



The Reinvestment Challenge

The value of your timberland investment has probably increased significantly since you bought it. Figure 1 shows timberland values indexes for four different time periods through 2023. The charts show the change in \$/acre values published by NCREIF for the South, Pacific Northwest and the US in total.

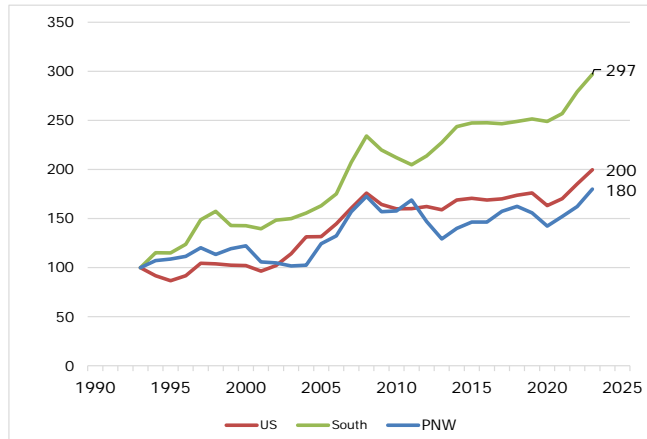
If you had invested in timberland in the South 30 years ago, you will be able to sell it for about 3 times what you paid (on a \$/acre basis). The least

exciting number here is the index for the Pacific Northwest over the past 15 years—and values are still higher than what you would have paid in 2008.

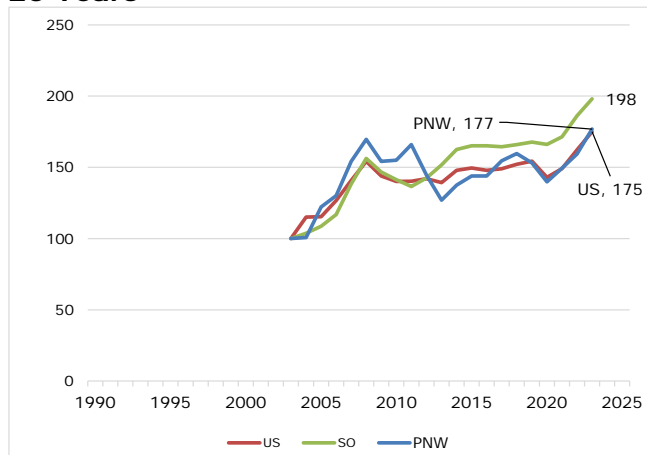
If you sell your timberland now, you will realize some gains—if you held your timberland for the right length of time you will realize *significant* gains.

But, if you sell that timberland asset now, will you be able to reinvest the proceeds in timberland?

Figure 1. Timberland Value Indexes
30 Years

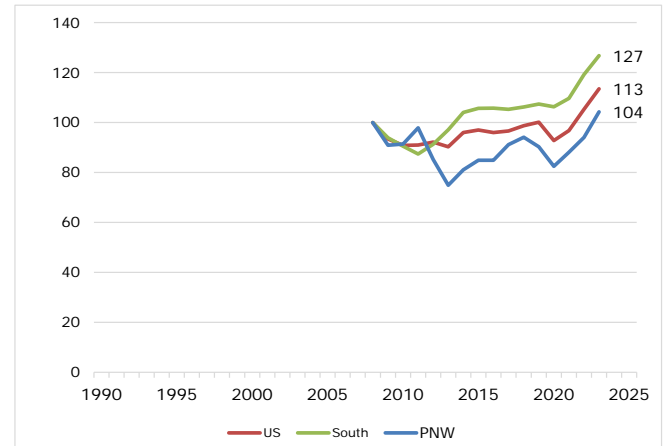


20 Years

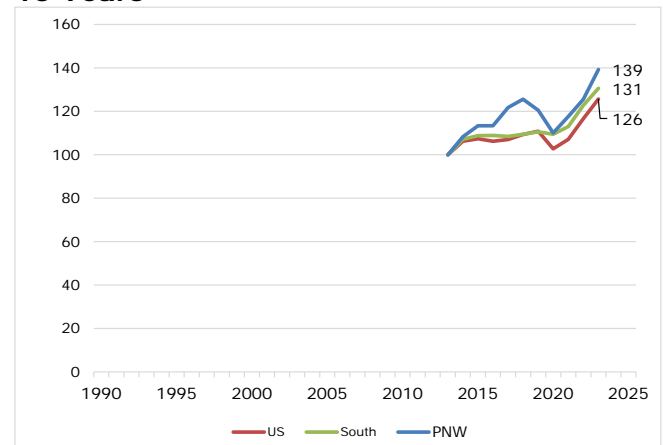


Source: NCREIF

15 Years



10 Years



Timberland Supply

The supply of investment grade timberland is limited. Just how limited is it? There are *tens* of large timberland transactions every year in the US (see below). And they range in size from tens of millions to hundreds of millions of dollars. Finding a property of roughly the same value as the one you just sold—so you can reinvest the proceeds—could take a while.

A new fund or individual investor new to the asset class has much more flexibility in pursuing transactions. They can invest whatever amount they want in any region they want for their first transaction. But a re-investor is likely targeting a specific region to maintain an investment allocation or to rebalance a portfolio.

Transaction Categories

For our analysis, we will set some *very arbitrary* size classes. We are assuming that a fund or individual investor is trying to reinvest the proceeds from a recent sale and the funds available will depend on the size of that sale. Smaller funds/investors might be looking at transactions between, \$20 mm and \$50 mm while larger funds/investors might look for something as large as \$250 mm.

Table 1. Very Arbitrary Transaction Size Classes

Transaction Size Classes	Min	Max
Large	\$100	\$250
Medium	\$50	>\$100
Small	\$20	>\$50

9 Years of Transactions

Figure 2 shows transaction values for 310 timberland transactions of 5,000 acres or more from 2015 through the end of 2023 (9 years) for which we have transaction values.¹ It is difficult to see much detail in the transaction value bars because there were some very large deals during that time. These include, for example, the \$8 billion

acquisition of Plum Creek by Weyerhaeuser and the nearly \$2 billion transfer of The Forestland Group portfolio to Blue Source. Transactions of this size are multi-property, multi-region deals that are likely beyond the reach of an investor who has just sold a single investment property.

If we apply our arbitrary lower limit of \$20 mm and upper limit of \$250 mm as the preferred range for potential re-investment, we end up removing 110 transactions from consideration² and are left with the 200 transactions shown in Figure 3.³ These transactions account for roughly 40 percent of the value of all investment-grade timberland sold in the US in the past 9 years.

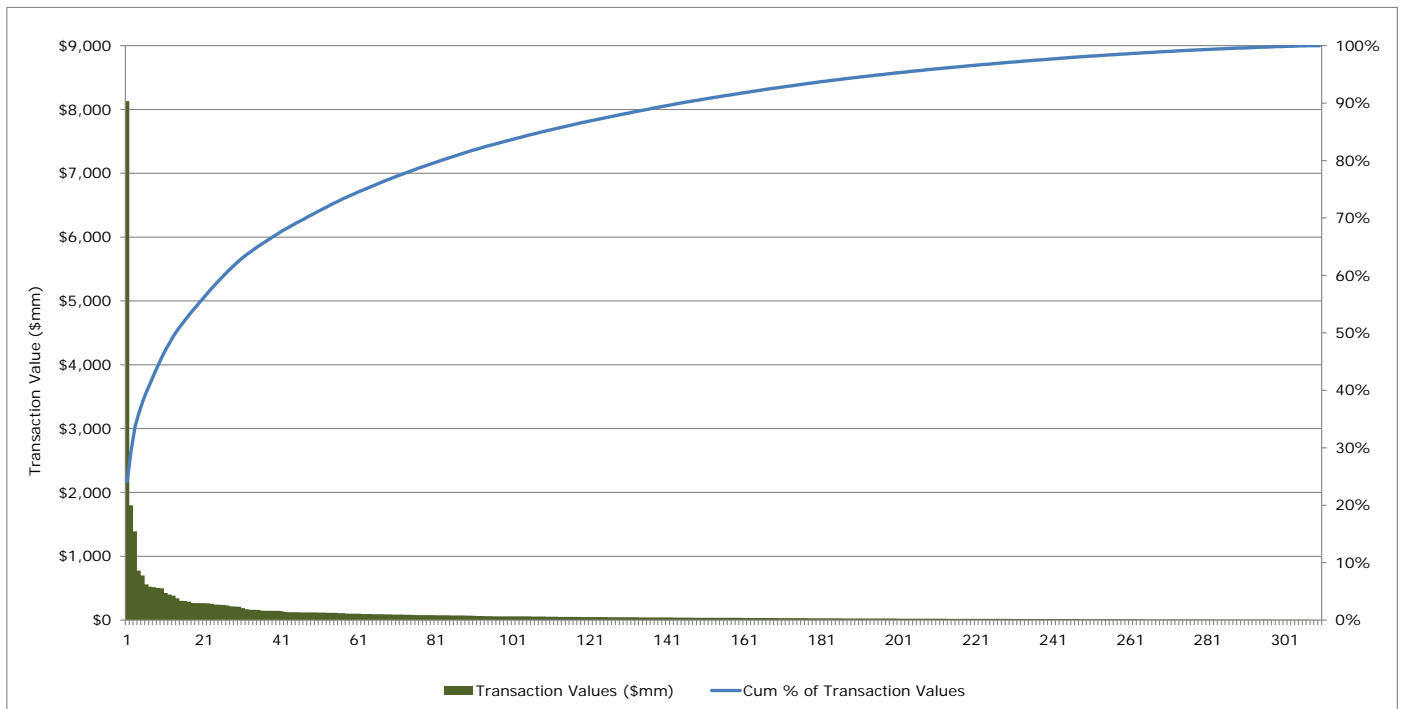
That gives us just over 22 transactions per year and perhaps another 3 or 4 per year if some of the transactions for which we don't have transaction amounts could be included—so maybe 25 transactions per year. That sounds like a lot, and might *be* a lot if it didn't matter where we re-invested or how much we had to re-invest.

Figure 4 shows that investors looking to reinvest \$100-250 mm since 2015 have had a choice of an average of 4 transactions per year—and they are competing against other re-investors and against new funds. Investors looking to reinvest \$20-50 mm have had an average of 12 transactions a year from which to choose.

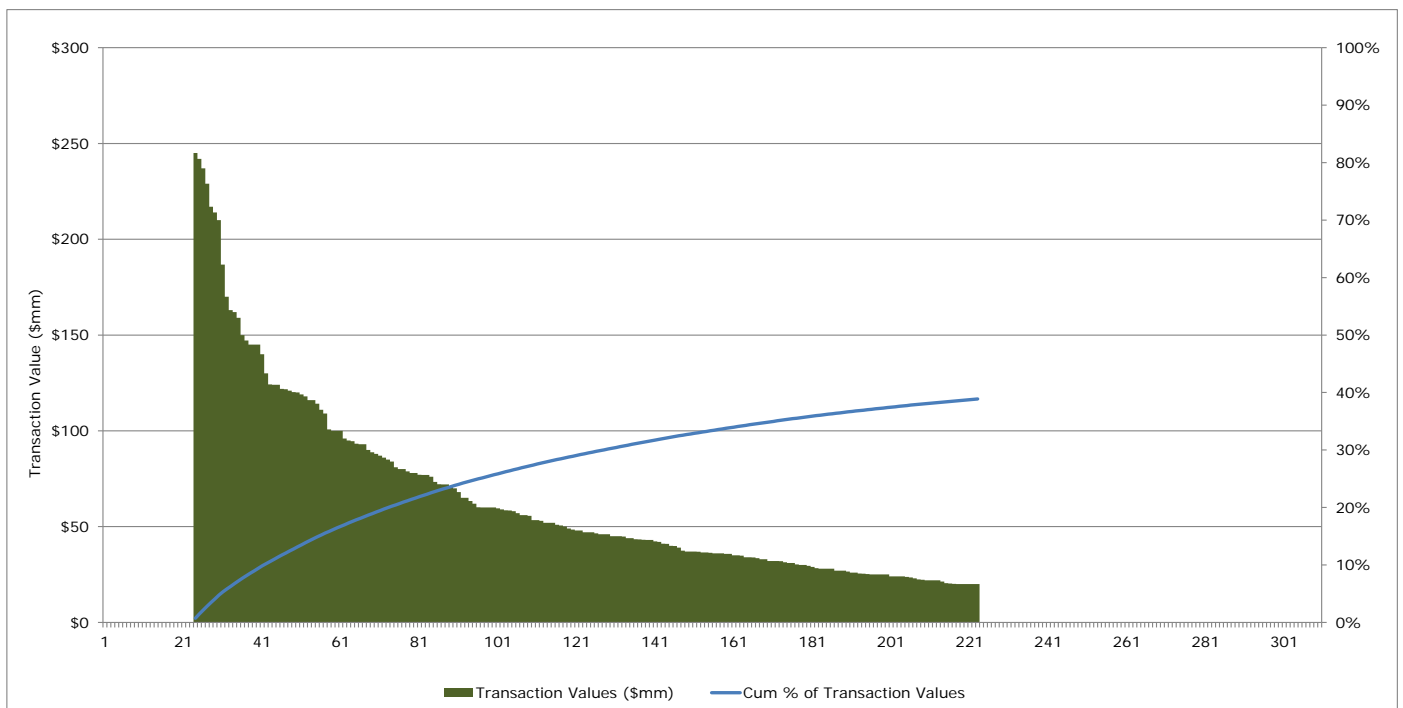
But most investors that are looking to reinvest are looking at specific regions. They might want to reinvest in the South or rebalance their timberland portfolio by moving funds into the West or Lake States. Table 2 breaks down the size classes by investment region. For any given region and transaction size there are very few choices each year.

¹ There are another 50 transactions of 5,000 acres or more in our database for which we do not have transaction amounts.

² 23 too large and 88 too small.
³ If we are willing to relax our dollar limits a little, we could add back 7 transactions that were under \$300 mm, including one that was for \$255 mm and several transactions of just under \$20 mm.

Figure 2. Timberland Transaction Values Since 2015

Sources: Forest Research Group, Timber Mart-South, Timberland Markets Report

Figure 3. Timberland Transaction Values Since 2015 (\$20 to \$250 mm)

Sources: Forest Research Group, Timber Mart-South, Timberland Markets Report

Figure 4. Transactions by Size Class

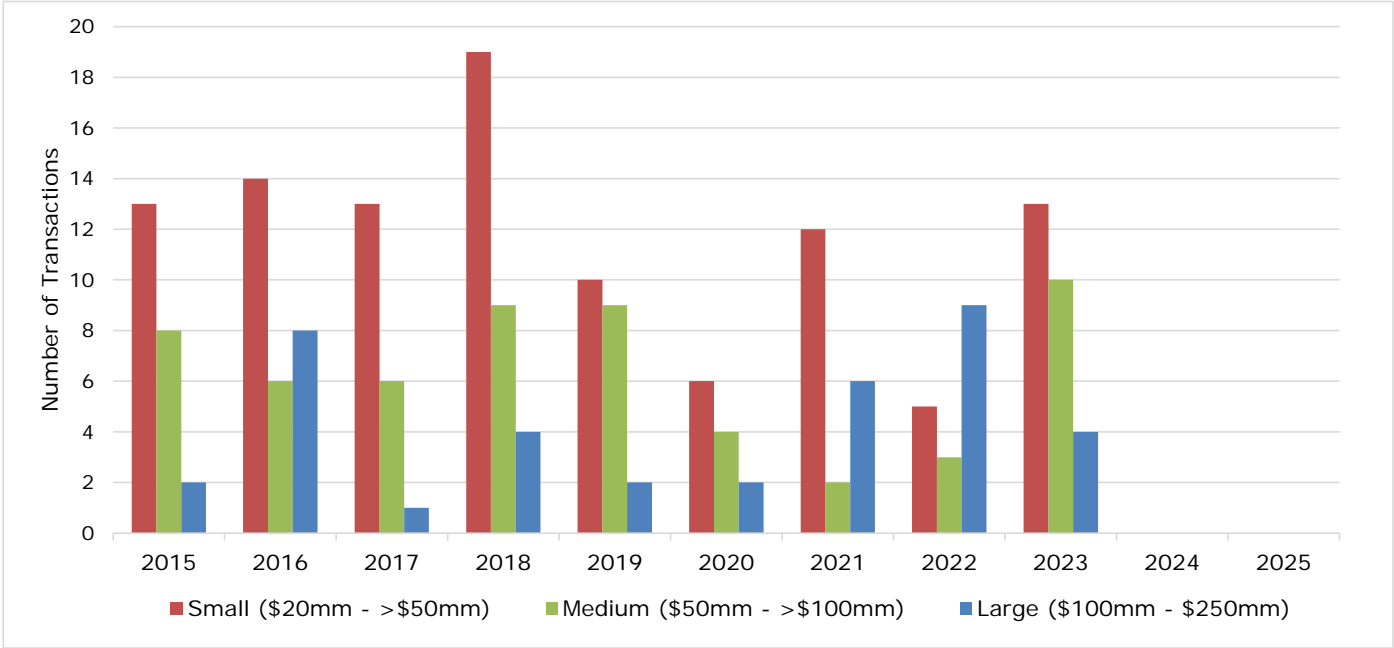


Table 2. Transactions by Size Class, Region and Year

Size Class Region	Investment Size															
	Small (\$20mm - \$49.9mm)				Medium (\$50mm - \$99.9mm)				Large (\$100mm - \$250mm)				All			
	SO	PNW	Other	Total	SO	PNW	Other	Total	SO	PNW	Other	Total	SO	PNW	Other	Total
2015	8	2	3	13	1	5	2	8	1	1	0	2	10	8	5	23
2016	9	2	3	14	3	3	0	6	3	3	2	8	15	8	5	28
2017	4	5	4	13	0	3	3	6	1	0	0	1	5	8	7	20
2018	11	6	2	19	3	5	1	9	2	2	0	4	16	13	3	32
2019	5	2	3	10	7	1	1	9	1	0	1	2	13	3	5	21
2020	2	1	3	6	0	3	1	4	1	1	0	2	3	5	4	12
2021	2	7	3	12	0	2	0	2	3	1	2	6	5	10	5	20
2022	5	0	0	5	2	1	0	3	8	1	0	9	15	2	0	17
2023	10	3	0	13	7	2	1	10	2	2	0	4	19	7	1	27
Total	56	28	21	105	23	25	9	57	22	11	5	38	101	64	35	200
Average	6	3	2	12	3	3	1	6	2	1	1	4	11	7	4	22

Summary

An investor might be interested in selling a timberland property that has seen significant value appreciation and actually realizing those gains or rebalancing their portfolio. They may find it challenging to re-invest the transaction proceeds in timberland.

There are a limited number of transactions of between \$20 mm and \$250 mm each year. There are, on average, 4 each year outside the South and West, with only 1 large and 1 medium-size transaction each year. There have been small and large transactions in the South each year since 2015, but there are several years where there were no medium-sized transaction in the region

Our transaction size classes are arbitrary, but an investor seeking to reinvest proceeds will likely be facing a short list of timberland offerings of any size.

Forest Research Notes, Vol. 20, No. 3
Copyright © 2024, Jack Lutz

Jack Lutz, PhD
Forest Economist
Forest Research Group
78 Stoneybrook Way
Hermon, ME 04401

jlutz@forestresearchgroup.com
www.forestresearchgroup.com