

Brookfield Timberlands Management LP

Brookfield Fourth Quarter 2010 Global Timberlands Research Report

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Fourth Quarter 2010 Research Report

The recent release of NCREIF’s fourth quarter 2010 Timberland Index findings offers an opportunity to review the factors that influenced cash and capital appreciation returns of the index and offer our views on the North American timberlands marketplace. In addition to this review, we provide a brief recap of Brookfield’s activities during 2010.



Reid Carter
Managing Partner
Brookfield Timberlands Management

Brookfield Asset Management Inc. (“Brookfield”) is a global asset manager focused on property, renewable power and infrastructure assets with over \$100 billion of assets under management.

Brookfield Timberlands Management LP, a wholly owned subsidiary of Brookfield has 2.5 million acres or approximately \$3.5 billion of timberlands under management in North and South America.

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¹ National Council of Real Estate Investment Fiduciaries



Interpreting NCREIF Timberland Index Results

As noted in our fourth quarter 2009 report, the National Council of Real Estate Investment Fiduciaries (“NCREIF”) Timberland Index is a U.S. centric, valuation based index and the best available measure of timberland investment performance.

As of the fourth quarter 2010, there were 384 properties or 13.9 million acres with a market value of \$23.7 billion in the index. The total market value remained flat year-over-year. The number of properties included in the index increased by 19. The U.S. South (“South”) and U.S. Pacific Northwest (“PNW”) regions represented 69% and 25% of the value, respectively, and 77% and 15% of the area. The U.S. Northeast (“Northeast”) and Lake States accounted for the remainder.

Total return of the index for 2010 was -0.15%, with a 2.52% EBITDDA contribution offset by a -2.61% appreciation component. The South and Northeast sub-indices were off -1.22% and -1.92%, respectively, while the PNW was up 2.83%, attributable to an EBITDDA return of 3.04%.

Figure 1: NCREIF Timberland Index Fourth Quarter 2010

| | | South | PNW | NE | Total |
|---------------------|-----|-------|-------|-------|-------|
| EBITDDA Return | Q/Q | 0.54 | 0.61 | 0.37 | 0.55 |
| | Y/Y | 2.43 | 3.04 | 1.36 | 2.52 |
| Appreciation Return | Q/Q | -2.26 | 0.52 | 1.77 | -1.34 |
| | Y/Y | -3.59 | -0.21 | -3.24 | -2.61 |
| Total Return | Q/Q | -1.71 | 1.13 | 2.14 | -0.79 |
| | Y/Y | -1.22 | 2.83 | -1.92 | -0.15 |

Source: NCREIF Timberland Index.

EBITDDA returns remained below average due to soft market conditions. Log prices, were below 5- and 10-year averages in most regions during 2010. In response, timberland owners continued to defer harvesting until markets improve (see third quarter 2010 report).

² FEA, Washington Department of Natural Resources and Oregon Department of Forestry.

³ Log Lines (RIS).

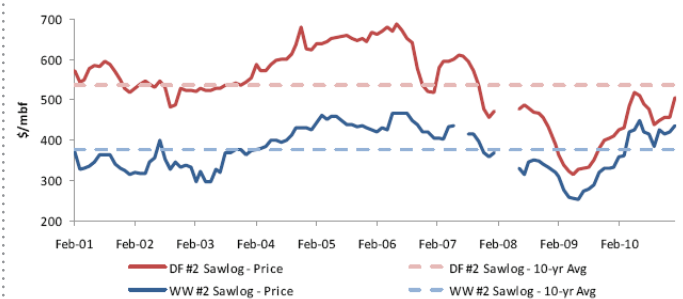
⁴ Forest Economic Advisors.

⁵ Timber Mart-South.

In the PNW region (Washington and Oregon), total timber harvest volumes in 2009 were off 34% as compared to the 2004-2008 average, with timber harvest rebounding in 2010 to a level 16% above 2009, but still 23% below the 2004-2008 average.² Meanwhile, indicative prices for Douglas-fir and whitewood in 2010 were 2% and 15% higher than the 5-year average and 6% lower and 16% higher than the 10-year average, respectively.³

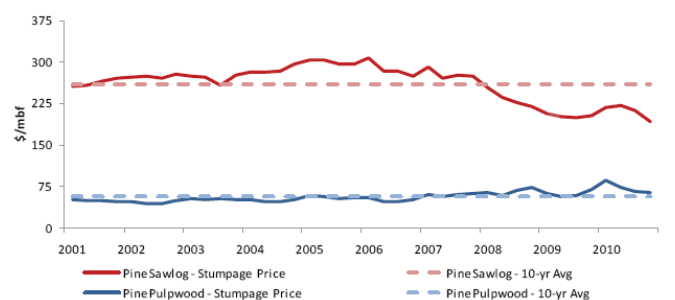
In the South, total timber harvest volumes in 2010 were off 23% as compared to the 2004-2008 average and were up 3.7% from 2009.⁴ Weak U.S. housing starts and the lack of the off-shore export market alternative benefiting the PNW continues to explain low pine sawlog stumpage prices which were 21% and 26% lower than the 5- and 10-year averages, respectively. Pine pulpwood prices were 4% and 15% higher than the 5- and 10-year averages; benefiting from a strong global pulp market.⁵

Figure 2: U.S. PNW Historical Timber Pricing



Source: Log Lines (RIS) and Brookfield internal research.

Figure 3: U.S. South Historical Timber Pricing



Source: Timber Mart-South and Brookfield internal research.



The modest decline in the capital appreciation component of returns was largely driven by more conservative valuation assumptions, including the use of higher discount rates. Like 2009, there were very few timberland transactions in 2010 and effectively no significant distressed sales. Approximately \$1.5 billion⁶ of timberlands were transacted if we include deals in Australia and Brazil.

these two regions converged. The PNW's economic access to Asian export markets relative to the South is viewed to be a key driver of this trend.

Having said this, we expect and already see increased activity in 2011 as a result of closed-end funds nearing the end of term and renewed investor interest in the asset class. By Brookfield's calculations, approximately \$3 billion of capital has been committed to timberland investments since 2010; of which less than a third has been deployed.

There was considerable controversy in 2010 in regard to the accuracy and validity of timberland returns as indicated by the NCREIF Timberland Index, with several vocal parties suggesting year-over-year returns over each of the past two years should have been much lower. The NCREIF Timberland Index utilizes both transactional evidence and real estate appraisal methodology in valuing the 384 properties, or 13.9 million acres, in the U.S. comprising the index. The dearth of transactions as evidenced in Figure 4, has resulted in an increasing proportion of the index being based on appraisals while offering appraisers less market evidence on which to base their appraisals. We would conclude that the NCREIF Timberland Index can be expected to have a greater than average error term in this environment and that the true value of timberlands will only be substantiated over longer timeframes, consistent with the investment strategy of most timberlands investors.

Figure 4: Timberland Transactions by Area and Average Selling Price



Source: RISI, NCREIF Timberlands Index and Brookfield internal research.

This lack of transaction activity continues to cause uncertainty around the actual value of timberlands. 2010 survey results indicate that U.S. timberland real discount rates have risen from their late 2008 lows of 4.5-5.0% to 6.0-7.5%. This increase appears to be based as much on sentiment as on rates extracted from actual transactions; however, few deals would suggest that there continues to be a "bid-ask" spread signaling differing expectations for buyers and sellers.

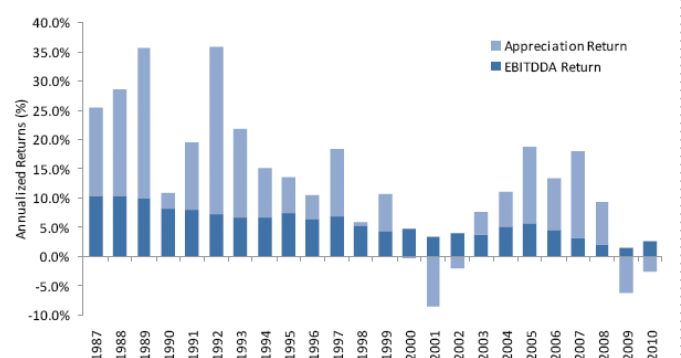
Figure 5: U.S. Timberland Real Discount Rate Survey Results

| | Date | Average | Min | Max |
|--------------------------------|-----------|---------|------|------|
| MB&G Market Survey | Oct-10 | 6.5% | 6.0% | 7.5% |
| RISI Indicated Discount Rate | Oct-10 | 6.5% | n/a | n/a |
| Sewall Investor Survey | Spring'10 | 6.2% | 5.0% | 7.5% |
| Sizemore & Sizemore PNW Survey | Mar-10 | 6.4% | 2.5% | 9.0% |

Source: Sewall, Sizemore & Sizemore, Mason, Bruce & Girard, Inc and Brookfield internal research

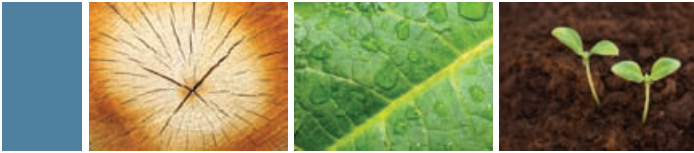
Interestingly, recent reports suggest that current discount rates used for PNW transactions are believed to be at the low end of the range as compared to the late 1990s, when discount rates for PNW transactions were 50-100bps higher than rates used in the South. In 2007-2008 discount rates for

Figure 6: Annual Returns for Private U.S. Timberlands



Source: NCREIF Timberland Index.

⁶ RISI and Brookfield internal research.



Brookfield Timberlands: Recent Activity

Brookfield Timberlands continues to focus on investments in regions with well-established wood-consuming economies, well-capitalized domestic converting customers and/or good economic access to export markets, low currency risk and a strongly embedded concept of private property rights, generally supported by effective legal and land title systems. These considerations narrow the investment universe and result in Brookfield Timberlands targeting investments located primarily in the U.S., Brazil and Australia as well as opportunities in Canada, Chile, Uruguay and New Zealand.

Brookfield Timberlands participated in several transactions in these target areas over the past two years, and since 2009 has been most active in Brazil, acquiring 245,000 acres of pine and eucalyptus timberlands. Notably, the Brazil acquisitions have all been executed outside of the auction process, and have included a considerable area of existing plantations in regions where most opportunities are restricted to greenfield development. Our timberlands are well positioned to take advantage of the significant growth in diversified wood converting capacity, such as our eucalyptus plantations aimed at charcoal production for the pig-iron industry, and significant targeted reduction in native timber harvest. We have a very positive outlook for our Brazilian timberlands and believe they will also benefit from the growth in infrastructure investments in Brazil's emerging economic regions as well as the overall economic activity associated with Brazil's hosting of the 2014 FIFA World Cup and 2016 Summer Olympics.

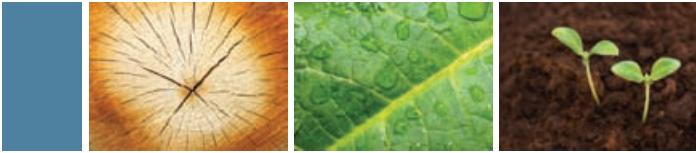
On the operating side, Brookfield Timberlands takes an active approach to management, retaining control over all aspects of decision making. The senior management team has an average of 22 years of experience in all aspects of timberland investing and adopts business strategies designed to maximize long-term profitability. The development of these strategies commences with a comprehensive understanding of the products that each timberland business is capable of producing and the dynamics of the markets for, and margin opportunity associated with, each of these products. Value optimization and sustainability of long-term harvest targets is then achieved through the harvest process.

Brookfield's timberland platform consists of over 2.5 million acres of high-quality, freehold timberlands located in the coastal region of British Columbia ("B.C."), Canada, eastern Canada, the PNW, the Northeast and Brazil. One of the key attributes of our timberlands platform is its operating flexibility, which allows us to optimize our harvest mix and harvest levels as well as the markets we sell into in order to maximize value.

In response to the weak market environment of the past three years, we decreased harvest volumes cutting only 61% of our pre-downturn planned harvest level at our B.C. and PNW operations in 2009. In 2010, the market improved considerably, but we still only cut 77% of our pre-downturn planned harvest level choosing to preserve value while waiting for markets to improve further and focusing on products that could fetch prices above trend levels.

In the PNW, local consumers were forced to compete with off-shore buyers for logs. Strong off-shore demand throughout 2010 supported price improvements in the U.S. domestic market with average annual indicative prices for Douglas-fir and whitewood up 30-33% and 38%, respectively. Export prices also improved dramatically, increasing year over year 7%, 15% and 13% in Japan, Korea and China, respectively. In response to this stronger price environment, we increased harvest volumes, particularly whitewood volume, by 26% over 2009 levels.

In the Northeast, our Acadian Timber operation benefited from a combination of increasing demand for most of our products and higher hardwood pulp log prices. Acadian reported its highest level of EBITDA since 2007 and recently increased its dividend by over 300%. Strong softwood lumber prices in the first half of 2010 and reduced regional supply related to the Maine government's efforts to limit Canadian laborer's access to work in the state, contributed to Acadian's 2010 success.



In Brazil, timber demand and pricing for pine wood market segments through 2010 continued to benefit from rising home ownership rates and strong civil construction spending ahead of Brazil's hosting of the FIFA World Cup and the Olympics in 2014 and 2016, respectively. Brazilian eucalyptus log demand during 2010 was supported by a recovery in pig-iron operating rates and continued healthy operating rates in the pulp sector. An increase in government efforts to eliminate production of charcoal from native forests, in combination with announced pulp and diversified wood products capacity expansions, is expected to support strong eucalyptus log demand and pricing over the medium-term.

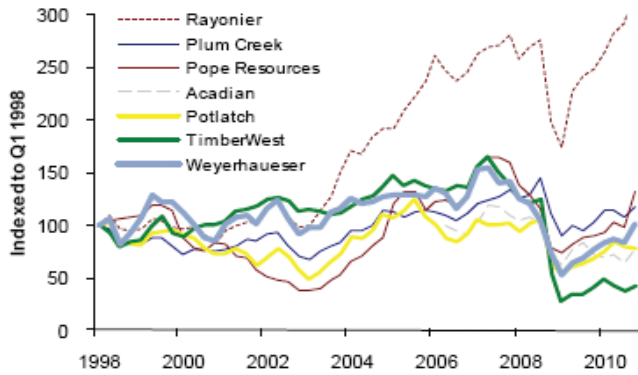
We believe that the next 18-24 months will present excellent opportunities to buy premium freehold timberlands on a value basis for those with capital and patience. We continue to believe that the positive investment attributes of timberlands hold true and that together with the favorable supply demand outlook, well-placed timberland investments can be supported. We are particularly keen on timberlands in the PNW, Brazil and Australia given the market dynamics in these regions.

Our focus this year will be to continue to actively manage our operations to capitalize on the strong markets today and seek attractive investment opportunities.



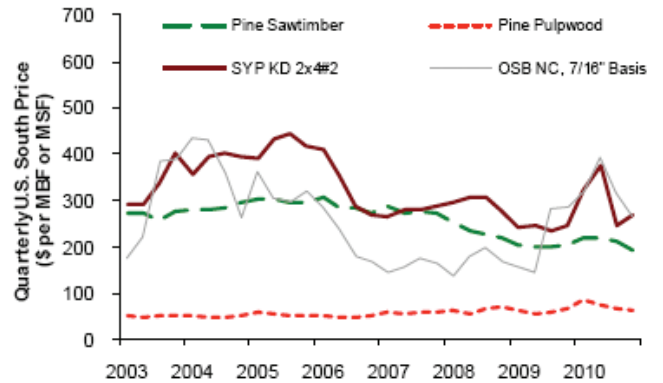
Key Timberland Metrics

Figure 7: Publicly Traded Timberland Company Trading Performance



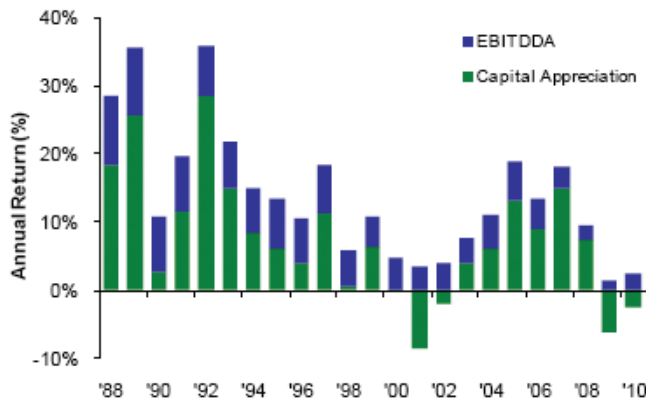
Source: Bloomberg and Brookfield internal research.

Figure 10: Quarterly Average Prices for U.S. South Sawlogs, Pulpwood, Lumber, and OSB



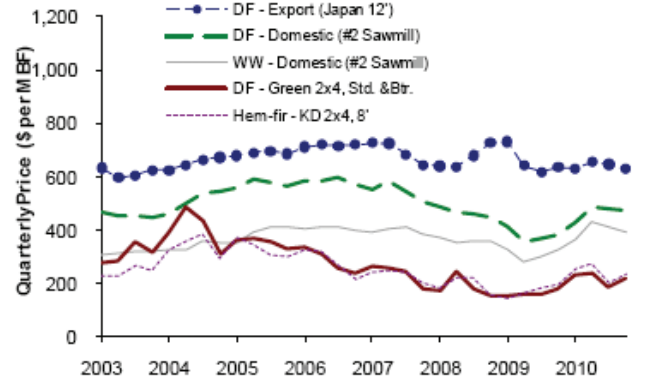
Source: Timber Mart-South and Forestweb.

Figure 8: Annual Returns for Private U.S. Timberlands



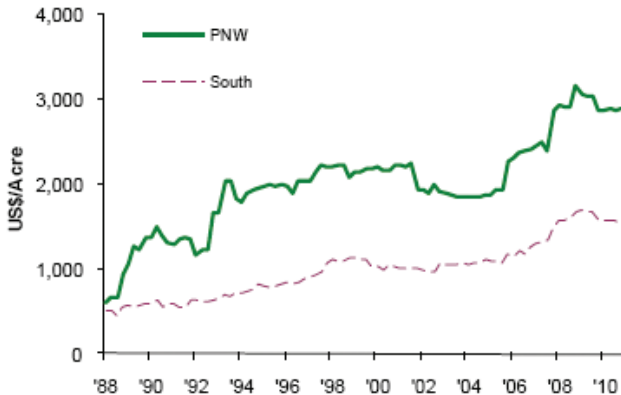
Source: NCREIF Timberlands Index.

Figure 11: Quarterly Average Prices for PNW Sawlogs and Lumber



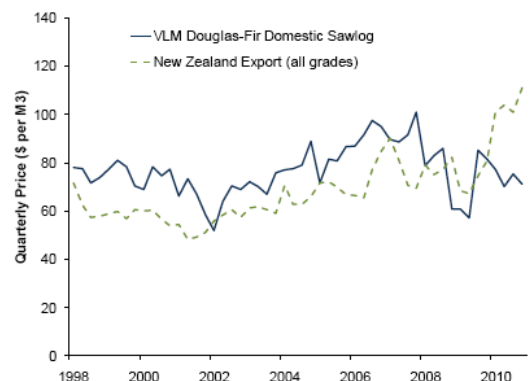
Source: LogLines and Forestweb.

Figure 9: Quarterly U.S. Timberland Values (\$ per Acre)



Source: NCREIF Timberland Index.

Figure 12: Global Sawlog Prices



Source: B.C. Ministry of Forest and Range, NZ Ministry of Agriculture.

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