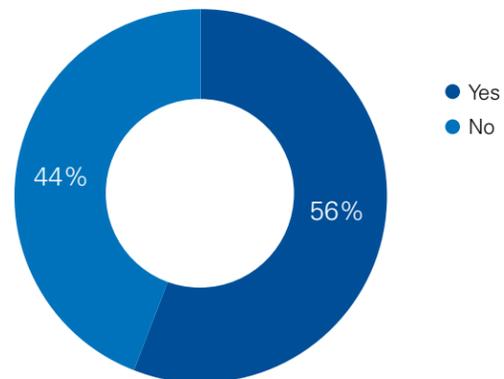
A majority of respondents surveyed plan to export little to none of their annual harvest, which is generally indicative of strong domestic demand. However, the share of respondents planning to export between 50 and 75 percent of their annual harvest saw a noticeable increase over the 2016 KPMG Timberland Investor Sentiment Survey.

20a Among those whose investment decision making process is influenced by tax rates, on a scale of 1 to 10 (with 10 being the highest influence), how influential is the consideration of taxes in the investment decision process?



May not equal 100% due to rounding

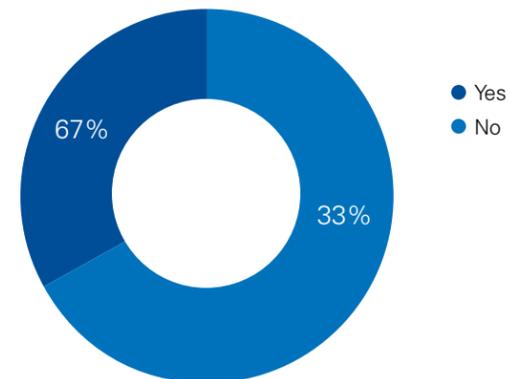
19 Do tax rates influence your investment decision making process (buy, hold, sell strategy)?



May not equal 100% due to rounding

Respondents continue to indicate that taxes may influence their decision making process.

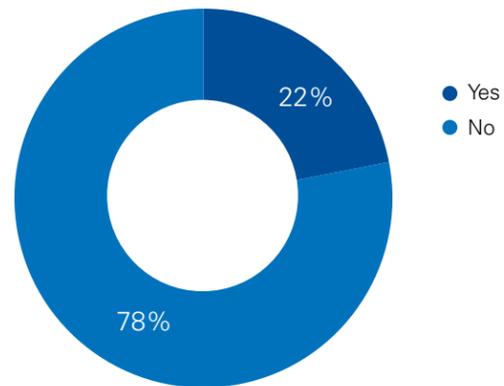
20b Among those whose investment decision making process is influenced by tax rates, does the U.S. proposed tax reform affect your investment decisions?



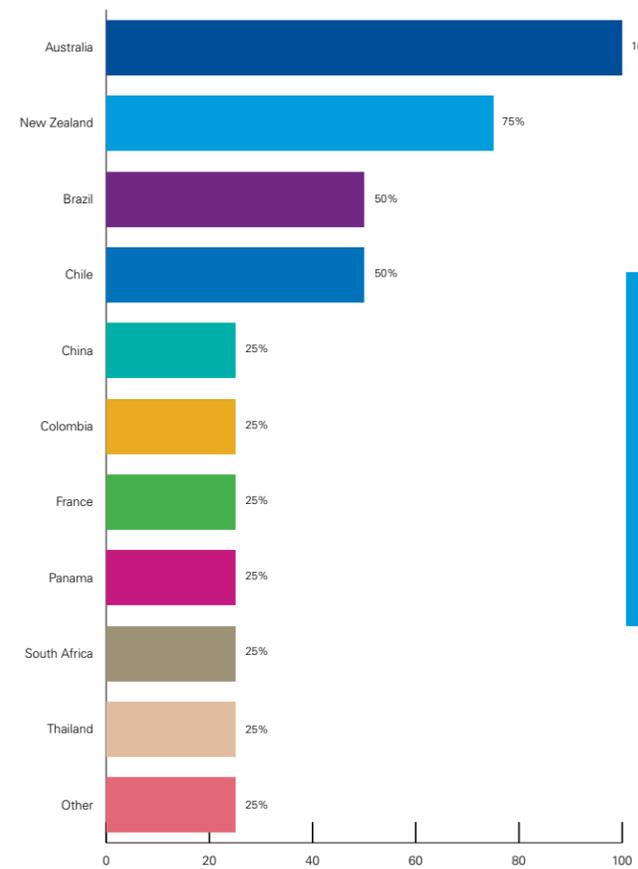
For the majority of respondents, proposed U.S. tax reform does not affect their investment decisions. This is a reversal from the 2016 KPMG Timberland Investor Sentiment Survey, when a majority of respondents indicated proposed U.S. tax reform did affect their investment decisions, indicating the expected scope of reform and/or likelihood of reform impacting the sector has decreased.

International interests

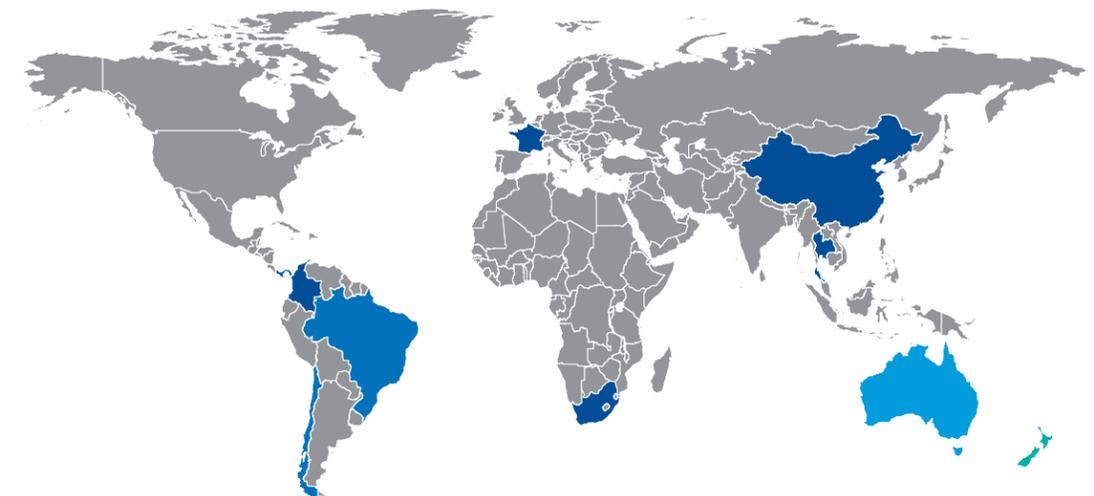
21 Do you have significant timberland interests outside North America?



22 Among those who have significant timberland interests outside North America In which countries do you have significant timberland interests outside North America? (select all that apply)



Australia, New Zealand, Brazil, and Chile were the top countries for timberland investment by respondents outside North America. Real discount rates for investments outside North America were significantly higher than those for U.S. investments.



Multiple Responses Allowed



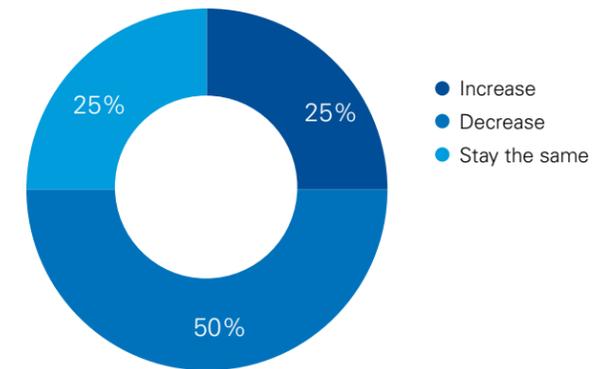


International interests (continued)

Among those who have significant timberland interests outside North America

23

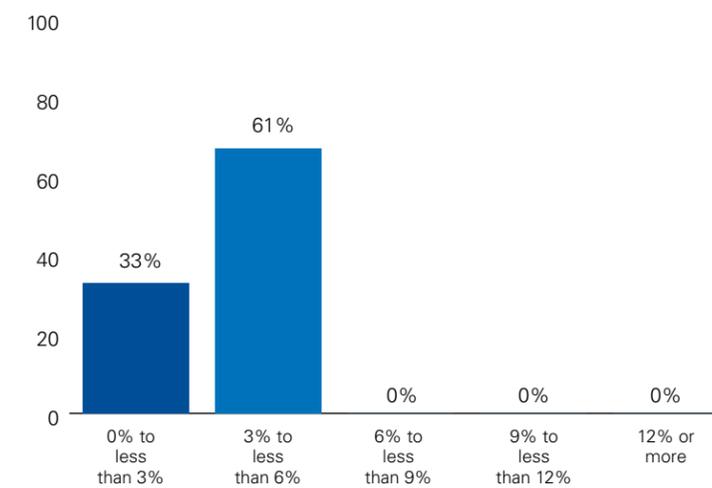
Over the next 2 – 3 years do you expect the discount rate to increase, decrease or stay the same?



Among those who have significant timberland interests outside North America

24

What reversion capitalization rate do you utilize when evaluating new timberland acquisitions?

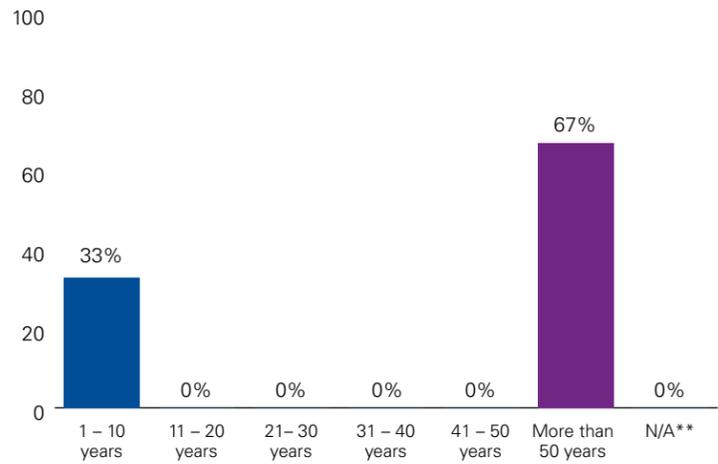


May not equal 100% due to rounding

International interests (continued)

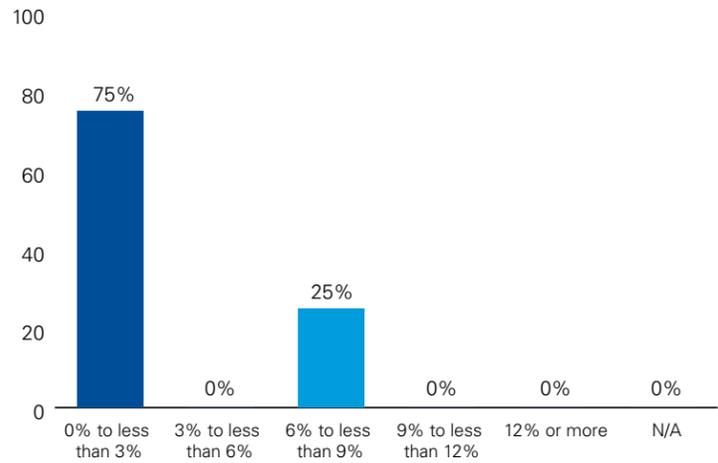
Among those who have significant timberland interests outside North America

25 What is the typical investment term you utilize in your analysis?



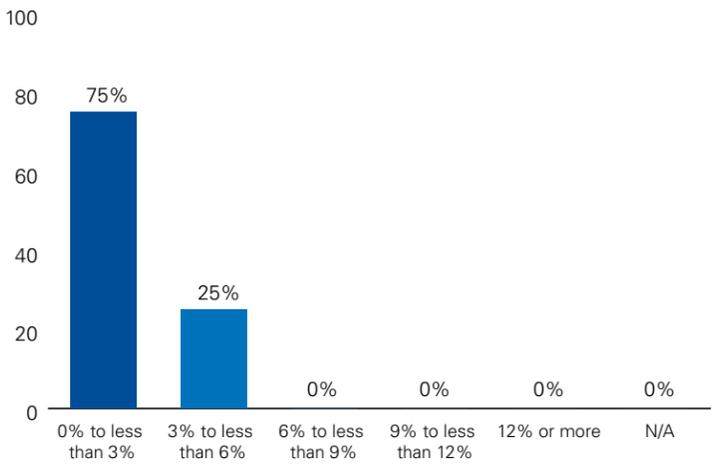
**Not asked in the 2015 KPMG Timberland Investor Sentiment Survey

26 What growth rate for logging, hauling, and other costs (on a real basis) do you assume per annum over the term of your investments?



A majority of respondents use a real growth rate of less than 3 percent per annum for logging, hauling, and other costs.

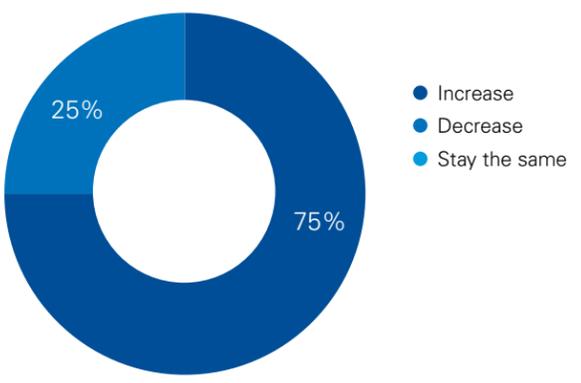
27 What growth rate do you assume for log prices (on a real basis) per annum over the term of your investments?



Similarly, a majority of respondents use a real growth rate of less than 3 percent per annum for log prices.

Among those who have significant timberland interests outside North America

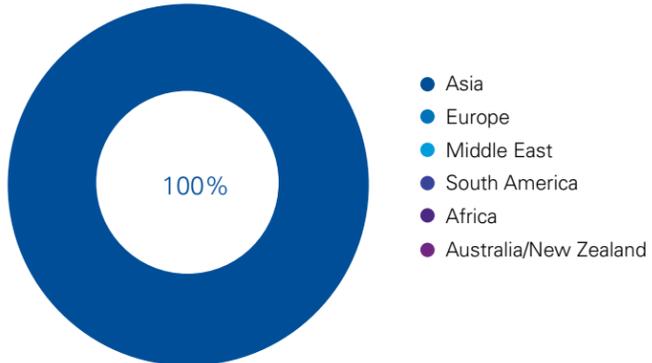
28 Over the next 5 years do you expect log prices (on a real basis) to increase, stay the same, or decrease?



International interests (continued)

Among those who have significant timberland interests outside North America

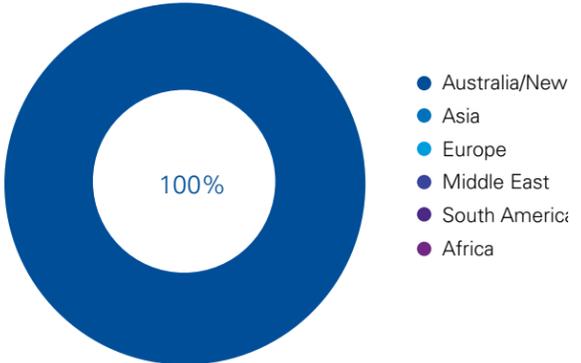
29 Which global markets do you think have the highest potential for imports?



Respondents think the highest import potential is in Asia, which may be driven by strong Chinese demand and the strengthening yuan.

Among those who have significant timberland interests outside North America

31 From an acquisition perspective, which geographies are most attractive to you for timberland investment?



May not equal 100% due to rounding

KPMG's Forest Products practice

KPMG's experience serving clients in the forest products industry is extensive. The size and scope of our Forest Products practice makes KPMG one of the most effective service providers for the forest products industry. KPMG has long had a commitment to and extensive involvement with the forest products industry (including timber, wood products, pulp, paper, and packaging).

Our dedication to the industry is evidenced by KPMG's Global Center of Excellence for the Forest Products Industry. The Center's role includes developing a worldwide market focus, recruiting experienced personnel, staying abreast of issues affecting the global forest products industry, developing products that add value to the industry, and providing thought leadership. KPMG provides professional services to over 65 percent of the world's largest forest products organizations and audits 70 percent of the top 10 F1000 Forest Products companies.

KPMG's Forest Products practice serves a wide spectrum of companies in the industry, including entities that are treated as C corporations, S corporations, and partnerships for federal and state tax purposes.

KPMG's commitment to the forest products industry means that we have the experience and knowledge to help our clients understand and address the issues affecting their business. KPMG's Forest Products practice professionals have extensive experience in the industry. They are committed to staying current on emerging technical and business topics, and KPMG regularly invests in new technology, tools, and other resources to support them.

KPMG's partners and professionals focus on serving companies in your industry and your value chain so they can bring value to your business. Importantly, we can provide perspectives on industry-leading practices to help you examine key issues and mitigate risks, thereby helping add value to your business.

KPMG's Forest Products team

For more information about KPMG's Forest Products practice or KPMG's Timberland Investment Sentiment Survey, please contact the following KPMG professionals:



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