

Northeast Timberlands

The slowdown in the national economy came late to the northeastern forest, but it has finally arrived. Stumpage prices for many species and products have fallen over the last six months.

MAINE STUMPAGE PRICES

Sewall Company conducts periodic surveys of timber prices in different regions of the United States and Canada. These surveys are used in a variety of projects including timberland appraisals and resource availability studies. In the last four years, the surveys have been conducted late in the year (November/December) and in the middle of the year (May/June). Our latest survey of western Maine shows a decrease in stumpage prices for most species and products.

Figure 1 shows sawtimber stumpage prices for selected species in western Maine since 1994. These species represent some of the higher values found in the Maine forest. (The prices are for sawlogs only, and do not include veneer logs.)

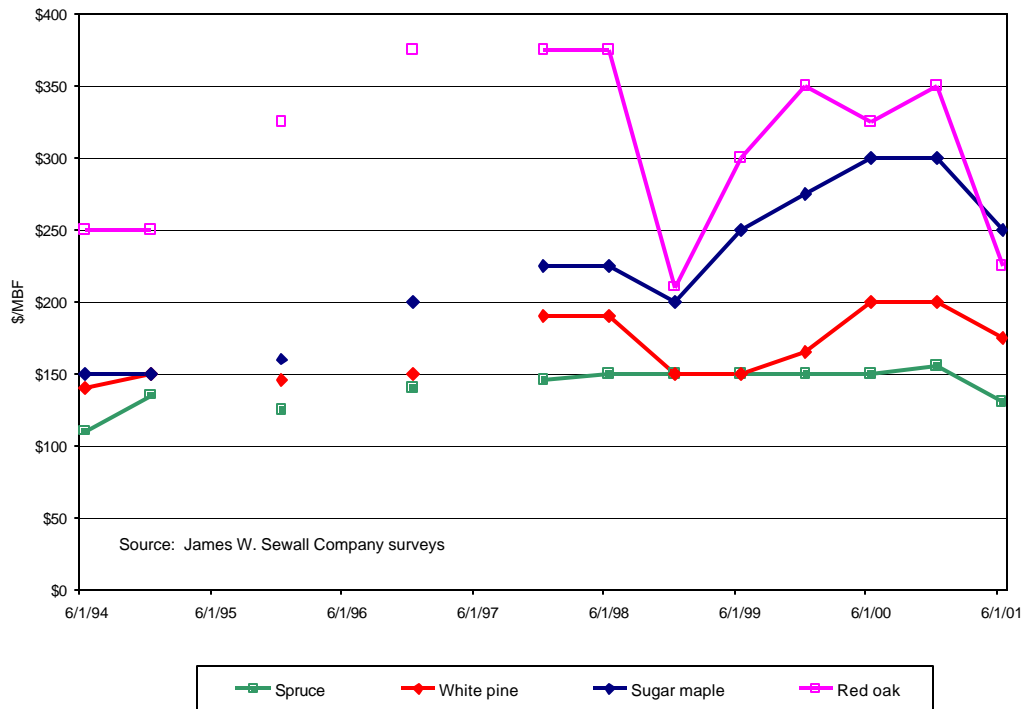


Figure 1. Western Maine Sawtimber Stumpage Prices, June 1994 through June 2001

The last six months have been disappointing to wood growers in Maine. The national curtailment of softwood lumber production reached Maine late in 2000. Several mills shut down for a few weeks and others cut hours or shifts. However, the big shock to spruce/fir sawtimber and studwood prices came in April of 2001, when International Paper permanently closed its mills in Passadumkeag and Costigan.

The chart also shows that weakening prices were not restricted to spruce/fir. Market surveys indicated that spruce log yards filled up in the Fall of 2000, so loggers shifted production to white pine. As might be expected, white pine mill yards quickly filled up, which in turn helped force white pine prices down. One bright spot until recently has been biomass. While not a high-value product, strong demand has allowed this low quality material to be removed from the forest. However, recent reports are that some biomass chip piles are reaching maximum size.

Figure 2 shows pulpwood stumpage prices for western Maine. The fall in spruce/fir pulpwood prices since December 1998 is in part the result of structural changes in the local pulp mills.

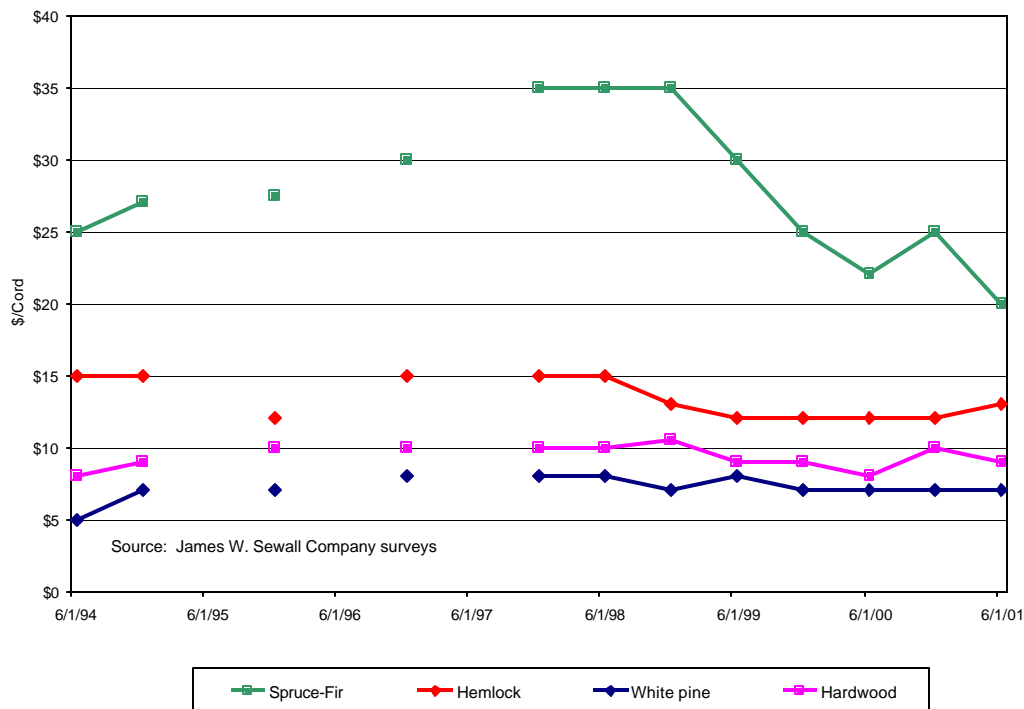


Figure 2. Western Maine Pulpwood Stumpage Prices, June 1994 through June 2001

Maine is not the entire northern forest. But other parts of the region have shown similar price patterns. Figure 3 compares spruce/fir sawtimber stumpage prices from western Maine and northern New York. Note that both regions have seen similar trends. Prices rose gradually and steadily from June 1994 through December 2000. Then both areas experienced a sharp decline in the first half of 2001.

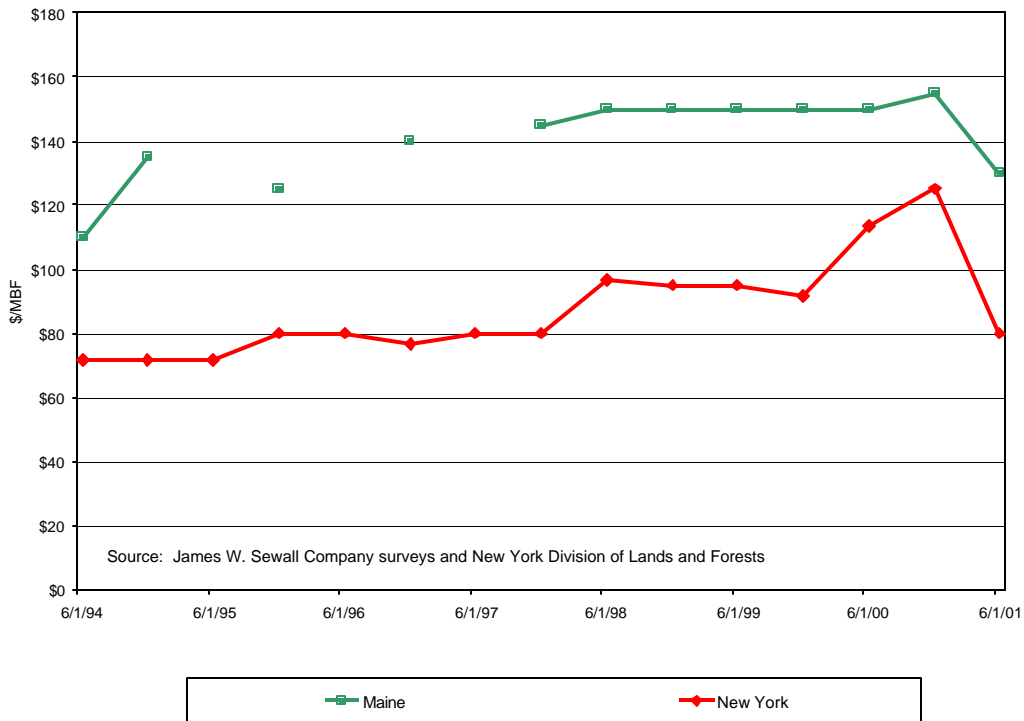


Figure 3. Western Maine and Northern New York Spruce/Fir Sawtimber Stumpage Prices, June 1994 through June 2001

IMPACT ON NORTHEAST TIMBERLAND

Falling timber prices have had an impact on timberland returns in the Northeast. The impact occurs in two ways.

Lower stumpage prices mean a lower return for a given volume of wood sold. The shortfall in income per unit can be offset by selling more timber, but landowners expecting a price improvement in the near future may hold their timber to take advantage of those higher future values. They expect the future returns will more than offset the loss of income at the present time. On the other hand, income may be low because mill log yards are full and mills aren't buying any more wood, even if timberland owners would like to sell it.

Lower timber values may also cause the market value of the timberland to fall. While it may seem that this should *always* be the case, timberland values are based on more than simply the current value of the timber. For example, recent comparable timberland sales may indicate that the market expects a period of low (or high) timber prices to be short and timberland buyers are not offering low (or high) prices for timberland based on low (or high) timber prices. However, this optimistic view did not hold for the first half of 2001.

Figure 4 presents the NCREIF Timberland Index for the Northeast since 1994. While lower timber values do not *necessarily* cause timberland values to fall, it certainly looks like they helped do so in the first half of 2001. The drop in the appreciation index is the sharpest drop for any region in the past four quarters. However, the size of the drop in the appreciation index in the second quarter is due in part to a technicality. Most (or perhaps all) of the properties in the Northeast were *not* appraised at the end of the first quarter, but many of them were appraised at the end of the second quarter. So the drop in value reported for the second quarter actually took place over the first half of the year.

Looking at annualized returns, the Northeast showed the lowest return (of the three NCREIF regions) for the year ending June 30, 2001. But, over the past 7 years, the Northeast has outperformed the South and the Pacific Northwest. Annualized returns for the Northeast for the 2 years ending June 30, 2001 through the 7 years ending June 30, 2001 have been higher than returns for the other regions.¹

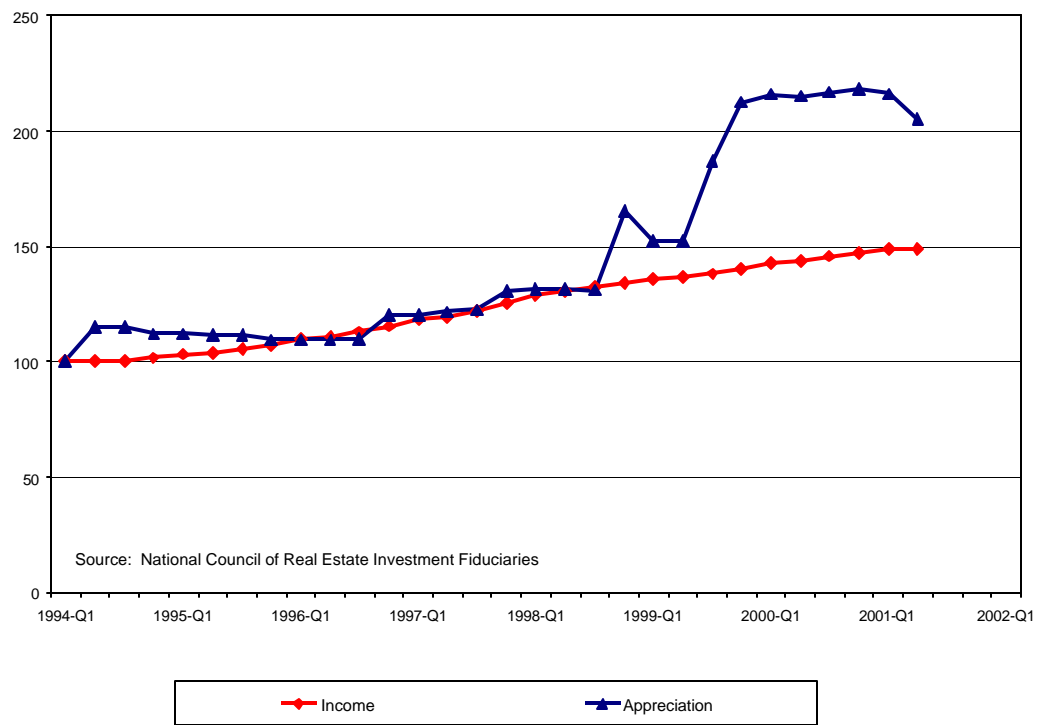


Figure 4. NCREIF Timberland Index for the Northeast

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¹ The Northeast returns include high returns from some timberland in Pennsylvania that have since been withdrawn from the Index (Vol 1 No 2).