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Dear Friends:

As we once again enter the Christmas and holiday season, I am thankful, as you are, for the many and abundant blessings we are privileged to have. It is a season to be thankful and reflective, with commitment to a slower pace. Our democratic process has once again elected officials from our President and Congress to our state and local municipal leaders to serve their terms. I trust their agenda and decisions will be in the best interest of our country and will be proper for the present and future of the United States of America.

During the early morning of September 27th, Hurricane Helene came through our area of Georgia, rendering major damage and destruction to many of our timber stands. In addition, homes and structures were damaged from wind or fallen trees. I have never experienced anything like the 75 to 100 miles per hour wind through our area. Fortunately, our staff is safe and homes not damaged.

Georgia Power, Jefferson Energy, and other electrical co-ops hit the ground running. Georgia Power had over 1,500 miles of power lines on the ground, requiring 11,800 new utility poles. Georgia Power's CEO, Kim Greene, said, *"This was the most destructive hurricane in Georgia Power's 140-year history, exceeding the damage caused by Hurricanes Michael, Matthew, and Irma combined"*.

Many families lost electrical power at their homes for one to three weeks. It was an event of a lifetime, but so encouraging to see families, friends, and other everyday citizens assisting those in need. Neighbors cut trees from roads, allowing vehicle travel. Churches, schools, charitable organizations, businesses, and others provided meals and essential supplies for people that had no way of providing for themselves. There is always a bright spot in every challenge.

We immediately started making reconnaissance inspections of timber stands to get a feel for what needed to be done. Thousands of acres of timber were on the ground from the strong winds. We have been fortunate with logging crews in the area committing themselves to timber salvage. We are proud of every load of trees that leaves the woods for area mills. This salvage will continue for several more weeks. Unfortunately, loggers are requiring a minimum of 50 acres to salvage due to increased costs and lower production. There will be a major amount of timber left on the ground due to the economics of salvage operations.

Restoration programs via the State of Georgia, South Carolina, and the U.S. Department of Agriculture are being put in place to assist landowners with cleanup and reforestation. These programs are in the infant stage and will be finalized shortly.

In addition to our timber crops being damaged, many pecan orchards were totally destroyed, as they were in full foliage with a heavy crop of pecans. Agricultural farmers also had losses, especially in their cotton crop.

With the heavy destruction of timber that had to be salvaged, markets are flooded with timber products, which has temporarily diminished the value of our standing trees. Markets will stabilize, and we will get back to normal operating conditions.

In the Southeast, to include Georgia, the growth-to-drain ratio is 40% more fiber grown annually than used. This ratio is predicted at 20% in 2029. It is positive that softwood/yellow pine lumber production is migrating from the Northwest and Western Canada to the Southeast. Lumber production in the South increased 60% since 2009, with Canada losing 25% and the Pacific Northwest, 11%. In 2009, U.S. South lumber production was 25% of the national total, and in 2024, 38% and growing.

Wood products are a true commodity, and prices are determined by supply and demand. As you remember, during the pandemic of 2020-2021, lumber prices hit record highs, as supplies were not adequate for demand. The price of our trees showed moderate increases but nothing like lumber prices.

With minor exceptions, there is no higher and better use for much of our timber-growing land than forest management to produce a crop of trees. With the shift of increased lumber production to the Southeast and diminishing supplies, I continue to be optimistic about our future with timber investments. I quote from Helen Keller, "Keep your face to the sun and you will never see the shadows".

We are seeing an increase in mass and cross-laminated timber production, and the State of Georgia recently approved mass timber and cross-laminated wood for office building construction of 18 stories.

The U.S. housing market is in "unplowed ground", as it is quite different than other cycles. With 30-year mortgage rates for new loans at 7% plus and a 20% down payment, the average price of new homes continued to increase. From National Association of Realtors, in twelve months, the average price of an existing home increased from \$392,000 to \$419,000. The cost of a new home increased from \$417,000 to \$437,000, and new homes are 5% smaller. In 2022, 31% of a homeowner's annual salary was required for housing.

At age 33, 60% of the Baby Boomer generation owned a home. The Millennial generation, who were born between 1981 and 1986, 72.7 million people, only 40% (age 43) are homeowners. They have lost over 10 years of equity buildup. The National Association of Realtors estimates that existing homeowners have \$35 trillion in home equity.

Area agricultural operators and farmers, like timber growers, are dealing with high yields creating abundant crops and prices that are at 2020 lows. At the same time, operating costs have increased tremendously, creating a slim margin for farm operators. A 2022 U.S. Department of Agriculture census showed that farmers' operating costs had increased 30% since 2017.

Southern Pine Beetle activity was minor compared to what we experienced in 2023. We will be vigilant again during 2025, especially in stands damaged by Hurricane Helene. With the wind swinging the tree back and forth, the root system may have been disturbed, which could cause stress on the tree during the growing season of 2025.

In 2023, our timber stands experienced Southern Pine Beetle infestations, and in 2024, a once-in-a-lifetime hurricane. As the old saying goes, "The third time is a charm", and I think 2025, being the third year, will be a good year for us!

Green energy is still a player in our economy. Fossil fuels account for 60% of the electricity used in the United States. Green energy (solar and wind) accounts for 21%, but they are often unreliable. Existing nuclear energy accounts for 19% of our needs. I remain a proponent of cogeneration using fiber from our trees to be a factor in energy production. Trees are our only renewable natural resource.

Massive amounts of electricity are required for electronic devices, with AI increasing that demand. In addition, cryptocurrencies are manufactured with the requirement of high energy needs.

Solar farms in our area are expanding due to the increased demand for green energy. Solar farms appear to be financially attractive for landowners. Cultivated fields are in demand for solar farms, and this alternative use removes food and fiber production.

Carbon credits are an alternative income for timber stands. There is and has been continuous carbon sequestration in our timber stands. These stands hold a carbon bank that has accrued over years. If a landowner could be paid for carbon sequestered in their existing timber stand and then paid annually for future sequestration, carbon credits make sense. Most contracts today pay annually for future sequestration only and looking at a 40 to 50-year contract, this does not make sense from a timber management standpoint.

From an investment position, all assets should show appreciation. Timber investments have been positive appreciation vehicles from increased timber prices, growth, and land values. Up until this point, timber growth and increased prices have been the drivers of a good timber return. Now, with timber prices flat and stagnant, land prices have become a big proponent of a positive yield. We can thin or harvest timber stands for cash flows. You do not realize a cash flow from land until it is sold.

Starting in May of 2024, we were visited by the 13 and 17 year cicada population. The nymph emerges from their 13 and 17 year homes, approximately 12 inches below ground level, with the nymph molting into an adult. The adult produces eggs on the flat side of leaves and the eggs fall to the ground hatching into another nymph that burrows itself in the soil. Fortunately, the cicadas are not a threat to our flora or fauna. **Another wonder of Mother Nature.**

I truly enjoy this time of year as it is festive, and Christmas decorations change the appearance of our landscape, especially in rural areas. We are inclined to think positively as to where we are with this blessed season, with the anticipation of a new year. We are fortunate, privileged, and thankful to have both personal and professional relationships with you. Our best to all for a blessed and Merry Christmas and a happy, healthy, and prosperous 2025.

Sincerely,

