

MADISON'S LUMBER REPORTER



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News & Updates

Madison's New Product . . .

Madison's Investment Rx for January compiles the latest movements in solid wood manufacturing, and presents production data, export figures, and US real estate information into a compact report. The first two issues of our monthly *Investment Rx* will be provided free, as a bonus to subscribers and industry followers.

Check your emails for our new product soon!

Cyclone Yasi, Australia

Howling winds whipped up by Severe Tropical Cyclone Yasi with speeds of up to 290 kilometres (181 miles) per hour ripped off roofs, felled trees and cut power supplies as the storm crossed Australia's Queensland coast Wednesday. Forecasters had earlier said that Yasi, the first category five storm to hit the area since 1918, was likely to be "more life-threatening than any (storm) experienced during recent generations."

More than 10,000 seaside residents and tourists were sheltering in 20 evacuation centres across the region — some so packed that people were turned away — while tens of thousands more were staying with family and friends.

Mines, rail lines and coal ports have been shut, with officials warning the storm could drive far inland, hitting mining areas of Queensland state struggling to recover from recent devastating floods.

Queensland accounts for about a fifth of Australia's economy and 90 per cent of its steelmaking coal exports. Yasi destroyed 20 per cent of Australia's sugar cane production and 85 per cent of banana supplies that were harvested in Queensland, the hardest hit region..

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North American Winter Storms

The US National Weather Service reported temperatures in the teens and single digits across much of the country, but bone-cracking winds pushed the chill into negative territory for many parts of the Midwest. Ice, snow and the deep freeze continued a week of misery for as many as 100 million people in more than 30 states.

The bitter winter storm stretching 2,000 miles (3,200km) is crippling swathes of the US and has moved into Canada.

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Domtar Reports

Domtar Corp, out of Montreal, QC, has posted net earnings of US\$325 million in 4Q 2010 compared to net earnings of US\$191 million in 3Q. Sales for 4Q 2010 amounted to US\$1.4 billion.

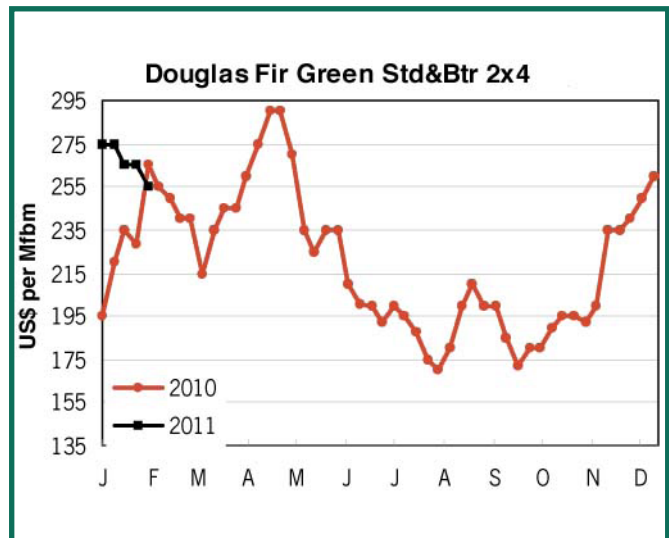
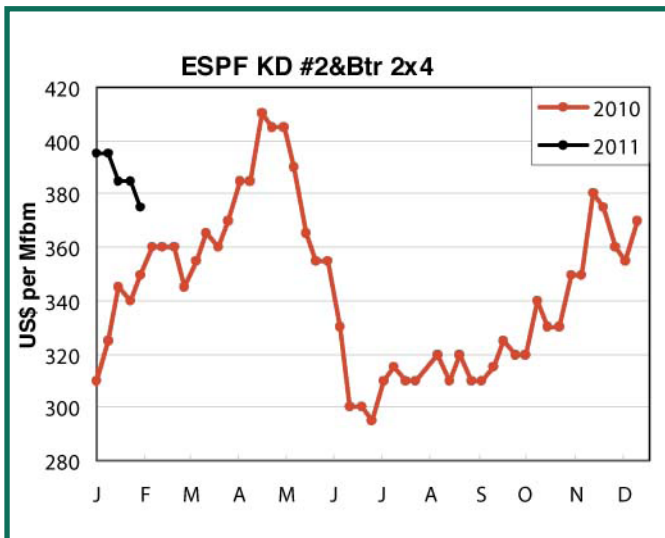
For fiscal year 2010, net earnings amounted to US\$605 million compared to net earnings of US\$310 million for fiscal year 2009.

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Construction Projects in China

Architecture and design firms across the US and Europe have been deeply involve. The experience is described as both rewarding and challenging.

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Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	294	310	-16	322	-28	292	+2
WSPF KD R/L 2x6	270	283	-13	306	-36	294	-24
WSPF KD R/L 2x8	275	285	-10	286	-11	280	-5
WSPF KD R/L 2x10	338	345	-7	345	-7	360	-22
WSPF KD PET 2x4 Stud	270	275	-5	270	0	310	-40
Douglas Fir Green R/L 2x4	255	265	-10	275	-20	265	-10
Douglas Fir Green R/L 2x10	302	315	-13	340	-38	285	+17
ESPF KD 2x4 8ft Stud	320	335	-5	325	-5	340	-20
OSB Ontario 7/16" (CDN\$)	200	210	-10	210	-10	225	-25

Weekly News

Australia, Storm Damage

CONTINUED Yasi was set to generate up to 700 millimetres (27.5 inches) of rain and huge and treacherous storm surges of between 2.3 and seven metres (eight to 23 feet) that are threatening to flood towns and tourist resorts.

The storm is so enormous that it would almost cover the United States or large parts of Europe, models published by *News Ltd* newspapers showed.

Cyclone Yasi may have cost Australia up to US\$5 billion in damages after ripping through the country's northeast, destroying towns and key crops, catastrophe modeller EQECAT estimated Friday.

Damages could cost Australia, still recovering from unprecedented floods, US\$3-\$5 billion, said the firm, which is heavily relied on by the insurance industry.

A separate modelling firm, AIR, put the estimate much lower at US\$340 million to US\$1.49 billion.

The storm's size and power dwarfs Cyclone Tracy, which hit the northern Australian city of Darwin in 1974, killing 71 people and flattening more than 90 per cent of its houses.

It is also twice the size and far stronger than the category four Cyclone Larry that caused US\$1.5 billion in damage after hitting agricultural areas in 2006.

Canada, US Stalled Transportation

CONTINUED Many areas grappled with treacherous road conditions after the storm cut a swathe from New Mexico to Maine on Wednesday, paralyzing much of the Midwest. Airlines set about unravelling schedules and getting travelers on their way after more than 10,000 flights were cancelled over two days.

Plummeting temperatures in the central

US complicated recovery efforts, touching everything from the winter wheat crop to rail transportation to preparations for the NFL's Super Bowl on Sunday in Dallas.

In New England, the weight of snow and ice caused dozens of building roofs to collapse, including a large industrial building in Easton, MA.

Subzero temperatures in the Plains hard red winter wheat region on Thursday could harm those portions of the crop unprotected by a blanket of insulating snow, said forecasters Accuweather.

Utility crews raced to restore power to many thousands of homes and businesses in Ohio, New Jersey and Pennsylvania, where freezing rain and ice brought down electrical lines. Rolling blackouts were implemented across Texas, due to high demand during a rare ice storm.

Domtar Quarterly

CONTINUED "4Q paper shipments were weaker partly due to seasonal factors, but our average pricing held up well," said John D. Williams, Domtar President and CEO.

"We were able to post best ever 4Q profit before items even though production related issues resulted in higher than expected maintenance costs. Higher pulp shipments, net of the impact of the sale of the Woodland hardwood pulp facility, helped offset seasonal weakness. In addition, we redeemed all of our 2011 notes, effectively completing our systematic debt reduction program."

In its outlook, the company said it expects North American paper demand will continue its downwards trend, with a gradual offset by people returning to the jobs market in the US. However, it also cautioned that higher commodity prices could affect costs throughout the year.

Smurfit-Stone Payout

Executives who carried Chicago's Smurfit-Stone Container Corp out of bankruptcy protection in June 2010 and into an acquisition in January 2011 are poised to reap millions when the company is sold to Rock-Tenn Co.

Stockholders will receive US\$17.50 in cash for their shares, and Rock-Tenn stock valued at US\$17.50 a share. This amounts to a 27 per cent gain over the closing price of Smurfit-Stone stock on Friday January 21, 2011.

Madison's Timber Preview January 28 issue examined the Rock-Tenn purchase in detail. *Reporter* subscribers are invited to request a sample of that issue.

Outgoing CEO Patrick Moore, who had announced plans to retire in March, already was in line for a US\$3.5-million bonus for leading the company through bankruptcy. Including stock and options that will vest automatically with the sale, he'll walk away with total gains of US\$59.5 million, according to securities filings.

General Counsel Craig Hunt will receive equity gains worth US\$7.2 million, and severance payments worth US\$1.7 million if he is not retained by Rock-Tenn or leaves for "good reason," according to filings.

Tolko Fire

Fire crews from Kamloops, BC spent several hours at the Tolko plywood mill near Heffley Creek Thursday fighting a stubborn fire. Operations Chief Andy Philpot says the blaze broke out in sawdust and other materials that had built-up underneath the lathe.

The weather conditions yesterday helped keep the fire at bay. Once the fire was extinguished, Tolko's maintenance crews took over.

Construction

Projects in China

In 2010 construction projects boomed all over China, many designed by American and European architecture firms. At a

by Kéta Kosman

time when Western economies struggle and construction projects have been delayed or scaled back, China is on a major push to urbanize, building new office towers, apartment blocks, exhibition halls, stadiums, high-speed train stations and nearly 100 new airports. Finding the process quite different from building in North America or Europe, from securing building permits and functionality to speed of completion and logistics, US architects describe building in China as both challenging and rewarding.

In January 2008 building began on Zhongkai Sheshan Villas, consisting of 78 private villas and a club facility on a 46-acre site situated at the foot of Sheshan, the only mountain forest area in the suburbs of Shanghai. The site plan and villas were designed by an international team of architects, planners, landscape architects, and interior designers. With each villa individually designed, the vision for the project is one of a mature, American neighborhood where different styles and scales have developed over time.

In that development, a strong emphasis is placed on the integration of the landscape and the interiors, as well as on a contemporary interpretation of classic Chinese design principals. The designs range in size from approximately 3,000 square feet to approximately 7,000 square feet.

Sourcing architects from around the globe is necessary for the scope of building planned in China for the coming decade. According to the American Institute of Architects, 30 per cent of US design firms, which employ 26,000 architects, currently practice globally. There are more than 1,500 AIA members living overseas. The most rapid economic and population growth will occur in developing countries in which there are the fewest number of architects per capita, says the advisory group. In Indonesia's cities, there is only one architect for nearly 30,000 people, compared with one architect for 2,500 people in the US. In China's cities, one architect currently serves 15,000 people, while in India's cities, one architect serves some 14,000 people. The gaps are expected to widen. In 2050 projections, in Indonesia's cities, there will be one architect for every 37,500 people; in China, one for every 28,000 people; and in India, one for every 36,000 people.

China Vanke Company Ltd is the largest residential real estate developer in China, with a 2010 market capitalization of US\$15 billion. It is engaged in developing, managing and selling properties across 20 cities in Pearl River Delta, Yangtze River Delta and Bohai-Rim Region. China Vanke said in a December 2, 2010 statement that preliminary data showed its property sales for November jumped 146 per cent from a year earlier, to 12.9 billion yuan (US\$1.9 billion). The developer recorded sales of 99.8 billion yuan in January through November 2010, and the growth in November sales marked an acceleration of 137 per cent in October 2010, although with an admittedly low base of comparison to 2009. Vanke said it had added seven new projects since reporting its October sales.

Residential property prices in China's 100 key cities rose 0.82 per cent in November from a month earlier, according to China Real Estate Index System. China's government estimates that 300 million people – about the population of the United States – will move into urban areas in the next 15 years. Almost every major city is building or expanding a new central business district or financial centre.

China has become a main market for construction projects, but business there is not always plain sailing due to logistical problems, infrastructure constraints, and local government interference. China's investment on real estate from January to November 2010 reached 4.27 trillion yuan (US\$647.3 billion), up 36.5 per cent compared to the same period in 2009, according to statistics from China's National Development and Reform Commission.

Despite the growing number of Chinese architects, China's real estate developers still prefer to cooperate with foreign architects. Wang Qian, a consultant for ZK Real Estate Development Company of Shanghai, told a New York Times reporter, "I have no idea whether Chinese architects can do this. Maybe they can, but I don't want to take that risk. In China there has not been any development like this. The villa market is rather young."

In China, "people have no preconceived notion of what building development should be," said Silas Chiow, China director for the US firm Skidmore Owings Merrill (SOM), to the Washington Post. "That gives young architects an opportunity to try new ideas."

SOM designed Shanghai's Jin Mao tower, one of the most visible buildings on the Pudong skyline, with its traditional Chinese style, as well as Beijing's New Poly Plaza, with the world's largest cable-net-supported glass wall, and Tower III of the World Trade Centre in Beijing. SOM

also designed the futuristic car-shaped Pearl River Tower, with wind turbines and solar panels.

"China is almost like an experimental laboratory for different architects," Chiow said.

Many of the largest, most visible projects designed by foreign architects are government-funded, said Peng Peigen, a well-known architect and professor at Tsinghua University in Beijing, to the Washington Post. Chinese officials, and some private developers, often prefer to see an international name on a structure that they hope will become a landmark.

US and European architects see it as an unparalleled chance to show off their expertise, experiment with cutting-edge designs, use new energy-efficient 'green' technologies, and as an opportunity to gain experience on a massive scale.

Another lure for US architects to work in the Chinese building industry is the chance to see a project designed, built and in regular use in as little as a few years. The speed of development brings its own challenges, some architects say. Among them, the foreign architects' desire to build environmentally sustainable buildings and cities often run smack into the local imperative to build it quickly – and often build it cheaply.

For example, an American architect told the Washington Post that in the US, buildings are typically designed to last 75 to 100 years, with many of the best-known and best-loved buildings, such as New York's Empire State Building, gracefully entering late middle age. But in China, he said, the private developers often want a building to last 30 years at most.

"Their idea of a building is like a commodity. It's disposable," quoted the Washington Post.

"We worked with the local production design firms who handled all of the production and transport issues. We were specified things and they usually ignored us and found a substitute. It was a little frustrating," Stuart Silk, Principal at Seattle's Stuart Silk Architects, involved in several major building projects in China, explained to *Madison's* in an email.

There are several Canadian agencies, both federal and provincial, working in China to promote and guide wood building. While Forestry Innovation Investment, Canada Wood China, and BC Wood are making great strides in increasing the use of wood in Chinese construction, logistical issues and local government inconsistencies remain significant challenges to builders and architects from North America and Europe.