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# What Will the Timberland Sector Look Like for the Rest of 2024?

By Michelle Pelletier Marshall, Global AgInvesting Media, & Scott Reaves, Domain Timber Advisors

The investment in land that produces timber is often seen as a good portfolio diversifier that can hedge against inflation and generate low volatility, risk-adjusted returns compared to most other asset types. It also is gaining traction as a prime alternative investment thanks to its environmental, social and governance (ESG) benefits. Additionally, the demand for this natural capital asset is growing due to it meeting investor objectives of carbon removal, sustainable investing and improving biodiversity.

Historically, the average annual income return for U.S. timberland between 1992 and 2020 was 4.0 percent, with the South averaging 3.0 percent and the Pacific Northwest averaging 5.7 percent.<sup>1</sup> The National Council of Real Estate Investment Fiduciaries (NCREIF) Timberland Index, which has been tracking returns since 1987, has an annualized total return of 10.74 percent.<sup>2</sup>

Most recently, the timberland asset class finished 2022 with double-digit positive returns, yet it softened in 2023 due to economic activity in China as well as U.S. rising interest rates, such that in the first quarter of 2023, the index returned 1.75 percent. But in the second quarter it returned 4.34 percent, and this year the asset class is set to improve. According to Domain Timber Advisors, which has provided previous updates for GAI News, the first quarter of 2024 saw improving stumpage prices from the previous year overall, driven by increases in sawtimber and hardwood pulpwood pricing.

Today we get an update on the timberland market for the second quarter of 2024 from Scott Reaves, chief operating officer and director of forest operations at Domain Timber Advisors.

## 1). How did the timber market perform in the second quarter of 2024?

Stumpage prices across the U.S. South declined slightly last quarter, following typical seasonal trends, with each major product moving less than \$1 from the previous quarter's average. According to Timber Mart-South, average stumpage prices have decreased quarter over quarter in 16 of the past 20 years.

## 2). Based on this past quarter's performance, what is your timber outlook for the rest of this year? What market factors are driving timber demand?

We do not anticipate significant changes or disruptions in timber pricing in any of the major timber regions of the U.S. as we move through 2024. We can expect a mild softening in response to the interest rate environment and the level of housing starts. We expect this mild decline to reverse as we move into 2025 and turn to a more positive upward trend in pricing. Even with the mild declines, we expect demand for materials to remain relatively steady, with normal seasonal variations influencing pricing through the end of the year. Investing in timber remains a sound strategy due to its long-term stability and potential for steady returns.

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**3). How did macroeconomic factors, such as higher interest rates, elevated inflation, etc., affect timber during the quarter?**

Despite elevated interest rates, U.S. housing starts remain steady above the 1.3 million mark, maintaining consistent demand for lumber. This stability is expected to continue due to demographic demand. Additionally, the land market remains strong, with non-institutional private buyers, many of whom trade in cash rather than debt, showing great interest. However, housing starts have declined to a seasonally adjusted annual rate of 1,353,000, a 4.4 percent drop from the June 2023 rate of 1,415,000. Meanwhile, the availability of raw materials has increased due to better logging conditions enabled by drier weather, boosting the supply of logs.

**4). Amidst the backdrop of geo-economic and geopolitical uncertainty, have you noticed an increasing number of investors exploring timber as a long-term investment option?**

Despite the current geopolitical and geo-economic climate, interest in timberland as an asset class remains robust, driven by its strong fundamentals. This includes its relative stability, highlighted by a favorable Sharpe ratio and risk-adjusted return profile. Increasingly, timberland is also recognized for its ESG benefits and positive impact on biodiversity. We believe timberland investments offer steady yields and solid economic returns while delivering significant environmental benefits. These include enhancing biodiversity, such as reintroducing longleaf pine ecosystems, supporting rural economies and employment and providing sustainably produced raw materials.

**5). What other market trends should investors closely monitor (as it relates to timber)?**

In addition to economic returns, concepts such as carbon and biodiversity continue to gain market attention, alongside critical elements of renewable energy such as solar and wind power. Timberland investments are highly versatile, offering customized opportunities that appeal to those seeking both strong economic returns and positive ESG impacts.



**ABOUT SCOTT REAVES**

Scott Reaves is director of forest operations at Domain Timber Advisors, LLC, a SEC-registered investment adviser and a subsidiary of Domain Capital Group. Reaves is responsible for leading the forest operations group overseeing forest planning and execution along with the development, implementation, and improvement of all enterprise information systems and related processes supporting forest operations, analysis, asset valuation, and accounting. He also manages forest inventory, stand growth projection, harvest scheduling, budgeting, and special projects for the timber funds.

Reaves earned his BS in forestry from Virginia Tech University. He is a member of the Society of American Foresters (SAF), is an SAF Certified Forester (CF), and is a member of the Association of Consulting Foresters (ACF).