

NOVEMBER 16, 2020



Joe Sanderson: Lumber prices are not going to go back to where they were a year ago



With the potential of a Biden presidency and continued lockdowns, one of the major structural changes in the U.S. economy is people working from home. They are looking for larger homes with more space for home offices. This year, small land tract sales have been a high point for Atlanta-based Domain Timber Advisors. According to Joe Sanderson, managing director of natural resources at Domain, the company is also enjoying the rise in timber sales prices due to increased demand from sawmills, which are ramping up production.

Lesprom Network: Do you think the recent correction in lumber prices have bottomed out or could there be further declines?

Joe Sanderson: I think we'll see lumber prices drop a little more, but they're not going to go back to where they were a year ago. Lumber prices are in the mid-500s right now, down from highs of 900s or even 1,000. These prices are related to supply constraints after the mills were first hit with COVID and production capacity dropped pretty substantially for a month or so while housing demand and repair and remodel picked up.

During that time, it created supply imbalance, but the mills have started to increase production capacity. New mills have come online, and lumber supply is starting to pick back up. I think you'll see prices drop a little bit more, but not significantly. This will happen for two reasons: housing starts are up again as of October and interest rates remain low and repair and remodel continues to be strong. Durable good sales are also strong. All of these trends lead to continued demand for lumber at a level that's slightly higher than what we've seen over the last few years. We see that trend continuing to be fairly stable and improving over the next two quarters at least. I think there will be a little bit of volatility around certain areas related to weather and other factors, but I think we should expect to see lumber prices in the high 400s to low 500s for the next two quarters.

Lesprom Network: Will this price range continue next year?

Joe Sanderson: Based on demand for housing and housing permits over the last two months, I think we can anticipate lumber prices in this range into the second quarter of 2021. With the election in the U.S. and pandemic, you might see a little softening in the third quarter of 2021.

NOVEMBER 16, 2020

Lesprom Network: What is the current capacity utilization of sawmills?

Joe Sanderson: Capacity remained strong in the third quarter and continues in the fourth. From a logging standpoint, most areas have had pretty good weather. Production capacity and demand seem to be strong and additional milling capacity is coming online in Mississippi, Virginia and South Carolina. I think supply is going to be steady for the next three to four months. The one thing that can always have an effect is hurricanes and wet weather, but so far, log capacity hasn't been impacted in a significant way. I think we will remain steady for the next few months.

I think right now the margins for lumber mills are very high given the cost of supply and current lumber prices. I think you'll see additional manufacturing coming online more quickly than we have in the past in order to take advantage of some of the margins in that space. I think you'll see lumber companies have a couple of good quarters and I think you'll see REITS have strong quarters in addition to those involved with the supply chain for lumber downstream.

Lesprom Network: How are the sales of timber at Domain Timber Advisors?

Joe Sanderson: We've seen increased demand. We've had additional logging capacity at our properties in the third quarter and into the fourth and we've seen substantial pickup in harvesting activity. Prices have increased approximately 3-5% over second quarter COVID pricing, so we've seen a little better pricing and stronger demand for logs and pulpwood into the third and fourth quarter. It's very positive from that standpoint. We're also expecting to see steady increases in logs for lumber and pulpwood.

Additionally, we expect slow but steady increases for the next year to two years as demand continues to increase with packaging being stronger and housing demand, based on demographics, improving as well. We've seen a slow steady increase through the third and fourth quarter and we expect that to continue.

From a small land sale perspective, the demand we saw earlier this year has continued. We expect to close twice as many transactions this year as we did last year as people continue to look for small recreational and development properties outside metropolitan areas. We really think this is a trend we will continue to see for the foreseeable future, and we continue to prepare tracts for exit into that market.

Our small land tract sales have been a high point for us this year. I think a lot of people working from home during this COVID situation means they are looking for larger homes with more space for home offices and better access to outdoor recreation. Larger tracts of land offer individuals the opportunity to have a nicer house with a little larger footprint.

With the potential of a Biden presidency and continued lockdowns, I think one of the major structural changes in the U.S. economy is people working from home. Working remotely is becoming very common given the infrastructure and capacity for Zoom meetings, etc. I think you'll see a long-term movement towards home offices and telecommuting at least part of a week. Long term, I think this trend is going to stay in place and continue unless there are some significant structural changes in the economy from a taxation standpoint.

Domain Capital Group
1230 Peachtree Street NE, Suite 3600
Atlanta, Georgia 30309
☎ 770.628.0700 ☎ 770.628.0745

domaincapitalgroup.com



NOVEMBER 16, 2020

Lesprom Network: What is your forecast for winter logging and timber supply?

Joe Sanderson: We do have a little bit warmer and wetter weather predicted this winter in the South which could cause some spot market issues from a supply standpoint. The Northern states are expected to have a much more difficult, colder winter, so that's going to cause some issues in terms of Canadian supply and Canadian harvest. I think we could see better log-ability in the Southern states with probably a little bit better pricing. There will be some local variation through the winter months based on the weather patterns that are forming in the Pacific. Weather is one of the biggest drivers of log prices outside of overall demand.

Contact:

Mike Rieman
Cookerly Public Relations
404.419.9230
mike@cookerly.com