



## TIMBERpricing

### Timber Investments for Tough Times

Thomas G. Harris, Jr. & Sara Baldwin, *Timber Mart-South*  
 Jacek Siry, PhD, *Warnell School of Forestry & Natural Resources*

Financial markets swooned in late September and early October over troubled credit markets. Both stock markets and bond markets took a dive, with the S&P 500 reaching levels not seen since April of 2003. Pine sawtimber markets were weak as well, affected by the weak housing markets and depressed building construction. In the Third Quarter 2008, the south-wide average was the lowest since the Third Quarter of 1998 and down more than \$10 per ton from the most recent peak in the First Quarter of 2006.

#### Timber Prices Mixed vs. Stock Indexes Down

Painting with a broad brush, the picture shows timber as a diversified

investment. When looking at price alone, pine timber product prices all lost ground over the nearly 10-year period from the end of 1998 to the most recent quarter. The table to the right shows price change. Hardwood pulpwood prices increased more than 70 percent and mixed hardwood sawtimber also did well. Prices for both products hit record high levels in the Third Quarter 2008.

Pine sawtimber, the largest timber product category by volume, fared somewhat worse: down 20 percent. All three pine prices were lower in the most recent quarter than 10 years ago.

For comparison, the Dow Jones Industrial Average (DJIA) was down 8 percent over the same period and the S&P 500 down nearly 27 percent.

#### Timber vs. Stocks

We revisited our “value of a timber investment” exercise, last calculated in mid-2005 in a relatively stable market. (See *Forest Landowner* Vol. 64, No. 4, July/August 2005.)

Our method separates the timber from the land component to demonstrate the performance of a hypothetical “pure” investment in growing trees. An investment in any one timber product, of course, is not possible, and forest investors do not usually purchase timber without the underlying land. However, by calculating the quantity (tons of timber or shares of stock) that could be purchased with \$10,000 at the end of 1998 (using Fourth Quarter 1998 south-wide average timber prices and December 31, 1998 stock index prices) we can calculate the change in value of investments in seven different vehicles over 10 years to the Third Quarter 2008.

We used stock index prices for October 10, 2008. For timber, we incorporate biological growth and price appreciation or depreciation at the end of each year, excluding the land component. For the S&P 500 and the Dow Jones Industrial Average (DJIA), we reinvested the quarterly dividends on an annual basis.

All timber categories fared better than stocks in this exercise when growth and dividends were considered. The \$10,000 investment in hardwood pulpwood stumpage rose the most, to

	Since end of year 2007			End of year 1998	
	3Q 08	4Q07	%Δ	4Q 98	%Δ
Pine Sawtimber	\$30.09	\$36.59	-17.8%	\$37.61	-20.0%
Pine Chip-n-saw	\$17.36	\$18.88	-8.1%	\$27.59	-37.1%
Pine Pulpwood	\$8.95	\$8.11	10.4%	\$9.92	-9.8%
Hardwood Sawtimber	\$23.09	\$22.22	3.9%	\$17.39	32.8%
Hardwood Pulpwood	\$7.80	\$6.84	14.0%	\$4.58	70.3%
	10/10/08	12/31/07		12/31/98	
Dow Jones Industrial Average	8,451.19	13,264.82	-36.3%	9,181.43	-8.0%
S&P 500	899.22	1,468.36	-38.8%	1,229.23	-26.8%

**ABOVE** Average stumpage prices \$/ton vs. DJIA and S&P 500.

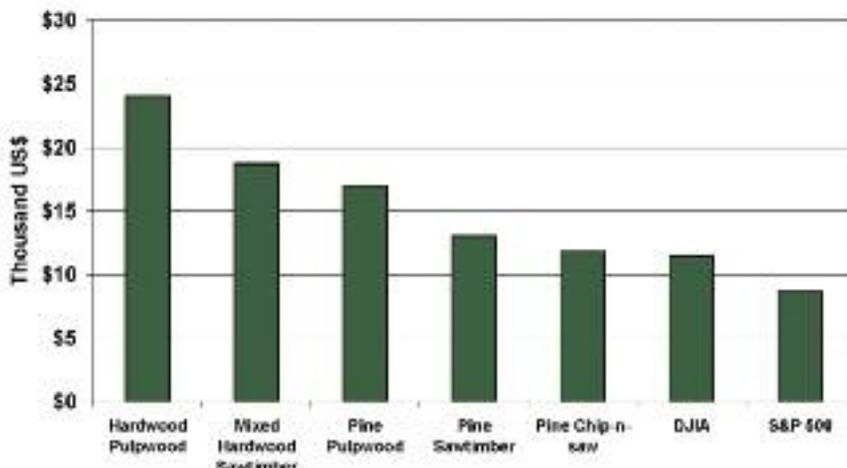
about \$24,000. Pine sawtimber ended just above \$13,000. The S&P 500 investment lost money over the 10-year period, ending just below \$8,700. The DJIA investment made a profit, but ended at \$11,500, about \$300 less than pine chip-n-saw.

Charting the growth in the pine sawtimber investment against the investment in the S&P 500 shows that timber growth (we used five percent on average here) moderates price declines. The yield on dividends per share in the S&P 500 ranged from 1.1 percent in 1999 to 1.9 percent in 2007, before jumping to 3.2 percent on Friday, October 10, 2008.

In conclusion, timber is a diversified investment and makes a good addition to a portfolio. This simple example does not capture all the complexities of timber assets, but does demonstrate the value of growth. The growth of diverse products even in a single species stand can compound over time to make timber and thus timberland investments competitive with others.

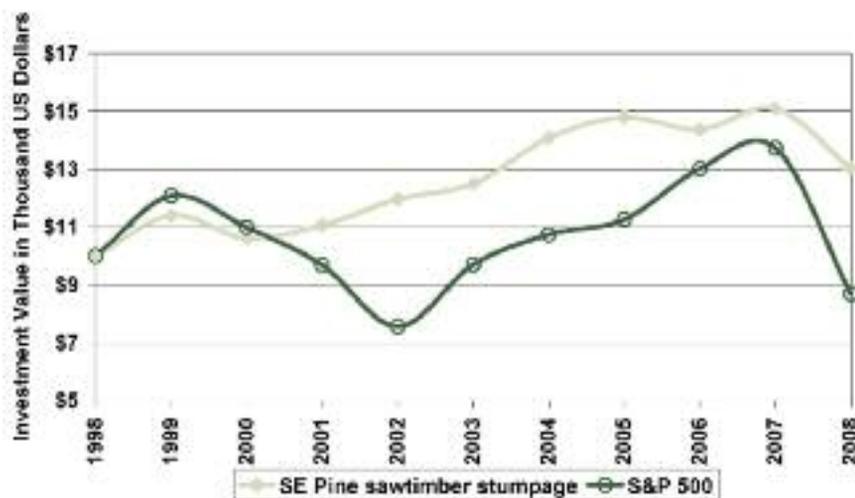
**About Timber Mart-South**

Timber Mart-South (TMS) has reported southeastern U.S. timber prices for more than 30 years, publishing quarterly reports used by private companies, consultants, landowners, and others to assess market prices. The University of Georgia, Warnell School of Forestry & Natural Resources is under contract with the Frank W. Norris Foundation to compile and publish TMS quarterly reports. Quarterly reports for single states include north and south regional averages, as well as high average and low average price for eight major products. To order or obtain more information, please call (706) 542-4756 or see our website at [www.TimberMartSouth.com](http://www.TimberMartSouth.com). ♦



Source: Timber Mart-South

**ABOVE** Value of a 10-year \$10,000 investment, 1998–2008 (as of 3Q 2008 for timber, Oct 10, 2008 for S&P 500 & NASDAQ).



**ABOVE** Pine and stock investment value using prices at end of year 1998 through 2007 and October 2008 with dividend reinvestment.