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MAY 18, 2021



## First It Was Lumber. Now Timber Prices May Be Heading Up

While lumber prices have increased dramatically during the pandemic, timber prices have only increased by single digits, but timber costs are rising.

By Kelsi Maree Borland

Timber pricing has been relatively stable through the pandemic. Compared to lumber prices, which have increase dramatically over the last year, timber prices have only increased in the single digits. However, timber and timberland prices are likely headed for a long-term upward trend due to new demand, according to Scott Reaves, director of forest operations at Domain Timber Advisors. “The fundamental drivers are the value of the trees at maturity and underlying land. Both factors currently have upward pricing pressure,” Reeves tells GlobeSt.com. “Sawtimber pricing is benefitting from increased consumption for use in home remodeling and construction. Land is appreciating due to population increases and individuals’ growing demand to own parcels outside cities. These trends are especially evident in the US South as demonstrated in the attached map regarding population growth and lumber mill expansions.” Reaves says that prices could be headed as high as \$35-\$40 per ton.

This could be an additional drag on new development. After an already challenging year, additional increases in materials costs will only make new development more challenging and expensive. “Volatile raw material pricing certainly makes bidding on and securing new contracts more difficult,” says Reaves. “We could also see lumber prices at this high level eventually having a mild chilling effect on consumer demand for new housing. However, given current sentiment and demographic trends, it may be a while before that occurs.”

There isn’t a clear solution to curbing the rising costs of raw materials. Reaves says that increased competition is the primary way to drive the cost down. “Healthy competition among all market participants is the best way to ensure adequate future lumber supplies and hedge against market conditions like the one created by current lumber price spikes,” he says.

One issue is the consolidation of sourced materials. Reaves notes that of the 766 million acres of US forestlands, 58% is privately owned. “This represents a completely renewable resource of significant scale,” he says. “Working toward a healthy dynamic between the private landowners growing sawtimber trees, the mills processing it into lumber, and the end user consumer is key for a sustainable future.”

So far, timber prices have been tempered due to oversupply, but the demand side is catching up. The oversupply issues stemming from the sharp drop in housing demand during the 2008 Financial Crisis. “During the past five years, lumber prices have increased more than 200%, while the price of the raw material—sawtimber-sized trees—paid to landowners has changed by -3%,” says Reaves. “For the next four to eight years, we believe continued higher demand will reduce the oversupply and bring markets back to a healthier supply/demand balance, particularly in the US South.”

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