

Real Estate

October 2, 2014

Industry Brief

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REITs - Timber: Industry Tidbit

Timber Topics - October 2014

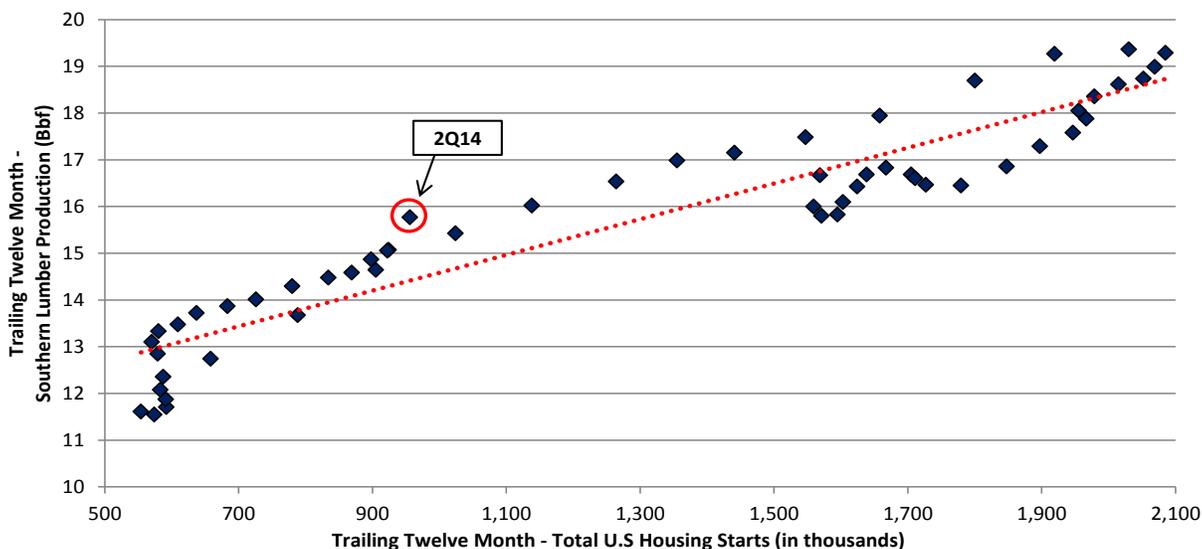
This is the 15th edition of our Timber Topics industry update in which we highlight key items impacting the timber REITs. We publish this report each quarter or as news flow warrants. In this edition, we discuss: 1) trends in timber pricing (pages 1-8); 2) the housing recovery (pages 8-10); 3) the share price performance of the timber REITs (page 11); 4) Asian log and lumber demand (pages 11-13); 4) the acquisition environment (pages 13-16); and 5) other industry news items (pages 16-17). We also include supplemental charts that are relevant to the timber REIT sector (pages 18-19). We plan to publish another update in mid/late October ahead of earnings season.

Timber Pricing Update

Timber pricing trends in the U.S. South remain a mixed bag. Most indications are that average sawlog pricing in the U.S. South is up modestly y/y and pulpwood prices remain healthy (albeit down slightly from earlier this year). That said, we expect additional improvements in pine sawlog pricing in the region will be limited in the near-term (pricing in some wood baskets has improved, while pricing in others remains flat). Despite some improvements, overall sawlog pricing trends in the region are generally viewed as a disappointment relative to expectations. For example, Plum Creek forecasted sawlog prices would climb ~10% in 2014 as recently as April (the company has since trimmed this forecast to ~5%). There are some wood baskets with relatively favorable supply/demand dynamics. In July, Rayonier highlighted seeing more strength in its Coastal Florida and Georgia, East Texas, and lower Alabama wood baskets compared to its other markets in the U.S. South (for example, Louisiana, Mississippi, and Arkansas).

Looking ahead, we expect stronger residential construction activity and more investment in sawmills in the U.S. South will ultimately lead to appreciably higher sawlog prices. For further improvement, we need increases in lumber production in the U.S. South (will be driven by more residential construction activity and Canadian investments in the region). Even then, we continue to believe harvest deferral strategies over the past few years will limit the upside in timber prices in some parts of the South.

TTM Southern Lumber Production vs. Total U.S. Housing Starts

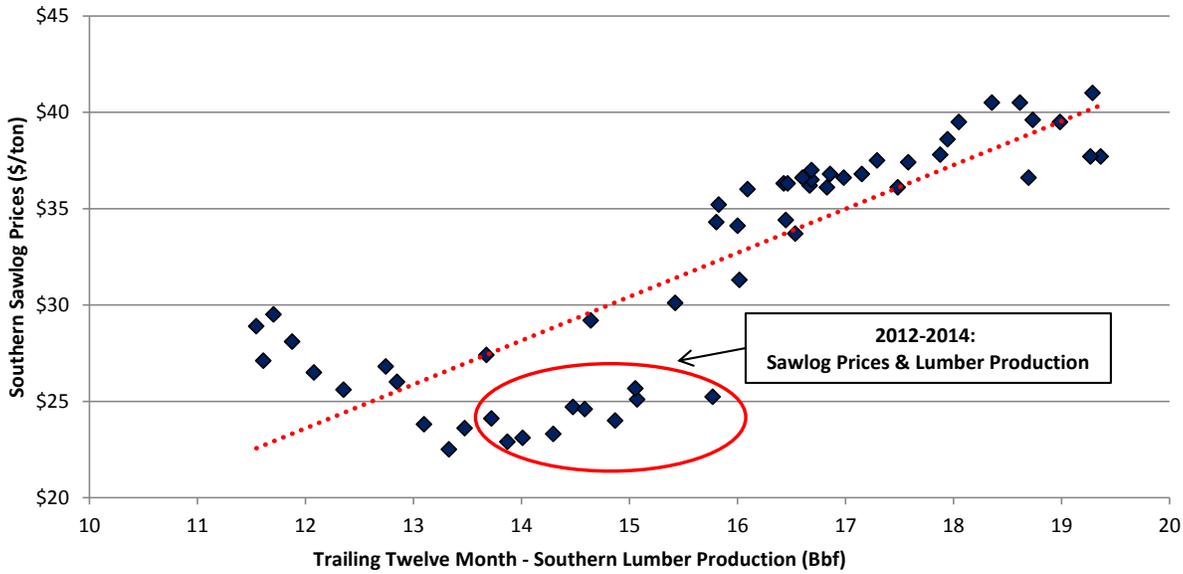


Source: FEA, U.S. Census Bureau, Raymond James research.

Data from 4Q00 to 2Q14

Please read domestic and foreign disclosure/risk information beginning on page 20 and Analyst Certification on page 20.

Southern Sawlog Stumpage Prices vs. TTM Southern Lumber Production



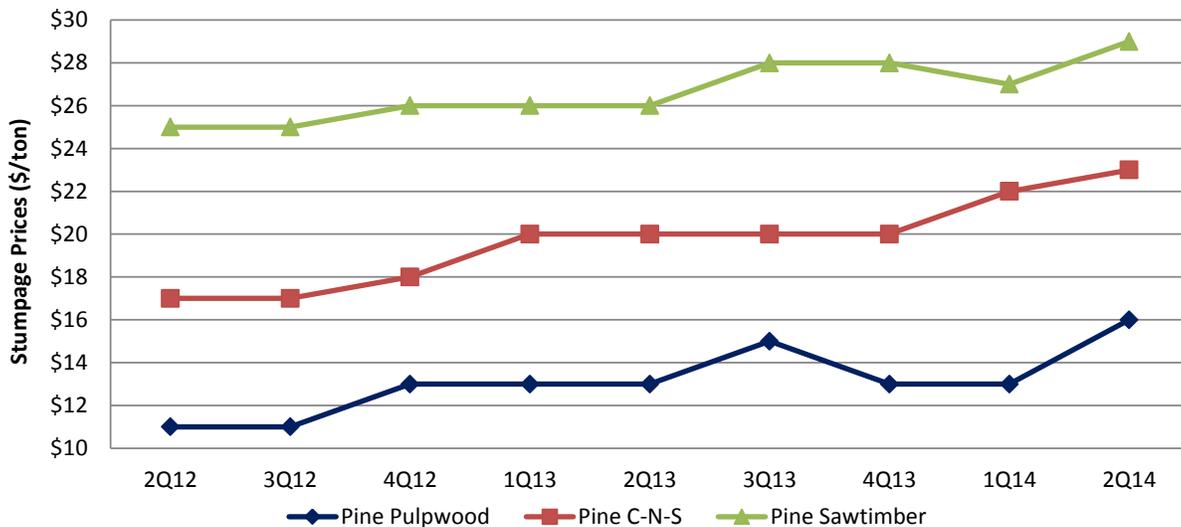
Source: FEA, Raymond James research.

Data from 4Q00 to 2Q14

Based on data presented in the Florida Land Steward (a quarterly newsletter geared toward Florida landowners), stumpage prices across Florida in 2Q increased compared to the prior quarter and were up from the prior year. Specifically, the Florida Land Steward (collects data from Timber Mart-South) reported that pine pulpwood stumpage prices were \$16/ton (\$43/cord), pine chip-n-saw prices were \$23/ton (\$61/cord), and pine sawtimber prices were \$29/ton (\$78/cord). Stepping back, in 1Q pine pulpwood stumpage prices were \$13/ton (\$36/cord), pine chip-n-saw prices were \$22/ton (\$58/cord), and pine sawtimber prices were \$27/ton (\$73/cord). Pine sawtimber prices increased modestly relative to 1Q (prices have now increased for seven of the last nine quarters).

Average pulpwood prices during 2Q in Florida were up y/y and now stand at the highest levels registered in the region since 1998. The Florida Land Steward noted 1) higher prices were at least partially attributable to wet weather conditions, and 2) domestic and international demand for hardwood lumber continues to boost prices for oak and mixed hardwood timber.

Florida: Average Pine Stumpage Prices (2Q12-2Q14)



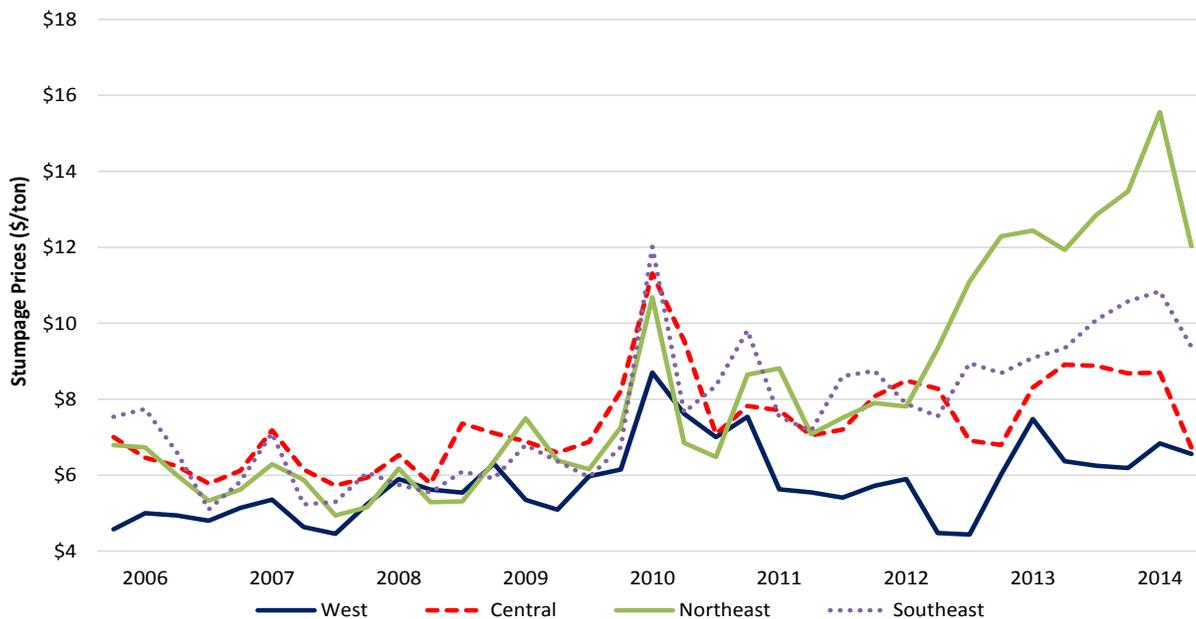
Source: Florida Land Steward, Timber Mart-South, Raymond James research.

Data as 2Q14

In Mississippi (data is collected by Timber Mart-South/Mississippi State University), stumpage prices in 2Q decreased from 1Q by 3.3% for pine sawtimber (\$24/ton), by 5.5% for pine chip-n-saw (\$15/ton), and by 4% for pine pulpwood (\$8/ton). Meanwhile, mixed hardwood sawtimber (\$37/ton) and hardwood pulpwood (\$11/ton) prices climbed by 6.7% and 3.1%, respectively, in 2Q.

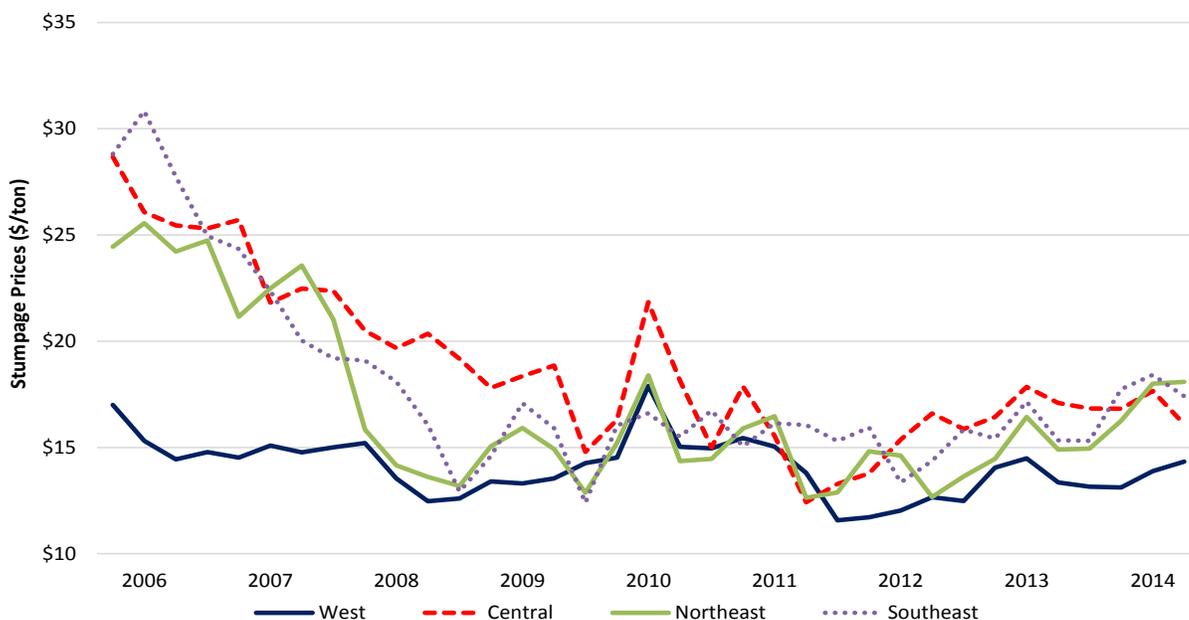
Relative to 1Q, pine pulpwood stumpage pricing across North Carolina declined. On a y/y basis, pricing trends were mixed. Pine sawlog pricing increased in all but one region (the Central region) of North Carolina on a sequential and y/y basis. In Central North Carolina pine sawlog prices declined 6% from 1Q and fell 3% y/y.

North Carolina: Average Pine Pulpwood Stumpage Prices (4Q05-2Q14)



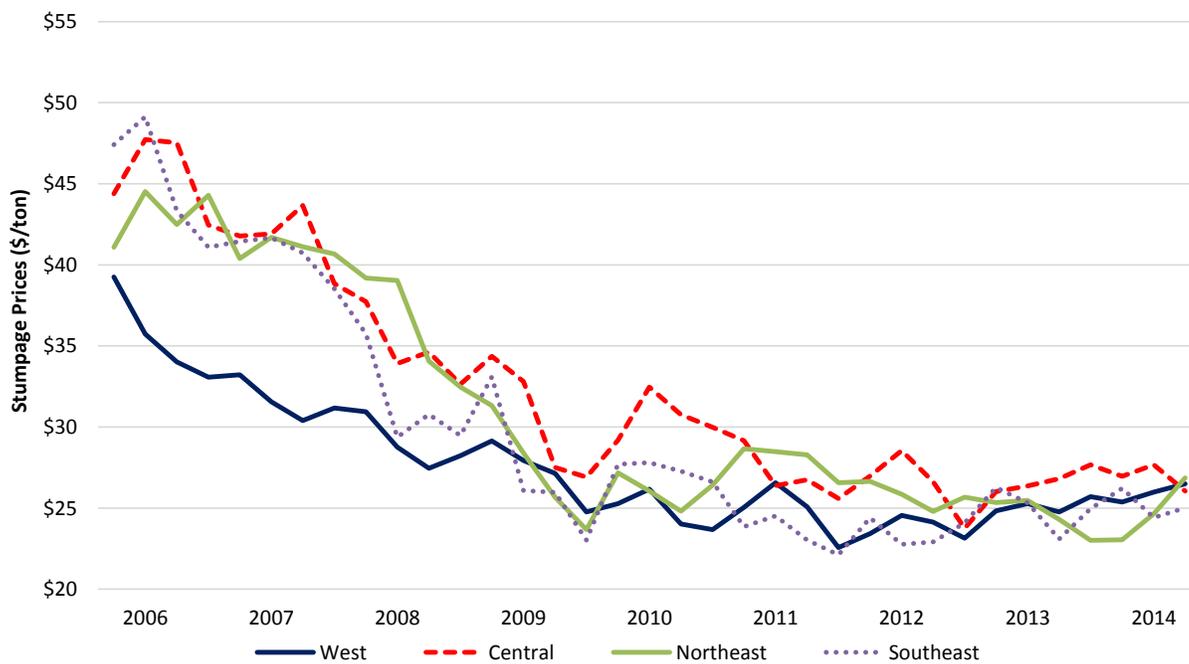
Source: Forest-2-Market® North Carolina Timber Report, Raymond James research. Data as 2Q14
 (Report available through North Carolina State University Extension Forestry at <http://forestry.ces.ncsu.edu/forestry-price-data/>)

North Carolina: Average Pine Chip-n-Saw Prices (4Q05-2Q14)



Source: Forest-2-Market® North Carolina Timber Report, Raymond James research. Data as 2Q14
 (Report available through North Carolina State University Extension Forestry at <http://forestry.ces.ncsu.edu/forestry-price-data/>)

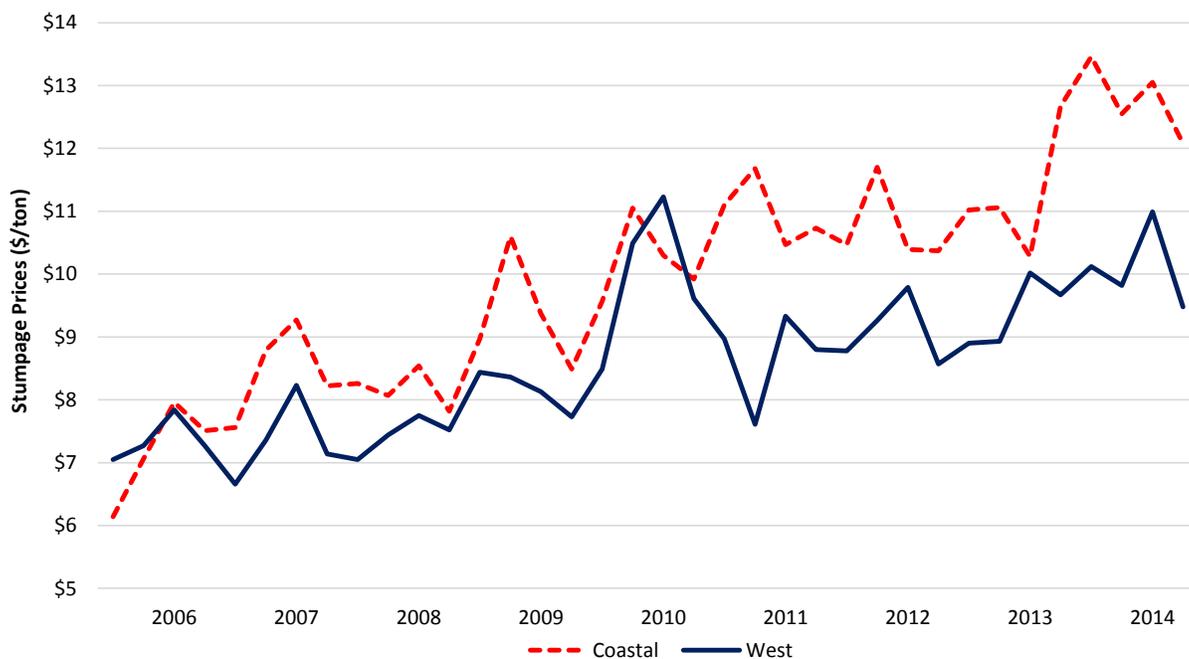
North Carolina: Average Pine Sawtimber Prices (4Q05-2Q14)



Source: Forest-2-Market® North Carolina Timber Report, Raymond James research. Data as 2Q14
 (Report available through North Carolina State University Extension Forestry at <http://forestry.ces.ncsu.edu/forestry-price-data/>)

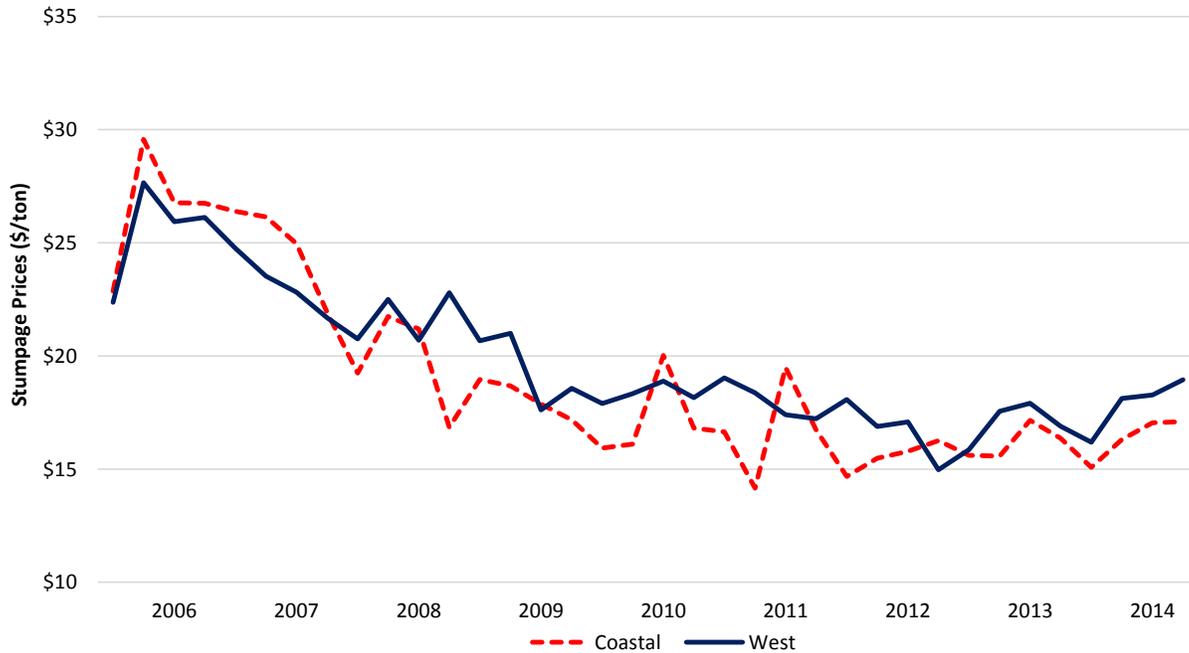
In South Carolina, pine chip-n-saw and sawlog prices ticked higher from 1Q. Meanwhile, pine pulpwood prices retreated from robust pricing in 1Q. On a y/y basis, pine sawlog pricing along the coast was up 2%, but fell 2% in the western part of the state.

South Carolina: Average Pine Pulpwood Prices (3Q05-2Q14)



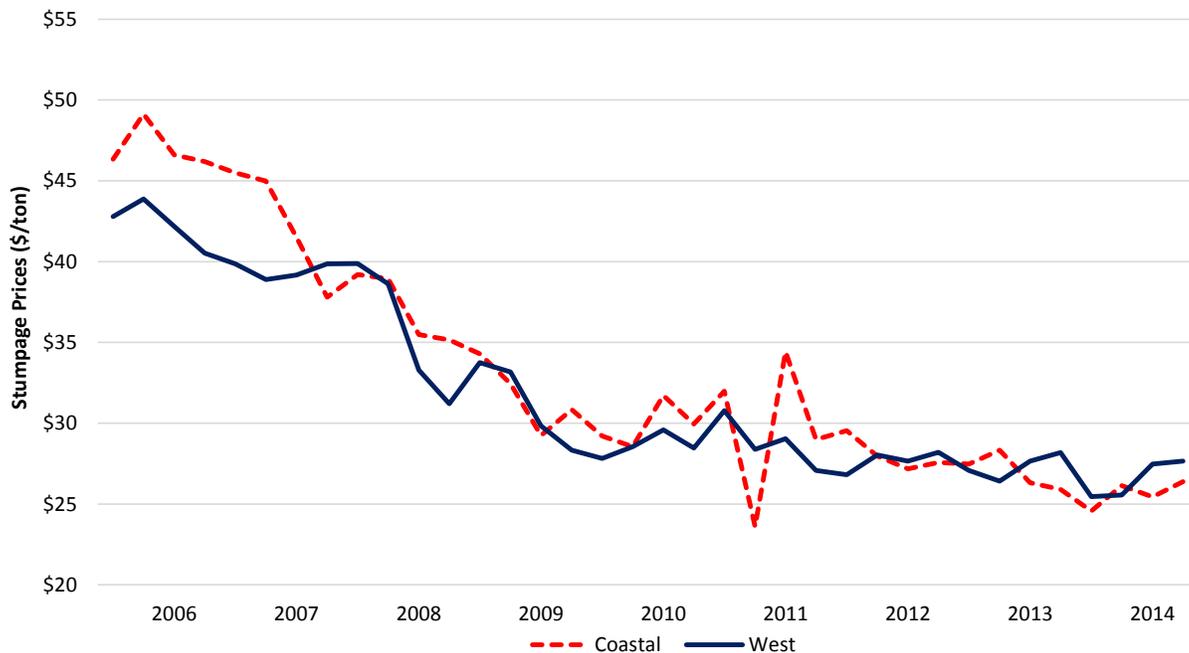
Source: Forest-2-Market® South Carolina Timber Report, Raymond James research. Data as 2Q14
 (Report available through South Carolina Forestry Commission at <http://www.state.sc.us/forest/mprice.htm>)

South Carolina: Average Pine Chip-n-Saw Prices (3Q05-2Q14)



Source: Forest-2-Market® South Carolina Timber Report, Raymond James research. Data as 2Q14
 (Report available through South Carolina Forestry Commission at <http://www.state.sc.us/forest/mprice.htm>)

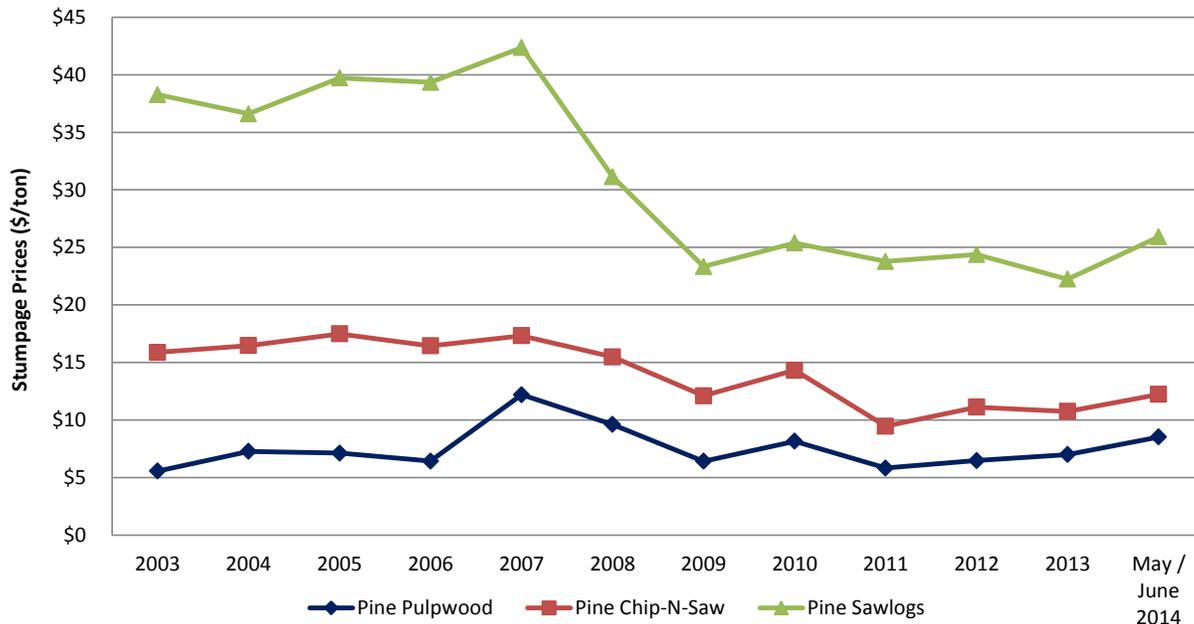
South Carolina: Average Sawtimber Prices (3Q05-2Q14)



Source: Forest-2-Market® South Carolina Timber Report, Raymond James research. Data as 2Q14
 (Report available through South Carolina Forestry Commission at <http://www.state.sc.us/forest/mprice.htm>)

Moving West, according to the May/June edition of the Texas Timber Price Trends report (a bimonthly publication of the Texas A&M Forest Service) statewide pine sawlog prices averaged \$25.91/ton, down 4% from the previous period, but up 14% from the average price a year ago. Drilling down, the average pine sawlog price in Northeast Texas was \$24.56/ton (down from \$28.07/ton in March/April) and was \$26.22/ton in Southeast Texas (down slightly from \$26.47/ton in March/April). The statewide average pine pulpwood price increased to \$8.52/ton, up 11% from the prior period (March/April) and up 27% y/y. Meanwhile small diameter pine sawlogs (chip-n-saw) averaged \$12.23/ton across the state, up 1% from the prior period and up 8% y/y.

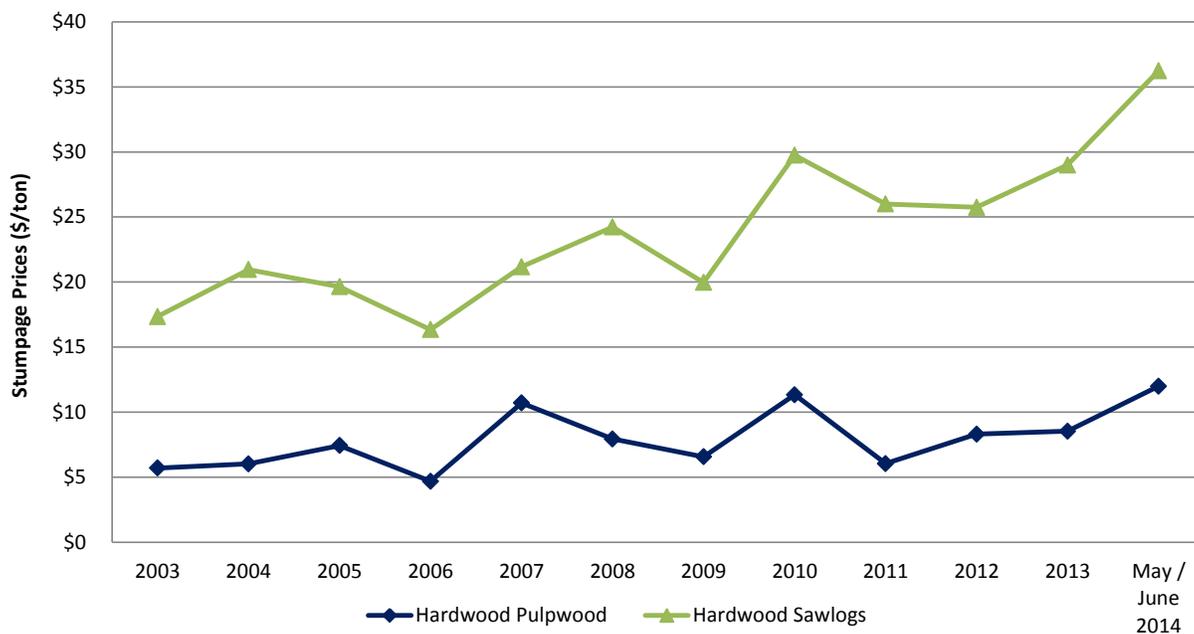
Texas: Average Pine Stumpage Prices (2003-2014)



Note: Data for 2003-2013 reflects annual volume-weighted average prices.
Source: Texas A&M Forest Service, Raymond James research.

Data as June 2014

Texas: Average Hardwood Stumpage Prices (2003-2014)

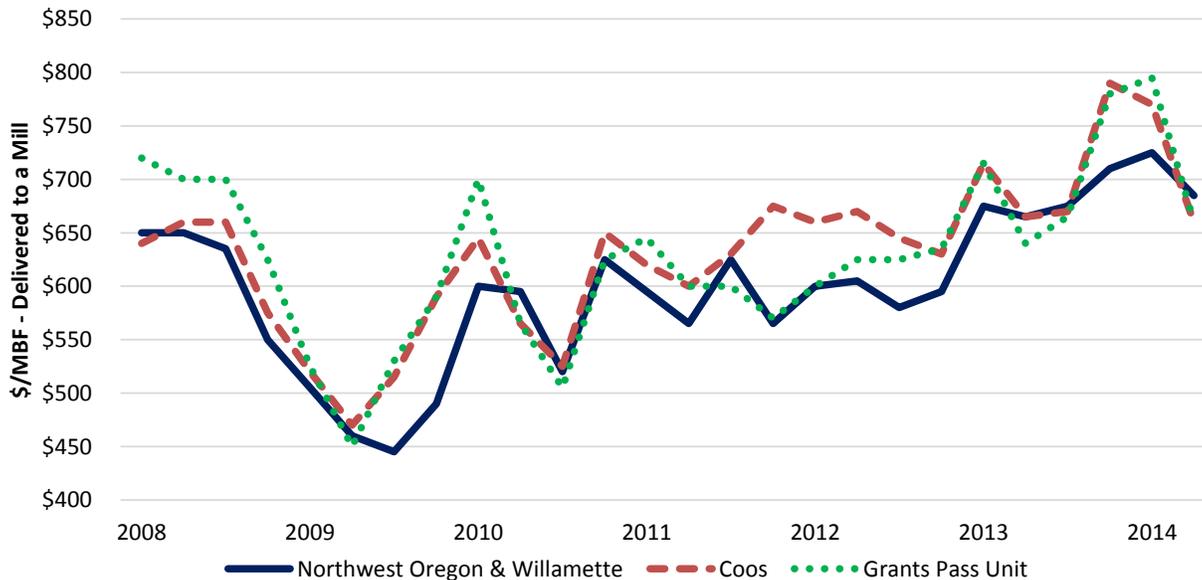


Note: Data for 2003-2013 reflects annual volume-weighted average prices.
Source: Texas A&M Forest Service, Raymond James research.

Data as June 2014

As it relates to the Pacific Northwest, we would highlight data from the Oregon Department of Forestry that indicates log prices have declined from early this year. Prices (reported on a delivered basis) for Douglas fir and Hemlock logs in Oregon were down from earlier this year, but are still up y/y. This aligns with 2Q commentary from the timber REITs that pricing along the West Coast has been under pressure as export demand (to China and Japan) has softened. We note, of the timber REITs with a presence in the Pacific Northwest, Potlatch has the least amount of direct exposure to fluctuations in the export market (it owns timberland in Idaho). Moreover, ~65% of Potlatch's Northern region sawlog pricing is formally indexed to the price of lumber.

Oregon: Douglas Fir – No. 1 Peeler, Domestically Processed Logs (2008-2014)

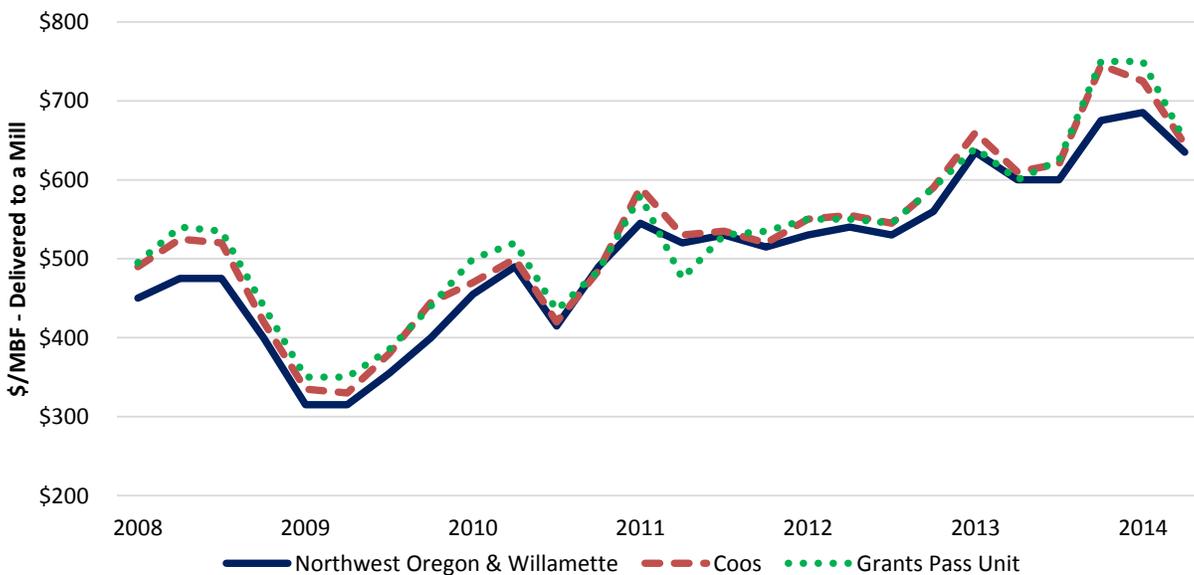


Note: No. 1 Peeler = Plywood veneers; clear, uniform-colored, face stock veneer – 50%.

Data as June 2014

Source: Oregon Department of Forestry, Raymond James research.

Oregon: Douglas Fir – No. 2 Sawmill DF, Domestically Processed Logs (2008-2014)

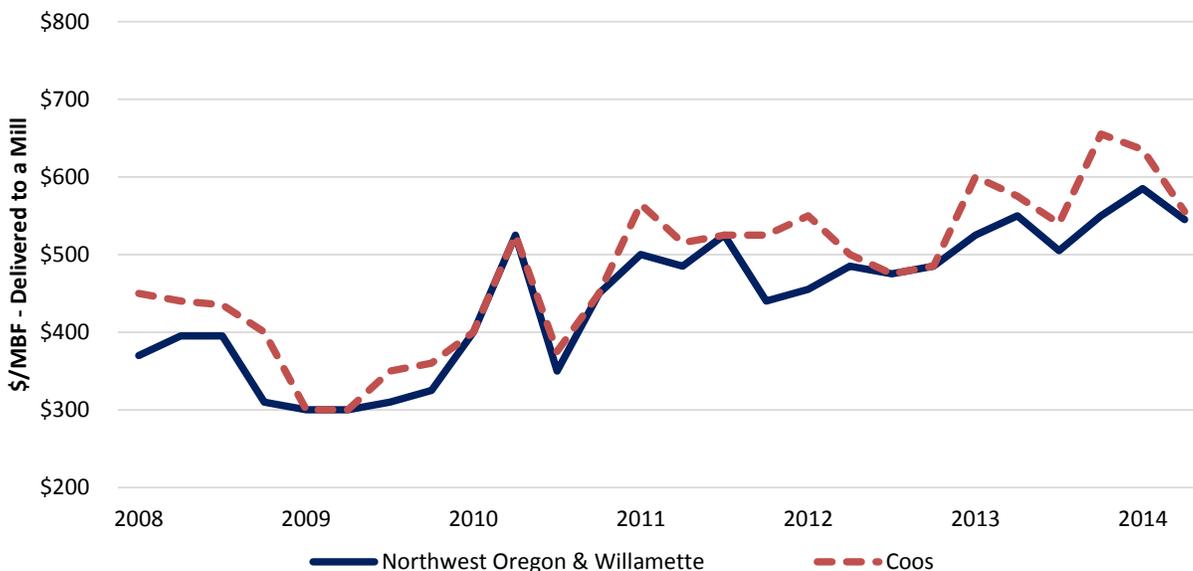


Note: 2S = Logs suitable for the manufacture of construction & better lumber grades – 65%.

Data as June 2014

Source: Oregon Department of Forestry, Raymond James research.

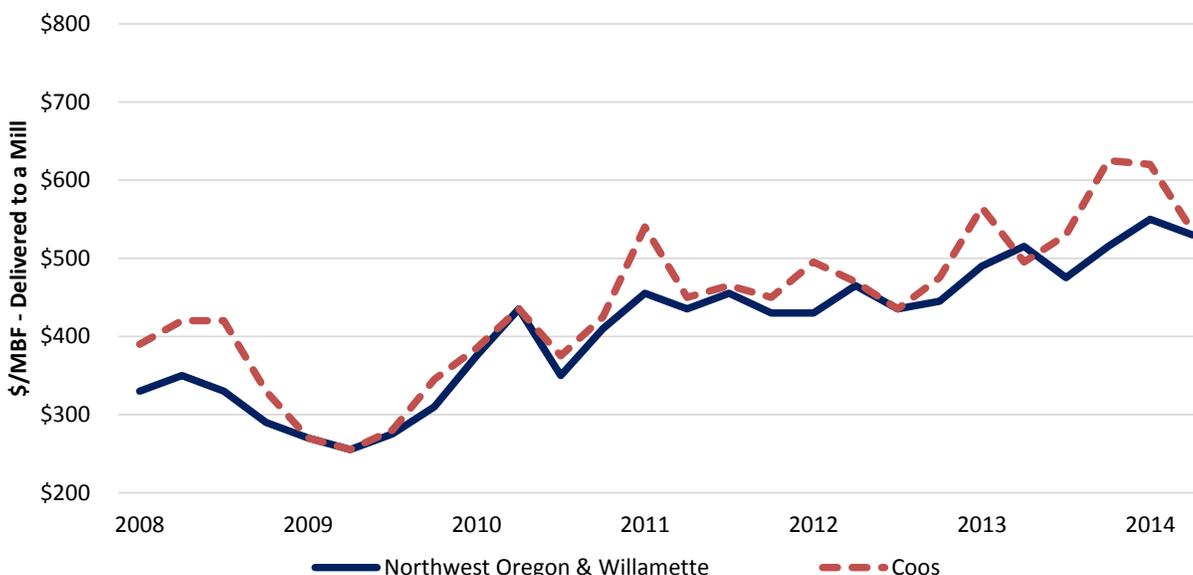
Oregon: Hemlock – Peeler, Domestically Processed Logs (2008-2014)



Source: Oregon Department of Forestry and Raymond James research.

Data as June 2014

Oregon: Hemlock – No. 2 Sawmill, Domestically Processed Logs (2008-2014)



Source: Oregon Department of Forestry and Raymond James research.

Data as June 2014

Housing Recovery Moving at a Glacial Pace

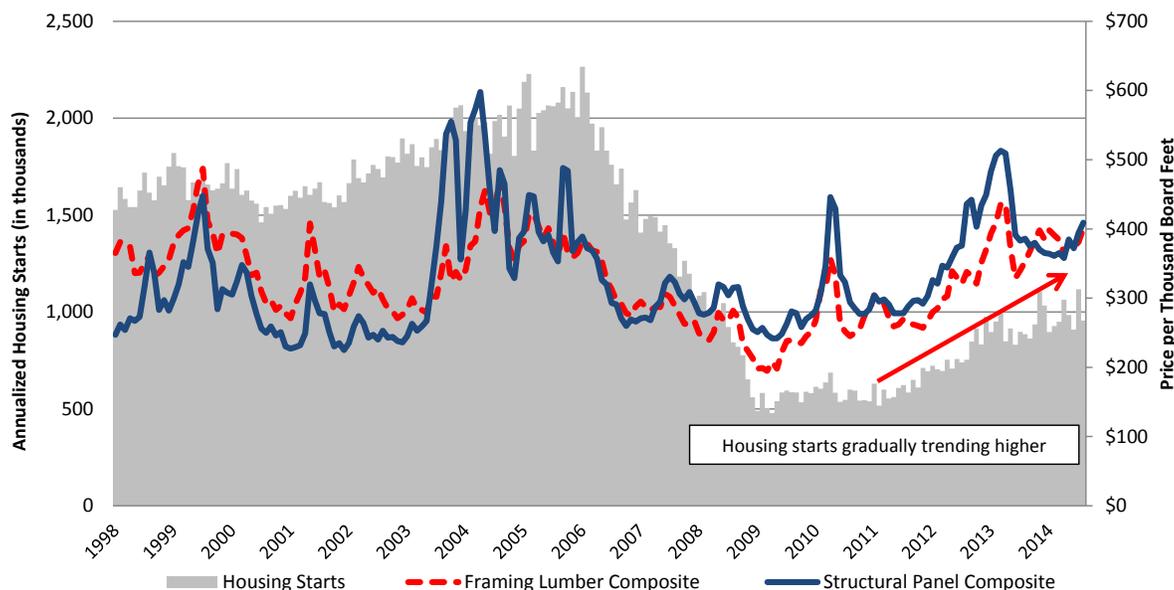
The Census Bureau reported August new home sales jumped 18% from July's pace, rising to the highest pace in over six years. However, we view such an unusually large jump in the data as potentially suspect, particularly in the context of other recent housing data points and commentary from key bellwethers such as Lennar and KB Home. Most every other data point we have seen indicates that August was marginally softer than July, but not out of line with seasonal trends. While subject to potential revisions, the 18% August sales jump would represent the largest monthly jump in new home sales since January 1992.

We believe pockets of strength in new home sales continue to be largely concentrated in move-up or luxury communities, driven by demand for high-quality school districts and attractive amenities. Sales of \$500,000-750,000 homes (normally "second move-up" homes) saw the biggest jump soaring 138.1% y/y, while sales of \$300,000-500,000 homes (typically defined as "move-up" homes) increased 32.3% y/y. In addition, sales of homes priced below \$200,000 improved only 6.7% y/y, dragged down by a 39.0% y/y decline in the under \$150,000 range. We continue to think the move-up and luxury segments will remain the "sweet spot" for new home sales this year as entry-level buyers continue to struggle with onerous mortgage underwriting requirements and higher prices. For more details, see our report on August New Home Sales: [August New Home Sales Jump 18% - But Does Anyone Believe It?](#)

Meanwhile, August re-sales missed expectations looking for continued sequential growth, declining from their highest level in ten months. Importantly, all-cash homebuyers (mostly investors) fell to the lowest level since at least 2010. While inventory ticked down nationally, growth in new listings in several key homebuilding markets should raise some caution flags. With an unusually wide 25% pricing gap between median re-sale and new home prices, more re-sale competition could create absorption headwinds for planned new community openings. For more details, see our report on August Existing Home Sales: [Existing Home Sales Decline as Cash Buyers Retreat; Inventory Ticks Down](#).

We think a gradual recovery in the U.S. housing market will unfold as long as job growth continues, interest rates remain benign, and there are no further major disruptions to mortgage financing. That said, there are still structural headwinds that will limit the pace of any recovery from here – i.e., higher prices, new mortgage regulations, finished lot and skilled labor shortages (to name a few).

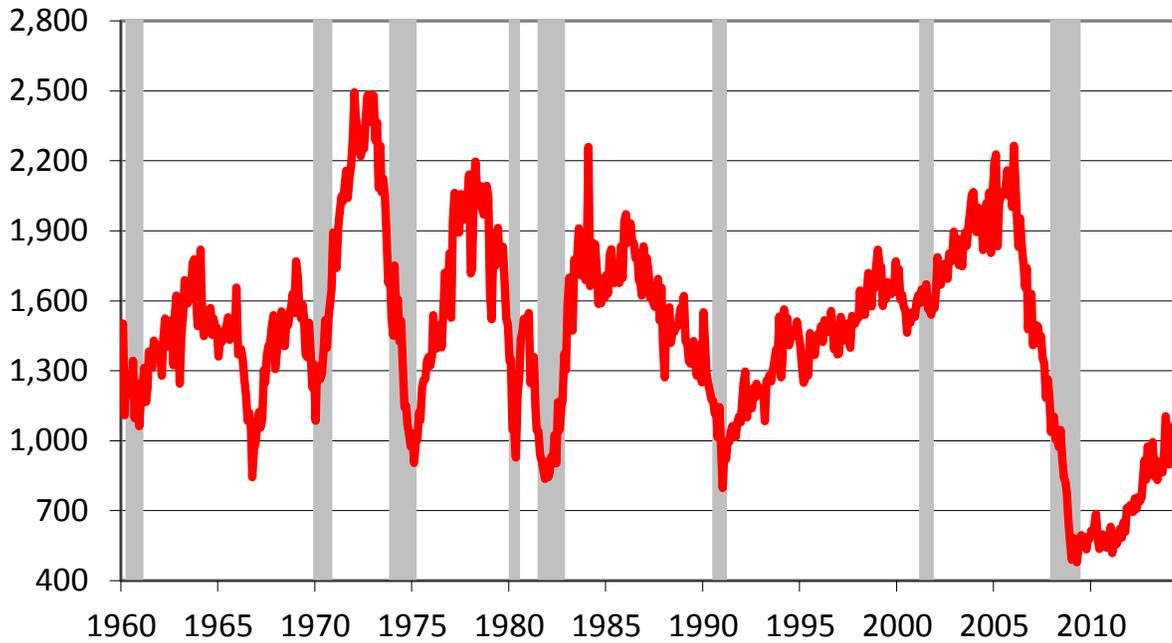
U.S. Random Lengths Framing Lumber and Structural Panel Composite (1998-2014)



Source: U.S. Census Bureau, Random Lengths, Raymond James research.

Data as of August 2014

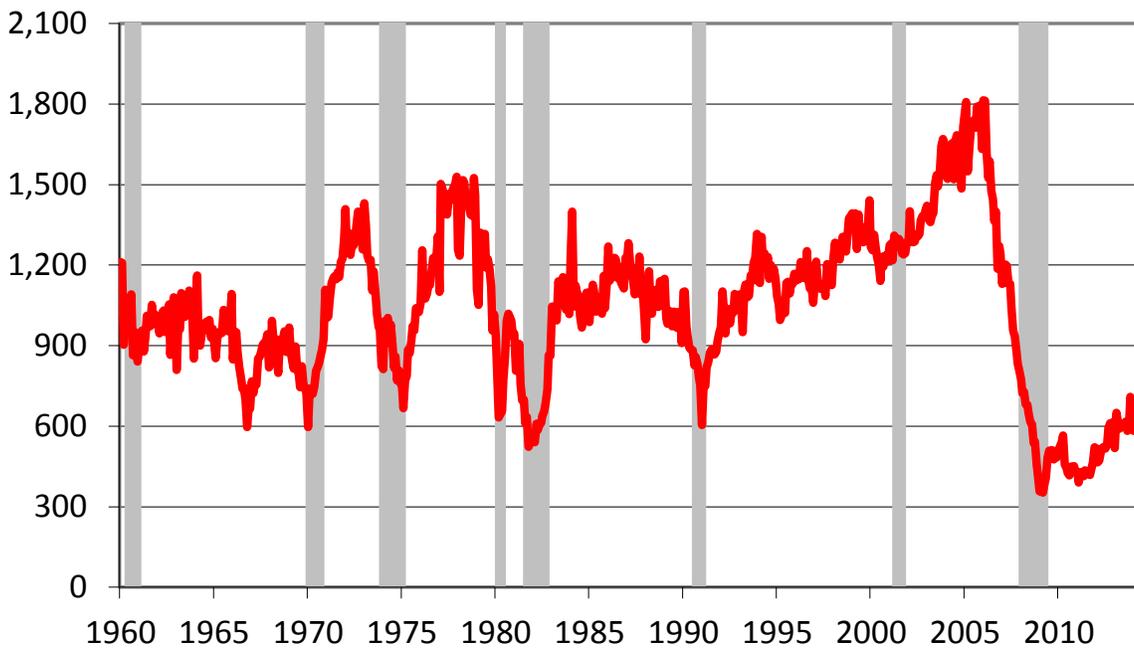
Total U.S. Housing Starts – in 000s (1960-2014)



Source: U.S. Census Bureau, Raymond James research.

Data as of August 2014

Single-Family U.S. Housing Starts – in 000s (1960-2014)



Source: U.S. Census Bureau, Raymond James research.

Data as of August 2014

Keeping an Eye Out for “Hope Trade” 2015

Thus far in 2014, the timber REITs (-8%) have collectively underperformed the S&P 500 (+7%) and the broader REIT universe (+11%), but have posted a similar performance to the homebuilders (-13%). Through September, Weyerhaeuser (+1%) has been the best-performing timber REIT, followed by Rayonier (-1%), Potlatch (-4%), Plum Creek (-16%), and CatchMark (-21%). Note that these returns exclude the impact of dividends. In our view, multiple factors have weighed on the sector at various times during the year. However, we believe the biggest contributor to the underperformance of the group has been the underwhelming improvement in residential construction activity this year.

Looking ahead though, we believe investors should be aware conditions might once again be conducive for a “Hope Trade” in the timber REITs ahead of the 2015 “spring selling season” for the homebuilders. Although outperformance has not been as pronounced as it has been with the homebuilders, the timber REITs (particularly Weyerhaeuser) offer investors exposure to the seasonal housing “Hope Trade.” A reliably successful trading pattern has typically formed in the 10-week period ahead of Super Bowl Sunday. The weekend after Super Bowl Sunday is the traditional kick-off of many builders’ “spring selling season.”

"Hope Trade" - Price Performance: November 15 to January 31

Period	Builders	Timber REITs	S&P 500	RMZ	WY	PCH	RYN	PCL
2013-2014	14.7%	(0.0%)	(0.9%)	0.4%	0.5%	2.0%	1.2%	(2.2%)
2012-2013	27.4%	17.8%	10.7%	10.5%	20.5%	15.2%	12.4%	17.9%
2011-2012	19.1%	12.4%	4.3%	9.3%	20.5%	(4.9%)	9.7%	7.1%
2010-2011	20.3%	20.8%	7.4%	6.6%	31.9%	11.5%	13.1%	12.3%
2009-2010	0.4%	4.9%	(1.8%)	1.0%	4.0%	4.0%	4.1%	6.6%
2008-2009	(3.3%)	(11.1%)	(5.4%)	(4.3%)	(16.6%)	15.5%	(3.8%)	(9.2%)
2007-2008	16.0%	(6.2%)	(5.0%)	(8.7%)	(7.0%)	(3.3%)	(7.9%)	(4.3%)
2006-2007	10.8%	14.7%	3.0%	12.7%	17.2%	15.5%	7.0%	13.5%
<u>2005-2006</u>	<u>8.0%</u>	<u>6.1%</u>	<u>4.2%</u>	<u>9.6%</u>	<u>9.0%</u>	<u>11.6%</u>	<u>10.7%</u>	<u>(3.5%)</u>
Average	12.6%	6.6%	1.8%	4.1%	8.9%	7.5%	5.2%	4.2%

Source: FactSet, Raymond James research.

Update on Asian Log Demand

According to the U.S. Forest Service’s Pacific Northwest Research Station, log exports from Washington, Oregon, Northern California, and Alaska increased by more than 10% in volume to 515 million board feet in 2Q14 compared to the prior quarter. Meanwhile, West Coast lumber exports decreased by 4% to 247 million board feet relative to 1Q. On a y/y basis, West Coast log exports fell by more than 4%, while lumber exports rose 7%. Notably, over 70% of the West Coast’s log exports were shipped to China in 2Q14, compared to 64% in 1Q14. West Coast lumber exports to China represented 35% of the total exports, compared to 42% in 1Q14.

Stepping back, North American log and lumber exports have increased sharply since 2008 due to a rise in demand from China driven by 1) housing construction, and 2) a reduced reliance on logs and lumber from Russia. A government mandate for affordable housing (36 million units between 2011 and 2015) and a growing middle class in China have stimulated demand. We believe North America will remain a key supplier of logs and lumber to Asia due to a variety of factors, including 1) more New Zealand supply being pulled to India, 2) infrastructure challenges in Russia, and 3) the continued growth of a middle class in China.

In the near term though, relatively less favorable supply/demand dynamics have developed in China and Japan, leading Pacific Northwest log pricing to decline decisively (over 10%) from earlier this year. We believe log pricing in the region is showing signs of stabilization, but we anticipate improvements through year-end will be limited as 1) log inventories in China remain elevated, 2) Japan construction activity is down y/y, and 3) residential construction activity in the U.S. remains underwhelming. Looking further ahead, we believe the gradual adoption of more wood-intensive building codes could help boost demand longer term as the majority of wood products and logs exported to China are currently used for concrete forming and shipping pallets/packing (not wood frame construction).

Underscoring the relatively weaker demand in Japan due to the change in Japan's consumption tax (increased from 5% to 8% in April), we would highlight that new wooden construction starts in Japan totaled 40,667 units in August - down 15.1% y/y. Japan may further increase its consumption tax to 10% in 2015.

Japan – New Construction Starts of Dwellings: Wooden (2011-2014)



Housing starts in Japan are down significantly y/y, but showing signs of stabilizing.

Source: Government of Japan - Construction Research and Statistics Office, Raymond James research. Data as of August 2014

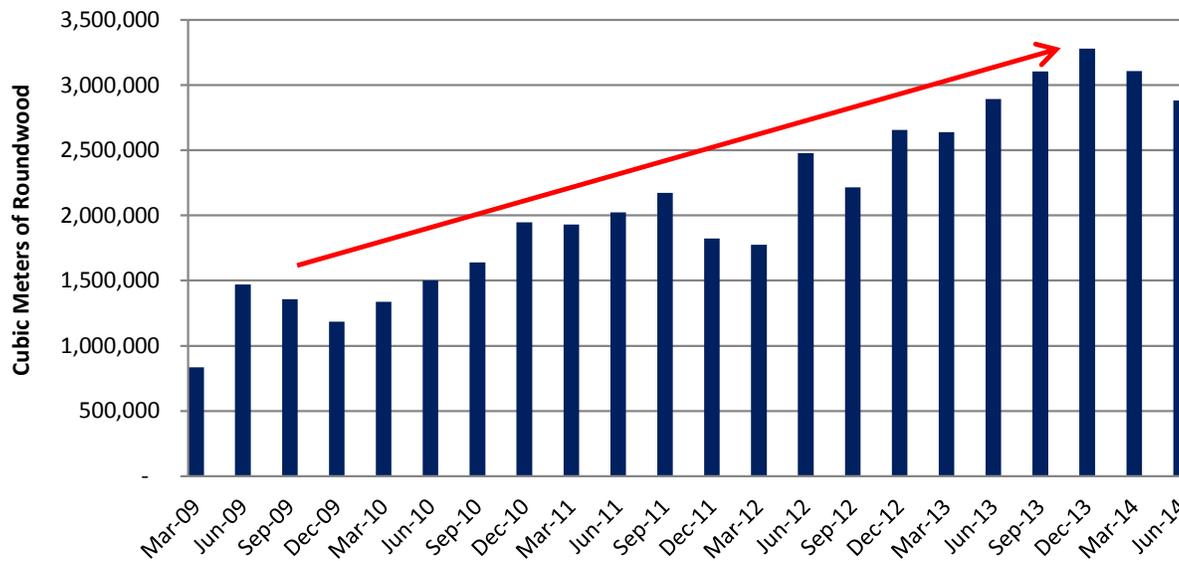
Based on data from the National Bureau of Statistics of China, the total investment in real estate development in the first eight months of 2014 was 5,897.5 billion yuan (up 13.2% y/y). This reflects a deceleration from the 19.3% y/y increase posted over the same period in 2013 and a deceleration from the y/y growth rates posted in China earlier this year. We would also note the land area purchased by real estate development enterprises totaled roughly 208 million meters through August (down 3.2% y/y).

According to China's 12th five-year plan, it will increase the quantity of affordable housing so that it covers 20% of all residential areas by 2015. Specifically, the Ministry of Housing and Urban-Rural Development aims to construct a total of 36 million affordable housing units between 2011 and 2015 (reportedly, 25 million affordable housing units were built between 2011 and 2013). That said, we would note that recent reports out of China suggest a high percentage of affordable units constructed remain vacant.

On August 1, Weyerhaeuser reported that its timberlands business was encountering some near-term headwinds in the West as softer demand and pricing from China (due to high log inventories) and Japan (due to the consumption tax increase) were poised to weigh on near-term results. In context of the earnings calls of the other timber REITs, this more cautious outlook regarding sawlog prices in the Pacific Northwest was not surprising. In late July, Rayonier noted that it expected its pricing in the state of Washington to be flat in 3Q relative to the first half of the year (largely due to commitments it secured earlier in the year) and anticipated that export prices would begin to recover in late 3Q as it was starting to see log inventories in China ports decline.

Looking beyond North America, we continue to see strength in log exports to India and China from New Zealand. In our view, rising demand from India will attract some New Zealand and Russian supply and lift China, Korea, and Japan's need for logs and lumber from the Pacific Northwest, all else equal. In addition, we believe infrastructure/transportation issues in Russia will constrain its ability to supply Chinese markets. On this front, we would highlight that log exports from New Zealand to China were flat y/y in 2Q14 (at 2.9 million cubic meters), but were up 16% relative to the same quarter two years earlier. Log exports from New Zealand to India in 2Q14 totaled 534,357 cubic meters (+7% y/y). Notably, this is the second highest quarterly total of log exports to India from New Zealand since 1Q09.

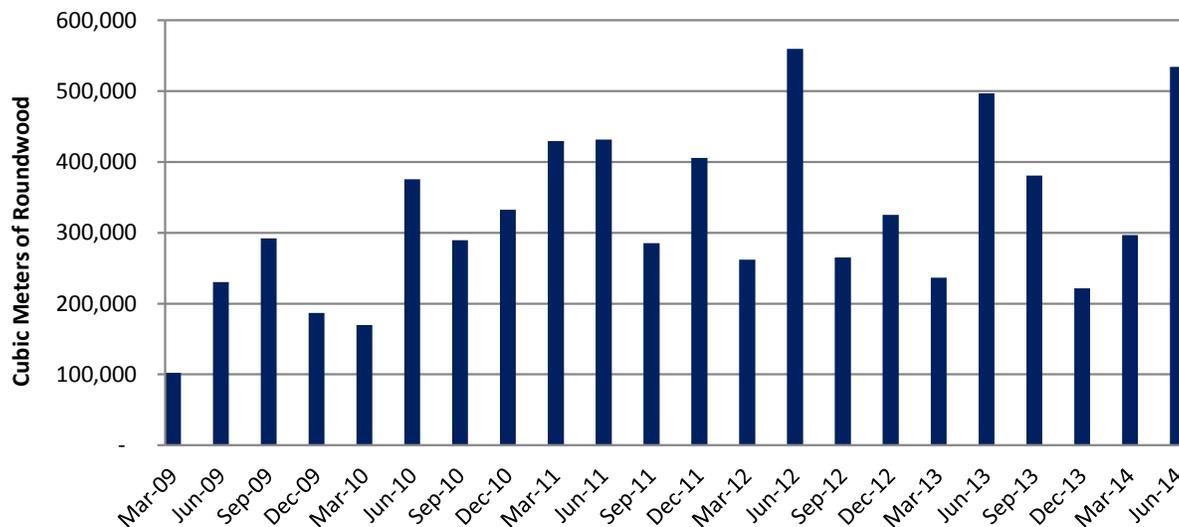
New Zealand Log Exports to China (2009-2014)



Source: New Zealand Ministry for Primary Industries, Raymond James research.

Data as of June 2014

New Zealand Log Exports to India (2009-2014)



Source: New Zealand Ministry for Primary Industries, Raymond James research.

Data as of June 2014

More Acquisition Opportunities Emerging

We have seen an increasing number of acquisition opportunities emerge for the timber REITs and TIMOs as this year has progressed. We believe deal flow is continuing to accelerate (consistent with our expectations) and we expect a number of deals to close between now and year-end. Although more acquisition opportunities are emerging, deal sizes have been much smaller than the Longview Timber/Weyerhaeuser (\$2.65 billion) and MeadWestvaco/Plum Creek (\$1.1 billion) transactions completed in 2013.

Looking ahead, we believe deal flow will remain healthy as timberland values are still edging higher (more sellers are emerging) and the timber REITs and some TIMOs have access to capital. Importantly, we believe the majority of timberland deals on the market are high quality (helping push per-acre pricing higher). We expect the majority of timber REIT and TIMO deals will generally continue to be ~\$200 million or smaller. Stepping back, timberland transaction volume totaled over \$35 billion between 2003 and 2008 (largely comprised of TIMO activity)— a significant portion of which we believe will likely be coming back to the market over the next few years. On the following pages, we discuss some of the notable/interesting timberland listings and transactions.

U.S. South

In late July, Rayonier noted that it had evaluated 360,000 acres of timberland opportunities thus far in 2014 and had closed on or was under contract on ~47,000 acres for a total of \$93 million (~\$1,979/acre). With the exception of one small transaction in the Pacific Northwest, Rayonier's acquisition activity has been focused on the U.S. South (management noted one deal in Georgia represented approximately one-third of the ~47,000 acres it had closed/under contract). We believe Rayonier will be most active in the U.S. South (where the majority of deals are emerging), but also think new CEO Dave Nunes' experience and relationship network will prove to be valuable as Rayonier looks to execute on its growth strategy in the Pacific Northwest. Based on our review of local property records, we believe this noteworthy deal was completed in Camden County, Georgia. We identified a \$45.6 million timberland sale (~\$ 3,068/acre) between CPF-FIA, LLC (Forest Investment Associates) and Rayonier for 14,864 acres that was completed on June 25. We note that this property appears to have been bought by Forest Investment Associates in October 2011 for \$32.5 million. Forest Investment Associates also closed other notable land sales in the U.S. South and the Pacific Northwest this summer.

On July 7, Catchmark agreed to acquire 1) 18,008 acres in southern Georgia and northern Florida for ~\$30 million (~\$1,666/acre), and 2) 37,663 acres in primarily middle Georgia for ~\$76 million (\$2,025/acre). We view the Satilla River portfolio as a logical extension to its Waycross, Georgia operations and believe the Oglethorpe deal (has relatively better productivity, more merchantable inventory, and a greater mix of sawlogs) will complement its core Mahrt timberland. In August, CatchMark estimated its deal pipeline was ~\$500 million (unchanged from a few months earlier). However, management noted that the composition of its pipeline was almost completely different than it had been 90 days earlier.

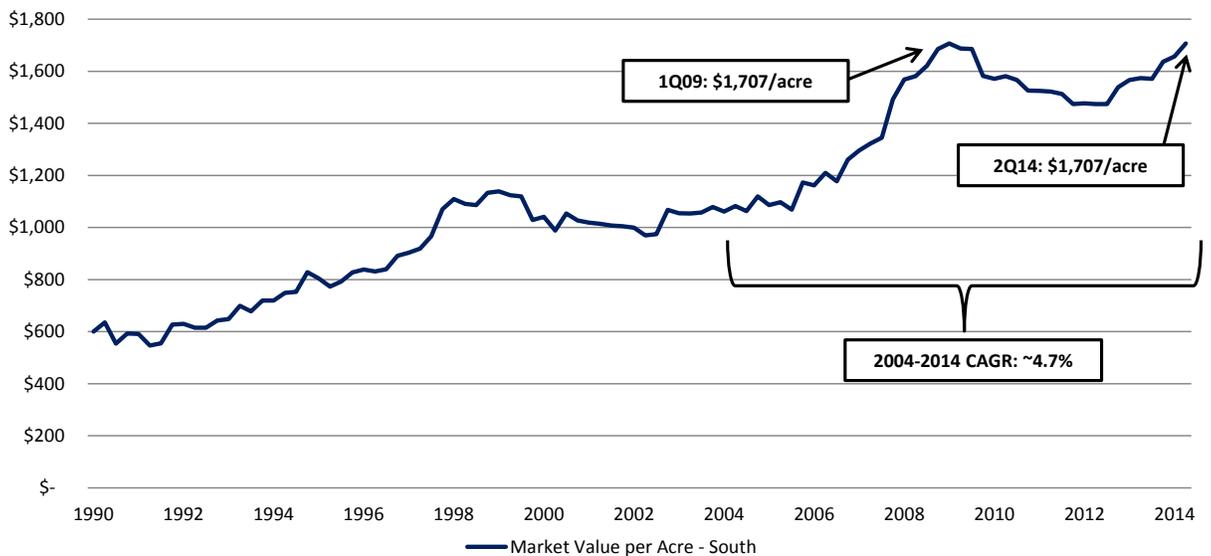
During 2Q, Cambium Global Timberland Limited completed two timberland sales in the U.S. South. Specifically, Cambium sold 1) 8,065 acres in Stewart County, Georgia for \$9.1 million (\$1,128/acre), and 2) an undisclosed amount of acreage in Clinch County, Georgia for \$8.6 million. As it relates to the Clinch County acreage, the company noted the sale (was originally announced in April), followed a process in which ~60 investors/buyers were approached – with 20 of them signing non-disclosure agreements. In early August, Cambium noted it had completed the disposition of its properties in the southern United States as of June 22.

Forest Investment Associates noted in its Quarterly Update – Second Quarter 2014 report that Resource Management Service had a 200,000-acre package on the market in Alabama and Mississippi (bids were due in 3Q). In our view, this will be an important deal to monitor as it relates to understanding current timberland values in the U.S. South.

In July, Deltic Timber announced it had acquired 7,140 acres of timberland in the Ola Region located approximately 60 miles south of its Ola Mill for \$11.5 million (~\$1,610/acre).

LandVest has listed a total of 26,901 acres (the Horseshoe Tree Farms) that are being sold by Campbell Global. Based on information provided by LandVest (<http://www.landvest.com/property/33083648/Southern-Arkansas-&Southeastern-Oklahoma>), the property is comprised of 9,925 acres in Southern Arkansas and 16,976 acres in Southeastern Oklahoma (bidders may bid either tree farm individually, or in combination).

The board of trustees for the Endowment Fund of North Carolina State University announced in October 2013 that it had agreed to sell 79,000 acres of timberland near Jacksonville, North Carolina (Hofmann Forest) for \$150 million (\$1,899/acre). In September, North Carolina State University announced a modified sales agreement. The land will now be conveyed to two buyers who include the original purchaser and Resource Management Service (RMS). The revised agreement calls for the NC State Endowment Fund to receive \$140 million from the sale, including \$130.85 million from RMS and the original purchaser (\$1,656/acre) and \$9.15 million (\$116/acre) from any future proceeds received from the Department of Defense, federal, or third-party conservation or other easements. While the agreement calls for a November closing date, we believe this could be extended as the pending sale continues to face significant opposition and pending litigation.

NCREIF Timberland Property Index – South (1990-2014)

Note: Timberland portfolios captured by this index have changed over time.

Source: NCREIF, Raymond James research.

Pacific Northwest

As we previously highlighted, Olympic Resource Management has retained LandVest as an advisor on its disposition of ~23,805 acres in King and Lewis Counties, Washington (known as the Emerald Timberlands). The timberlands are being offered in two separate blocks. Based on information provided by LandVest (<http://www.landvest.com/property/32001443/king-and-lewis-counties-wa>), on a combined basis the properties contain over 140 MMBF of primarily Douglas fir (55%) and True Fir-Hemlock (42%) volume, with additional contributions of cedar and red alder. Indicative bids (the sale is being managed as a two-stage bid event) were due June 26. We believe this is the type of asset (given the location, species mix, and existing road infrastructure) that the timber REITs would find attractive.

GMO Renewable Resources is selling 11,508 acres of timberland in Cowlitz County, Washington (known as the Merrill-Toutle Tree Farm). Based on information provided by LandVest (<http://www.landvest.com/property/32575327/Cowlitz-County-WA>), the timberlands 1) are comprised of two blocks (the 5,015 acre Merrill block and the 6,493 acre Toutle block), 2) have significant potential for near-term harvest of Douglas fir (51%) and whitewood logs (45%), and 3) are well-positioned to benefit from healthy export demand (the timberland is in close proximity to an export facility in Longview, Washington). LandVest is serving as the advisor on the disposition and is managing the sale as a single-stage bid event (final bids were due on September 25).

In addition, Forest Investment Associates recently noted a 25,400-acre offering from Hancock Timber Resource Group that is split evenly between Oregon and Washington.

Other

In September, Timbervest announced it had acquired 13,220 acres of timberland across Georgia, Tennessee, and Vermont for its Timbervest Partners III LP investment fund. The \$400 million commingled fund (comprised of institutional and high-net-worth investors) owns 250,000 acres of timberland located throughout the country. The Effingham, Georgia property consists of ~2,550 acres located 30 miles northwest of the Port of Savannah and 15 miles north of Interstate 16. Based on local property records, we believe Timbervest paid above \$2,000/acre for this property. The Effingham property is a contiguous tract (predominantly merchantable pine plantations) and Timbervest believes a portion of the wood fiber harvested from the property may possibly be exported to Europe as wood pellets. Timbervest believes the Effingham property also has the potential to be sold into the high-value recreational and residential markets.

Moving north, the 9,400-acres in Tennessee Timbervest acquired (20 non-contiguous parcels) are located in the northwest part of the state (80 miles from Nashville). Based on reports from Forest Investment Associates, we believe the Tennessee acreage was likely acquired for \$1,100-1,150/acre. The Vermont property (three non-contiguous tracts) is approximately 1,270 acres of mixed hardwood timberland. The property is 20 miles from Montpelier, and Timbervest believes the potential value-add of this property is maple syrup production and land sales in the rural residential market. Stepping back, Timbervest also acquired ~1,670 acres in Flagler County, Florida earlier this year. Based on local property records, we believe Timbervest paid roughly \$1,300/acre for this property.

Conservation Forestry retained AFM Land Sales to solicit sealed bids for two timberland properties (bids were due September 10). The Naselle property (6,799 acres) consists of four properties located north of the Columbia River in Pacific and Wahkiakum Counties, Washington. The acreage is dominated by Douglas fir and Western hemlock plantations. Moving to Georgia, the Sansavilla property (26,264 acres) consists of two properties with water frontage on the Satilla and Altamaha Rivers. The properties are located in Brantley, Glynn, and Wayne Counties, Georgia. Based on the description of the Naselle property we believe the property would be well-suited for a buyer that is conservation-focused (other protected properties are adjacent to this property).

In the Northeast, Forest Investment Associates reported that Timberland Investment Resources purchased 11,000 acres in New York from the Forestland Group for \$27 million (~\$2,350-2,400/acre) during 2Q. As it relates to Timberland Investment Resources, the minutes of the July 25, 2014 North Dakota State Investment Board meeting noted that the board discussed how its timberland investments have lagged the NCREIF Timber benchmark and was placing Timberland Investment Resources on “watch.” The board planned to conduct further due diligence on its timber investments, including a requested commitment renewal (June 2015).

Other Tidbits

Weyerhaeuser Moving Corporate Headquarters

On August 26, Weyerhaeuser announced that it will move its headquarters from Federal Way, Washington to Occidental Avenue in Seattle, Washington. Weyerhaeuser will divest its land and buildings in Federal Way. The move will occur in mid- to late 2016 when construction of the new building is complete. The company highlighted two key reasons for the move 1) its 430-acre campus in Federal Way was costly and too large for its needs, and 2) by moving its headquarters to Seattle it will have access to a larger talent pool. In our view, this announcement reflects Weyerhaeuser’s ongoing efforts to reduce costs and improve its corporate culture.

County Staff Recommends the County Commission Deny Plum Creek’s Envision Alachua Sector Plan Application

On August 29, Alachua County released a 137-page preliminary report for Plum Creek’s proposed “Envision Alachua Sector Plan” that included an initial staff recommendation for the denial of the application based on the policies of the Alachua County Comprehensive Plan (<http://www.alachuacounty.us/Depts/Communications/Pages/Detail.aspx?itemID=2334>). If approved, the sector plan would allow a major development consisting of 10,500 residential units and 15.5 million square feet of non-residential development in the eastern area of the county. Key concerns include the suitability of the location of the development, the potential impact to natural resources, and the demands development will place on the county’s infrastructure. There were a series of workshops in September where county staff considered public comments and additional information as it was preparing a final report regarding Plum Creek’s application. We remain intrigued by Plum Creek’s potential to attract development to the land it owns in Alachua County (near the University of Florida) and believe the company will continue to work with the community on this opportunity (<http://www.envisionalachua.com>).

Plum Creek Sawmill to Cut Hours

Last month, various media reports, including Hungry Horse News (http://www.flatheadnewsgroup.com/hungryhorsenews/cutback-at-plum-creek-blamed-on-court-ruling/article_b9a5af64-3eb8-11e4-857e-5f41a1526c1f.html) indicated that Plum Creek would reduce employee hours at its Columbia Falls, Montana sawmill from 40 hours per week to 36 hours per week starting October 6. Plum Creek lowered hours due to a shortage of logs following a federal court ruling that blocked several timber sales on state lands.

Klausner Sawmill Expected to Begin Production in 4Q

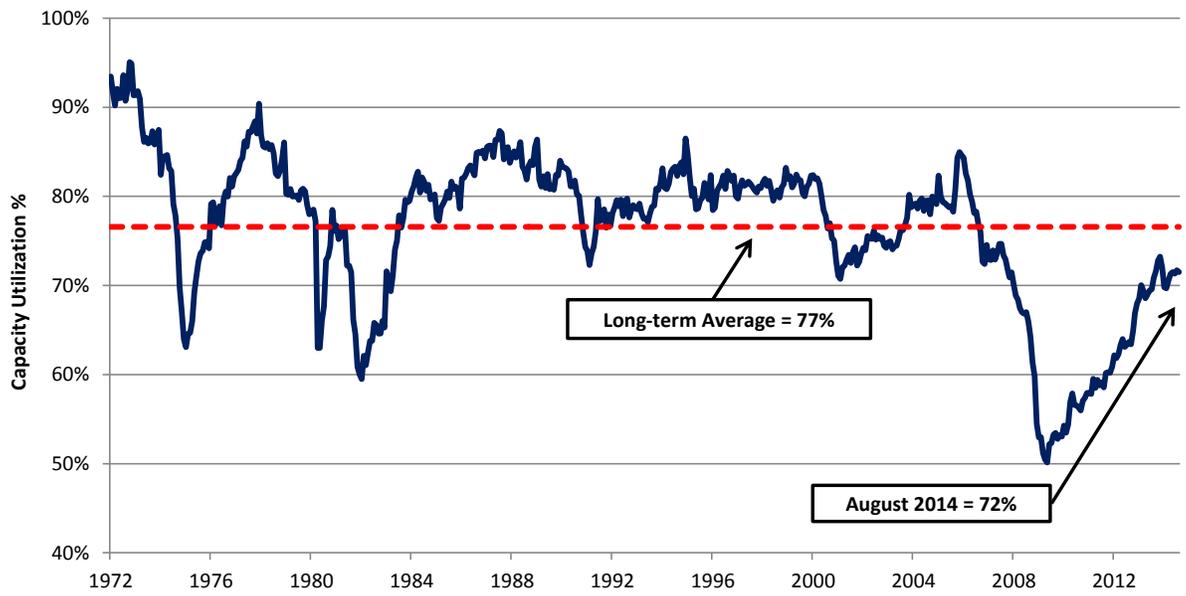
In early September, the Suwannee Democrat reported that the Klausner Sawmill in Live Oak, Florida will begin production during 4Q (the mill is expected to initially operate with one shift) and will source timber within a 100-mile radius of the sawmill. The article (http://www.suwanneedemocrat.com/news/article_6129a7be-3436-11e4-9d10-0019bb2963f4.html?mode=story) noted that 12 people had been hired as of August 27 and total employment (once the mill is at full production) is expected to be ~350 employees. For reference Live Oak, Florida is roughly 30 miles south of the Florida/Georgia border and roughly 70 miles north of Gainesville, Florida (Gainesville is located in Alachua County, where Plum Creek is the largest landowner). As this mill ramps production, we believe it will be a positive for timberland owners in the area (most notably, Rayonier and Plum Creek).

Georgia-Pacific Planned Investments in Plywood Facility

In August, Georgia-Pacific announced (<http://www.prnewswire.com/news-releases/georgia-pacific-planned-investments-at-madison-plywood-facility-to-total-65-million-271698171.html>) that it is investing \$65 million in its Madison, Georgia plywood operations (project completion is expected by 3Q15). Importantly, Georgia-Pacific noted it is also evaluating the potential restart of an idled plywood mill in Alabama, Arkansas, Florida or North Carolina. The company indicated that a potential restart of an idled operation will be determined by market conditions, access to wood supply, an engineering analysis for required permitting, installation of equipment, and facility upgrades. Following review and site selection, a restart could occur in 4Q15. While this update from Georgia-Pacific is encouraging, we have not seen any evidence that the company's Crossett, Arkansas, plywood facility will be the site selected. Moreover, it sounds like even if the Crossett facility is selected, a restart would be a late 2015 event. Notably, Potlatch sold Georgia-Pacific roughly 400,000 tons/year before the facility was closed. In our view, if this mill were to restart production, it would be a significant catalyst for Potlatch's results (and likely PCH shares).

Supplemental Exhibits

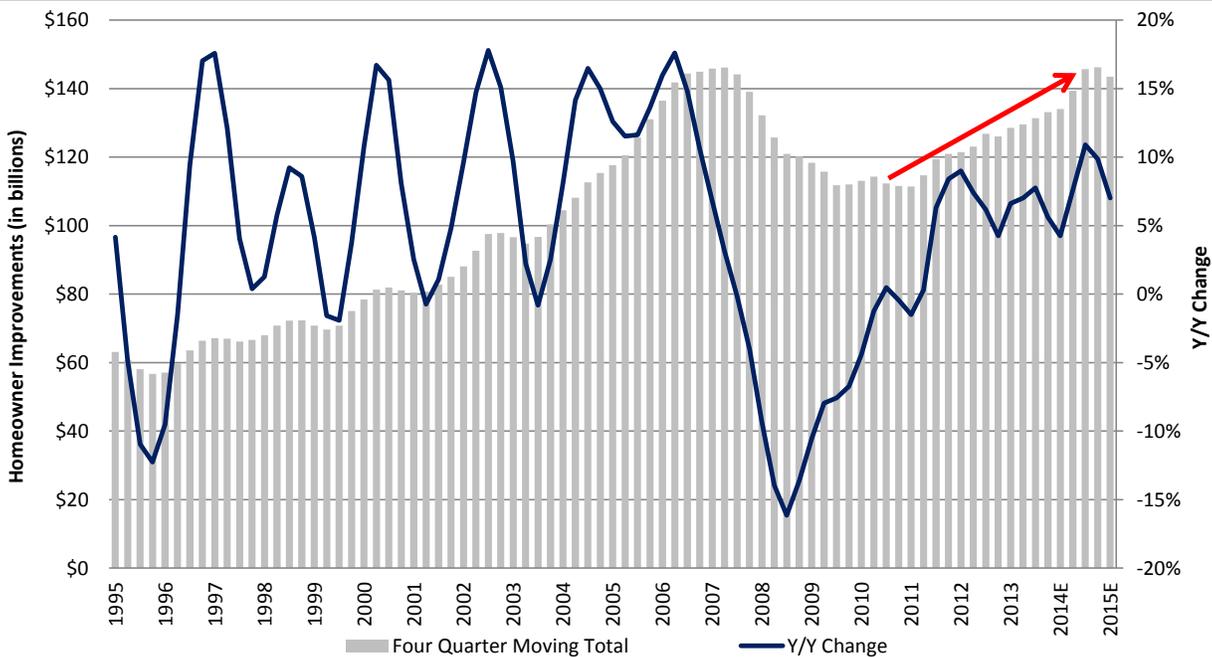
U.S. Wood Products Capacity Utilization (1972-2014)



Source: U.S. Census Bureau, Raymond James research.

Data as of August 2014

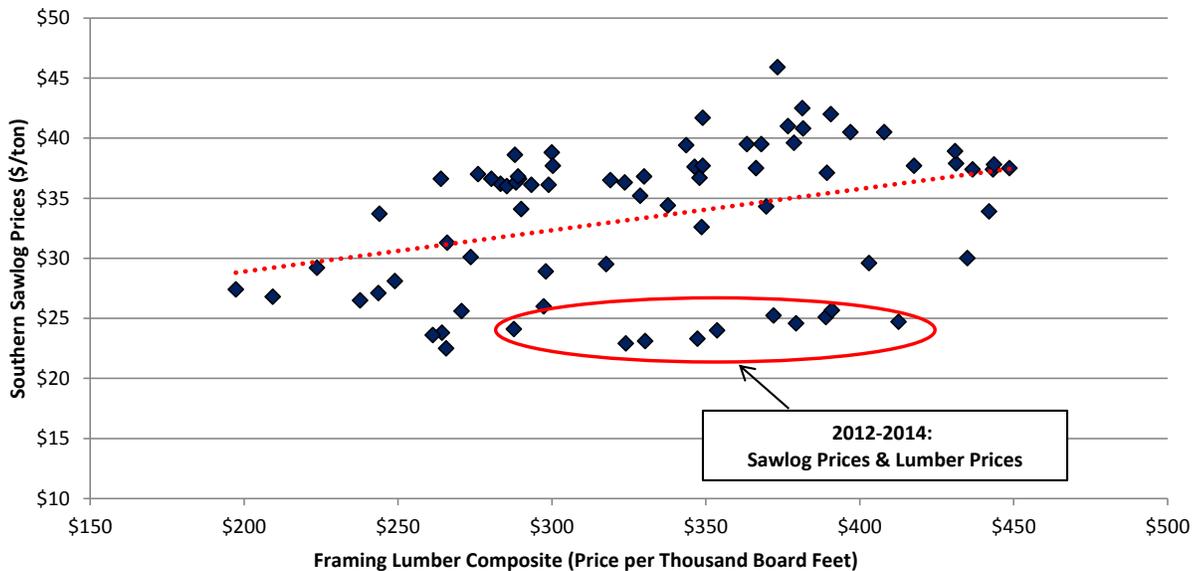
Harvard Leading Indicator of Remodeling Activity (1995-2015E)



Source: Harvard Joint Center for Housing Studies, Raymond James research.

Data as of July 2014

Southern Sawlog Prices vs. Framing Lumber Composite



Source: FEA, Random Lengths, Raymond James research.

Data is from 1Q96 to 2Q14

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
CatchMark Timber Trust, Inc.	CTT	NYSE	\$	10.68	2	RJ & Associates
Plum Creek Timber Company, Inc.	PCL	NYSE	\$	39.00	3	RJ & Associates
Potlatch Corporation	PCH	NASDAQ	\$	40.26	2	RJ & Associates
Rayonier, Inc.	RYN	NYSE	\$	31.16	3	RJ & Associates
Weyerhaeuser Company	WY	NYSE	\$	31.78	1	RJ & Associates

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US\$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be registered for sale in all U.S. states. NC=not covered.

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Raymond James & Associates (U.S.) definitions

Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.

Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.

Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months.

Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

Suspended (S) The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

Raymond James Ltd. (Canada) definitions

Strong Buy (SB1) The stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months.

Outperform (MO2) The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.

Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

Raymond James Latin American rating definitions

Strong Buy (SB1) Expected to appreciate and produce a total return of at least 25.0% over the next twelve months.

Outperform (MO2) Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.

Market Perform (MP3) Expected to perform in line with the underlying country index.

Underperform (MU4) Expected to underperform the underlying country index.

Suspended (S) The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

Raymond James Euro Equities, SAS rating definitions

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Outperform (2) Expected to appreciate and outperform the Stoxx 600 over the next 12 months.

Market Perform (3) Expected to perform generally in line with the Stoxx 600 over the next 12 months.

Underperform (4) Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.

Suspended (S) The rating and target price have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and target price are no longer in effect for this security and should not be relied upon.

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	Coverage Universe Rating Distribution				Investment Banking Distribution			
	RJA	RJL	RJ LatAm	RJEE	RJA	RJL	RJ LatAm	RJEE
Strong Buy and Outperform (Buy)	56%	69%	50%	45%	23%	35%	0%	0%
Market Perform (Hold)	40%	28%	50%	42%	8%	27%	0%	0%
Underperform (Sell)	5%	3%	0%	13%	0%	20%	0%	0%

Suitability Categories (SR)

Total Return (TR) Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.

Growth (G) Low to average risk equities with sound financials, more consistent earnings growth, at least a small dividend, and the potential for long-term price appreciation.

Aggressive Growth (AG) Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.

High Risk (HR) Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

Venture Risk (VR) Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

Raymond James Relationship Disclosures

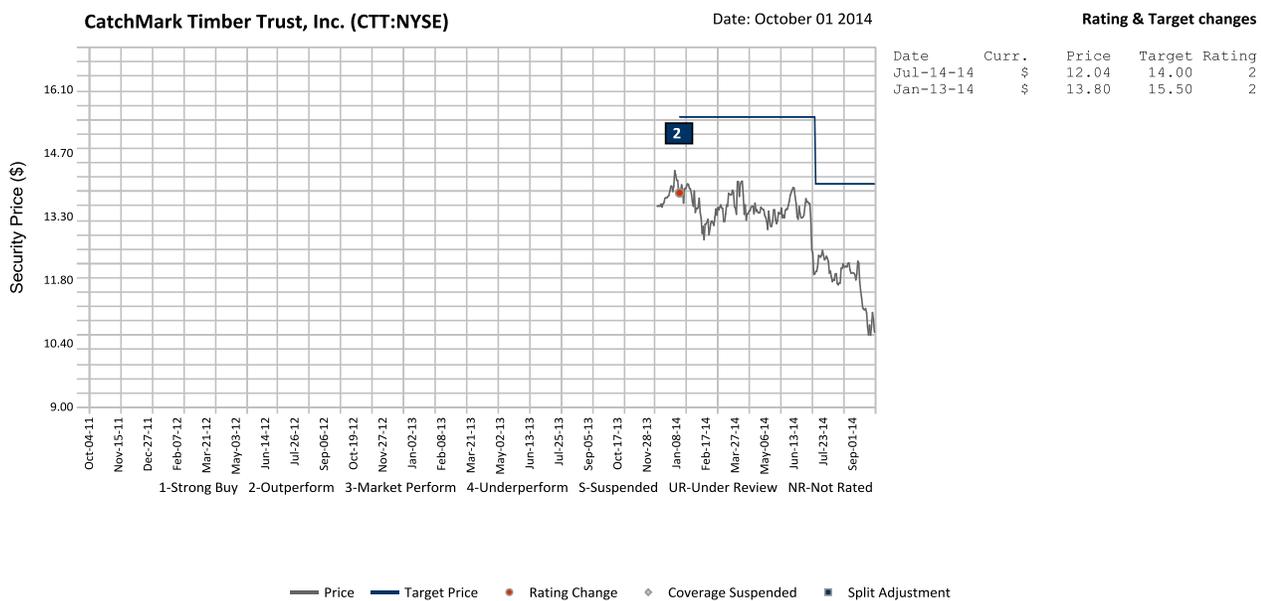
Raymond James expects to receive or intends to seek compensation for investment banking services from the subject companies in the next three months.

Company Name	Disclosure
CatchMark Timber Trust, Inc.	Raymond James & Associates lead-managed a follow-on offering of CTT shares within the past 12 months. Raymond James & Associates lead-managed an initial public offering of CTT shares within the past 12 months. Raymond James & Associates makes a market in shares of CTT. Raymond James & Associates received non-investment banking securities-related compensation from CTT within the past 12 months.
Potlatch Corporation	Raymond James & Associates received non-investment banking securities-related compensation from PCH within the past 12 months.

Stock Charts, Target Prices, and Valuation Methodologies

Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences. Only stocks rated Strong Buy (SB1) or Outperform (MO2) have target prices and thus valuation methodologies.

Target Prices: The information below indicates target price and rating changes for the subject companies included in this research.

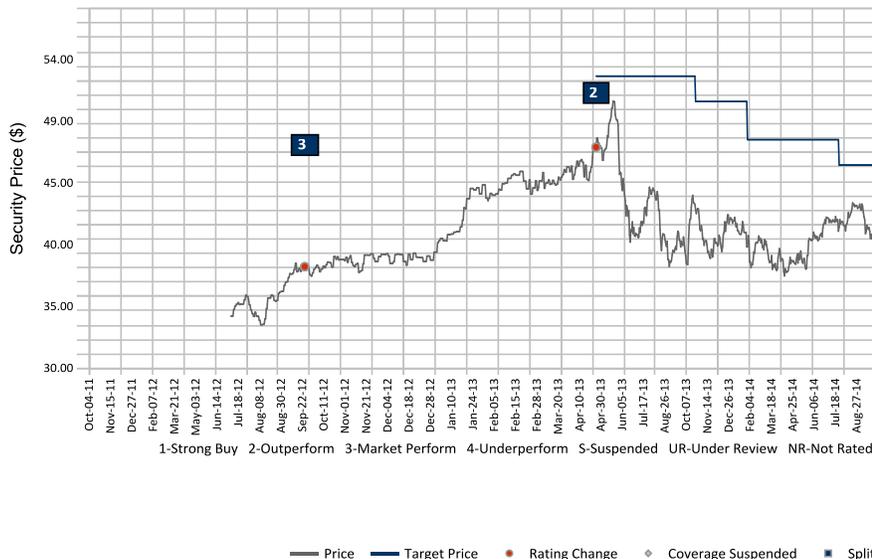


Valuation Methodology: Our valuation methodology for CatchMark includes a comparison of the company's share price to our estimate of NAV (net asset value) and the value of its owned timberland being implied by its share price. We also consider the company's dividend yield and cash available for distribution/share multiple.

Potlatch Corporation (PCH:NASDAQ)

Date: October 01 2014

Rating & Target changes



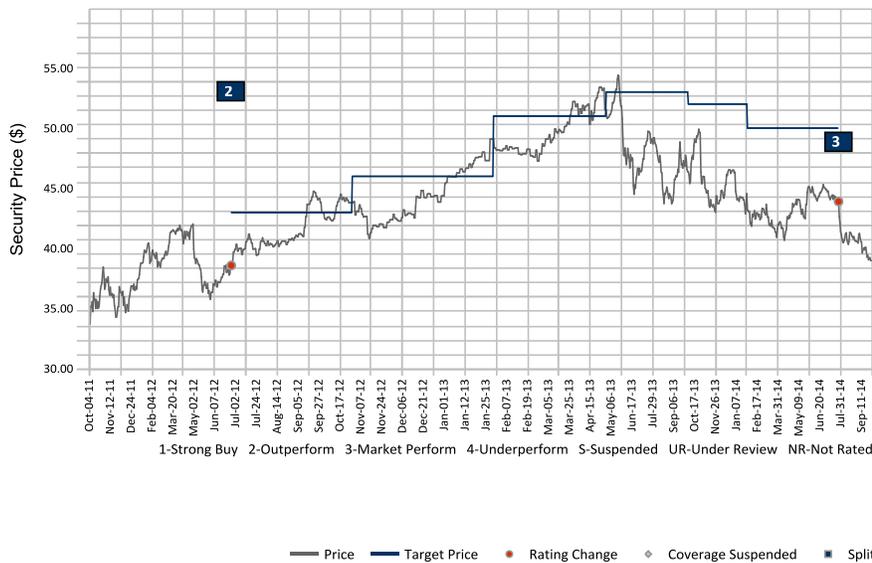
Date	Curr.	Price	Target	Rating
Jul-24-14	\$	41.15	46.00	2
Jan-30-14	\$	39.56	48.00	2
Oct-23-13	\$	42.49	51.00	2
Apr-25-13	\$	47.41	53.00	2
Sep-25-12	\$	38.00	NM	3

Valuation Methodology: Our valuation methodology for Potlatch includes a comparison of the company's share price to our estimate of NAV (net asset value) and a peer group multiple comparison. We also consider the company's dividend yield.

Plum Creek Timber Company, Inc. (PCL:NYSE)

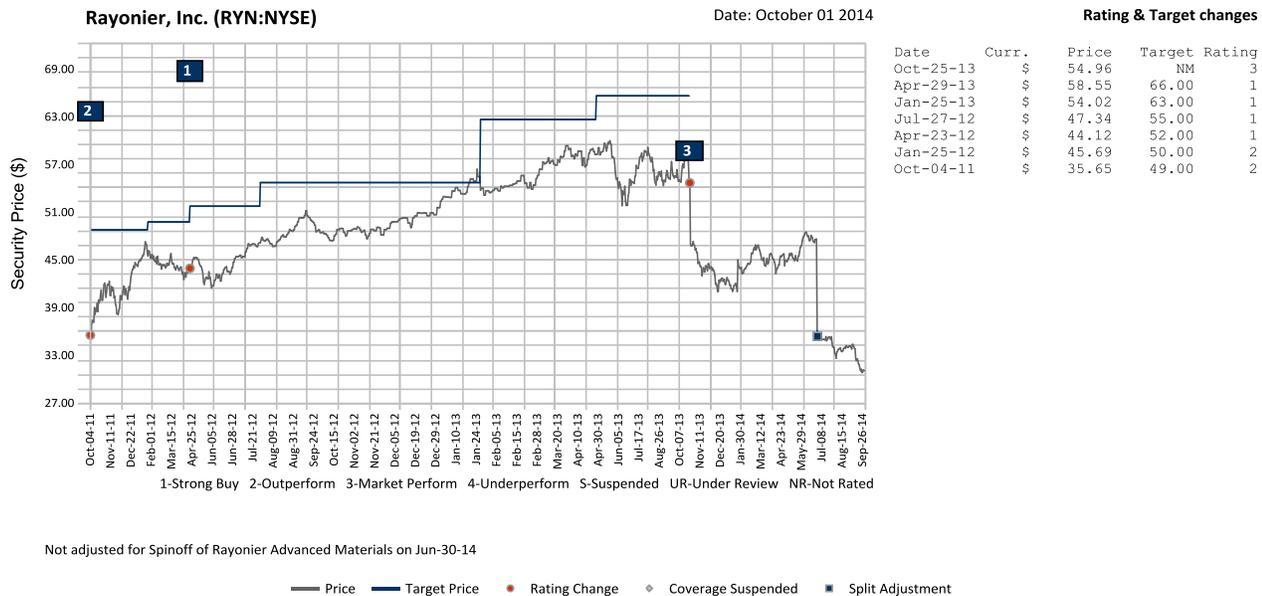
Date: October 01 2014

Rating & Target changes

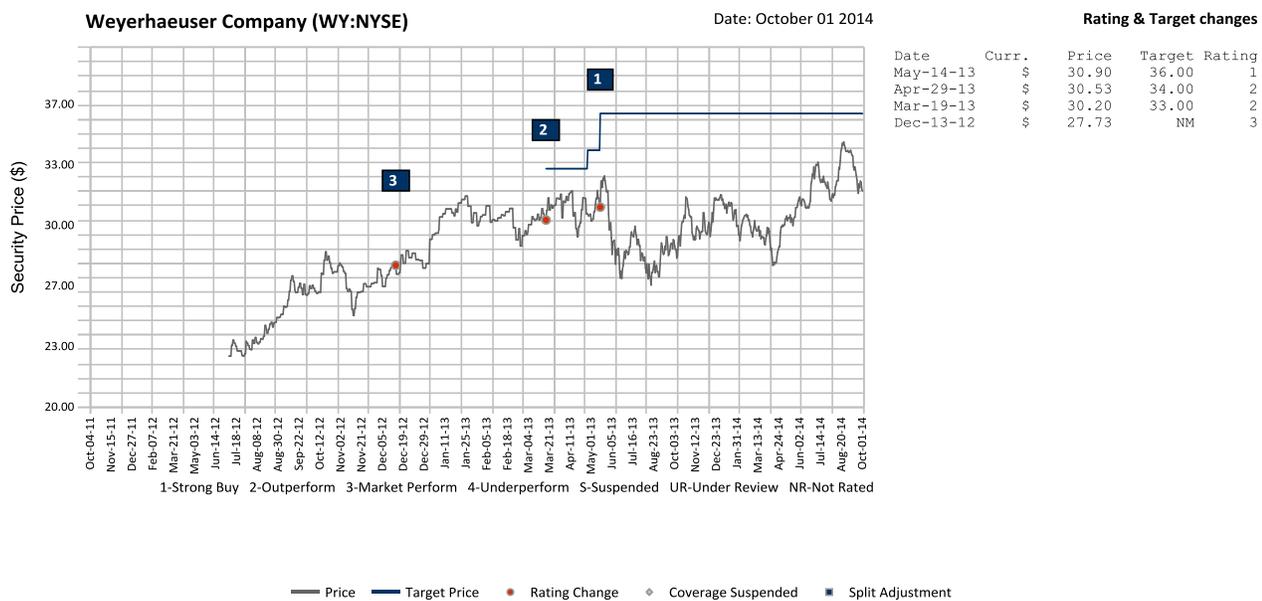


Date	Curr.	Price	Target	Rating
Jul-29-14	\$	43.91	NM	3
Jan-29-14	\$	43.17	50.00	2
Oct-07-13	\$	46.38	52.00	2
May-01-13	\$	51.54	53.00	2
Jan-30-13	\$	49.09	51.00	2
Oct-30-12	\$	43.81	46.00	2
Jun-28-12	\$	38.60	43.00	2

Valuation Methodology: Our valuation methodology for Plum Creek includes a comparison of the company's share price to our estimate of NAV (net asset value) and a peer group multiple comparison. We also consider the company's dividend yield.



Valuation Methodology: Our valuation methodology for Rayonier includes a comparison of the company's share price to our estimate of NAV (net asset value) and a peer group multiple comparison. We also consider the company's dividend yield.



Valuation Methodology: Our valuation methodology for Weyerhaeuser includes a comparison of the company's share price to our estimate of NAV (net asset value) and a peer group multiple comparison. We also consider the company's dividend yield.

Risk Factors

General Risk Factors: Following are some general risk factors that pertain to the projected target prices included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

Specific Investment Risks Related to the Industry or Issuer**Global Economy**

CatchMark (along with the other timber REITs) is partially protected from economic downturns by the fact that trees (until harvested) are continually growing. Older/bigger trees (representing more merchantable timber) are typically more valuable. This contrasts with many companies, who must move standing inventory before it becomes outdated. Moreover, while demand for sawtimber is levered to construction activity, pulpwood is vital in the production of many everyday consumer products. Still, prolonged declines in employment, consumer spending, and new home starts can significantly weigh on operating results. We also believe CatchMark's "higher and better use" land sales activity (and its corresponding pricing power) will be levered to the strength of the economy. In our view, when households are more comfortable in their financial situation their willingness to make discretionary purchases (such as buying recreational land) increases. Even in an improving real estate environment, we caution that CatchMark's assets could face competition from a re-emergence of land sellers as market conditions improve.

Company-Specific Risks for CatchMark Timber Trust, Inc.**Cyclical Nature of Construction Activity/Deferred Harvest Volume**

The demand for sawtimber is primarily affected by the level of new residential construction activity. Even as domestic construction activity accelerates, we caution that deferred timber harvesting in several wood baskets will allow some timberland owners to match rising demand with additional supply. While we are quite constructive on the multiyear outlook for sawlog prices, we believe pricing power in the near to intermediate term could be limited by the harvest deferral strategies many timberland owners subscribed to during the housing downturn. Moreover, a weaker-than-expected housing market over the next few years (driven by consumer sentiment, mortgage rates, or mortgage availability) would negatively impact the company's overall financial results and growth strategy.

Class B Share Conversions May Act as an Overhang on the Stock

Currently, only a portion of CatchMark's shares are trading. The company has approximately 6.3 million shares of Class B-2 and Class B-3 common stock outstanding (as of July 31, 2014). Although Class B common stock is not listed on a national securities exchange, its Class B-2 common stock and Class B-3 common stock will convert automatically into Class A common stock 12 months and 18 months, respectively, after the company's initial listing. We note, though, that its board of directors has the authority to accelerate the conversion of the Class B-2 shares and Class B-3 shares to dates not earlier than nine months and 12 months, respectively (with the consent of Raymond James, who served as a joint book-running manager on its recent equity offering). We believe the unlocking of the remaining shares could act as an overhang on CTT shares that are currently being traded.

Sawlog and Pulpwood Markets are Highly Competitive

CatchMark faces competition in selling its timber from various public and private competitors. We expect significant price competition, but would note that CatchMark: 1) maintains some advantages relative to smaller timberland owners; 2) has a supply agreement which will provide a stable outlet for a significant portion of the company's pulpwood; and 3) has over 50 mills within 100-mile radius of its timberland.

Relatively Small Size

If sawlog prices materially decline, CatchMark may find it more challenging to provide a competitive dividend given its relatively small asset base (compared to the other timber REITs). The company has a relatively lower ability to increase harvest activity (beyond a sustainable run-rate) or sell more land without depleting its asset base. In our view, this dynamic increases the importance that management executes on its growth strategy.

Lack of Diversification

Relative to timber REIT peers, we believe CatchMark's portfolio of timberlands is geographically concentrated. We believe this increases the risk profile of the company, as one mill closure (or other regional event) could materially impact CatchMark's results and/or ability to fund its dividend from operations. Similarly, this lack of diversification could negatively impact results if harvests in some markets are limited due to weather conditions, restrictions on access, the availability of loggers, or regulatory issues associated with the protection of wildlife and water resources.

Natural Disasters

Fire, insect infestation, disease, severe weather (such as hurricanes, tornadoes, or a prolonged drought), and other natural disasters could negatively impact CatchMark's timberlands. The company does not maintain insurance for the loss of standing timber on its timberlands due to natural disasters. Although not carrying insurance for timber holdings is typical for the industry, it clearly exposes the company to losses should natural disasters strike.

Interest Rates

We believe higher interest rates could negatively impact CatchMark by slowing the recovery in real estate development activity (reducing the demand for sawtimber) and adversely impact the company's "higher-and-better use" land sales opportunities. In addition, a higher interest rate environment would likely place downward pressure on CTT shares as investors require a higher dividend yield.

Customer Concentration

CatchMark derived 60% its 2013 net timber sales revenue from a single customer (MeadWestvaco) due to a fiber supply agreement established in connection with the company's acquisition of timberland previously owned by MeadWestvaco. The fiber supply agreement requires CatchMark to sell and requires MeadWestvaco to purchase a certain volume of pulpwood and other timber products annually. If

MeadWestvaco does not (or becomes unable to) continue to purchase significantly more than the minimum amount of timber it is required to purchase from the company it could have a negative impact on CatchMark's operations.

Acquisition Environment is Highly Competitive

In our view, CatchMark's balance sheet is positioned to complete acquisitions and we expect management will be able to identify attractive external growth opportunities. However, we believe it is important to highlight the company will be competing for timberlands with other REITs, TIMOs, and other entities. Many of CatchMark's competitors will have greater financial resources and a greater ability or willingness to take on leverage to acquire properties.

Exposure to Changes in Environmental Laws and Climate-Related Initiatives

The company (similar to other timber REITs) is subject to laws and regulations associated with the protection of timberlands, endangered species, timber harvesting practices, the protection of natural resources, and air/water quality that are subject to change. Examples of the laws and regulations that could impact CatchMark include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act of 1980, the National Environmental Policy Act, and the Endangered Species Act. In our view, the risks associated with environmental policies will vary depending on changes in the political winds influencing federal, state, and local policymakers. However, we believe it is important to note that relative to other REIT sectors, timber REITs are the most exposed to changes in environmental policies and laws. Drilling down, the Endangered Species Act and comparable state laws protect species threatened with possible extinction (at least one such species is present on CatchMark's timberland). As a result, the harvesting of timber, reforestation activities, and the construction and use of roads in or adjacent to the habitat of these species may be restricted. Furthermore, we would highlight storm water from roads supporting timber operations are currently exempted from the Environmental Protection Agency's National Pollutant Discharge Elimination System permit program, leaving these sources of water discharge to state regulation. However, the EPA's exemption has recently been subject to legal challenges. To the extent CatchMark is subject to future regulation of storm water runoff, operational costs to comply with such regulations could increase and adversely affect the company's results. In our view, it is possible environmental groups may seek to delay or prevent a variety of the company's operations. However, heightened awareness about the environment is not all bad for CatchMark. While calls for "energy independence" are down since the spike in crude oil prices in 2008, virtually all politicians seem to see the value (or at least want to reap the political benefits) of supporting renewable energy. As such, we believe the use of biomass/wood pellets as an alternative energy source will accelerate over the next decade (particularly internationally), helping to improve the demand for pulpwood.

Company-Specific Risks for Plum Creek Timber Company, Inc.

Cyclical Nature of Construction Activity

The demand for sawtimber is primarily affected by the level of new construction activity. Accordingly, Plum Creek's timber and manufactured products business were negatively impacted by the unprecedented decline in U.S. housing starts and the tightening of credit availability for construction-related projects. Even as domestic construction activity rebounds we caution that years of deferred timber harvesting may allow the industry to match rising demand with a healthy supply of sawtimber.

Potential for Natural Disasters

Fire, insect infestation, disease, severe weather (such as hurricanes, tornadoes, or a prolonged drought), and other natural disasters could negatively impact Plum Creek's timberlands. Notably, the company does not maintain insurance for any loss to its timber. Although not carrying insurance for timber holdings is typical for the industry, it clearly exposes the company to losses should natural disasters strike.

Exposure to Changes in Environmental Laws and Climate-Related Initiatives

The risks associated with environmental policies will vary depending on changes in the political winds influencing state and local policymakers. However, we believe it is important to note, relative to other REIT subsectors, that timber REITs are the most exposed to changes in environmental policies and laws.

Dependence on Approval of Real Estate Entitlements

One of Plum Creek's strategies is to add long-term value to its timberlands. Often, this requires obtaining land entitlements and evaluating joint venture opportunities. We caution that changes in legal and regulatory requirements by state and local governments could raise the costs, alter the tax implications, and extend the time horizon to take land through the entitlement process, thereby reducing the attractiveness of this segment of Plum Creek's operations.

Fluctuations in Energy and Raw Material Costs

Energy and raw material costs are a significant operating expense, and higher costs could place pressure on margins. Rising fuel costs could adversely impact the cost of transporting Plum Creek's products, both domestically and internationally, as well as the cost and availability of third-party logging and trucking services that facilitate timber harvesting.

Company-Specific Risks for Potlatch Corporation

Cyclical Nature of Construction Activity

The demand for sawtimber is primarily affected by the level of new residential construction activity. Accordingly, Potlatch's timber and wood products operations were negatively impacted by the unprecedented decline in U.S. housing starts and the tightening of credit availability for construction-related projects. Even as domestic construction activity accelerates, we caution that deferred timber harvesting will allow the industry to match rising demand with additional sawtimber (to some degree). Consequently, we believe this will likely prevent any sharp rise in stumpage/delivered log pricing in the near term. In addition, we believe Potlatch's strategy to maximize the value of land it has identified

as having development potential is contingent upon a material reacceleration in development activity. Even in an improving real estate environment, we caution that Potlatch's assets could face competition from a re-emergence of land sellers currently sidelined by market conditions.

Lack of Diversification

We believe Potlatch's portfolio of timberlands is geographically concentrated, relative to timber REIT peers. We believe this increases the risk profile of the company, as one mill closure (or other regional event) could materially impact Potlatch's results and/or ability to fund its dividend from operations. For example, Georgia-Pacific closed its Crossett, Arkansas plywood and stud mills in November 2011. This closure was a key factor in Potlatch's decision to defer harvest activity and lower its dividend. Similarly, this lack of diversification could negatively impact results if harvests in some markets are limited due to weather conditions, restrictions on access, the availability of loggers, and regulatory issues associated with the protection of wildlife and water resources.

Fluctuations in Energy and Raw Material Costs

Higher energy and raw material costs could place pressure on the profitability of Potlatch's timber and manufacturing operations. Rising fuel costs could adversely impact the cost of manufacturing Potlatch's wood products, as well as the cost and availability of third-party logging and trucking services that facilitate timber harvesting.

Potential for Natural Disasters

Fire, insect infestation, disease, severe weather (such as hurricanes, tornadoes or a prolonged drought), and other natural disasters could negatively impact Potlatch's timberlands. The company does not maintain insurance for the loss of standing timber on its timberlands due to natural disasters. Although not carrying insurance for timber holdings is typical for the industry, it clearly exposes the company to losses should natural disasters strike.

Pension Plan Liabilities

Potlatch's pension plan is currently underfunded and the company was required to contribute \$9.7 million in 2012. The company's defined benefit pension plans remain underfunded (after being overfunded as of December 31, 2007), as a result of the downturn in the financial markets in 2008 and the change in long-term interest rates and discount rates.

Spin-Off of Clearwater Paper Corporation

Potlatch obtained a private letter ruling from the IRS that the spin-off of Clearwater Paper qualified for tax-free treatment under the U.S. Internal Revenue Code. The ruling relies on certain representations, assumptions and undertakings, including those relating to the past and future conduct of Potlatch and Clearwater Paper. The IRS could determine that the spin-off should be treated as a taxable transaction. If the spin-off fails to qualify for tax-free treatment, the company would be subject to tax as if it had sold Clearwater Paper common stock in a taxable sale for its fair market value, and Potlatch stockholders who received the distribution of Clearwater Paper common stock would be subject to tax as if they had received a taxable distribution equal to the fair market value of the Clearwater Paper common stock that was distributed to them.

Exposure to Changes in Environmental Laws and Climate-Related Initiatives

The risks associated with environmental policies will vary depending on changes in the political winds influencing state and local policymakers. However, we believe it is important to note, relative to other REIT sectors, that timber REITs are the most exposed to changes in environmental policies and laws.

Company-Specific Risks for Rayonier, Inc.

Cyclical Nature of Construction Activity

The demand for sawtimber is primarily affected by the level of new construction activity. Accordingly, Rayonier's timber business was negatively impacted by the unprecedented decline in housing starts and the tightening of credit availability for construction related projects. Even as construction activity begins to rebound, we caution that years of deferred timber harvesting allows the industry to match rising demand with a healthy supply of sawtimber.

Potential for Natural Disasters

Fire, insect infestation, disease, severe weather (such as hurricanes, tornadoes, or a prolonged drought), and other natural disasters could negatively impact Rayonier's timberlands. Notably, the company does not maintain insurance for any loss to its timber. Although not carrying insurance for timber holdings is typical for the industry, it clearly exposes the company to losses should natural disasters strike.

Exposure to Changes in Environment Laws and Climate-Related Initiatives

The risks associated with environmental policies will vary depending on changes in the political winds influencing state and local policy makers. However, we believe it is important to note, relative to other REIT subsectors, timber REITs are the most exposed to changes in environmental policies and laws.

Dependence on Approval of Real Estate Entitlements

One of Rayonier's key strategies is to add long-term value to its timberlands. Often, this requires obtaining land entitlements and evaluating joint venture opportunities. We caution changes in legal and regulatory requirements by state and local governments could raise the costs, alter the tax implications, and extend the time horizon to take land through the entitlement process, thereby reducing the attractiveness of this segment of Rayonier's operations.

Company-Specific Risks for Weyerhaeuser Company

Cyclical Nature of Construction Activity

Weyerhaeuser's real estate, timber, and wood products business were negatively impacted by the unprecedented decline in U.S. housing starts and new home sales, as well as the tightening of credit availability for all construction projects. The demand for sawtimber is primarily affected by the level of residential construction activity, which we believe is poised to improve materially over the next few years. However, we caution that the decision to defer some harvest activity throughout the downturn will allow the industry to readily match rising demand with additional sawtimber (to some degree). Consequently, we believe this will likely prevent any sharp rise in stumpage/delivered log pricing in the near term.

Timber, Pulpwood, and Wood Products Markets Are Highly Competitive

Weyerhaeuser faces competition in selling its timber from various public and private competitors. We expect price competition will remain fierce, but do believe Weyerhaeuser has some advantages relative to smaller timberland owners. We would also note its products may compete with alternative products in certain market segments. For example, plastic, wood/plastic or composite materials may be used by builders as alternatives to the products produced by Weyerhaeuser's businesses such as lumber, veneer, plywood and oriented strand board.

Fluctuations in Energy and Raw Material Costs

Higher energy and raw material costs could negatively impact the profitability of Weyerhaeuser. Rising fuel costs could adversely impact the cost of manufacturing Weyerhaeuser's wood products, real estate, and cellulose fibers business, as well as the cost and availability of third-party logging and trucking services that facilitate timber harvesting.

Potential for Natural Disasters

Fire, insect infestation, disease, severe weather (such as hurricanes, tornadoes or a prolonged drought), and other natural disasters could negatively impact Weyerhaeuser's timberlands. The company does not maintain insurance for the loss of standing timber on its timberlands due to natural disasters. On this front, the explosion of Mount St. Helens in 1980 had a negative impact on Weyerhaeuser. The eruption devastated 68,000 acres of Weyerhaeuser land and destroyed logging camps and equipment, 650 miles of road, 19 bridges and 16 miles of railroad track.

Although not carrying insurance for timber holdings is typical for the industry, it exposes the company to losses should natural disasters strike. Notably, because Weyerhaeuser's manufacturing operations uses wood fiber from its own timberlands in many cases, damages to the company's timberlands may also have an adverse impact (disruption in production or higher costs) on its wood products/cellulose fibers business.

Pension Plan Liabilities

Weyerhaeuser's pension plan is underfunded, and the company may be required to make contributions.

Currency Exchange Rates

Weyerhaeuser has manufacturing operations in Canada, Uruguay, and Brazil. The company is also a large exporter and competes with producers of similar products. Therefore, the company is affected by changes in the strength of the U.S. dollar relative to the Canadian dollar, euro and yen, and the strength of the euro relative to the yen.

Exposure to Changes in Environment Laws and Climate-Related Initiatives

The risks associated with environmental policies will vary depending on changes in the political winds influencing state and local policymakers. However, we believe it is important to note that relative to other REIT subsectors, timber REITs are the most exposed to changes in environmental policies and laws. In its timber business, any delay associated with a government filing could result in a delay or restriction in replanting, thinning, insect control, fire control, or harvesting. As an example, several states require prior notification and a regulatory review prior to harvesting, depending upon the environmental and other sensitivities of the proposed activity. On that note, environmental groups may seek to delay or prevent a variety of Weyerhaeuser's operations. We believe it is possible that interested groups/individuals will intervene with increasing frequency in the future. Similarly, a number of species indigenous to Weyerhaeuser's timberlands have been listed as threatened or endangered or have been proposed for one or the other status under the Endangered Species Act. As a result, the company's activities in or adjacent to the habitat of these species may be subject to restrictions on the harvesting of timber, reforestation activities, and the construction and use of roads. In addition, the Clean Water Act (and comparable state laws and regulations) protects water quality. As a result, activities adjacent to rivers and streams are also subject to strict regulation. On the manufacturing front, the company is also exposed to a wide-range of regulations relates to air emissions, wastewater discharges, and the storage, management, and disposal of hazardous substances and wastes.

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