

# MADISON'S LUMBER REPORTER



Publisher  
**KetaDesign Productions**

Editor  
**Kéta Kosman**

Market Analyst  
**Zara Heartwood**



Annual Subscription Prices  
E-mail/Fax: C\$339  
Discounts available for multiple  
subscriptions  
Published 50 times a year



www.madisonsreport.com  
madrep@shawcable.com  
604 984-6838  
PO Box 2486 Vancouver, BC  
V6B 3W7 Canada



In Canada, add 5% GST  
ISSN 0715-5468  
Printed in Canada



## News & Updates

### Pope & Talbot Oregon Mill Sold

A second auction for bankrupt Pope & Talbot's sawmill in Halsey, OR had to take place Monday after a losing bidder objected to the first process. Wayzata Investment Partners of Minnesota made the winning bid of US\$31.15 million on the sale expected to close June 20.

The United Steelworkers, representatives of 78 per cent of mill employees immediately tried to have the deal nullified on the grounds that the existing labour contract with Pope & Talbot would not be honoured by the new owner. The winning bidder of the first auction, Ableco Finance (New York, NY) had already ratified the labour agreement on Saturday. Since winning Wayzata has refused to recognize the contract, or even to negotiate with the union. The Steelworkers fear that the new owners will simply start a hiring process, bringing on staff under completely new terms. However the union is still advising its members to apply; if enough previous employees are rehired they will have a stronger position at the bargaining table.

### Fire Season

Fires started in several locations of California with week, with three firefighters being sent to hospital after being overrun by flames in Lincoln. Two fire engines were also burned. That fire is now contained after burning 21 hectares (50 acres).

A major fire burning 260 km (160 miles) southwest of Oslo, Norway for five days may require the help of neighbouring countries to be extinguished. *READ MORE*

### BC Government to Help China

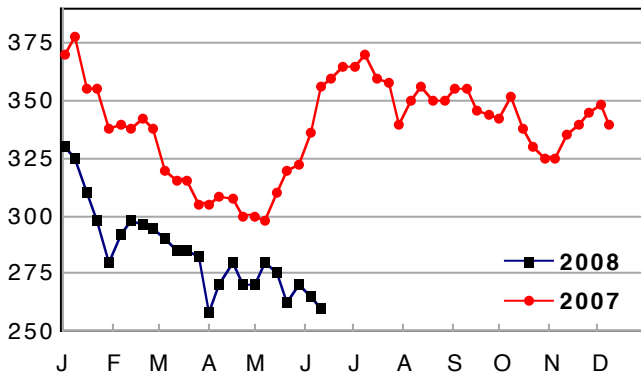
In addition to other aid already promised by both the Federal Government of Canada and the Provincial Government of British Columbia, a major initiative was announced today to rebuild homes in China. BC wood products will be used to construct temporary shelters immediately, and a permanent wood-framed community by August in a two phase project involving \$5 million from BC and \$3 million from Ottawa. *READ MORE*

### Canadian Forestry Issues

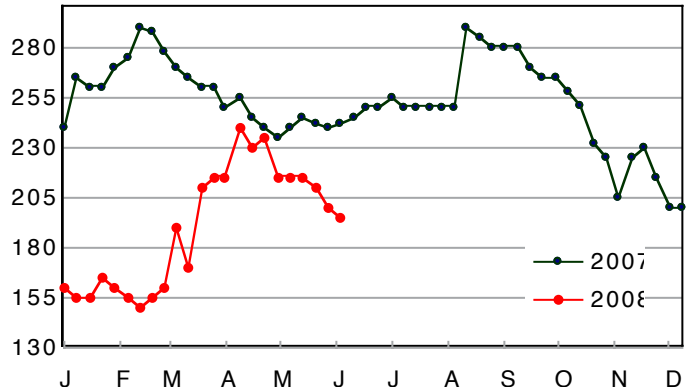
While it may seem illogical, now is an excellent time to invest in forestry, wood products, and building materials companies. Businesses related to these industries are currently so undervalued on the stock market that the term 'it's a steal' is not an exaggeration. Of course, there is likely a two-year wait before companies begin showing profits again, but when they do - those that survive - there will be a big payout.

Brokerage firms and investment companies all across North America, in the United States especially, have been buying up enormous amounts of shares in forest and wood products companies of all kinds. Particularly those connected to sizable tracts of timberland. *READ MORE*

WSPF KD #2&Btr 2x10



Douglas Fir Green #2&Btr 2x8



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	235	246	-11	235	0	276	-41
WSPF KD R/L 2x6	221	232	-11	220	+1	266	-45
WSPF KD R/L 2x8	233	236	-3	210	+23	282	-49
WSPF KD R/L 2x10	260	265	-5	280	-20	336	-76
WSPF KD PET 2x4 Stud	242	245	-3	235	+7	285	-43
Douglas Fir Green R/L 2x4	225	218	+7	270	-45	310	-85
Douglas Fir Green R/L 2x10	195	200	-5	240	-45	360	-165
ESPF KD 2x4 8ft Stud	315	315	0	310	+5	365	-50
OSB Ontario 7/16" (CDN\$)	210	210	0	190	+20	180	+30

## Weekly News

### Forest Fires

*CONTINUED* A 2,000 hectare (4,800 acre) fire is burning outside the Norwegian town of Arendal, the largest that country has seen since the Second World War. No injuries were reported but several vacation homes burned and over 70 people had to be evacuated.

Smoke could be seen from Denmark, 120 km (75 miles) away. Norway has used four helicopters and almost 300 firefighters to battle the blaze, and is now considering asking other Nordic countries or even members of the European Union to help.

Another wildfire broke out in California later in the week, this time in the Santa Cruz mountain region. So far that fire has burned 250 hectares (600 acres) and caused the evacuation of 1,200 people.

The fire started in Bonny Doon Ecological reserve but officials are unsure of precisely how. There is fear the fire

could easily spread uphill to the populated Pine Ridge area. At the top of that ridge, between tall stands of pine trees and the neighbourhood, a wide firebreak was bulldozed.

Unusually dry conditions are contributing to the fire burning through vegetation more quickly than usual for this time of year. Seven helicopters, 11 air tankers and 720 fire fighters are working to battle the blaze.

Another fire in northern California's Butte County threatens 8,300 hectares (20,000 acres) causing 9,00 residents of the town of Chico to be evacuated. 1,500 fire fighters are at that location.

7,700 hectares (18,600 acres) of Los Padres National Forest in Monterey County also burned in a fire that is now 40 per cent contained.

### Rebuilding China

*CONTINUED* Traditional distrust of wood-framed homes in Asian cultures was

soundly shaken in China when it was widely reported that the only building left standing in an area completely demolished by the earthquake was of post-and-beam construction.

Termed the "miracle house" by Chinese media, that structure will make an excellent selling point for this new BC wood export project.

Work on putting up the temporary wood-framed shelters will begin immediately and should be completed by August. A 1,000 home village, including a school and retail outlets is expected to be build by spring of 2009. It will then be used as a model for further development.

The Coast Forest Products Association, the Canada Wood Group and Forestry Innovation Investment have all worked together to present the plan to BC Premier Gordon Campbell's office.

In addition to providing immediate relief for the housing crisis currently faced in China, the government of BC hopes to nurture a stronger trading relationship between China and Canada.



San Francisco Chronicle / Lance Iversen

## Calendar

June 2008

### 25th Annual Wood Transportation and Marketing Conference

June 18-21 - Whistler, BC  
604 669-7996 x 101

### College of Alberta Professional Foresters' AGM

June 26 - Edmonton, AB  
www.capf.ca

# Forestry Investment

## The Time is Now

Timberlands are the anchor holding any kind of profits whatsoever for wood products companies. This is not only due to the real estate value, but because the fibre can only become more profitable if unused. A number of large, high profile investment firms in the US have been deliberately targeting forestry companies with sizable timberlands and very weak bottom lines. Often a principal at the investment firm will gain a place on the board of the lumber company, thereby having a hand in driving future direction. Right now all these new investors know they will have to wait for a return on their money, but they also know that when it comes it will be a very large return indeed.

Interest in forestry companies as a profitable long term investment began in earnest during 2007, but was already an established practice before that. At the end of 2003 investors of varying types had approximately US\$12 billion vested in timberlands (mostly in America). In February of 2004 Harvard University, the Massachusetts Pension Fund and the Robert Wood Johnson

Foundation kicked things off in earnest by significantly increasing their stake in timberland assets. While in 2004 lumber would have made an attractive investment because prices were high and demand was rising, more recently the attraction is due to largely devalued companies. Benchmark WSPF 2x4 #2&Btr was selling for US\$460 per TBF in August of 2004; the same month in 2007 saw the highest price of that year for the commodity at just US\$268 per TBF. Clearly there is room to grow and investors can see that.

In some cases the interested parties have been whipped up into a bit of a buying frenzy, going so far as to embark on bidding wars and to take each other to court over disputed ownership of some lumber company or another. Perhaps the most dramatic case is the heated battle for bankrupt Pacific Lumber Company (Palco) out of Scotia, CA. With defaulted loans of over \$160 million to Marathon Asset Management, Palco filed for Chapter 11 at the end of January 2007; by December the prominent Gap family was making plans for a \$200 million investment in Palco. Having started Mendocino Redwood Company nine years earlier, the family is no stranger to the forest products industry. In May of 2008 the Harvard Management Company (HMC) continued with its practice of heavily investing in timberlands by making an offer on 81,000 hectares (200,000 acres) owned by Palco.

The ensuing battle went on for several weeks, with the courts just recently ruling in favour of the Mendocino Redwood Company and the Gap family.

Former HMC executive Jack Meyer explained the appeal of timberlands as a long term investment by saying, "We think that timber is quite attractive to what other asset classes have to offer. Timber is also a good diversifier since its returns will not correlate closely with returns from equity markets." He's not the only one that thinks so.

Many brokers and investors sing the praises of timberlands by explaining that if lumber prices are low and there is not much logging going on, the eventual value of the fibre - left standing - can only increase. In addition there is very little cost of maintenance or upkeep while waiting out a soft lumber market.

A good example of money to be made in a seemingly sagging industry is Plum Creek Timber (Seattle, WA), the largest private landowner in the United States. Plum Creek shares rose 17 per cent by 3Q 2007 from the beginning of that year, and 11 per cent in the year before. Global investment in timberlands has risen to US\$40 billion (from \$1 billion in 1990), with 90 per cent of that in North America.

Some analysts suggest waiting until lumber prices start to rise before getting into timberland investment (or futures hedging, for that matter), while others clearly think now is a good time before all the good remaining land is snapped up. The single most deciding factor for anyone considering such a move should be: how long can one wait for a return? Barring a natural disaster or major forest fire of some kind, the lumber market in North America will remain weak until well into 2010 at the soonest.

A quick look at the graph on this page shows that since August of 2007 building materials companies' stocks have dropped significantly in relation to Standard & Poor's top 500. Despite extremely poor financial results, almost all lumber companies (especially in Canada) carry a 'buy' rating. Again, an investment is only viable if one can wait at least two years to start seeing a return. But, with nowhere to go but up, up, UP, such a stock would bring an investor a very tidy sum.

