

# MADISON'S LUMBER REPORTER

**Publisher**  
KetaDesign Productions  
**Editor**  
Kéta Kosman  
**Market Analyst**  
Zara Heartwood

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www.madisonsreport.com  
madrep@shawcable.com  
604 984-6838

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## News & Updates

### Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines the latest movements by TimberWest Forest Corp. A land purchase from Western Forest Products, company discussions with the Township of Ladysmith for a boundary extension of the town to include some TimberWest land, and 4Q 2010 results released, all this week, are detailed.

Contact us any time for a subscription.

### Heat Treatment of US Softwood Imports Proposed

The US Department of Agriculture is proposing that all Canadian wood packaging material that crosses the border be heat treated to kill any pests. Canadian goods shipped on wooden pallets are currently exempt from that treatment, as are similarly packaged goods that cross into Canada from the US.

[READ MORE](#)

### Housing Starts, Canada

The Canada Mortgage and Housing Corporation announced Tuesday that Canadian housing starts totalled 170,400 units in January compared to 169,000 units in December 2010. The seasonally adjusted annual rate of urban starts decreased by 1.7 per cent to 146,900 units in January, while single urban starts moved lower by 2 per cent to 64,000 units. Rural starts were 20.5 per cent from December at a seasonally adjusted annual rate of 23,500 units.

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### Japan Housing Starts

Housing starts in Japan rose by 1.5 per cent in December compared to the same month in 2009, to 74,517 units. Seasonally adjusted annual starts for December were 861,000.

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### White House Plans for Fannie Mae and Freddie Mac

The Obama Administration released a white paper on Friday that proposes winding down mortgage giants Fannie Mae and Freddie Mac and lessening the government's role in the housing finance system.

The white paper focusses on a series of short steps to increase fees and downpayment requirements. The Administration hopes these measures will allow banks to more effectively compete in offering loans without government guarantees. The Administration also proposes to raise the minimum down payment for GSE financing to at least 10 per cent, and possibly to increase the minimum down payment requirement for FHA financing, as well.

Treasury Secretary Timothy Geithner said Friday morning in a conference call with reporters that a new housing finance system without Fannie and Freddie could take seven years to put in place, suggesting it might fall in part to future administrations.

Mark Zandi, chief economist for Moodys.com, told CNBC that the Obama administration had "laid out a prudent, appropriate plan."

"At the end of the day, though, the government is going to have to play some role in a catastrophic backstop," Zandi said.

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#### JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Dec-10	74,517	30,917	43,600	59
Nov-10	72,838	31,384	41,454	57
Oct-10	71,930	30,939	40,991	57
Sep-10	71,998	30,857	41,141	57
Aug-10	71,972	29,899	42,073	58
Jul-10	68,785	28,740	40,045	58
Jun-10	68,688	27,940	40,748	59
May-10	59,911	24,952	34,959	58
Apr-10	66,568	32,143	34,425	52
Mar-10	65,008	31,061	33,947	52
Feb-10	56,527	24,412	32,115	57
Jan-10	64,951	30,322	34,629	53

Source: Japan Wood-Products Information and Research Center

#### CANADIAN HOUSING STARTS

##### Actual and Seasonally Adjusted Annual Rates

	January 2011		December 2010	
	Actual	SAAR	Actual	SAAR
<b>Canada, all areas</b>	<b>10,584</b>	<b>170,400</b>	<b>13,444</b>	<b>169,000</b>
urban ctrs with >10,000	9,773	82,900	12,268	149,500
singles, urban centres	3,463	64,000	6,227	65,300
multiples, urban centres	9,773	146,900	6,041	149,500
rural areas	811	23,500	1,176	19,500
Atlantic urban centres	480	8,500	672	7,500
Quebec urban centres	2,534	41,000	3,696	41,400
Ontario urban centres	3,300	48,300	4,131	43,800
Prairie urban centres	1,516	23,400	2,268	28,900
B.C. urban centres	1,943	25,700	1,501	27,900

Source: Canada Mortgage and Housing Corporation

## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	290	294	-4	312	-22	296	-6
WSPF KD R/L 2x6	273	270	+3	300	-27	298	-25
WSPF KD R/L 2x8	278	275	+3	288	-10	280	-2
WSPF KD R/L 2x10	340	338	+2	345	-5	364	-24
WSPF KD PET 2x4 Stud	270	270	0	275	-5	310	-40
Douglas Fir Green R/L 2x4	268	255	+13	275	-7	255	+13
Douglas Fir Green R/L 2x10	295	302	-7	333	-38	265	+30
ESPF KD 2x4 8ft Stud	312	320	-8	325	-13	355	-43
OSB Ontario 7/16" (CDN\$)	200	200	0	210	-10	244	-44

## Weekly News

### Spruce Longhorn Beetle

CONTINUED The brown spruce longhorn beetle is native to northern and central Europe. It likely arrived in Canada through wood packing material through the Port of Halifax.

The Canadian Wood Pallet Association said meeting the treatment requirement would add \$2 to the cost of each crate. With about 150 million such packages sent a year, that would add at least \$300 million in shipping costs for goods crossing the border.

"I think it's going to be far higher than \$300 million when you talk from coast to coast," said Herman Long, the owner of pallet manufacturer Scotia Pallets and a director of the Canadian Wood Pallet Association.

"In essence, everything that goes on a crate now will have to be heat treated, which is not necessarily a bad thing, except the administrative responsibilities to trace every piece of wood that's going everywhere," he said.

The Canadian Manufacturers and Exporters Association is also concerned about the impact of the rule change.

"The result of this could be very dramatic, in terms of increased cost for the type of pallet used and ultimately impact the cost of goods," said vice-president Ann Janega.

The US is expected to rule on this proposal this spring. It is predicted that Canada will adopt the same decision, meaning the new cost would apply to American exporters as well.

Heat treatment is already mandatory for Canadian wooden packaging material sent elsewhere in the world.

### Canada Housing Starts

CONTINUED Starts in multiple-unit dwellings, such as condos, fell 1.5

per cent to 82,900 units. Starts on closely watched urban single-family homes were down 2 per cent at 64,000 units.

Separately, the Canadian Real Estate Association boosted its 2011 resale housing forecast to reflect a firmer economic outlook and a further expected rise in consumer confidence.

CREA substantially lifted its forecast that national sales activity will reach 439,900 units in 2011, although this would still be a year-on-year decline of 1.6 per cent.

### Home Building, Japan

CONTINUED Total housing starts in 2010 for Japan were 813,126 units, a 3.1 per cent increase over the previous year. Various government incentives are expected to further help the Japanese home building recovery.

### Port Alice Neucel

The Neucel Specialty Cellulose mill in Port Alice, BC has been sold to Fulida Group Holdings Ltd of China by private equity investors Wellspring Capital Management. The Port Alice mill is the only BC pulp mill producing dissolving sulphite pulp, a product made from hemlock wood chips that is used in making fibres like rayon, plastics, lacquer and explosives.

Fulida's interest is driven by demand for rayon fibre to supply its textile mills in China. Fulida is taking full ownership of the mill together with affiliate Zhejiang Fulida Ltd., which bought a minority position in the mill in 2010.

The number of dissolving sulphite mills worldwide is relatively small, but prices for the product are more than twice the price for northern bleached softwood kraft, the product used in paper and cardboard manufacturing.

### Pulp Transportation Deal

A servicing agreement between Squamish Terminals Ltd, its pulp industry customers, and Canadian National Railway is expected to make the terminal more efficient.

Under the agreement, CN will provide seven-day-a-week service to Squamish Terminals, which in turn will guarantee to unload pulp cars daily. Pulp companies using the terminal will work with both CN and Squamish Terminals to match traffic flows with vessel schedules. The terminal previously operated on a five-day, Monday-to-Friday schedule, with weekend work as required.

Squamish Terminals is located on Howe Sound, just 32 nautical miles north of Vancouver, is one of the largest pulp handling terminals on the North American West coast.

### Calendar

February 2011

#### Credit Suisse Global Paper and Packaging Conference

February 23 & 24 – New York, NY  
<https://www.credit-suisse.com/global/en/>

#### 2011 ABCFP Forestry Conference & AGM

February 24 & 25 – Vancouver, BC  
<http://www.expofof.ca/index.htm>

March 2011

#### 2011 WWPA Annual Meeting

March 14 – Portland OR  
<http://www2.wwpa.org/ABOUTWWPA/AnnualMeeting/tabid/870/Default.aspx>

#### 2011 Timberland Investment Conference

March 23 & 25 – Greensboro, GA  
<http://www.ugacfb.com/timberland-asset>

# Global Home Building

## Canada, Japan, US

The Canada Mortgage and Housing Corp reported Tuesday that the pace of new-home construction in Canada increased slightly in January, rising to

by Kéta Kosman

170,400 units on a seasonally adjusted annual rate,

up from 169,000 the previous month. Meanwhile, Japan's Ministry of Land, Infrastructure, Transport, and Tourism said that December housing starts were the highest monthly since the Lehman shock in 2008, making a seasonally adjusted annual rate of 861,000 units, a 7.5 per cent increase over November. In the US, Home prices fell in almost half of big cities in 4Q 2010, as the number of foreclosures rose to record levels, said the National Association of Realtors Thursday.

The Canadian Real Estate Association released a revised forecast Tuesday that estimates there will be 439,900 existing homes sold in 2011, down 1.6 per cent from 2010, but better than the 9 per cent decline that CREA had forecast at the end of 2010. The real-estate association is also taking a more positive view of pricing, with the national average price now expected to rise by 1.3 per cent this year to \$343,300. CREA had earlier predicted that the national average home price in 2011 would fall by 1.3 per cent from last year to \$326,000.

Japan's December home building increase was stronger than the consensus of a 4.7 per cent rise, and followed increases of 6.8 per cent in November, 6.4 per cent in October, 17.7 per cent in September, 20.4 per cent in August and 4.3 per cent in July. Total Japan housing starts for 2010 rose 3.1 per cent over 2009, to 813,126 units which was the lowest level since the mid-1960's. Units built for sale increased for the first time in four years. New owners' units rose 7.2 per cent, while condominium building increased by 20 per cent but remained at the second-lowest historic level (after 2009). Wood based unit building also increased by 7 per cent, to 460,134.

Demand for housing in major cities is clearly rebounding. Starts in the Tokyo metropolitan region jumped 7.4 per cent while starts grew 3.3 per cent in the Kinki region, which includes Osaka and Kyoto.

Madison's explained in the July 16, 2010 issue of your *Reporter* that indications out of Japan pointed to a solid home building recovery for early this year.

Yet Japan's housing starts have failed to meet the 1 million benchmark, and are

almost 30 per cent off the level of 2008. Starts in Japan are expected to rise 9.9 per cent to 898,900 units in fiscal 2011, the Research Institute of Construction and Economy said. This expectation for fiscal 2011 is in line with the Bank of Japan's assessment released January 25, which said, "Housing investment is showing signs of picking up."

It is, however, uncertainty about the US real estate market and home building industry that has investors confounded. Some indicators are up while others are down, meanwhile mortgage horror stories and shenanigans surrounding bank foreclosure procedures continue to emerge at alarming rates.

Is this the time to be bullish on US real estate? Pundits are beginning to think so.

"They [the bears] will be mistaking the trees for the forest," wrote Andrew Jeffery, a principal of Cirios Real Estate, for *MarketWatch.com* on Tuesday. Jeffery cites: pent-up demand among young adults; real estate as a rather good hedge against inflation; investors snatching up multifamily properties—a market that typically recovers first; robust investor demand for real estate; and the bold—yet rational—declaration that it will take years to work through shadow inventory of foreclosed homes, but there will be no flood.

"Right now, houses are on sale. Prices are projected to appreciate in 40 per cent of US housing markets in 2011 and 60 per cent in 2012. Buy discounted properties and resell for a profit using either traditional or unconventional methods," explains real estate investor Tom Bukacek on *StockMarketReview.com* on Wednesday.

Getting credit right now is tricky, but it turns out a lot of people don't need it to buy these undervalued homes. The Wall Street Journal printed Tuesday that cash buyers represented more than half of all transactions in the Miami-Fort Lauderdale area last year, compared to 13 per cent in 4Q 2006, according to an analysis from real-estate portal *Zillow.com*. Meanwhile, downtown Miami home prices rose 15 per cent in 2010 from a year earlier, according to the Miami Downtown Development Authority.

The percentage of buyers in Phoenix, AZ, paying cash hit 42 per cent in 2010—more than triple the rate of 2008, according to Raymond James's equity research division. Nationally, 28 per cent of US sales were all-cash transactions last year, according to the National Association of Realtors, compared to 14 per cent in October 2008. The harder a market has been hit, say economists, the higher the percentage of cash deals now.

The median price of a single-family home dropped from a year earlier in 71

of 152 metropolitan areas tracked by the US National Association of Realtors, the group said in a report Thursday. Prices in Cumberland, MA, tumbled 20 per cent, the biggest decline, followed by a 14 per cent drop in Kankakee, IL. The median price nationwide rose 0.2 per cent to US\$170,600, as cities including New York and Boston posted gains.

Home sales gained 15.4 per cent in 4Q 2010 from the previous three months, at a seasonally adjusted pace, led by a doubling in Idaho, the Realtors association said in a separate report Thursday. Actual sales jumped 55 per cent in Vermont and 34 per cent in Minnesota.

This year, existing home sales probably will gain 7.9 per cent to 5.3 million from a 13-year low of 4.91 million in 2010, the Realtors' group said in a forecast on its website.

Data provided by Moody's Analytics track the ratio of median home prices to annual household incomes in 74 markets. By that measure, housing affordability at the end of September had returned to or surpassed the average reached between 1989-2003 in 47 of those markets. Most economists believe the housing boom took off in 2003.

"Due to the upward jog in sales and the downward dip in stock, the number-of-months inventory recorded a good improvement in November to stand at 6.9. That's only the second time in over four years that the number-of-months inventory has fallen below 7. In January 2009, the number-of-months inventory maxed out at 12.1," explains Alex Carrick to *Daily Construction News*. "Probably never again will home prices be as low as at some point this year, with spring as the best bet. Mortgage financing based on current interest rates will never again be so advantageous."

Foreclosure filings in the US fell 17 per cent in January from a year earlier, the fourth straight month of declines, but rose 1 per cent from December as legal scrutiny of lender practices slowed actions against delinquent homeowners, RealtyTrac Inc said Wednesday. Banks seized 78,133 homes in January, a 12 per cent increase from December and an 11 per cent drop from January 2010. Seizures fell 16 per cent from a year earlier in judicial states and 9 per cent in other states.

Foreclosure rates only seem to be slowing down since most are just being postponed.

"We expect a spike in the first quarter," said Rick Sharga, a RealtyTrac spokesman. "If we don't get that, it could mean that the foreclosures are being pushed back even more and that the time needed for recovery will be prolonged."