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What Happens Now After a Strong Run for Timberland?

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Timberland investments delivered strong performance in the five-year period following the Covid-19 pandemic. From 2020 Q1 through 2025 Q1, U.S. timberland investments generated a total annual return of 7.93%, according to the National Council of Real Estate Fiduciaries (NCREIF). This outpaced other real assets such as commercial real estate and farmland, which returned 3.38% and 4.83%, respectively, over the same time periods as shown in Table 1 below.

As returns begin to moderate – falling to 5.60% for the 4-quarter period ending March 31, 2025 – investors are wondering whether timberland remains a prudent investment in their portfolios. Is this an opportunity to reduce exposure to the asset class or does timberland still hold long-term value potential? This paper examines the key drivers behind timberland’s past performance and offers insight into its prospects for the years ahead.

Table 1.

Total Annual Return of Real Assets Through 2025 Q1

NCREIF Benchmark	5-Year	3-Year	1-Year
Timberland NCREIF Timberland Property Index	7.93%	8.89%	5.60%
Real Estate NCREIF Expanded National Property Index	3.38%	-1.84%	2.82%
Farmland NCREIF Farmland Index	4.83%	3.50%	-1.70%

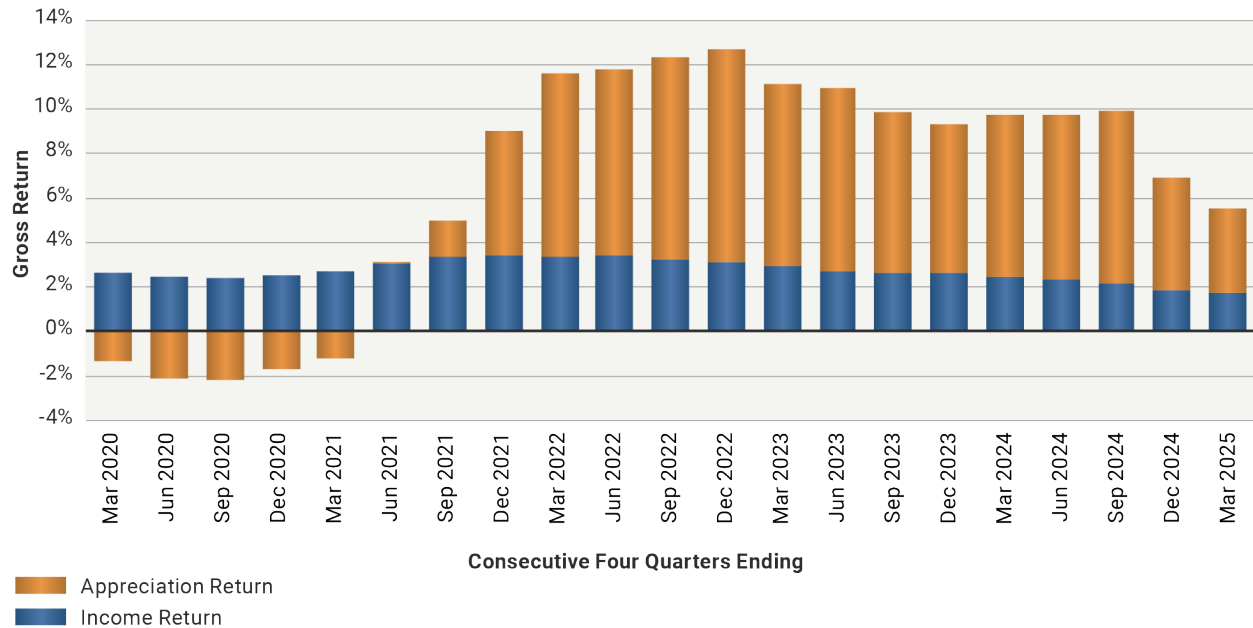
Source: National Council of Real Estate Fiduciaries (NCREIF)

What Drove Timberland Returns Since 2021?

The primary driver of returns post-2020 has been capital appreciation. As shown in Figure 1, appreciation surged in 2021 while income remained relatively stable, contributing to a peak four-quarter total return of 12.90% in 2022 Q4, the highest rolling four-quarter return since 2008 Q3.



Figure 1.

Rolling Four-Quarter Return for U.S. Timberland Segmented Between Income and Appreciation Return

Values shown reflect returns on the forest property-level and do not include management fees or the effects of debt (i.e., leverage).

Source: NCREIF Timberland Property Index.

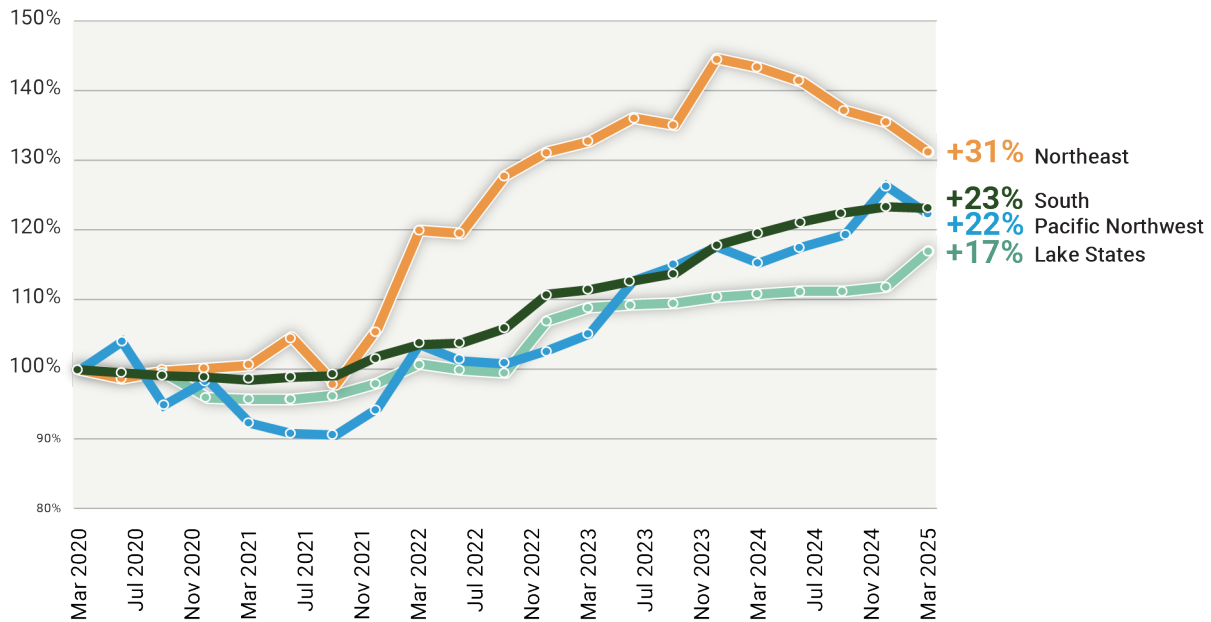
Appreciation surged in 2021 while income remained relatively stable, contributing to a peak four-quarter total return of 12.90% in 2022 Q4, the highest rolling four-quarter return since 2008 Q3.

Capital appreciation was underpinned by rising timberland asset values, as competition for a limited supply of quality assets intensified during this period. In the U.S. South, one of the most actively traded regions in the world, average prices increased by 23% over five years, from \$1,813/acre in 2020 Q1 to \$2,232/acre in 2025 Q1 (see Figure 2). Other regions in the U.S. saw similar growth, ranging from 17% in the Lake States to 31% in the Northeast.



Figure 2.

Price of Investable U.S. Timberland by Region Normalized to 100% at 2020 Q1



Source: NCREIF Timberland Property Index

Several potential drivers were considered to explain the increase in timberland asset values:

1. Decline in interest rates (not observed)
2. Rise in current timber prices (not observed)
3. Expectation of future timber price gains
4. Growth in non-timber sources of income or value
5. Increased demand in “retail” rural land market
6. Accelerated transition of timberland to other higher-valued land uses

With the first two factors ruled out, the remaining four likely contributed to capital appreciation, with regional variations (see Table 2). For example, anticipated declines in Canadian lumber exports have driven optimism for increased demand and timber pricing in the Pacific Northwest, while demographic shifts, driven by people looking for jobs and lower living costs, and infrastructure investment have lifted rural land values in the South.



Table 2.

Possible Factors That Could Raise Timberland Values

Factor	Description	Likelihood to Have Affected Timberland Values 2021-2025
Decline in Interest Rates	Falling interest rates in turn can lower the discount rates and capitalization rates used to value real assets like forestland. Lower rates, all other things being equal, will raise net present value (NPV) or discount cash flow (DCF) calculations of timberland assets.	✗ Since 2020, long-term interest rates have increased, not decreased. For example, after hitting a low of 2.60% on August 1, 2022, the yield of 10-year U.S. Treasury Notes has risen to 4.23% by March 31, 2025.
Rise in Current Timber Prices	Higher timber prices raise the potential value created from biological growth of trees and the income generated from timber harvests. This benefits a timberland buyer's assessment of what a timberland property is worth.	✗ Prices for many different timber markets across the U.S. have changed little over the past five years. For example, the average price of southern pine sawtimber across the U.S. South was \$24.07 a ton in 2020 Q1, compared to \$25.07 a ton in 2025 Q1, a gain of only 4.2%.
Expectation of Future Timber Price Gains	If the buyer foresees timber markets improving in the future, they expect to see more income and higher valuations during their ownership. That improved outlook justifies their ability to pay more for the forest asset.	✓ Most informed timberland buyers know of forecasts that show improving timber prices in the coming decade. These forecasts are based on the assumption that imports of lumber from Canada will decline while U.S. demographic growth will eventually push home construction activity higher.
Growth in Non-Timber Sources of Income or Values	Forests can generate other sources of income beyond commercial timber production, such as conservation easements, recreational leases, carbon capture and storage, renewable energy project, and environmental mitigation banking. Growing markets for these natural capital solutions could raise a forest asset's value.	✓ In recent years, there has been a surge in interest in <i>natural capital solutions</i> that forests provide. Whether it is through the development of solar farms, creation of wetlands mitigation banks, or the creation of forest-based carbon credits, these natural capital markets often supplant or supplement the income generated from the practice of commercial forestry.
Increased Demand in "Retail" Rural Land Market	Strong demand for smaller-parcel forestland (often under 1,000 acres) from private individuals and small businesses can positively influence the large-sized timberland market that institutional investors occupy.	✓ Following the Covid-19 pandemic, there has been a renewed interest by private individuals and small family offices to buy forestland. Buyers of "retail" forest assets use it as a store of value, a source of income, a place for recreation, and a legacy for the next generation.
Acceleration of Forestland in the Path of Economic Development	Forestland in proximity to urban centers can transition into higher and better uses (HBU) due to demographic growth and positive economic development.	✓ In the past half decade, there has been heightened infrastructure spending and the re-shoring of manufacturing. Among them were new warehouses, IT data centers, pharmaceuticals, pipelines and utility lines, office parks and EV battery plants.



Future Sources of Return

As capital appreciation, the main driver for total return over the last five years, begins to taper – falling to 3.79% on a rolling four-quarter basis by 2025 Q1 down from 6.71% between 2021 and 2024 – timberland investors are evaluating what may drive future returns for the asset class (Figure 1).

We examine four important features that support timberland's continued role in a balanced real asset portfolio: appreciation-income cycles, income generation, relative valuation, and long-run performance resilience.

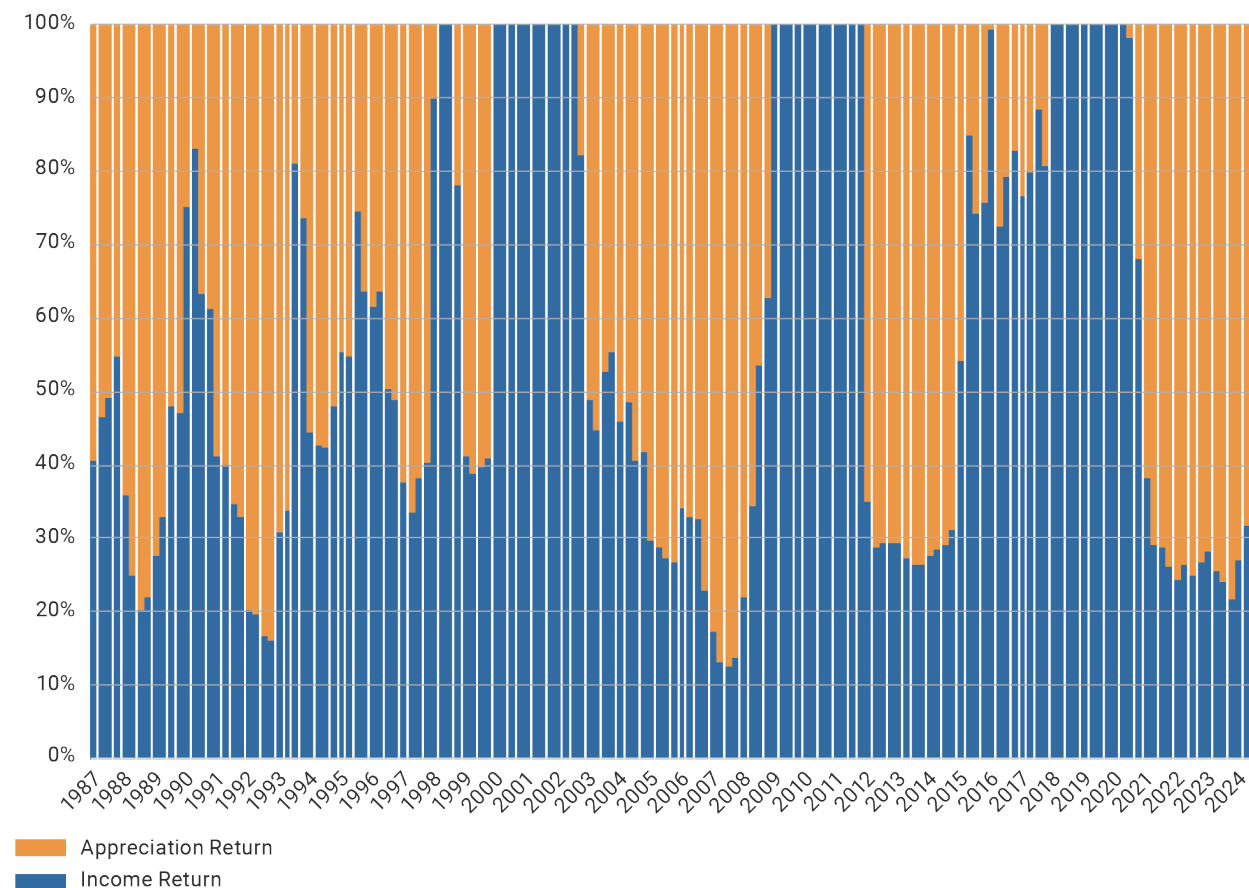
Cycles Between Appreciation and Income

Historically, timberland returns have cycled between appreciation-led and income-led periods (see Figure 3). Since the inception of the NCREIF Timberland Property Index in 1987, there have been nine income-dominant cycle periods, averaging 7.7 quarters, and ten appreciation-led cycles averaging 8.1 quarters. The most recent appreciation cycle, lasting 14 quarters through 2025 Q1, exceeded this average, indicating a likely reversion toward income-driven performance.

Income typically stems from timber harvests and, increasingly, from non-timber sources such as conservation easements and carbon credits. These sources may play a larger role in future cycles.

Figure 3.

Share of U.S. Timberland Return Between Income and Appreciation Rolling 4-Quarter Returns





Economic and Market Drivers for Greater Timberland Income

Several macroeconomic and market trends point to the potential for rising timber prices, which will support increased income returns.

- **Housing Shortage:** The U.S. faces an estimated housing deficit of 2 to 5 million units, a result of underbuilding in the aftermath of the Global Financial Crisis of 2007.¹ Addressing this shortfall will lead to an extended period of above-average housing starts and, therefore, to a sustained increased demand for lumber.
- **Reduced Canadian Supply:** British Columbia, the leading Canadian producer of softwood lumber, has seen sawmill capacity decline by 4.3 billion board feet, or 34%, over the past five years due to beetle infestations, wildfires, and environmental restrictions. Canadian supply is expected to be replaced with lumber supply from domestic U.S. lumber producers in Pacific Northwest and the South.
- **Southern Capacity Expansion:** The U.S. South has seen softwood sawmill and OSB production capacity increase by 45%² and 27% respectively, following a decade of capital investments by lumber and panel producers. Softwood sawmill capacity is expected to increase by an additional 20% over the coming decade.

Analyst forecasts by Fastmarkets RISI and Forest Economic Advisors (FEA), two of the leading forecast groups in the asset class, estimate timber price appreciation of 4% to 8% annually over the next 10 years across the U.S. Pacific Northwest and U.S. South (see Table 3), supporting a shift to a higher proportion of income-led returns.

Table 3.

Forecasted Rate of Increase of Timber Prices (Stumpage) by Fastmarkets RISI and Forest Economic Advisors (FEA)

Region & Product	5-Year 2025-2030		10-Year 2025-2035	
Pacific Northwest - Douglas Fir	4.7% RISI	4.0% FEA	4.4% RISI	3.7% FEA
South - Southern Pine Sawtimber	8.1%	1.9%	5.6%	4.8%
South - Southern Pine Chip n' Saw	8.1%	3.2%	7.8%	4.7%

Sources:

Fastmarkets RISI, North American Timber Forecast (April 2025)

Forest Economic Advisors, Timber Quarterly Forecast (Q1 2025)

¹ A representative example is the estimate by Freddie Mac of a 3.7 million shortfall: Freddie Mac, "Economic, Housing and Mortgage Market Outlook – November 2024." (Nov. 26, 2024)

² Forest Economic Advisors, *Timber Quarterly Forecast 2025 Q1*. (Mar. 13, 2025)



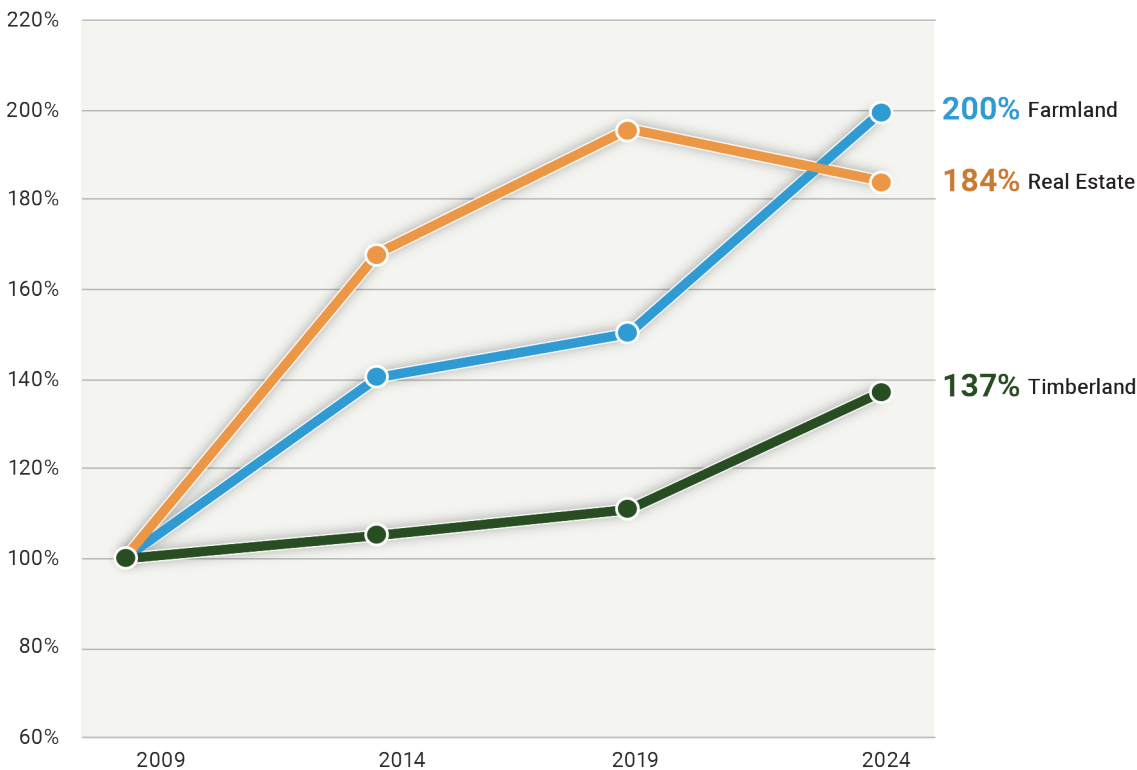
Timberland's Relative Value

Despite recent gains, timberland remains comparatively undervalued. Since the Global Financial Crisis, commercial real estate and farmland values have increased by 184% and 200% respectively (see Figure 4). In contrast, timberland values rose by only 137% during the same period. Meanwhile, equities surged; most notably the Standard & Poor 500 index rose 403% and reached a price-to-earnings ratio of 28x, well above its historic median of 17.7x.

This relative pricing dynamic positions timberland as an appealing option within a diversified portfolio, especially for investors seeking real returns with lower correlation to equities.

Figure 4.

Relative Price of Real Assets Since the Global Financial Crisis (2009 = 100%)



Sources for pricing: US Department of Agriculture Land Values 2024 Summary for farmland; Green Street's Commercial Property Price Index (CPPI) for real estate; NCREIF Timberland Property Index for timberland. Timberland pricing is based on quarter-over-quarter changes in per acre values of each timberland region weighted on a 5%/5%/25%/65% basis for the Lake States, Northeast, Pacific Northwest and South respectively.

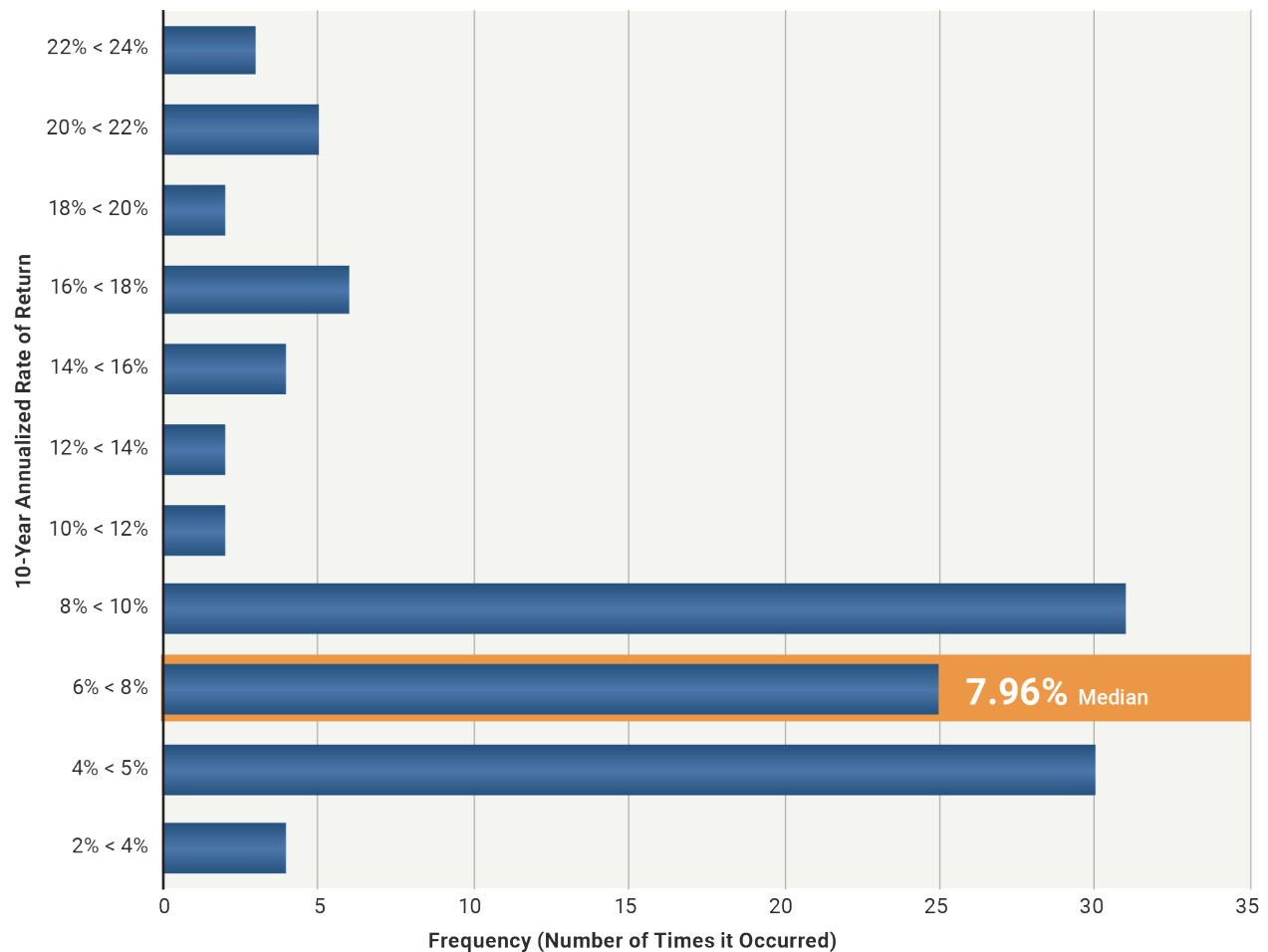
Historical Performance Perspective

Timberland's long-run performance record adds a fourth pillar of support. The asset class has produced positive rolling 10-year returns in nearly every period since 1987, with a median of 7.96% (see Figure 5). Out of a possible 114 cases, there have been only four instances (or 3.5% of the time) when 10-year returns fell below 4.0% with the lowest being 3.74%, which occurred between 2009 Q1 and 2019 Q1. Timberland investors rarely experience depressed returns over the long run.



Figure 5.

Tracking Number of Times the Timberland Property Index Provided 10-Year Returns of a Given Range since Inception through 2025 Q1



The resilience of the asset class is underpinned by three core factors:

- **Biological Growth:** Depending on the climate and soil, biological growth could add 2% to 7% in value each year to the standing timber of a timberland property, as trees grow in volume and transition from lower-grade, lower-value logs (such as pulpwood) to higher-grade, higher-value logs (such as sawtimber).
- **Price Appreciation:** Over the long run, inflation in end-use wood products flows back to timber prices.
- **Land Value Appreciation:** Land values have consistently appreciated due to improved forest productivity (silvicultural improvements and advanced genetics) and economic development (path of growth in a rural area).



Conclusions and Guidance

The exceptional returns of 2021–2024 were largely driven by capital appreciation, which may not be repeated in the short term. However, timberland remains a compelling long-term asset class. Rather than adjusting allocations based on near-term return expectations, investors should consider timberland’s fundamentals: consistent biological growth, macroeconomic tailwinds for timber demand, and comparative value versus other assets. For investors with a long time horizon, it continues to offer resilience, as well as real returns coupled with diversification benefits that few asset classes can match.

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