



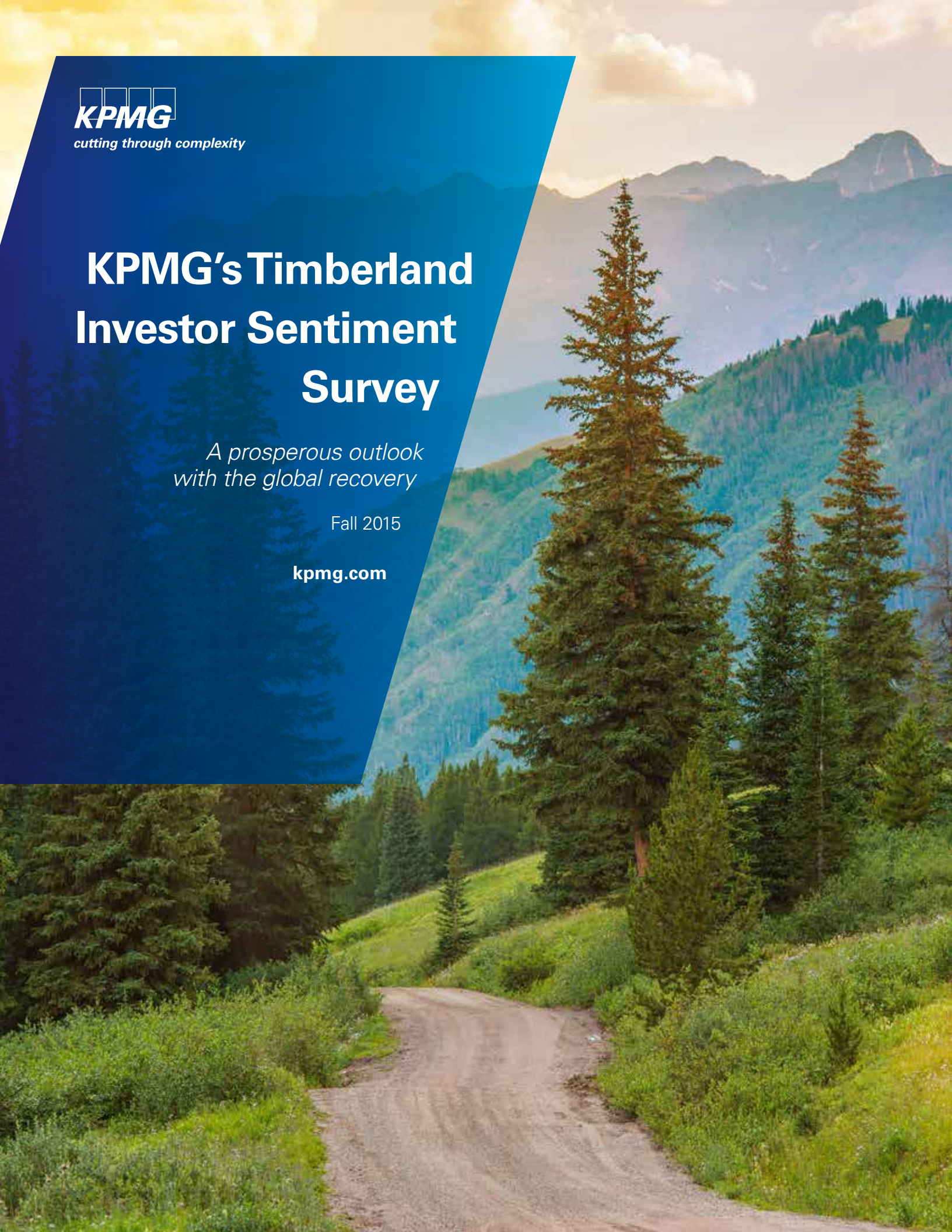
cutting through complexity

# KPMG's Timberland Investor Sentiment Survey

*A prosperous outlook  
with the global recovery*

Fall 2015

[kpmg.com](http://kpmg.com)





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# Executive summary

Investment in timberlands has been an attractive alternative investment strategy over the past several years, with investors continuing to act as net buyers of timberland assets despite ongoing volatility in global economies. The timber industry continues its rebound, with annual housing starts expected to reach 1.5 million in 2017, which is higher than the prerecession level of 1.3 million in 2007. Other growth will be driven by demand from China, other emerging countries, and more bioenergy projects. We still observe a rising number of institutional investors, hedge funds, and private equity funds increasing allocations to timber investments throughout the United States and the rest of the world. Our experience working with investors and managers confirms the attraction to stable cash flows, attractive current yields and inflation hedging characteristics. An increasing number of market investors has led to significant investment in the industry and a rise in sophistication on the part of investors. KPMG's Timberland Investor Sentiment Survey provides insight into investor profiles, attitudes and certain underwriting criteria, as well as forward looking sentiment on timberlands as a distinct investment class.

## The KPMG Survey

KPMG LLP's (KPMG) Forest Products practice conducted a survey of a broad array of entities that invest in timberland assets throughout North America. Overall observations include:

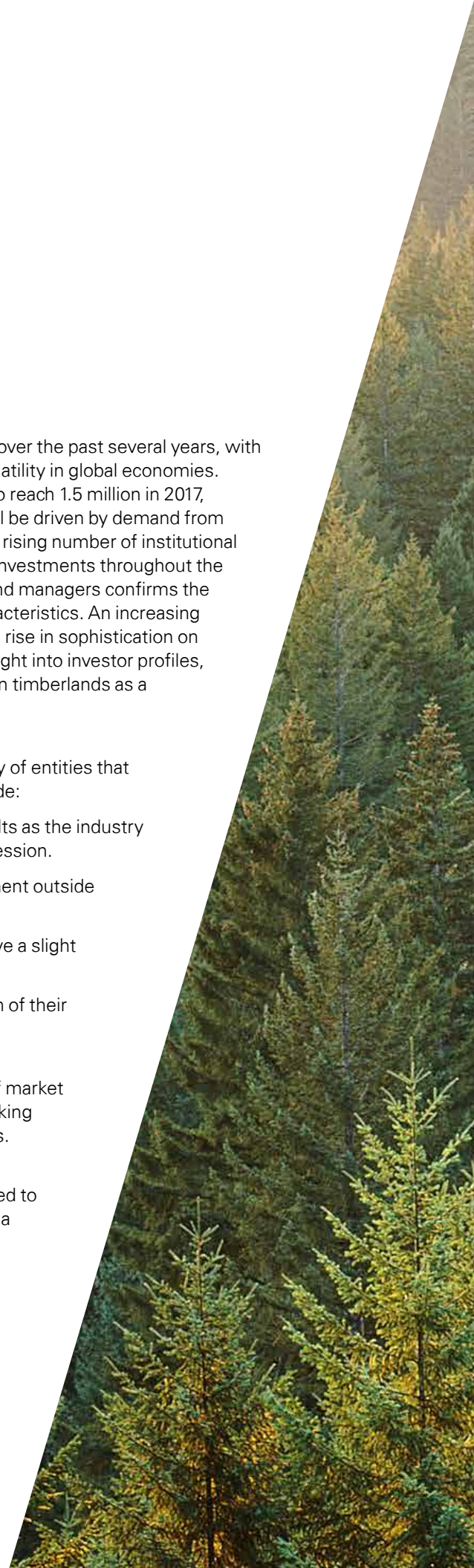
- Investor required returns have remained similar to the 2014 KPMG Survey results as the industry continues to stabilize and return to similar levels as before the most recent recession.
- While respondents continue to be net buyers of timberland, significant investment outside North America continues to be similar to previous years.
- The majority of survey participants expect log pricing to remain the same or have a slight increase in the next 5 years, as prices trend to prerecession levels.
- The majority of respondents noted they utilize no real growth rate over the term of their investment for harvesting costs as inflation stagnates for the United States.

## Survey Objectives

The survey's objectives are to accumulate and evaluate feedback from a variety of market participants regarding key investment underwriting assumptions and forward-looking investment sentiment relative to timberland investments over the next 12 months.

## Methodology

KPMG conducted a Web-based survey during July 2015. The survey was distributed to timberland executives. Survey results are distributed in this annual publication on a blind basis to ensure confidentiality for survey participants.



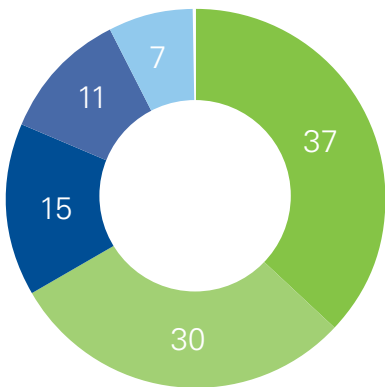


# Demographics



1

Please describe your firm's structure.



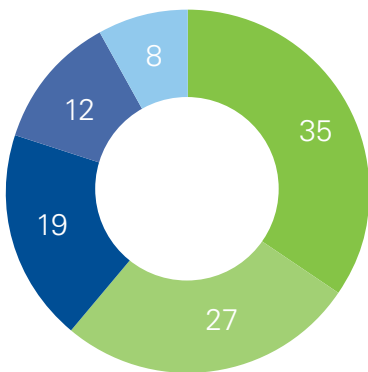
**Key**

- Timberland Investment/Fund Manager
- Timberland/Appraisal/Consulting Organization
- Integrated Forest Products Company
- Real Estate Investment Trust
- Timberland Lender



2

Please describe your role.



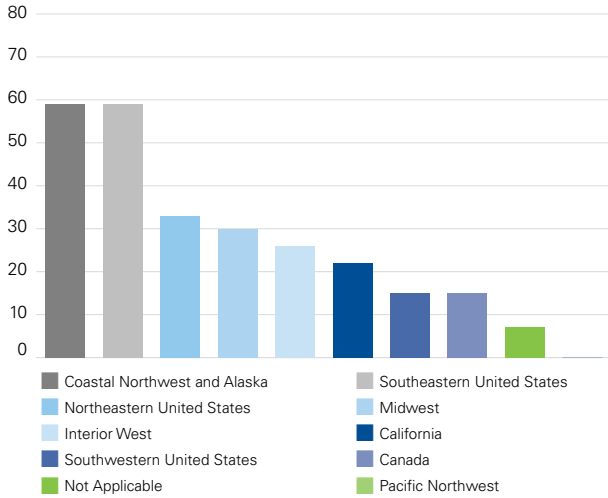
**Key**

- Timberland Valuations Professional
- Chief Executive Officer
- Chief Financial Officer/Controller
- Asset Management
- Chief Investment Officer

May not equal 100% due to rounding

3

Where in North America are your timberland investments located?  
(Select all that apply)



Multiple responses allowed

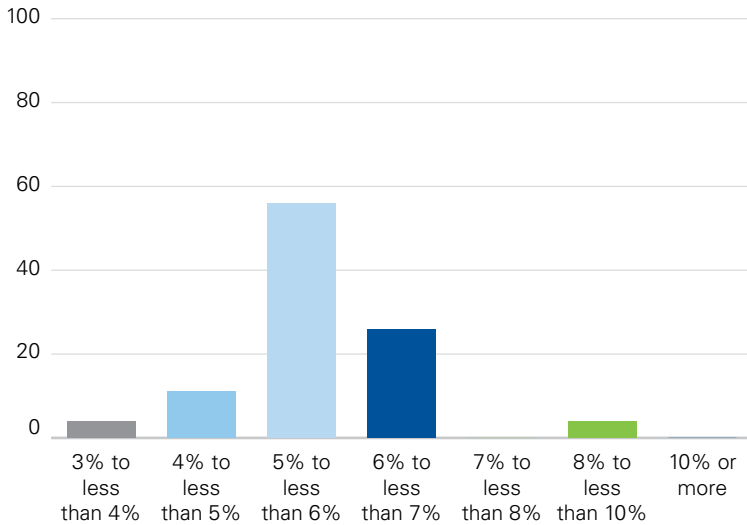




# Investment assumptions

4

**What real discount rate do you use when evaluating new acquisitions of timberland assets?**



May not equal 100% due to rounding.

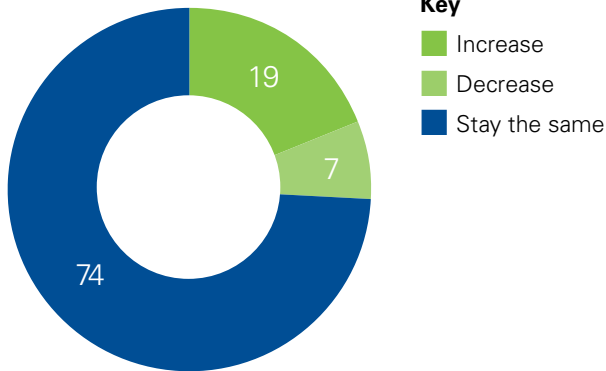
**Similar to the 2014 KPMG survey average of 5.9 percent, the majority of respondents expect a real discount rate between 5 and 6 percent.**

**In 2014 this question was asked differently to allow respondents the ability to provide more granular feedback with regards to the real discount rate percentage.**



5

Over the next 2–3 years do you expect the real discount rate to increase, decrease, or stay the same?



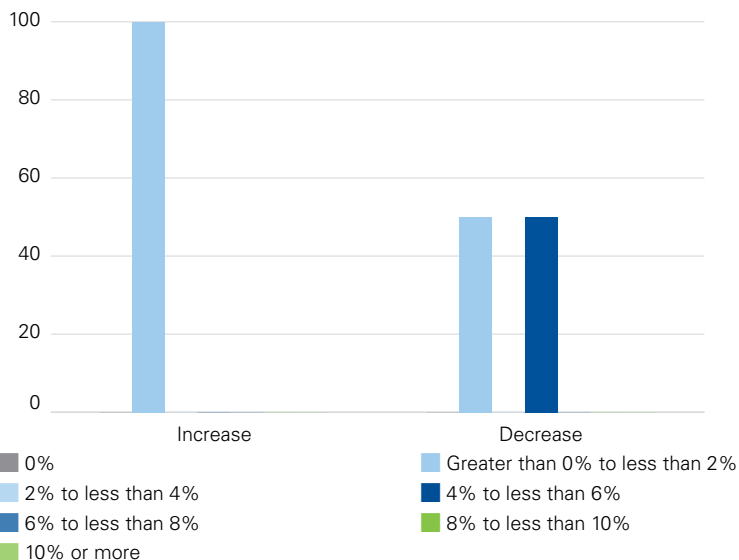
Key

- Increase
- Decrease
- Stay the same

The vast majority of this year's respondents expect real discount rates to stay the same or increase over the next few years; fewer respondents are expecting a decrease to discount rates than in the 2014 KPMG Survey.

5a&b

(Among those who expect the real discount rate to change over the next 2-3 years)  
By how much do you expect it to:

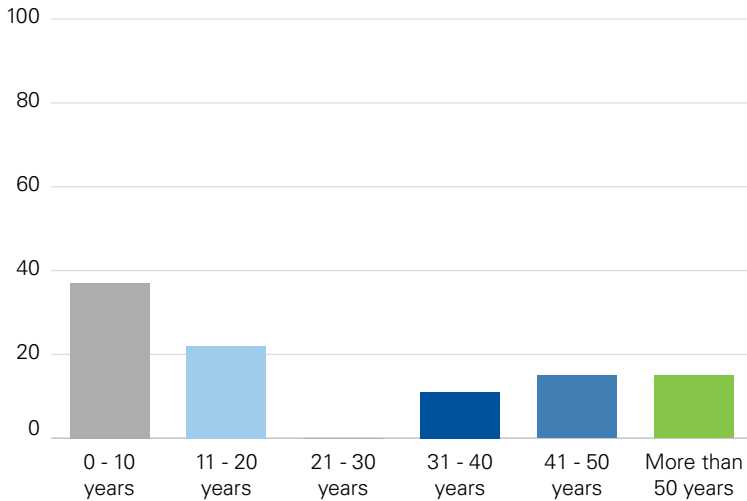


- 0%
- 2% to less than 4%
- 6% to less than 8%
- 10% or more
- Greater than 0% to less than 2%
- 4% to less than 6%
- 8% to less than 10%

\*Small base size. Findings directional only

6

What is the typical investment term you utilize in your analysis?

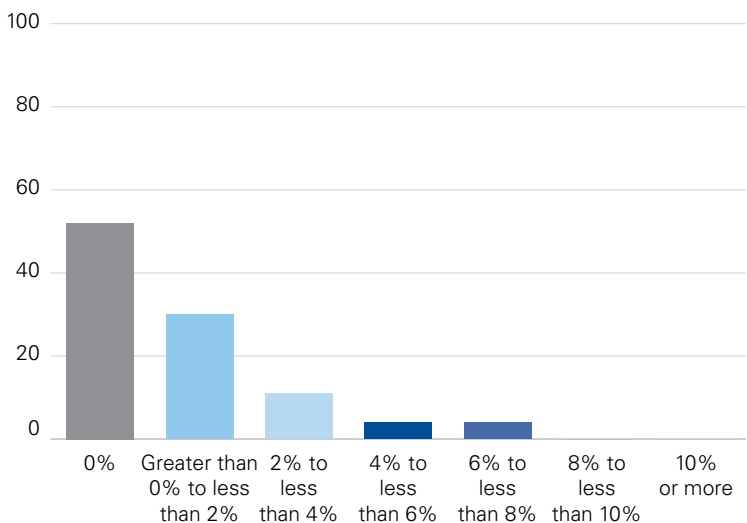


May not equal 100% due to rounding.

The majority of respondents utilized an investment term between 0 to 20 years. While the 30-year and greater investment term did not change significantly, the 20- to 30-year investment term appears to have been shortened compared to the 2014 KPMG Survey results, possibly as a simplifying assumption in the modeling process.

7

What growth rate for timber harvest costs (on a real basis) do you assume per annum over the term of your investments?



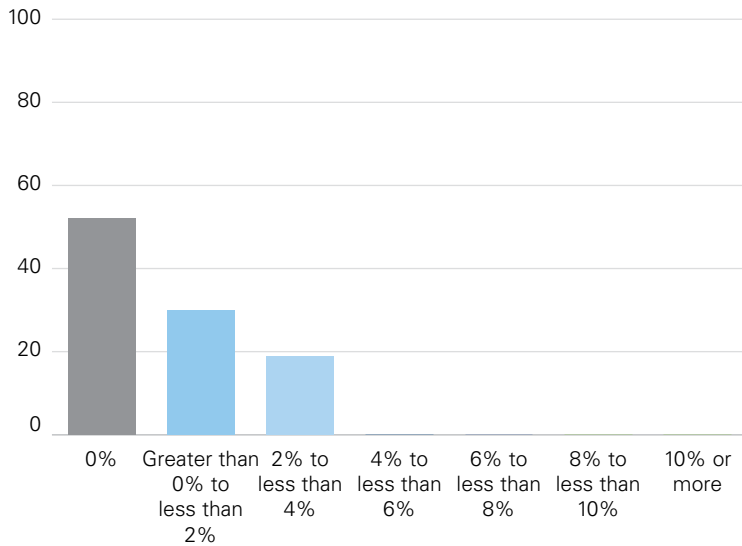
May not equal 100% due to rounding.

The majority of respondents noted they utilize no real growth rate over the term of their investment, which is close to the current rate of inflation of 0.1 percent and is a decline from the 2014 KPMG Survey by 200 basis points. For respondents that utilized a real growth rate, the majority utilized a growth rate less than 2.0 percent.

Source: <http://www.usinflationcalculator.com/inflation/current-inflation-rates/>

8

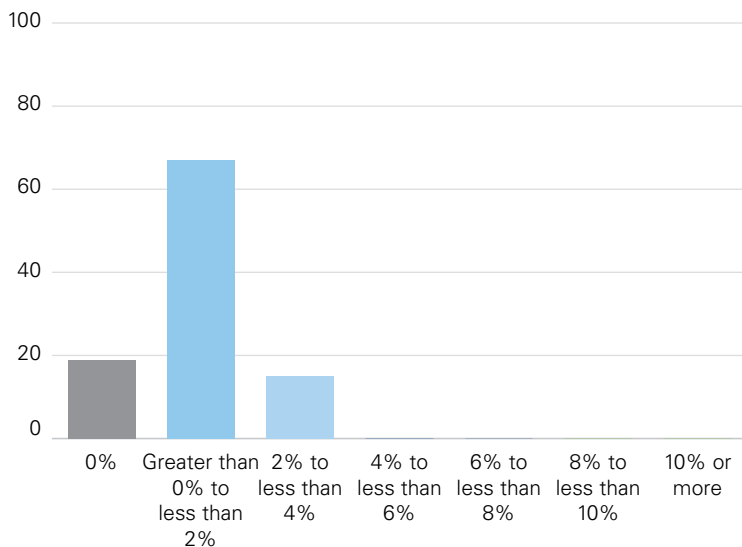
What growth rate do you assume for operation and management costs (on a real basis) per annum over the term of your investments?



May not equal 100% due to rounding

9

What growth rate do you assume for log prices (on a real basis) per annum over the term of your investments?

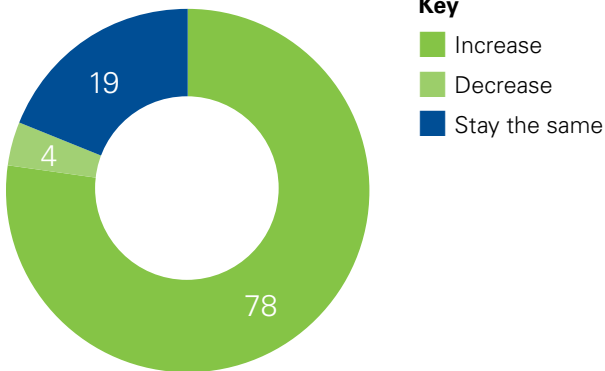


May not equal 100% due to rounding.

**The majority of respondents indicated they assume a real growth rate greater of 0 percent to 2 percent, with fewer respondents expecting growth greater than 2 percent compared to the 2014 KPMG Survey as prices have trended to near pre-recession levels.**

10

Over the next 5 years do you expect log prices (on a real basis) to increase, decrease or stay the same?



May not equal 100% due to rounding.

**Key**

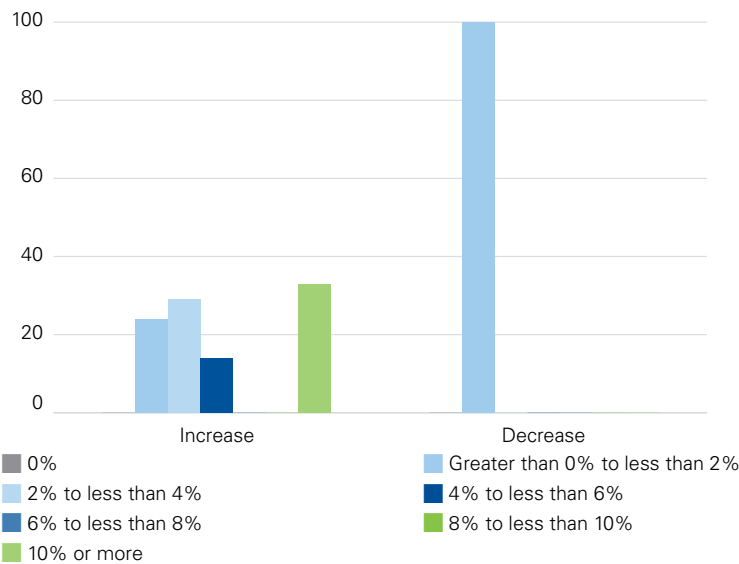
- Increase
- Decrease
- Stay the same

**The increase in growth rate can be attributed to the increase in housing starts. According to Forbes housing permits in June 2015 are higher than previous all-time high just before the Great Recession in June 2007 indicating a strong demand in the future for log prices.**

Source: <http://www.forbes.com/sites/erincarlyle/2015/07/17/housing-starts-jump-26-6-building-permits-30-year-over-year-in-june/>

10a&b

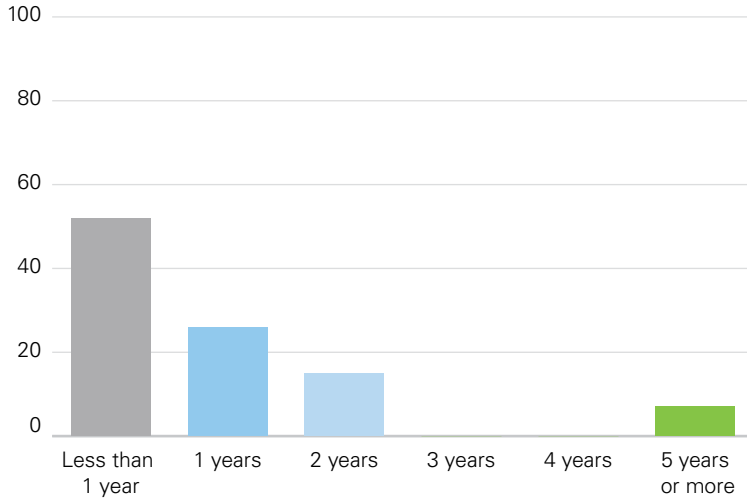
(Among those who expect the log prices (on a real basis) to change over the next 2-3 years) By how much do you expect log prices to:



\*Small base size. Findings directional only

11

How long do you assume it takes to market and sell your timberland investments?

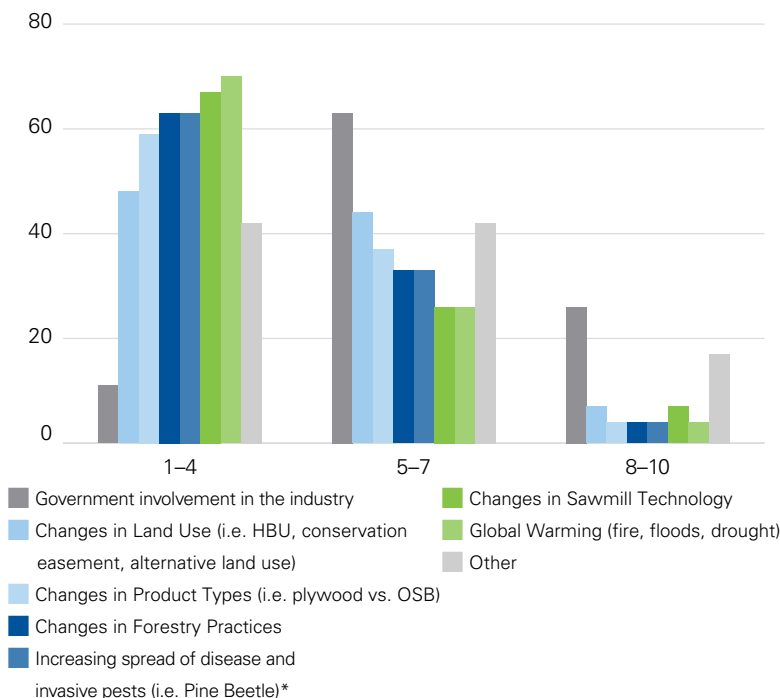


The majority of respondents expect market and selling time to take less than one year, which is shorter than the one year time horizon from the 2014 KPMG Survey.

\*Small base size. Findings directional only.

12

What is the most significant variable to your risk profile? For each, please rate on a 1 to 10 scale, where 1 is not significant, 5 is significant and 10 is very significant.



Government involvement in the industry and changes in land use continue to be the most significant factors to respondents' risk profiles. Compared to the 2014 KPMG Survey, changes in forestry practices are not as significant to the risk profile. Changes in global warming and sawmill technology are the least significant factors.

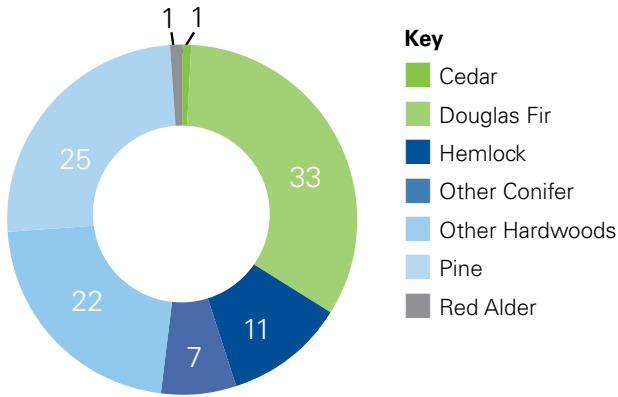
May not equal 100% due to rounding.



# Investor sentiment

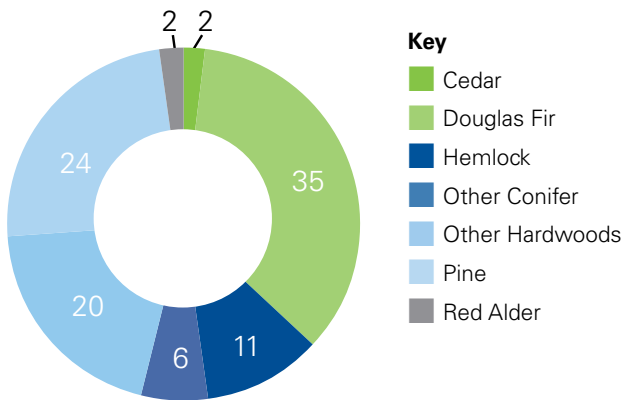
13

What is your current portfolio species mix?



14

What is your ideal portfolio species mix?

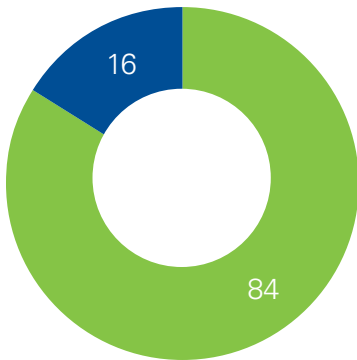


The portfolio species mix is similar to the ideal mix with the exception that respondents would like less Hemlock and more Other Hardwoods this year.



15

In 2016 do you anticipate being a net buyer or net seller of timberlands?



Key

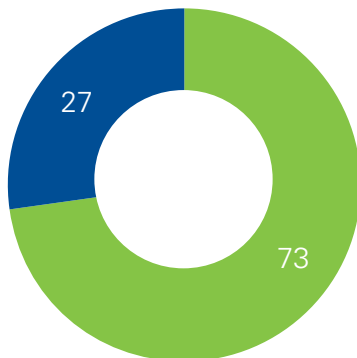
Net Buyer

Net Seller

The majority of respondents, 84 percent, continue to be net buyers of timberlands indicating a more competitive market.

16

Do you plan on making any significant timberland acquisitions in the next 12 months?



Key

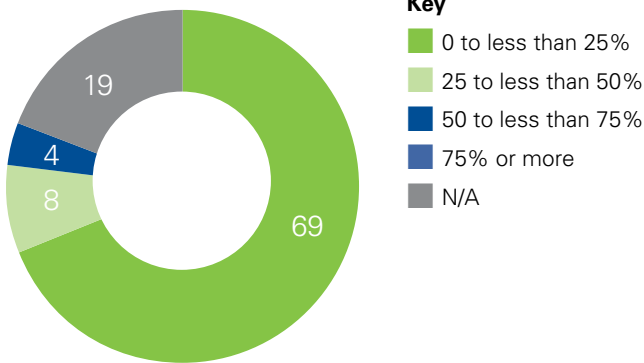
Yes

No

73 percent of respondents plan on making significant timberland acquisitions in the next twelve months.

17

What percentage of your annual harvest do you plan for export in the upcoming year?



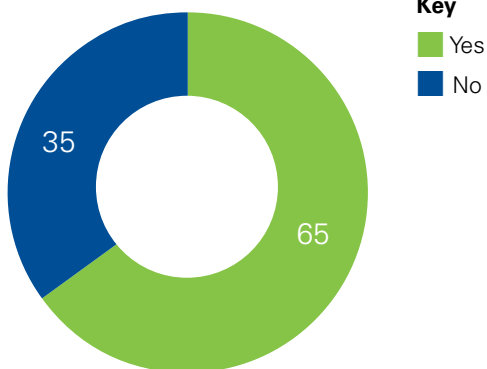
**Key**

- 0 to less than 25%
- 25 to less than 50%
- 50 to less than 75%
- 75% or more
- N/A

**A majority of respondents surveyed plan to export little to none of their annual harvest indicative of strong domestic demand. During the next year housing starts in the United States are forecasted to increase by 40 percent according to the National Association of Home Builders. As the demand in new construction increases so does the demand of timber, resulting in less timber available for export.**

18

Do tax rates influence your investment decision making process (buy, hold, sell strategy)?



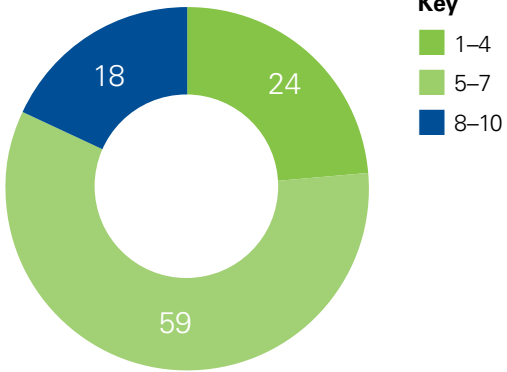
**Key**

- Yes
- No

**An increased number of respondents in 2015 have indicated that taxes may influence their decision making process.**

18a

(Among those whose investment decision making process is influenced by Tax Rates)  
**On a scale of 1 to 10 (with 10 being the highest influence), how influential is the consideration of taxes in the investment decision process?**



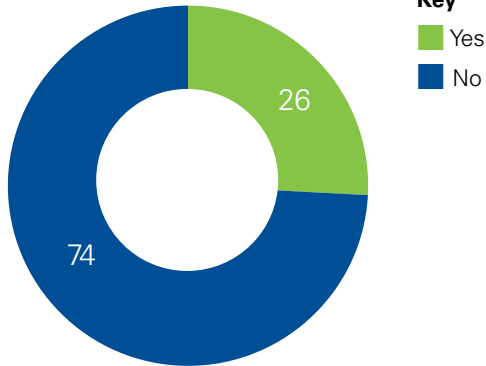
May not equal 100% due to rounding  
\*Small base size. Findings directional only



# International Interests

19

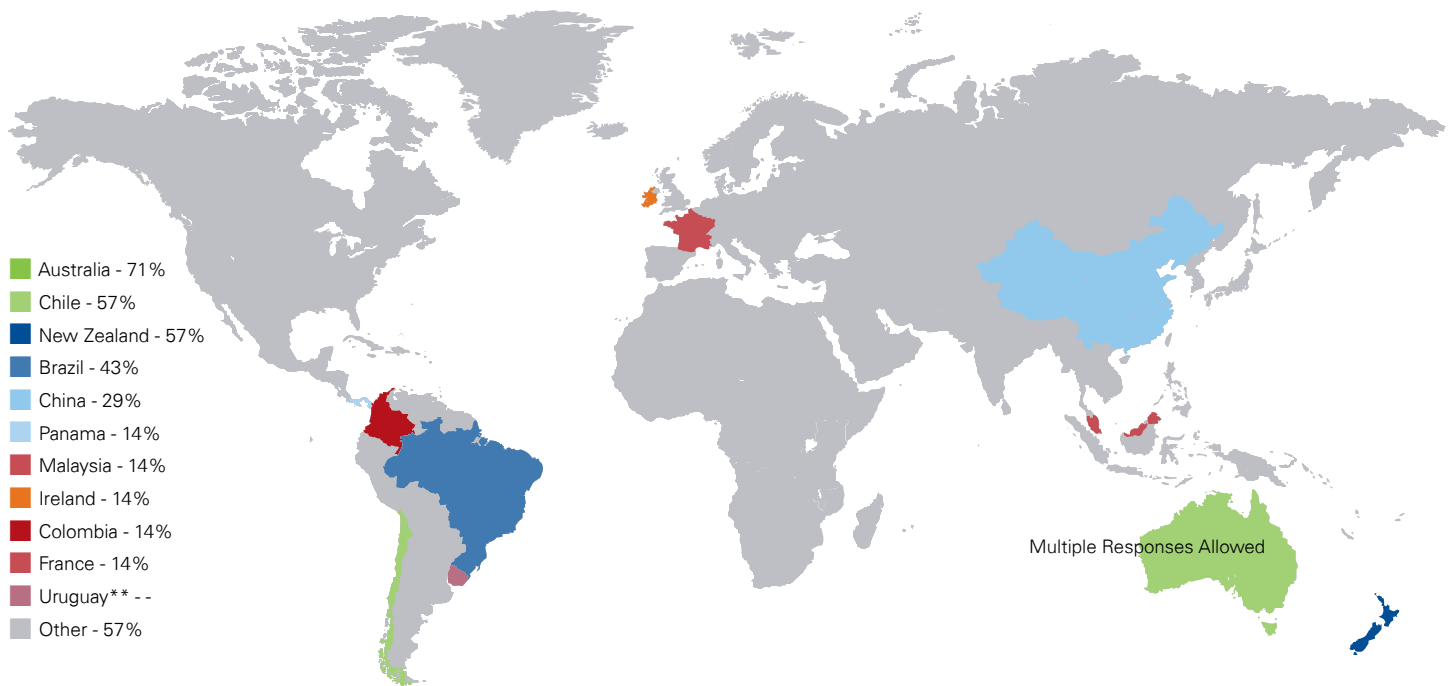
Do you have significant timberland interests outside North America?



More respondents indicated they do not have significant investments outside North America, a continued trend since the 2012 KPMG Survey results.

20

(Among those who have significant timberland interests outside North America) In which countries do you have significant timberland interests outside North America? (select all that apply)



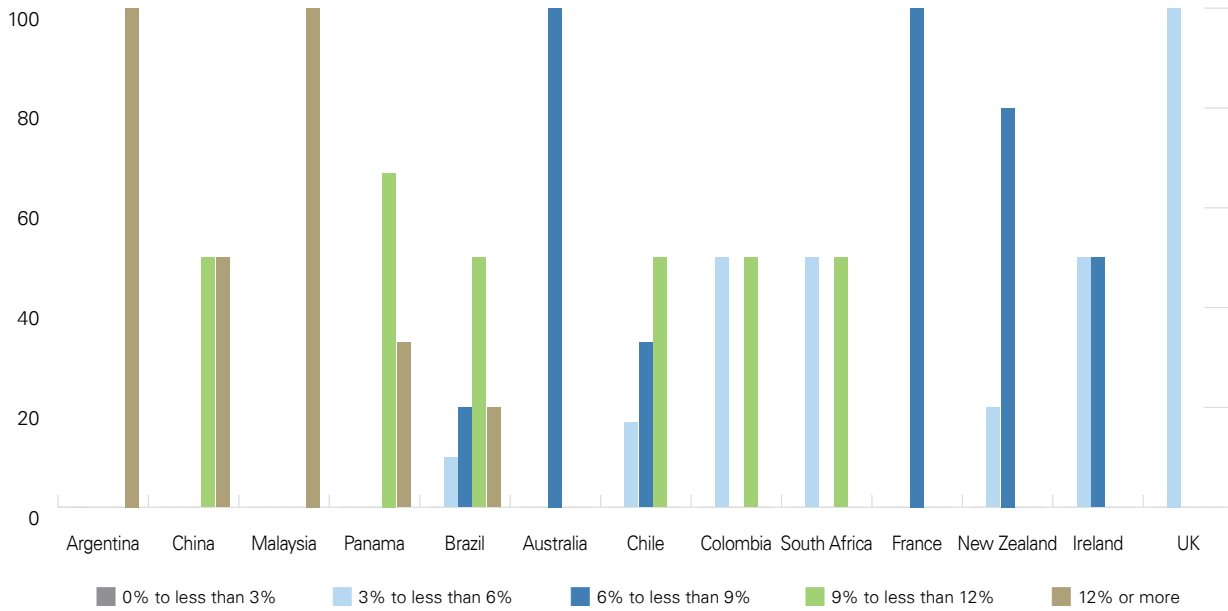
Multiple Responses Allowed

Multiple Responses Allowed  
\*Small base size. Findings directional only



20a

2014: What real discount rate do you use when evaluating acquisitions of timberland assets?



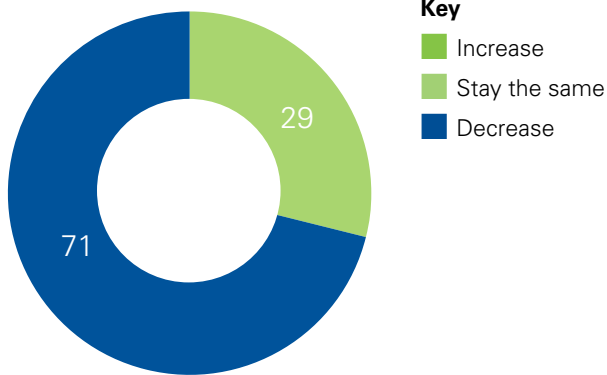
Multiple Responses Allowed

\*Small base size. Findings directional only



21

(Among those who have significant timberland interests outside North America) **Over the next 2-3 years do you expect the discount rate to increase, decrease or stay the same?**

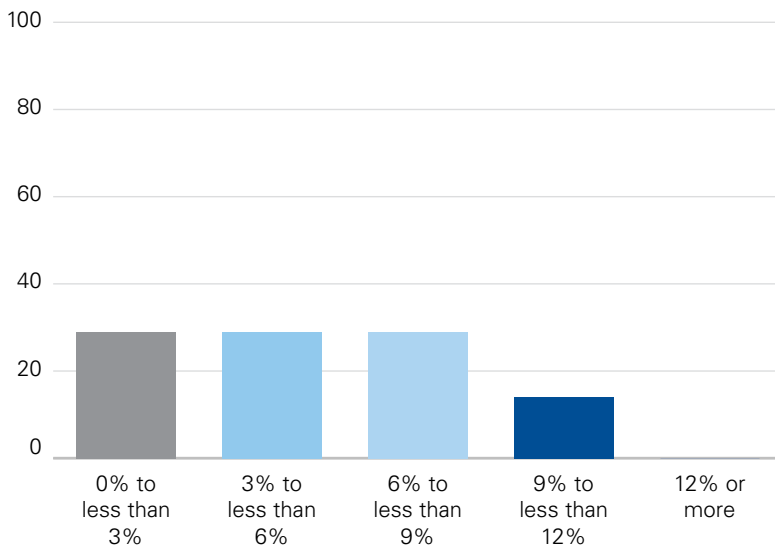


May not equal 100% due to rounding  
\*Small base size. Findings directional only

**The majority of survey respondents anticipate discount rates to remain the same or decrease outside of North America, indicating that markets outside North America are improving.**

22

(Among those who have significant timberland interests outside North America) **What reversion capitalization rate do you utilize when evaluating new timberland acquisitions?**

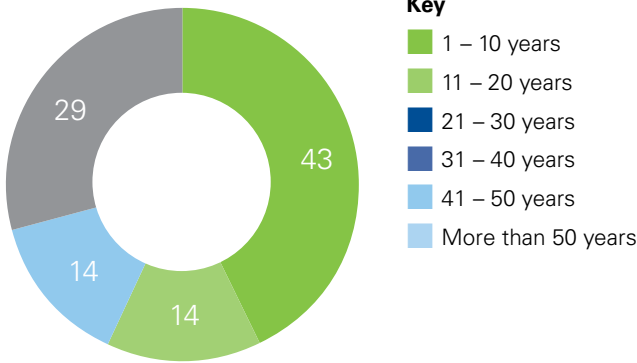


May not equal 100% due to rounding  
\*Small base size. Findings directional only

**Reversion capitalization rates have declined since the 2014 KPMG Survey. This year the majority of respondents indicated they use a reversion capitalization rate between 0 percent and 6 percent.**

23

(Among those who have significant timberland interests outside North America)  
**What is the typical investment term you utilize in your analysis?**



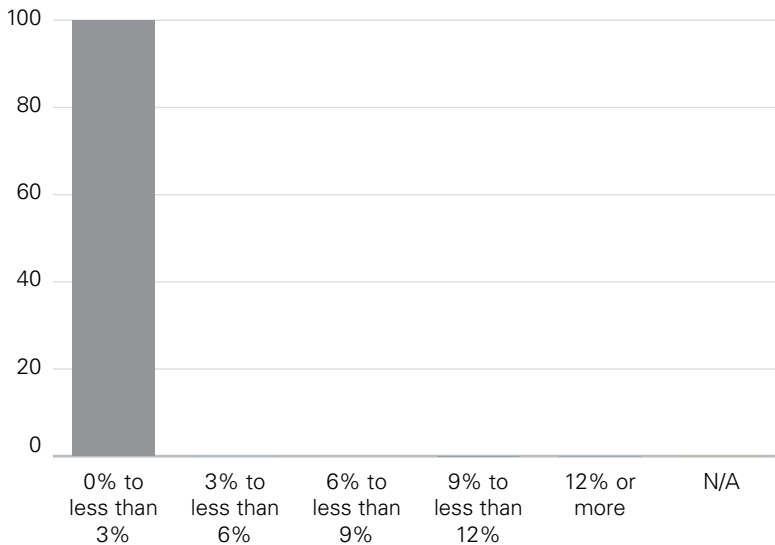
- Key**
- 1 – 10 years
  - 11 – 20 years
  - 21 – 30 years
  - 31 – 40 years
  - 41 – 50 years
  - More than 50 years

**Respondents continue to use an investment term of 20 years or less in their analysis.**

May not equal 100% due to rounding  
 \*Small base size. Findings directional only

24

**What growth rate for logging, hauling, and other costs (on a real basis) do you assume per annum over the term of your investments?**

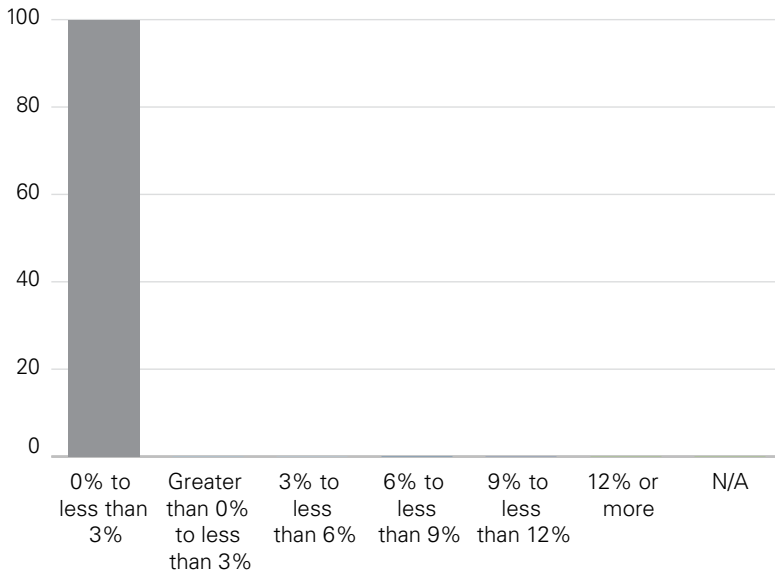


\*Small base size. Findings directional only



25

2015: What growth rate do you assume for log prices (on a real basis) per annum over the term of your investments?

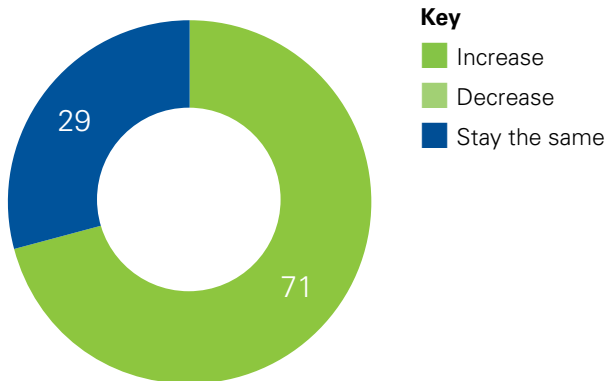


The growth rate of log prices continues to be between 0 to less than 3 percent.

\*Small base size. Findings directional only

26

(Among those who have significant timberland interests outside North America)  
Over the next 5 years do you expect log prices (on a real basis) to increase, stay the same, or decrease?

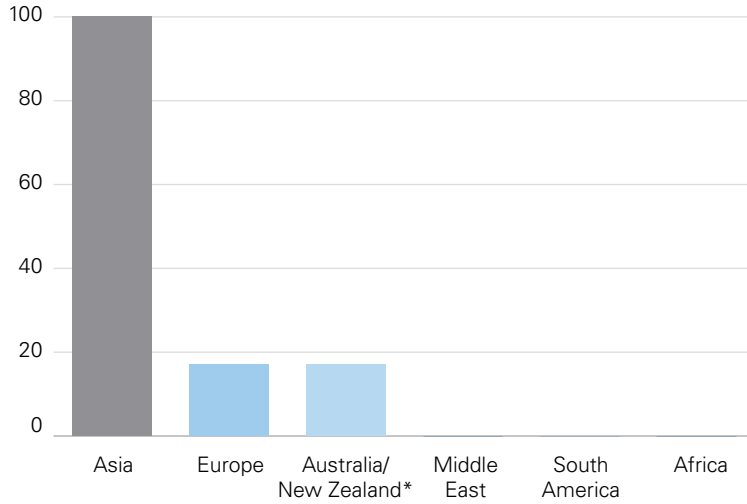


The majority of respondents continue to expect log prices to increase over the next 5 years.

\*Small base size. Findings directional only.

27

(Among those who have significant timberland interests outside North America) **Which global markets do you think have the highest potential for imports? (Select all that apply)**



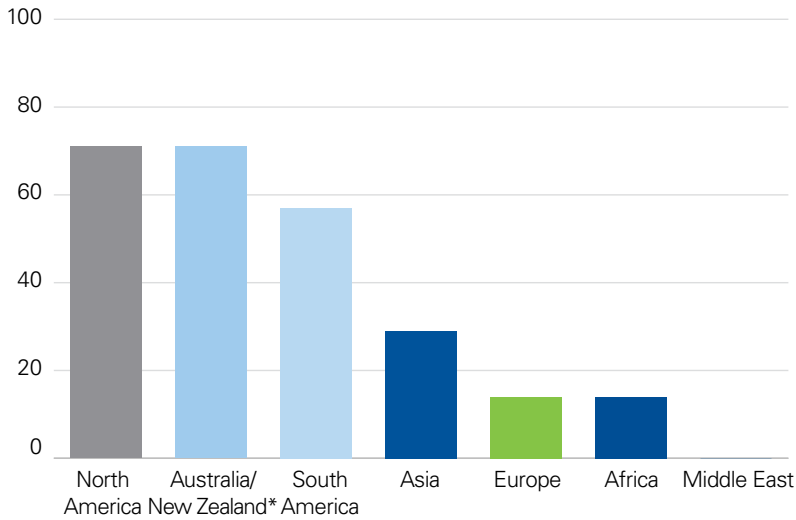
Multiple Responses Allowed  
\*Small base size. Findings directional only

**Similar to the 2014 KPMG Survey results, the majority of respondents, 100 percent, indicate Asia has the highest potential for import, followed by Europe, and Australia/New Zealand reflecting expected growth in those regions.**



28

(Among those who have significant timberland interests outside North America) **From an acquisition perspective, which geographies are most attractive to you for timberland investment? (Select all that apply)**



Multiple Responses Allowed  
 \*Small base size. Findings directional only

**North America and Australia/ New Zealand surpass South America in being the most attractive geography for investors in 2015.**





# KPMG's Forest Products practice

**KPMG's experience serving clients in the forest products industry is extensive. The size and scope of our Forest Products practice makes KPMG one of the most effective service providers for the forest products industry in North America. KPMG has long had a commitment to and extensive involvement with the forest products industry (including timber, wood products, pulp, paper, and packaging).**

Our dedication to the industry is evidenced by KPMG's Global Center of Excellence for the Forest Products Industry. The Center's role includes developing a worldwide market focus, recruiting experienced personnel, staying abreast of issues affecting the global forest products industry, developing products that add value to the industry, and providing thought leadership. KPMG provides professional services to over 60 percent of the world's largest forest products organizations and audits 50 percent of all F1000 Forest Products companies.

Our Forest Products practice serves a wide spectrum of companies in the industry, including entities that are treated as C corporations, S corporations, and partnerships for federal and state tax purposes.

KPMG's commitment to the forest products industry means that we have the experience and knowledge to help our clients understand and address the issues affecting their business. Our Forest Products practice professionals have extensive experience in the industry. They are committed to staying

current on emerging technical and business topics, and KPMG continually invests in new technology, tools, and other resources to support them.

Our focus is on serving companies in your industry and your value chain so they can bring immediate value to your business. Importantly, we can provide perspectives on industry-leading practices to examine key issues and mitigating risks, thereby adding value to our engagements beyond generic accounting and tax matters.

# KPMG's Forest Products team

For more information about KPMG's Forest Products practice or KPMG's Timberland Investment Sentiment Survey, please contact the following KPMG professionals:



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## **Rich Callahan**

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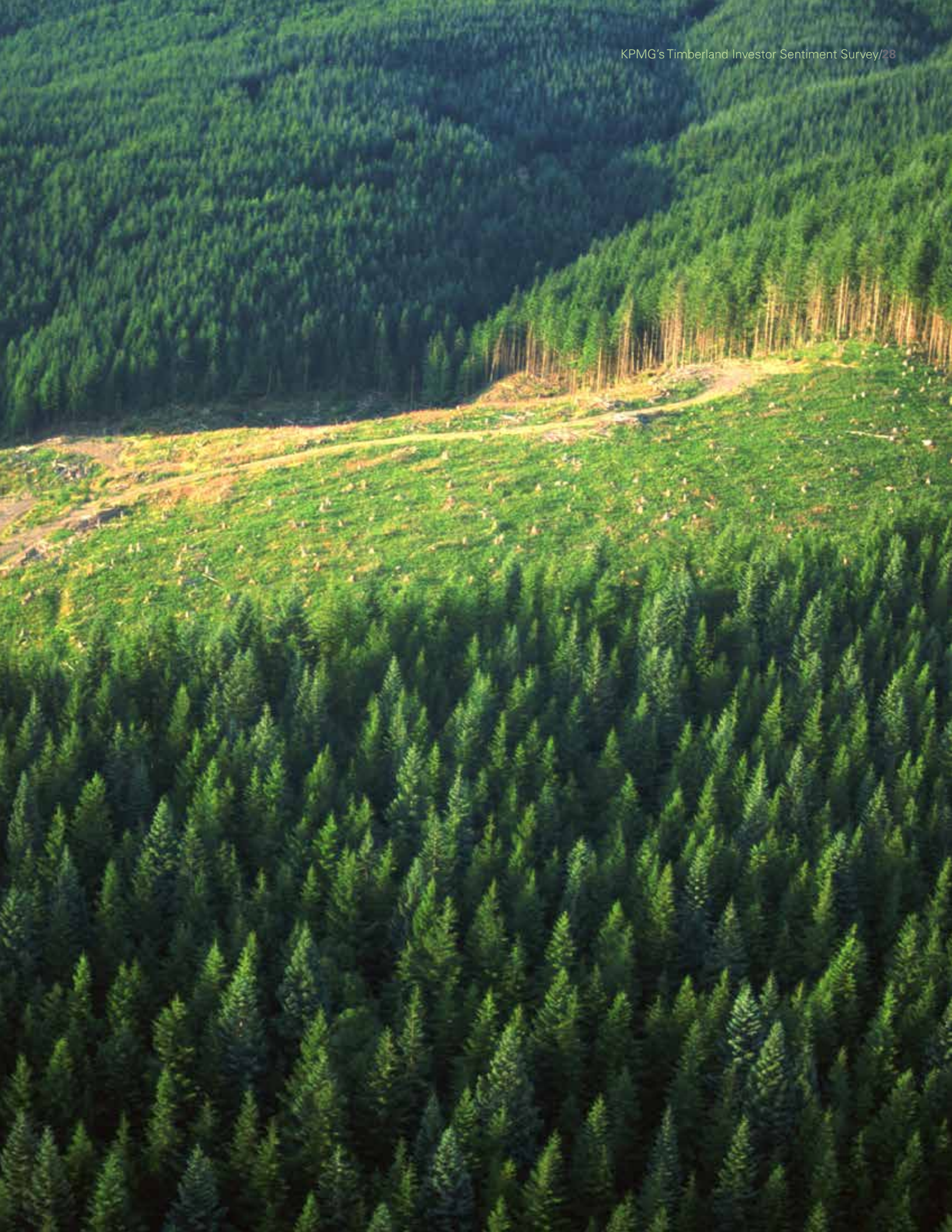
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