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RYN - Q1 2016 Rayonier Inc Earnings Call

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OVERVIEW:

RYN reported 1Q16 sales of $135m and net income of $15m or $0.12 per share.

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PRESENTATION

Operator

Welcome and thank you for joining Rayonier's first-quarter 2016 teleconference call. (Operator Instructions). Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Now I will turn the meeting over to Mr. Mark McHugh, Senior Vice President and CFO. Sir, you may begin.

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Thank you and good morning. Welcome to Rayonier's investor teleconference covering first-quarter earnings. Our earnings statements and financial supplement were released yesterday afternoon and are available on our website at rayonier.com.

I would like to remind you that in these presentations we include forward-looking statements made pursuant to the Safe Harbor provisions of federal securities laws. Our earnings release and Form 10-K filed with the SEC list some of the factors that may cause actual results to differ materially from the forward-looking statements we may make.

They are also referenced on page 2 of our financial supplement.

With that, let's start our teleconference with opening comments from Dave Nunes, President and CEO. Dave?

David Nunes - *Rayonier Inc. - President and CEO*

Thanks, Mark. First, I will make some overall comments before turning it back over to Mark to review our financial results, and then we will ask Doug Long, our Senior Vice President of US Operations, to comment on our US timber results. I will discuss our New Zealand timber results and, following the review of our timber segments, Chris Corr, our Senior Vice President of Real Estate, will discuss real estate results.

Before getting into the results for the quarter, I would like to briefly address our recent portfolio moves in the Northwest. Earlier this week we announced the acquisition of 61,000 acres of well-stocked and highly productive timberlands in Oregon and Washington for $263 million. We also announced the concurrent disposition of 55,000 acres comprised of predominantly pre-merchantable timber in Washington state. Together, these transactions meaningfully improve the quality and age class distribution of our Pacific Northwest timberland portfolio, grow our merchantable timber inventory in the region by 42%, and increase our overall proportion of Douglas fir merchantable timber inventory to 58%.

They also increase our long-term and near-term harvest potential in the Pacific Northwest. Our anticipated long-term sustainable yield will grow 8% from 165 million board feet or 1.3 million tons to 178 million board feet or 1.4 million tons.

Additionally, due to the age class rebalancing associated with these transactions, we now expect to operate much closer to this sustainable yield in the near term. Our expected annual harvest over the next five years will increase 24% from 130 million board feet or 1 million tons to 161 million board feet or 1.3 million tons. Thus, the acquisition and the disposition together result in a smoothing of our timber age class profile that we expect will result in higher and more consistent levels of cash flow for the Company.

We were able to effect these transactions by working closely with Forest Investment Associates, a leading TIMO. On the Menasha acquisition, we were able to tailor a portfolio that best suited Rayonier's investment objectives, while FIA was able to do the same on behalf of its investors, many of whom prefer long-term capital appreciation over current cash flow.

Similarly, the Washington property that we sold to FIA was comprised of predominantly pre-merchantable timber with an average plantation age of 12.6 years, which is likewise well suited for certain types of investors.

So putting it all together, we expect to achieve annual EBITDA growth over the next five years of roughly $11 million, relative to a net investment of $133 million. We financed this net investment with attractive long-term debt through the Farm Credit System. Based on the expected cash flow contribution from the portfolio repositioning and the incremental interest expense on this debt, we expect that these transactions will generate CAD accretion of roughly $7 million annually over the next five years.

Importantly, based on our current outlook, we expect that our dividend will be fully covered by CAD in 2017, our first full year of pro forma operations.

We are moving quickly to integrate these new properties into our Pacific Northwest operations, and we look forward to reporting on our progress during the next couple of quarters. This is a very exciting time for Rayonier, and we're happy to have completed these value-enhancing transactions.

Now let's change gears and discuss our first-quarter results. Overall, we had a strong first quarter. In southern timber, we continued to see strong pulpwood demand and pricing in our core market areas. Sawtimber prices were down modestly, which was primarily a function of product and geographic mix. And, while logged prices in the Pacific Northwest and New Zealand were below the levels of the prior year quarter, they improved from recent quarters, particularly New Zealand.

Real estate results were lower this quarter as results tend to vary considerably from quarter to quarter, depending upon the mix of transactions and the timing of larger sales.

In addition to achieving a strong operational quarter that gives us a good start to the year, we completed the previously announced recapitalization of our New Zealand joint venture in early March. Through this transaction, we increased our ownership in the JV to 77%, while concurrently reducing pro forma consolidated interest expense by roughly $5 million per year.

And, with that, let me turn it over to Mark and he will review our financial results.

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Thanks, Dave. Let's start on page 5 with our financial highlights.

As Dave noted, we had a strong start to the year. Sales for the quarter totaled $135 million, while operating income was $23 million and net income was $15 million or $0.12 per share. Pro forma net income was $14 million or $0.11 per share.

Pro forma items this quarter included $400,000 of costs related to shareholder litigation and a $1.2 million gain on foreign currency hedges related to the recapitalization of our New Zealand JV. A reconciliation of our pro forma results to the nearest GAAP metrics is provided on page 16 of the financial supplement.

First-quarter adjusted EBITDA of $56 million was 10% below the prior year quarter, primarily due to lower real estate results, partially offset by stronger results in the southern timber segment and lower corporate expenses. In comparison to the fourth quarter of 2015, adjusted EBITDA was up 17% as improved timber results more than offset lower results in the real estate segment.

On the bottom of page 5, we provide an overview of our capital resources and liquidity at quarter end, as well as a comparison to year-end. Our cash available for distribution, or CAD, was $36 million in the first quarter compared to $43 million in the prior year quarter, primarily due to lower adjusted EBITDA. A reconciliation of CAD to cash provided by operating activities and other GAAP measures is provided on page 8 of the financial supplement.

We closed the quarter with $76 million of cash and $870 million of debt. Our net debt of $793 million represented 21% of our enterprise value based on our closing stock price at quarter end. Our quarter end debt balance reflects our New Zealand JV recapitalization, which closed in early March. In the recapitalization, we paid off NZD235 million of New Zealand dollar denominated debt or roughly $155 million in US dollars with proceeds from a new, nine-year term loan with the Farm Credit System.

As Dave noted earlier, this recapitalization will result in a reduction in annual consolidated interest expense of roughly $5 million and also had the effect of increasing our ownership position in the JV from 65% to 77%.

As we announced earlier this week, we also entered into a new 10-year $300 million incremental term loan with the Farm Credit System to fund a portion of the Menasha acquisition to pay off approximately $105 million of revolving debt and for general corporate purposes. The new term loan has a weighted average interest rate of roughly 2.6%, including the impact of interest rate swaps on $200 million of the debt, as well as expected patronage payments.

On a pro forma basis, as of March 31, 2016, this new debt results in total debt for the Company of $1.07 billion, net debt of $935 million, and a weighted average interest rate of approximately 3.2% over our entire debt balance. Following this most recent financing, we also have a very comfortable maturity profile with no significant debt maturities until 2022 and a weighted average maturity of 7.6 years.

We are very pleased with our pro forma capital structure, and we believe we are well positioned with long-term, low-cost, primarily fixed rate debt.

I am also pleased to report that following our acquisition and financing announcements this week, S&P affirmed our BBB-minus rating with a stable outlook. And, while Moody's has put our BAA2 rating under review for potential downgrade, they indicated that any rating action would likely be limited to one notch. Therefore, we expect to maintain an investment grade rating from both agencies.

I will now turn the call over to Doug to review our US timber results.

Doug Long - *Rayonier Inc. - SVP, US Operations*

Thank you, Mark. Good morning. Let's start with page 9 in the southern timber segment.

EBITDA in Q1 of $32.4 million was $7.5 million favorable to Q4 and $5.7 million favorable to the same period in the prior year, due primarily to increased volume. We had an extraordinarily high level of production in the first quarter, harvesting 1.8 million tons, which was a 25% increase over Q4 and a 28% increase from the same period last year. Our stumpage sale offerings, timed with wet weather conditions in the quarter, lead stumpage customers to harvest on their contracts earlier than anticipated. We will see production levels moderate in future quarters, but it is nice to have this early tailwind for annual harvest plans.

Pine pulpwood prices of $18.90 per ton in the quarter were 4% above Q4 and essentially flat to the same period last year. The increase in prices over Q4 reflects the price tension that has returned to the East Coast markets with all of our customers' mills back up and running, as well as gains in our Gulf states markets.

Pine grade prices of $26.09 per ton in the first quarter were essentially flat to Q4 and 7% below the same period in the prior year. The decrease compared to Q1 of 2015 is primarily attributable to weaker plywood markets resulting in lower prices for larger diameter logs, particularly in our Gulf states markets. Our harvest mix, therefore, shifted to smaller diameter logs more suited to lumber, which yields a lower unit price.

Pulpwood prices of $12.47 per ton in Q1 were 24% below Q4 and 5% below the same period in the prior year. Hardwood product prices are slightly down from 2015, but the primary driver of the variance from Q4 is that we harvested 13% less hardwood sawtimber in the first quarter of 2016.

Now moving to the Pacific Northwest timber segment on page 10. Harvest volume of 331,000 tons increased 5% over the fourth quarter and was 2% greater in the same period in the prior year. The increased volume was primarily due to mild winter weather, resulting in fewer down days during the quarter.

EBITDA in Q1 of $6.0 million was $2.5 million favorable to Q4 and was $0.4 million unfavorable to the prior year period. Favorability to Q4 was driven by cost savings, as well as additional volume at a 2% increase in pricing.

The unfavorable variance to the prior year quarter primarily resulted from lower sawtimber pricing due to weaker demand from China. Pulpwood prices of $44.84 per ton in the first quarter were essentially flat to the fourth quarter and 4% favorable to the same period last year. Sawtimber prices of $67.95 per ton were 3% favorable to Q4 and 6% below the same period in the prior year.

As we mentioned on our fourth-quarter earnings call, we are beginning to see some slight strengthening in the export market, which carried through into our Q1 results.

Now Dave will review the New Zealand timber results. Dave?

David Nunes - *Rayonier Inc. - President and CEO*

Thanks, Doug. Page 11 shows results in key operating metrics for our New Zealand timber segment. Compared to the prior year quarter, adjusted EBITDA decreased to $11.4 million from $13.7 million, due to lower volumes and lower export and domestic product prices.

Compared with the fourth quarter, however, demand from China for radiata logs improved and export prices were up 8% while domestic sawtimber prices improved 12%. Based on log inventory level of approximately 3 million cubic meters following the Chinese New Year, which equates to roughly 1.6 months of demand, we believe New Zealand log prices will remain relatively stable over the next few quarters. Radiata pine continues to enjoy a higher market share in plywood markets in China.

New Zealand also continues to benefit from lower freight costs, reflecting low oil prices and ample shipping capacity.

I will now turn it over to Chris to review real estate.

Chris Corr - *Rayonier Inc. - SVP, Real Estate and Public Affairs*

Thanks, Dave. Sales for the real estate segment in the first quarter totaled $13 million on roughly 7700 acres sold with sales activity dominated by a large nonstrategic Timberland sale in Georgia. In the improved development category proposed on a 47 acre parcel at Belfast Commerce Park in Georgia for $1.7 million or approximately $37,000 per acre, and in the unimproved development category, we closed on a 40-acre sale with a homebuilder in St. Johns County, Florida for $860,000 or $18,000 per acre.

In the rural category, sales totaled $3.7 million and roughly 1400 acres at an average price of $2550 per acre. And in the nonstrategic and Timberland category, sales totaled $7.1 million and 6100 acres at an average price of $1150 per acre. This relatively low average pricing was the result of one 5200-acre sale in Georgia comprised of scattered low productivity tracks, which were only 39% plantable.

Looking ahead, market interest in all of our categories remains strong. However, we expect Q2 revenue in real estate to be the lowest of the year based on our current expectations of transaction timing.

Overall, we remain focused on unlocking the long-term value of our HBU development in rural properties including Wildlight, our mixed-use community development project located 21 miles north of Jacksonville at the interchange of I-95 and State Road A1A. Construction commenced in March on the Wildlight Elementary School located in the heart of our project and scheduled to open in the fall of 2017. Site development is well underway, including spine infrastructure to create parcels for a number of residential and commercial uses, and we are now actively marketing select commercial and residential parcels and are encouraged by the interest we are receiving.

I will now turn the call back over to Dave.

David Nunes - *Rayonier Inc. - President and CEO*

Thanks, Chris. To add to Chris's remarks about progress on our Wildlife project, I am pleased to announce that we will be consolidating our three North East Florida leased offices into one office building to be located in our Wildlight mixed use development. In April, we started construction on a 55,000-square-foot office building and plan to move into the office building in the second half of 2017.

By way of background, we currently have approximately 145 employees working out of three offices in Northeast Florida, two in downtown Jacksonville and one in Fernandina Beach, which is located about 35 miles to the northeast of Jacksonville. Our Wildlight project is situated roughly equidistant between these two locations.

We evaluated a range of alternatives to consolidate our office space and gain much-needed operating efficiencies. We concluded, for several reasons, that the best and most cost-effective option was to build our own office building in Wildlight. Its location will be within a reasonable and fairly central commute to our employees. It is less than 20 minutes from the airport, and it is at the heart of one of our four operating areas.

All three of our existing office leases are scheduled to expire in 2017. In evaluating other options to consolidate our offices into one location, we determined that the cost of leasing a space that would meet our needs would exceed $1 million annually. By comparison, the total cost of our new office building will be approximately $13 million, which we expect to fund with cash on hand from our recent financing.

Based on our financing costs, we expect that this move into an owned facility will generate over $500,000 in annual cash savings.

In addition, this move will create benefits associated with reduced travel time between locations and greater productivity. We also believe that having the Company's management and our operational personnel together in one office will promote more efficient communication and decision-making, as well as contribute to a stronger organizational culture. We are excited about this move and excited about our office serving as a cornerstone for the Wildlight development project.

Now let me turn it back over to Mark.

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Thanks, Dave. As we noted in our earnings release, based on our strong first-quarter results and the anticipated impact of our Pacific Northwest portfolio repositioning, we are increasing our full-year adjusted EBITDA guidance to $195 million to $215 million. However, due to depletion pooling with respect to the Menasha acquisition, we expect the per unit depletion expense in our Pacific Northwest segment will roughly double, resulting in about $10 million of incremental depletion expense for the balance of the year relative to prior guidance.

Based on our pro forma capital structure, we expect full-year interest expense in 2016 will be approximately $33 million. We expect that CapEx will be generally in line with our prior guidance.

As Doug noted, our southern timber harvest volume was well ahead of plan in the first quarter due to wet weather and the timing of customer removals from stumpage sales. This harvest timing, which was favorable to the first quarter, will result in lower harvest for the balance of the year as we still expect our southern timber harvest volume for the full year to be between 5.8 million and 6 million tons.

We expect a modest increase in our Pacific Northwest harvest volume to 1.3 million tons as we ramp up production on our newly acquired Menasha properties. New Zealand volumes should be consistent with prior guidance of roughly 2.2 million tons, although the pricing outlook and adjusted EBITDA performance is looking to be better than originally anticipated.

In our real estate segment, we expect a relatively light Q2 based on the timing of closings with adjusted EBITDA likely less than half of Q1.Achieving our full-year real estate guidance will depend on the timing of closing several larger transactions in our pipeline, a number of which are slated for Q4.

Lastly, we expect a book gain in Q2 of roughly $100 million with respect to the sale of 55,000 acres in Washington that we announced earlier this week. We intend to characterize this sale as a large disposition and, therefore, our pro forma results and adjusted EBITDA will exclude the impact of this transaction.

I will now turn the call back to Dave for closing comments.

David Nunes - *Rayonier Inc. - President and CEO*

Thanks, Mark. As you can imagine, we had a very busy first quarter working through the various transactions announced earlier this week. Capital allocation remains a top priority for our board and leadership team, and we are confident that the strategic actions that we have taken will be value additive for our shareholders.

On that note, in addition to the Menasha properties, we made one other recent timberland acquisition. In early February, after an exclusive negotiation with a private timberland owner, we acquired approximately 6900 acres of well-stocked timberland in Northeast Florida for $14 million. This property has good productivity, is located in a strong market area, and is adjacent to two of our existing properties in Florida.

We also repurchased a small amount of stock this quarter, roughly $700,000 at an average price of $19.59 per share. We scaled back our volume of share repurchases as our share price strengthened during the quarter and as our discussions around the Pacific Northwest transactions and related financing needs intensified.

As we have said in the past, our capital allocation strategy is intended to be nimble, flexible and opportunistic. As we have demonstrated over the past year, we will shift our priorities as needed to capitalize on the best available opportunities to maximize long-term value for our shareholders.

In conclusion, I am excited about the strong steps we have made in executing our strategy to create value for our shareholders and strengthen Rayonier long-term. These important steps include our Pacific Northwest portfolio realignment, the recapitalization of our New Zealand JV, and the establishment of a low-cost, long-term investment grade capital structure that supports our vision for the Company.

I would now like to close the formal part of the presentation, and we will turn the call back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mark Wilde, BMO Capital Markets.

Mark Wilde - *BMO Capital Markets - Analyst*

Just a question on that year-over-year drop in SG&A this quarter. Is that kind of a structural decline in SG&A, or is it a one timer?

Mark McHugh - *Rayonier Inc. - SVP and CFO*

We have made some efforts around cost cutting, particularly on the G&A side, but some of that is also timing related. I would say we still expect full-year G&A to be just under $20 million.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. And then I think when you were talking about -- when Doug was talking about different regions, he mentioned some cost savings there as well. I wondered if you could just give us a little more color on that.

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Sure. Due to oil prices, basically, we have seen reductions in our harvesting costs, our cut and haul costs, and particularly those driven through in the Pacific Northwest where we are primarily in the deliver program, but also we do about 25% delivering ourselves. So we have seen those cost reductions primarily in that cut and haul.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. All right. That's helpful. And one other thing. I just wanted to clarify, you guys don't have anything significant in the way of land that might be affected by that new pulp mill that was just announced for southern Arkansas? Is that correct?

David Nunes - *Rayonier Inc. - President and CEO*

Yes. I would say, generally, that is correct.

Operator

Collin Mings, Raymond James.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Congrats on the transaction in the Pacific Northwest. Just maybe touch a little bit on -- I appreciate all the prepared remarks, maybe just touch a little bit more on how the portfolio repositioning came together. The Menasha property had been on the market for a while. Just talk a little bit more about how you got comfort on what you were going to take down versus what FIA was going to take down as part of the agreement.

David Nunes - *Rayonier Inc. - President and CEO*

Well, we were aware this last winter that the Menasha property was likely going to be coming to market. I had some familiarity with that property, and we have a good relationship with FIA. When the property was announced for sale, we recognized that we likely would not be able to buy the whole thing on our own, and we also felt that we had strong need to rebalance our age classes. And so we recognized before it really came on the market that we would have a need to partner with somebody. And so we reached out to FIA, and I think that they had a similar view that they didn't feel like they wanted to go after the whole thing on their own.

So that began the cooperation that we had between our two organizations. Our respective acquisition groups worked very well in terms of looking through the portfolio. We looked at a number of different alternatives, options for dividing up the portfolio that really were designed to try to mix geographic dispersion, age class, keeping operating units roughly intact. And the way the property was laid out geographically, it really facilitated that. And so we were able to reach a split that worked well for both sides, and then we continued into the process.

So we were very happy with how it all worked out. I think in the end, it is always challenging to team up on an acquisition between two different parties. But our cooperation really went smoothly, and we are excited -- I think both organizations are excited to have landed the subsets of this portfolio that we each ended up with.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. That's helpful, Dave. And then, Mark, again, congrats on maintaining the investment grade rating with S&P. But just going forward, does that signal that you are committed to maintaining investment grade debt ratings? And then, maybe talk a little bit more about your current capacity following this repositioning in the Pacific Northwest for additional share repurchases or more acquisitions.

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Yes. Sure, Collin. With respect to the investment-grade rating, we certainly believe it is important. New access to capital and our cost of capital are certainly paramount concerns for us. And, obviously, both are pretty significantly impacted by our credit rating.

We have had a very constructive dialogue with the agencies that I believe we referenced in the past. And I think that they clearly recognize that timber REITs generally, and Rayonier in particular, don't fit perfectly within their ratings criteria for the broader paper and forest products sector. And now both agencies have offered some more specific guidance on how they are going to look at our credit a little bit differently and not let the rating be dictated solely by debt to EBITDA, but rather incorporate some supplemental ratios into the ratings analysis.

So we think this is sensible, and we are obviously pleased that S&P affirmed our rating with a stable outlook.

Look, we have been fortunate to do our last two financing transactions with the Farm Credit System, which has provided us with a very attractive cost of debt. But that capacity is not limitless, and we need to preserve our access, as well as a reasonable cost of capital, within more traditional debt financing markets as well.

So, in short, I would say that we are committed to maintaining the investment grade profile, and we certainly think that with the new guidance that they have offered, the agencies have offered around how they are looking at the credit, that makes it a little bit easier for us to do that within parameters that we think makes sense for our Company.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. And then, Mark, just as far as capacity on repurchases or acquisitions, how are you thinking about that?

David Nunes - *Rayonier Inc. - President and CEO*

Yes.

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Yes. You know, we did put some cash on the balance sheet with this most recent transaction. Some of that cash is earmarked for, obviously, our office building, as well as some development expenses that we have coming up. But I would say we probably have within that cash balance, probably $50 million of available cash for capital allocation purposes, while still maintaining the ratios that we sort of committed to in the context of our recent refinancing.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. And then, one more and I will turn it over. Dave, maybe just provide us an update on the legal issues and the latest communication with the SEC as it relates to the 2014 announcement. I think there was a hearing scheduled for April you referenced on the last call.

David Nunes - *Rayonier Inc. - President and CEO*

Yes. There really isn't a whole lot to report, Colin. We and the individual defendants filed motions to dismiss the plaintiffs' amended complaint last October. These remain pending with the court following the hearing that we had recently. And then, as it relates to the other aspects, we've cooperated with the SEC and complied with all their requests, but really can't predict the timing or outcome of that particular investigation.

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Collin, this is Mark. Just to add to your last question as well, I also want to note that we, of course, have the flexibility -- the continued flexibility to redeploy capital through large dispositions. And we demonstrated our willingness and ability to do that through the Washington disposition this quarter, and we are going to continue to explore opportunities like that, particularly when we see a compelling alternative use of capital. And so my reference to the $50 million was really referenced to what we have on the balance sheet currently.

Operator

Steve Chercover, D. A. Davidson.

Steve Chercover - *D.A. Davidson & Co. - Analyst*

A couple of my questions were already answered, but the Wildlight development in Northeast Florida, it sounds like you're actually going to build and own that building. Does that signify a change to your stance towards vertical development?

David Nunes - *Rayonier Inc. - President and CEO*

Not really. I mean it was really a case of how to most efficiently get all of our people under one roof and do it the most effectively from a financial standpoint and a lease versus own context. I think this gives us a lot of flexibility. We do not plan to have vertical investments in that development that we will be holding on our balance sheet for renting out. So I would say it is really -- they were really sort of two different issues.

Steve Chercover - *D.A. Davidson & Co. - Analyst*

But it is kind of like the first anchor tenant of the development? Okay. And then, the land swaps in Washington and Oregon, do they impact your NAV, or if the deals were both done at fair value, is it just mainly a cash flow impact?

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Look, I think it would be disingenuous to say that you didn't buy something at fair value or sell something at fair value. I mean, clearly, those were the clearing prices for both on the sell side, as well as on the buy side. We do think that there are NAV accretion opportunities via just the age class rebalancing that we were able to accomplish. But we could talk you through sort of how that math works, but I think it is fair to say that we think both transactions were at fair value. But, clearly, they suited our particular age class profile very well in that we were able to lop off some of the younger age class properties from our portfolio and acquire some older age class properties that really smooth our age class distribution and will lead to more consistent and higher cash flow coming off that property over the next decade or so.

Steve Chercover - *D.A. Davidson & Co. - Analyst*

Yes. I looked at it more in the context of bond portfolio management almost.

And then, finally for me, you have two windows into China between New Zealand and the Pacific Northwest, and it sounds like you are little bit more bullish. So can you just comment on your view? And Menasha is close to Coos Bay and the land that you are selling is close to Aberdeen or whatever that harbor is. So does it change your export abilities?

David Nunes - *Rayonier Inc. - President and CEO*

It may change. I think that certainly is one of the things that we are going to be looking at, but recognize that one of the big attractions on the Menasha transaction is access to really strong domestic markets in Oregon. Oregon is the largest lumber producing state in the country, and they have got some great domestic markets, and we are excited to have some market diversification in Oregon from that particular transaction.

We also picked up a small amount of acreage in Washington state that is close to the Longview export facility. So we retain some export capacity there. So, as it relates to your broader question around access to China, I think you really have to get at how the wood is being used there and for what purposes. And we like to distinguish between the new construction activity in China that you have got concrete forms, and that tends to have a heavier impact on Pacific Northwest volumes. And, as that activity has declined, so, too, has the amount of wood coming from the Northwest, and I think that has been exacerbated by a strong dollar.

The New Zealand market has a much heavier component of its demand going into plywood, and that plywood has largely been -- or the radiata pine going into those plywood markets has largely been displacing domestic poplar out of China. And so that market has really been governed more from a fit out market of existing apartments as they are sold. And so I think that the two geographies compete in China in a very different way.

And then the last point on China, which is really as much a global comment as any, is that the inventory levels following the Chinese New Year this year are much lower than they were the last couple of years. And so that has had a nice impact in terms of stability of price and consistency of takeaway. And certainly you see that more in our New Zealand results. But, to some extent, we are seeing it as well in northwest where we have seen some modest price increases coming out of China.

Operator

Chip Dillon, Vertical Research Partners.

Chip Dillon - *Vertical Research Partners - Analyst*

First question is on the disposition part of the transaction. Are there any taxes? I know you are past the 10 years, and I wouldn't think there would be, but just wanted to make sure.

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Yes. Just transfer taxes in the state. No corporate level income taxes on that.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. And then, just one CapEx. I know you mentioned the new headquarters would be a $13 million investment. How much of that occurs this year? I am assuming it is all this year or next year, maybe some already started last year, but how does that spread out over the years?

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Yes, we are anticipating maybe about $6 million this year and $7 million next year.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. And so, I guess, based on your current footprint, you could see CapEx edge down to 60 or less in like a year -- like 2018. Again, I know a lot can change, but based on your footprint now?

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Yes, I think that that is fair. CapEx -- we're going to have some CapEx rolling off just because you recall that we capitalize lease expenses in the South, and some of those leases are expiring in the next several years. And so that portion will roll off. But I think, $60 million is sort of a good benchmark for run rate CapEx now, and then that is going to likely drop below that over the next several years.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. And then, I guess this is more of a longer-term question, but as we think -- as you guys think about -- I mean, as I think about your Company, one thing that you have is this tail of very long duration optionality or variability with what happened to a lot of your HBU land. And, obviously, you balance that some with this timber deal kind of shortening your all-in cash flow generation, while also, of course, providing some cash in that valley, if you will, from the reduced harvest. So that all makes sense. But as you think about that tail and we hear often about the growth in that whole corridor, population wise, any thoughts in terms of how much you could see that ramp up?

And then, maybe a way to answer that is, versus a year ago, say, David, when it had only been there maybe for a year and a half -- I mean, for only a half year, does it feel like there might be more you will be doing as you go out in the next five years in terms of developing some of that land or at least getting it ready to be sold to developers?

David Nunes - *Rayonier Inc. - President and CEO*

There is a lot of questions packed into that, and I think that one of the things I would say that I bring from some of my experiences and Chris certainly brings from his is that you really have to be mindful of market readiness of particular projects, and just because you have got land that you think may make sense from a geographic place, you have got to have market readiness.

So I think that we had taken the extra precaution of making sure that we have got really good market research data before we jump into any one of these projects. And so we have been pretty cautious in moving forward to avoid mistakes that a lot of folks have made in this sector of essentially getting something out in front of the market.

And so when we launched Wildlight last year, we had some pretty good market research data that suggested that project was market ready. And I think, now that we sit here a year later and we have begun discussions with a number of single-family and multifamily users, our original assumptions are absolutely confirmed. We have continued to be impressed by the degree of demand for this project. I think with the announcement of our office building there, to some degree we are putting our mouth is, and we feel that that is going to have an accelerating effect in terms of interest by parties.

These types of projects, it is really all about absorption and recognize this is not to your comment on this being a long-tail duration. This is a 10-year project. This is not going to happen overnight.

But that said, we are going to do everything we can to accelerate the absorption because that is really where your return comes down.

Chip Dillon - *Vertical Research Partners - Analyst*

Got you.

Operator

Mark Weintraub, Buckingham Research Group.

Mark Weintraub - *Buckingham Research Group - Analyst*

Thank you. One question I had was on bridging the EBITDA -- the revised forecast. Is the new acquisition -- is that actually going to be generating $11 million of incremental EBITDA this year, or is that more a forward look? Obviously, if you're going up [5] to [10] and it sounded like New Zealand was a little bit better as well, what might have been going the other way as you look out to this year?

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Yes, the $11 million, first of all, is a forward-looking statement. That is sort of what we indicated we anticipate over the next five years on an annual basis. And so we certainly won't get that this year, given that we are already in May. And, keep in mind, we have closed the acquisition, but we still have to work through the distribution of assets to the various entities, as well as just get our operations ramped up there. And so it will certainly be likely less than half of that $11 million relative to that acquisition this year.

And, really, the balance of the increase in our EBITDA guidance was just reflecting a strong start to the quarter -- I'm sorry, a strong start to the year with the first-quarter results. I would say, if we had to quantify how each of the segments is doing, obviously we expect a stronger year in the Pacific Northwest with the acquisition coming into the mix. New Zealand, I would say, is ahead of forecast, but we are seeing some softness in real estate. And I wouldn't characterize it as softness, but just our real estate results are going to depend on when we close some of the larger transactions, particularly the transactions that we have pending in the Wildlight project.

Mark Weintraub - *Buckingham Research Group - Analyst*

And, as you look at the timber markets, particularly in the South, have they played out pretty much as you would have been anticipating? And are you still of the view that tension or that inflection point would most likely come at about 1.3 million housing starts, or is there anything that is causing you to have a shift in that perspective?

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Yes, we continue to believe that there is some empirical evidence to suggest that there is an inflection point at 1.3 million housing starts. If you look at regression now, US South sawtimber prices versus housing starts, most of the observations below -- price observations below that level of 1.3 million are below trendline, and most of the observations about that level are above trendline.

That said, I think we are also mindful of the mix of housing starts that we have currently, which is more heavily dominated by multi-family than you may have seen in the past in looking at a number like 1.3 million.

So I think that we believe that there is -- you get more price elasticity when you get into that level of 1.3 million, 1.4 million housing starts. I joke with Dave that we have been two years away from 1 million housing starts for seven years now, but it does feel like it is more near-term just in relation to where we are at today. The trajectory that we have seen, it certainly feels more realistic to get to that type of level in the next couple of years.

Operator

Paul Quinn, RBC Capital Markets.

Paul Quinn - *RBC Capital Markets - Analyst*

Just a couple of questions. One, I understand the wet weather caused increased stumpage sales. Maybe you can just walk me through the mechanics of how you put that wood to market and that timeline on when those buyers have to harvest that timber.

Doug Long - *Rayonier Inc. - SVP, US Operations*

Sure, Paul. This is Doug. I Will help explain that. Basically, as we entered into November, we started putting timber sales up for market in these stumpage sales, and they are typically on a 12-month contract. So, as we got to that process, we wouldn't be able to have (inaudible) things going into the new year. And so to put those sales up, those folks have 12 months to start harvesting. And often what we see is folks buy those tracts and they hold onto them for a certain amount of months, and they still have some from the prior year that they are cutting on.

But this year, with the concern about El Nino and the wet weather we had in the area, we saw a lot of folks buy those tracts and basically nearly jump on and start harvesting. And so that is what kind of led to the accelerated harvest we had in this first quarter and, as I said, we will kind of moderate down because some of that volume that was also cut in this quarter, we won't have that volume for the future quarters.

So that is how it works. We typically have a 12-month contract, and we start in November, kind of closing those product contracts late November into December, and then run our sales program through, basically, March, and at that point we maintain amount of volume that we keep to then work with the market as we see opportunities to hit as we go through the rest of the year.

Paul Quinn - *RBC Capital Markets - Analyst*

Okay. That's really helpful. And then just on your comment around lower plywood -- well, plywood specific log prices, just because plywood prices have come down, that doesn't seem to be turning around anytime soon. So can we expect those log prices to stay low for the balance of 2016?

Doug Long - *Rayonier Inc. - SVP, US Operations*

That is a good question. I think one of the things between the year-over-year comp pricing we saw that difference between Q1 of the prior year was that we had a really strong plywood market at that time, and I think the team did a really good job capturing that with those stumpage sales.

So what we did, there was kind of -- there was a hot market, and we caught a spike there. So I think we don't see that kind of spike coming back up, but I think we do see prices in sawtimber being compared with where we are now and have seen some slight opportunities in places as we go forward. But, I agree that right now plywood markets don't seem like they are racing back to the top right this minute.

Paul Quinn - *RBC Capital Markets - Analyst*

Are you optimistic on the lumber side, or what are you seeing on that side?

Doug Long - *Rayonier Inc. - SVP, US Operations*

We have recently seen gains on the lumber side, so I would go with cautiously optimistic. As we said before, I believe that we have been seeing more positive trends than negative trends recently.

Operator

George Staphos, Bank of America.

Unidentified Participant

This is actually [John] sitting in for George. Just really two questions since most of mine have been answered.

First of all, on New Zealand, it sounded like domestic demand conditions were pretty good, and the conditions in China also picked up a little bit there. Can you discuss how that has continued through April and then ultimately through the first part of May here?

David Nunes - *Rayonier Inc. - President and CEO*

Yes. In New Zealand, we have roughly 60% of our volume goes into the domestic market for the export. Within that export, the largest component is China. In the early part of the year, really, the Chinese New Year dictates the activity.

This particular year, the Chinese New Year fell at a later time in the first quarter than it has in the past. And so that affects buying patterns, and it affects the drawdown of the inventory. The inventory tends to build during the Chinese New Year and then it comes back down. And so this is where we really pay a lot of attention to that inventory level. And the fact that the inventory level is sitting at about 1.6 months of demand, we generally find that anything below about 1.9 months, we have pretty stable market pricing, and we get a little bit of tension. And we have certainly seen that in recent months where we have seen stronger incremental pricing on successive vessels that have been chartered there.

So we are pretty -- we are feeling pretty good about this not repeating a pattern that we have had over the past couple of years of a big inventory build during the Chinese New Year, followed by price collapsing. And so that has given us some of the confidence that you have heard on the call in terms of how we have portrayed things there.

And then, the New Zealand domestic market has also continued to have a pretty steady clip for us.

Unidentified Participant

Okay. And just on Chinese inventory there quickly, do you have any sense for what those inventories are like by radiata pine versus the logs exported from the Pacific Northwest? I don't know if you guys get that sort of color or not, but (inaudible).

David Nunes - *Rayonier Inc. - President and CEO*

Our guys in New Zealand track it that way. I don't have that at my fingertips right now, but that is absolutely something that they look at pretty carefully in terms of trying to get a sense of where that sits.

Operator

Daniel Rohr, Morningstar.

Daniel Rohr - *Morningstar - Analyst*

So I really appreciate disclosures on the net effect of the two Pacific Northwest transactions on EBITDA and harvest volumes over the next five years and then sustainable yield as well. So, not to get greedy, but would you be able to share the anticipated gross effects of each transaction for the same measures?

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Well, keep in mind, as it relates to the disposition in particular, it is going to depend on how the property was managed. And so in having affected an asset sale to another party that was also our partner on the Menasha acquisition, I think we would be reluctant to put out specifics around what we anticipated that generating from a cash flow standpoint.

That said, we have disclosed what we expected in terms of next five-year harvest off of the sale versus what we expected the next five-year harvest off of the acquisition. And so I could certainly walk you through some back of the envelope math to get to some estimates of that if it was helpful.

Daniel Rohr - *Morningstar - Analyst*

Yes. Maybe at another time, that would be great. And then, could you refresh us on -- so following the Pacific Northwest transactions, what sort of sawtimber/pulpwood mix you expect over the next five years and then longer-term?

David Nunes - *Rayonier Inc. - President and CEO*

I would say, generally, in the Northwest, we are in that 15% to 20% of pulpwood as a percent of our mix. It is going to vary a little bit by species. It is a little bit higher with hemlock than it is with Douglas fir, and we are increasing our Douglas fir mix on this particular sale.

Daniel Rohr - *Morningstar - Analyst*

Okay. And then same question for the southern segment, if you don't mind.

Mark McHugh - *Rayonier Inc. - SVP and CFO*

We generally expect that the mix between pulpwood and sawtimber is going to shift more towards sawtimber over the next five years. We've got some disclosure on our investor presentation that basically shows that going from a 70/30 pulpwood/sawtimber mix to more of a 50/50 mix over the next five years.

Operator

Collin Mings, Raymond James.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Just a couple follow-ups for me. First, on the unimproved development land sold in St. Johns County, maybe put a little bit more color around that. I think, if I remember correctly, Rayonier had an established relationship with a large public homebuilder several years ago. Is that part of that is what we are seeing being taking down taken now and, if so, is there a lot of additional sales behind that over the next few years?

Chris Corr - *Rayonier Inc. - SVP, Real Estate and Public Affairs*

Yes. You are right in remembering that. This was a follow-up transaction on a previous we did with a national homebuilder in St. Johns County, and we do expect more with those guys. A little more.

David Nunes - *Rayonier Inc. - President and CEO*

Recognize, we have only got 2000 acres, really, that are in that geography that are sort of suitable to that, and so it is not a big stream of future potential there.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. That's fair. Chris, though, can you tell us how much acreage is still left in that agreement?

Chris Corr - *Rayonier Inc. - SVP, Real Estate and Public Affairs*

I would have to stretch my memory a little bit.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

I can follow up off-line. That's fine. And then, Mark, maybe just to clarify a comment made around the cost of the office consolidation, I think you referenced in the prepared remarks that there was going to be $500,000 of savings as it related to the costs given from a leasing standpoint. Was that relative to what leasing -- what you would have expected leasing would have been in 2017 -- or after 2017 on a new lease, or is that relative to your current G&A run rate?

Mark McHugh - *Rayonier Inc. - SVP and CFO*

That was more relative -- that was a prospective comment. All of our leases expire in 2017. And so keep in mind, post the spinoff, essentially the two companies when they split, that the timber side took new office space that was intended to be temporary. And so we have had this desire to get everybody under one roof for some time now. And so in looking at options to put everybody under one roof, our estimated cost of that was in excess of $1 million. And so that statement about the savings was really relative to what we expected that to cost.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. Thanks. That's helpful. And then, maybe just tying together all of the comments and at the questions around the Pacific Northwest and some of the optimism -- or incremental optimism you have highlighted today, can you quantify from here what you are expecting on a blended basis of improvement in log pricing in the Pacific Northwest over the course of the year? Just give us a ballpark of how you are thinking about it right now.

David Nunes - *Rayonier Inc. - President and CEO*

I don't know that we are necessarily factoring in a lot of material improvement. I think we have seen some modest improvement in the export markets in Washington. I think where a lot of our enthusiasm comes calling is just thinking about it from a market diversification standpoint and that we are opening up into a couple of different micro markets in Oregon that we were not in before and just the exposure that that has on the various products that are manufactured there. The fact that it is a very heavy Douglas fir market, and it just gives us a lot more optionality. We had -- in Washington, we had two sawmills within our operating geography shut down. One is being rebuilt as we speak and will be open next year.

So part of our optimism just really is the fact that we are kind of spreading that risk out a bit more between those two states and the markets that they serve.

Operator

Mark Wilde, BMO Capital Markets.

Mark Wilde - *BMO Capital Markets - Analyst*

Just a few follow-ups. Mark, you have got a bunch of leases rolling off down in the south. You mentioned this over the next few years. Can you just talk with us about what the financial implications of those leases rolling off will be?

Mark McHugh - *Rayonier Inc. - SVP and CFO*

Yes. Hold on one second. Let me just get to some of the details around that.

In terms of financial impact, it is not going to be particularly material. Keep in mind that all of these leases have lease payments associated with them, and any given lease could actually be profitable or unprofitable. But leases generally tend to generate sort of a lower per acre EBITDA benefit relative to owned land because you have got on average, I would say, a $30 lease payment, a $30 per acre lease payment associated with it. So we don't anticipate that that is going to have a particularly meaningful impact on our EBITDA forecast going forward.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. Next question. You guys have been sort of shifting your focus around in terms of where your capital is at in the timber business. Any thoughts on putting yet more capital into New Zealand, either by raising your ownership stake or perhaps within the joint venture, acquiring more timber assets?

David Nunes - *Rayonier Inc. - President and CEO*

Yes. To some degree, this recapitalization that we did, indeed, accomplished that. We like the competitive position that we have in New Zealand as the third largest landowner. We have got enough scale there where, in concert with our trading segment, we can bring wood to market pretty efficiently. And we have liked some of the valuation metrics there. Recognize, however, there is not a lot of deal flow in New Zealand. There have been a few transactions that we have participated in and have not been successful. So we have made attempts at growing down there. But it absolutely is something that we are open to, and I think to the extent that we increased our stake with this recap, we, indeed, have grown down there.

Mark Wilde - *BMO Capital Markets - Analyst*

Okay. Then the last one I had is, you have got a plywood mill, which I think is either coming up right now or will be coming up in -- somewhere I think in southern Mississippi. Does that have any effect for you guys on any of your land base? I know you have got land in southeastern Mississippi.

Doug Long - *Rayonier Inc. - SVP, US Operations*

Yes. You are correct. There is a mill going up in that area. Probably not too much of an impact for us just due to the scale of our size of operations in that area and the distance from the locations. There will be some ripple effect, possibly, as wood in between where our land and that land or that militants were there will be some impacts. But I wouldn't say that there will be a major impact for our operations.

Mark Wilde - *BMO Capital Markets - Analyst*

Good luck in the second quarter, guys.

Operator

(Operator Instructions) Chip Dillon, Vertical Research Partners.

Chip Dillon - *Vertical Research Partners - Analyst*

I know you probably reviewed this in the last call, but what land bases should we assume in the real estate sales, both for the second quarter and and the rest of the year?

Doug Long - *Rayonier Inc. - SVP, US Operations*

That run rate has historically been -- most of our land is relatively low basis. And so that run rate has historically been in the range of $10 million annually. But that is obviously going to -- in terms of the quarterly amount, it is obviously going to change depending on what is sold. And you would also expect, certainly, with the development properties that we sell, it would come with a higher basis attached to those.

Chip Dillon - *Vertical Research Partners - Analyst*

So for the year, we should be in the $10 million ballpark is what you are saying for 2016?

Doug Long - *Rayonier Inc. - SVP, US Operations*

I think it may be a little bit higher than that, depending on when the Wildlight -- some of the Wildlight transactions closed. (multiple speakers) Those are going to have a higher basis associated with them. I think the $10 million is more a statement of the average basis associated with more ordinary course land sales.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. And then, quickly, you mentioned something about the lease payments going down on the leased land. You are not terminating those leases, so they don't -- you will continue to cut off those -- cut timber off those lands or does that come to an end?

Doug Long - *Rayonier Inc. - SVP, US Operations*

We have got about 60,000 acres of leases in the US South that are expiring in 2017. We got some disclosure around that in our 10-K. But the way that these leases tend to work is that they are long dated leases, and they vary significantly in terms of how they work. Some sort of revert to the owner on final harvest. Some are just a broader portfolio of acreage that have a fixed term and they have to be returned to the owner, and some average state, perhaps average plantation age of seven years. And so they vary pretty considerably in how they work. But, again, we have got some disclosure in the 10-K around that, and I am happy to walk you through that, Chip.

Operator

I would now like to turn the call back to our speakers.

Mark McHugh - *Rayonier Inc. - SVP and CFO*

All right. Thanks for joining the call and please feel free to follow up with me with any questions.

Operator

Thank you. That concludes today's conference. Thank you for participating. You may now disconnect.
