

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview*, provided free to all Reporter subscribers as a special bonus, takes a look at recent announcement of pulp price increases globally. The latest figures on pulp inventories and shipments are also examined.

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BC Lumber Exports to China Overtake Japan

British Columbia's lumber exports to China for 2010 are valued at about \$687 million, more than double the value of shipments in 2009 and, for the first time, exceed the value of softwood products shipped to Japan, Minister of Forests, Mines and Lands Pat Bell announced Tuesday.

BC exported approximately 4.6 million cubic metres (an estimated 2.8 billion board feet) of softwood lumber products to China in 2010, an increase of 76 per cent from 2009. With the province producing roughly 12 billion board feet of lumber annually, the US continues to be the biggest buyer of BC wood products at just under seven billion board feet.

Bell, however, said he could see that situation changing in future as December sales saw the US account for about 36 per cent, while China and Japan combined were over 45 per cent.

Historically, the US takes upward of 70 per cent of the province's lumber output, while domestic Canadian consumption is around 10 per cent.

"If we annualize December sales to 5 billion board feet, the two markets (the US and China) are getting very close to each other," said Bell.

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Japan Import of North American Lumber, 2010

Total Japanese imports of North American lumber in 2010 grew by 21 per cent over 2009, to 2,747 million cubic metres, according to the Japan Lumber Reports. With depressed home building in the US, production in North America was stimulated by a sharp increase in demand from China, bringing a stable supply stream into Japan. The strong Yen is also credited with the increase in lumber imports, by keeping the costs of imports lower.

Canadian mills supplied far more lumber than the US, but the amount of US lumber imported into Japan increased by a larger degree because more mills in the US began cutting to metric sizes.

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US Home Building Recovery

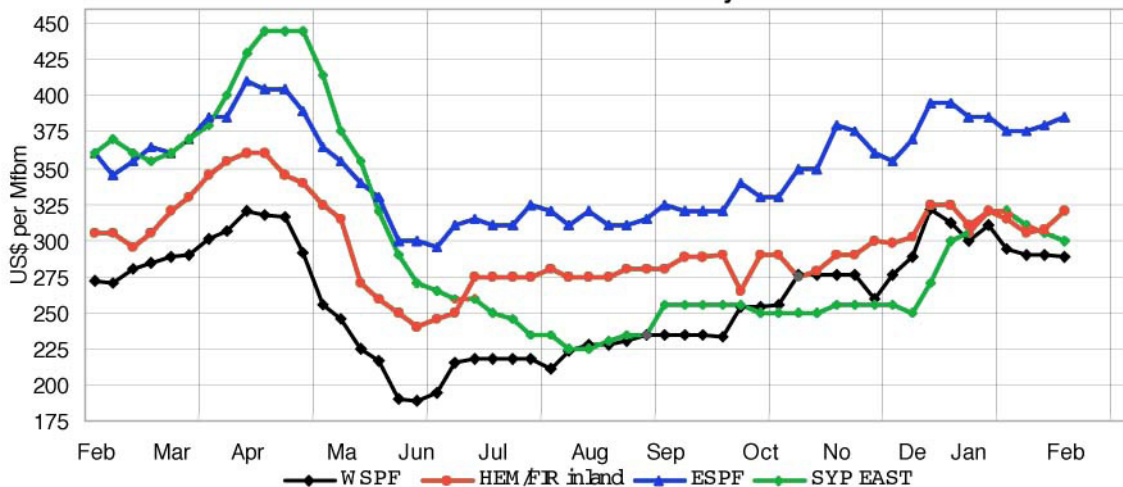
Large US home building companies, those that survived the recent downturn without going bankrupt, are poised to begin large building projects in earnest this year.

The latest, very positive, financial results for these companies surprised analysts.

A recent allegation by an independent data source that the US National Realtors Association has been overstating US home sales figures for the past seven years did nothing to demystify an already incredibly complex situation.

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KEY 2x4 KD R/L PRICES February 2010 - 2011



Prices are in U.S. dollars per 1,000 fbm.

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	288	290	-2	310	-22	272	+16
WSPF KD R/L 2x6	273	272	+1	285	-10	280	-7
WSPF KD R/L 2x8	278	280	-2	285	-7	262	+16
WSPF KD R/L 2x10	330	335	-5	345	-15	345	-15
WSPF KD PET 2x4 Stud	285	275	+10	275	+10	275	+10
Douglas Fir Green R/L 2x4	280	280	0	268	+12	240	+40
Douglas Fir Green R/L 2x10	295	300	-5	315	-20	240	+55
ESPF KD 2x4 8ft Stud	330	325	+5	325	+5	355	-25
OSB Ontario 7/16" (CDN\$)	205	205	0	210	-5	244	-39

Weekly News

BC Lumber Exports to China

CONTINUED Bell added that China had about 10 million housing starts annually, with 6 to 7 million housing units in six-story walk-up apartment buildings.

"If we can crack into that market in modular style of construction that we are proposing and demonstrating at the Green Building Show in Beijing in March, I think this market will truly far exceed anything that British Columbia, Canada and perhaps the world is capable of delivering."

Bell told *Xinhua Media* the majority of BC wood exports to China were currently going to Beijing, Tianjin, Hubei province, Shanghai and Sichuan province.

"But you are starting to see companies building clusters of wood manufacturers. We visited one in Tianjin that expects to have a wide variety of businesses that is building furniture and other wood projects, all clustered within a relatively small area around the port.

Despite the demand for wood, Bell admitted transport remained his main concern. With China buying huge amounts of coal, iron ore and potash, among other resources, from both Canada and the United States, this had taxed capacity at the province's two main ports in Vancouver and Prince Rupert.

He added the Ministry of Forests, Mines and Lands was also looking at the possibility of shipping through secondary ports at Kitimat and Stewart.

Japan Log and Lumber Demand, 2010

CONTINUED Total imports of Douglas fir grew more than another other species, by 45.7 per cent compared to 2009, to 560 million cubic metres says the Reports. Imports of hemlock, a traditional favourite in Japan, increased by 15 per cent to 417 million cubic metres.

The SPF mix continues to dominate demand in Japan, up 18 per cent compared to 2009 to 1,515 million cubic metres. The construction of 2x4 units in Japan increased by 4 per cent in 2010 compared to one year ago, to 96,000 units.

In addition, SPF is now being used in traditional post-and-beam homes as rafters. Retailers and builders in Japan find the stable supply and relative low cost of SPF lumber appealing.

Scoreboard

	October - December 2010		October - December 2009		SALES 2009-10 (%)
	Sales (\$,million)	Earnings (\$,million)	Sales (\$,million)	Earnings (\$,million)	
AbitibiBowater	1,270	19.0	1,110	(43.0)	+13%
Ainsworth (3Q - Sept 30)	81.1	10.0	78.8	20.2	+3%
Canfor	629.0	30.7	549.6	(17.0)	+12%
Cascades	991	(34)	952	(41)	+4%
Catalyst (3Q - Sept 30)	322.3	5.1	266.9	(10)	+17%
Domtar	1,424	325	1,463	124	-3%
Eacom (3Q - Sept 30)	73.6	(10.5)	N/A	N/A	-N/A
Interfor	176	0.6	125	(4.4)	+29%
Norbord	219	(8)	196	(11)	+10%
Taiga (4Q - Sept 30)	198	18.4	201	20.8	-1.5%
Tembec (1Q - Dec 31)	422	(4)	412	(10)	-2%
TimberWest	51.8	4.3	40.1	(3.1)	+23%
Western Forest Products	172.6	4	139.3	(3.1)	+20%
West Fraser	719	39	570	(20)	+21%

Turnaround

US Home Building

The February 7, 2011 issue of your *Madison's Investment Rx* explained of the US home buying market, "Those who have trouble securing financing will be out of luck

by Kéta Kosman

while the good-sized proportion of people with cash ready to invest are going to pour it into extremely undervalued homes." Figures released this week by the US National Association of Realtors bear out this statement.

The NAR reported Wednesday that existing home sales in January rose 2.7 per cent to 5.36 million units, a jump of 5.3 per cent in year over year comparisons. Single family sales rose 2.4 per cent to 4.69 million, up 4.9 per cent compared to one year ago. The median price of an existing home fell 5.9 per cent to US\$158,800 from December's US\$168,800, a drop of 3.7 per cent in year over year comparisons. Inventories fell to 3.380 million from 3.560 million units, dropping the months' supply to 7.6 months from 8.2 months previously.

Foreclosures and other distressed properties made up 37 per cent of homes sold last month, the NAR reported. The cheap homes lured investors, who accounted for 23 per cent of buyers, up from 20 per cent the previous month and 17 per cent a year ago. As more investors entered the market, all-cash purchases surged to their highest level since the group started tracking those numbers in October 2008.

The US Commerce Department released January new home sales Thursday at 284,000, off 12.6 per cent compared to December, and an 18.6 per cent drop compared to one year ago. Median new home prices were off 1.9 per cent to US\$230,600 against December's US\$235,000.

Unsold new home inventories fell slightly to 188,000 units while months' supply rose to 7.9 months, from 7 months in December, due to the slower sales pace.

As if the situation wasn't complicated enough, real estate data firm CoreLogic revealed last week that the NAR may have inadvertently overstated a widely followed measure of housing sales by as much as 20 per cent over the past four years. NAR estimates that housing sales came in at 4.9 million last year. CoreLogic counted just 3.3 million.

US home prices fell 4 per cent in 4Q 2010 from a year earlier as record foreclosures sapped the confidence of homebuyers, according to the Federal Housing Finance Agency. The drop was the 13th consecutive month of year-over-year retreat and the largest since 3Q 2009's, the Washington-based agency said Thursday in a report. Prices fell 0.8 per cent from the prior three months. Real-estate values in 20 US cities tumbled

4.1 per cent in 4Q from a year earlier, the biggest drop in almost two years, according to the S&P/Case-Shiller home-price index. That slump put prices near the record low set in 1Q 2009.

The share of homes in foreclosure rose to 4.63 per cent in 4Q, matching an all-time high set in 1Q 2010, according to the Mortgage Bankers Association in Washington, DC. The combined share of mortgages in foreclosure or delinquent was 14 per cent, about 1 in every 7 home loans, the trade group said in a February 17 report.

Homes in the foreclosure process sold last year at a 28 per cent discount to properties that weren't in some stage of mortgage distress, RealtyTrac Inc said today. The gap widened from 27 per cent in 2009 and 22 per cent in 2008, according to the data firm. About one in four mortgaged US homes is underwater, meaning their mortgage balances exceed current value, according to Zillow Inc. The number of homeowners with so-called negative equity reached 15.7 million in 4Q 2010, up from 13.9 million in 3Q, the real estate data firm said in a February 9 report.

The true test of whether the housing market will rebound will come in spring, the peak time of year for home-buying.

"It really does boil down to the spring-buying season," said Carl Riccadonna, a senior US economist with Global Markets Research. "There are signs that we're starting to claw back from the bottom. As long as it's flat-lining during the winter, it's the spring that will tell the tale."

While US real estate remains in a state of epic confusion, strong indications of recovery, and even improvement, are beginning to show with the US home builders who did not go out of business during the downturn. Toll Brothers, based in Horsham, PA, and with operations in 19 states, upended Wall Street's expectations Wednesday in reporting a profit for its fiscal first quarter and higher contracts for new homes. The builder reported net income of US\$3.4 million for the quarter ended January 31. That compares with a loss of US\$40.8 million a year earlier. The company's national spring sales event, which ends this weekend and offers buyers upgrades on home features such as cabinets and kitchen fixtures, has already brought in 15 per cent more deposits than last year. In the November to January period, Toll's contracts on new homes climbed 4 per cent in units and 5 per cent in value to US\$307.2 million. Revenue climbed 2 per cent to US\$334.1 million.

Tom Gump, a principal with Neighborhood Development, said Monday that Texas-based home builder D.R. Horton has signed an agreement to buy 28 fin-

ished lots in Inspiration, a 242-acre development in a Bayport, NY, residential community that went into foreclosure in 2007. Brooklyn Park-based Contractor Property Developers was the original developer, but gave it back to lender M&I Bank when it couldn't repay a US\$14.65 million development loan. Neighborhood Development's contract with D.R. Horton reflects the slow but steady recent return to the market by national builders, who have winnowed down their stocks of unsold homes and finished lots, according to Ryan Jones, director of MetroStudy Twin Cities, which monitors residential real estate activity in markets across the nation.

"National builders have reduced their inventory of lots to a 15 to 20 month supply, down from the 24 to 36 months that builders say is equilibrium during a good market," Jones said. "I think every national builder in this market is buying again. They aren't big projects; they're picking up anywhere from 20 to 45 lots, and I think they'll stay cautious like that over the next couple years."

But thanks to those low inventories, more land sales could come later in the year if the pace of home sales improves from 2010 levels.

"If sales of new homes grow by 10 to 15 per cent, which people are hoping to see, builders would probably be back in the market for more lots," Jones said.

"People look at new homes and they think the prices look good, but they still fear that they could lose value if they buy a home now," Jones said. "That keeps pricing touch and go."

Emile Haddad, CEO of FivePoint Communities, is developing four new master-planned California communities with a combined 45,000 residences, two in the Los Angeles area and two in San Francisco, the company announced Tuesday. Haddad, a former executive at US home builder Lennar Corp, sold 12,000 acres in California for a US\$277 million profit at the housing market's peak four years ago. He and his partners then reacquired it at half the price in 2009. Construction of the first homes is scheduled to begin in the second half of this year.

Los Angeles and San Francisco were two of only four major US housing markets with year-over-year price gains in November, according to the S&P/Case-Shiller index. Values have risen 23 per cent statewide from the trough in February 2009, with affordability at the highest level in a decade for first time buyers, according to data from the California Association of Realtors.

"I don't want the party to show up and I'm not dressed," Haddad, 52, said in an interview with *DailyBusinessReview.com*