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RYN - Q2 2014 Rayonier Inc Earnings Call

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OVERVIEW:

Co. reported 2Q14 sales of $163m and pro forma net income of $10m or $0.08 per share.

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PRESENTATION

Operator

Welcome, and thank you for joining Rayonier's Second-Quarter 2014 Teleconference Call. At this time, all participants are in a listen-only mode.

(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. Ed Kiker, CFO. Sir, you may begin.

Ed Kiker - *Rayonier Inc - SVP, CFO*

Thank you, and good afternoon. Welcome to Rayonier's investor teleconference covering second-quarter earnings. Our earnings statements and presentation materials were released this morning, 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, as well as our Form 10-K filed with the SEC, lists some of the factors which may cause actual results to differ materially from the forward-looking statements we may make. They are also referenced on page 2 of our presentation materials.

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

Dave Nunes - *Rayonier Inc - President & CEO*

Thanks, Ed. Good afternoon, everyone.

I'll make a few overall comments, and then I'll turn it back to Ed to review our financial results. And then following that, we'll ask Lynn Wilson, our Executive Vice President of Forest Resources, to discuss in greater detail the results from our Forest Resources segment. After which, Chris Corr, our Senior Vice President of Real Estate, will discuss results from the Real Estate segment.

I'd like to start off by just saying how excited I am to be stepping in as the new CEO of Rayonier, following the successful spinoff of the Performance Fibers business, as Rayonier Advanced Materials. We have a great portfolio of assets, with exposure to diverse markets in the US and Asia, a strong balance sheet that will help us grow, and an experienced team that will apply its expertise in both managing those assets and adding value to our assets, while also bringing a disciplined approach to growing our portfolio. With the spinoff now complete, Rayonier is well-positioned as an international pure play timber and land resources Company poised for growth.

This morning, we reported second quarter pro forma earnings of $10 million or $0.08 per share. As Ed will detail later, these results include a number of impacts associated with the spinoff of Rayonier Advanced Materials.

Switching to our Forest Resources segment, we benefited from a continued strong timber demand and improving prices across our major operating regions in the US South. Across the South, we're encouraged by improving demand, and prices associated with gradual improvement in housing starts, as well as the tight supply due to continued wet weather.

Despite the increased log inventories in China, which resulted in lower delivered log prices in our New Zealand operations, we were able to maintain strong pricing in the Pacific Northwest as a result of stumpage sales awarded during the first quarter. Lynn will also detail the progress we're making on the acquisitions front, where year-to-date, we currently have either closed or under contract nearly 47,000 acres of quality timberland for a total value of $93 million.

Real Estate results improved significantly over the last quarter, primarily reflecting the closing of one large non-strategic timberland sale in Florida, as well as improved rural and development sales volumes. As Chris will discuss, we're making good progress on strategic initiatives regarding our development properties. We continued to generate solid operating cash flows, with second quarter Cash Available through Distribution that was comparable to the prior-year period, when excluding results of discontinued operations and other costs of the spinoff.

So with that, I'll turn it back to Ed, and we'll take a deeper dive on the financial results.

Ed Kiker - *Rayonier Inc - SVP, CFO*

Thanks, Dave. Let's start on page 3 with our financial highlights.

Overall, as Dave noted, we had strong operating results in the second-quarter, which Lynn and Chris will cover in more detail. Sales totaled $163 million, while operating income totaled $40 million, and pro forma net income was $10 million. All of Performance Fibers after tax operating results, interest expense associated with the Performance Fibers business, and separation-related costs have been presented as discontinued operations in the income statement.

There was one special item this quarter. The write-off of a $4 million asset associated with a director's charitable award program that was transferred to Rayonier Advanced Materials.

The prior-year second quarter included a $16 million gain related to the consolidation of a New Zealand joint venture. These items, along with the results of discontinued operations, have been excluded to arrive at the pro forma amounts used for comparisons throughout this call.

Three other notable items impacted this quarter's results. First, while corporate expenses directly attributable to Performance Fibers and normally charged to the segment, were included in the results of discontinued operations, Generally Accepted Accounting Principles require that all unallocated corporate G&A expenses incurred before separation, be included in Rayonier's results from continuing operations, with none allocated to discontinued operations.

Second, late in the quarter, we extinguished $113 million in installment notes prior to their maturity in December of this year, incurring $5 million in accelerated interest and make whole expense. This early payment was made to facilitate the new capital structures of Rayonier and Rayonier Advanced Materials.

Third, income tax expense this quarter included a $16 million valuation allowance against cellulosic biofuel producer credits, that, due to the spinoff of Performance Fibers along with its taxable income, are unlikely to be utilized by Rayonier going forward.

Moving to the bottom of page 3, we provide an outline of capital resources and liquidity with comparison to second quarter 2013. Just prior to its spinoff, we received a $906 million cash distribution from Rayonier Advanced Materials.

With that $906 million, we paid off $715 million in revolver and term credit loans. A portion of the cash proceeds is also intended to repay the $131 million of senior exchangeable notes that are due August 2015.

Rayonier closed the quarter with cash of $222 million, and restricted cash of $75 million. Now, the restricted cash is earmarked for dividends, most of which will be paid in a special $0.50 per share dividend next month, separate from our $0.30 per share third quarter dividend.

Following the spinoff, Rayonier has a strong balance sheet, with net debt of approximately $0.5 billion, a modest net debt to EBITDA ratio of 2.1, a low 17% of debt to total market value ratio, and the flexibility to grow. Note that the balance sheet at June 30 also reflects the acquisition of $75 million in timberland closed in the first half of the year.

In addition, our Cash Available for Distribution, based on operating cash flows, is expected to be more than sufficient to cover our regular dividend of $0.30 per share going forward. Our usual variance analyses are provided on pages 4 and 5 of the financial presentation material, and cash available for distribution is shown on page 6.

We are now going to move right into markets and operations on page 8, so let me turn the teleconference over to Lynn Wilson to cover our Forest Resources segment.

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

Thank you, Ed. Good afternoon.

In the Atlantic and Gulf regions on page 8, average pine stumpage prices continued at first quarter levels. 20% higher than second quarter last year, due to increased pulpwood and saw log demand, coupled with restricted supply, as a result of wet weather across the South. With over 80% of our annual volume committed and sales locked in, we expect prices to remain at first half levels, 10% to 15% higher than 2013.

We anticipate that 2014 pine harvest volumes will be 5% higher than 2013, as we integrate recent acquisitions. We expect volumes from already completed 2014 acquisitions alone will contribute 3% of the annual increase.

Now let's move to page 9 and the Northern region, which comprises our Washington state operations. Delivered log prices were equal to the first quarter, even though China log inventories were high, as we were able to divert volumes to the domestic market. This quarter, only 21% of our delivered saw logs were sold into the export market, while we capitalized on higher export prices earlier in the quarter.

Our ability to switch volumes to domestic customers captured higher pricing, as domestic prices generally lag export pricing. As a result, prices exceeded second-quarter of last year by 4%.

We expect third quarter prices to remain flat at first and second quarter levels, as we take advantage of commitments made earlier in the year, as well as domestic supply agreements with prices lagging the market. We are beginning to see log inventories in China ports decline from their recent peak levels, and expect export prices to begin a recovery late in the third quarter.

For the full year, we believe overall demand will remain strong in the Northern region, driven by steady domestic log markets and overall increasing demand from Asia. Based on current market conditions, we expect delivered log prices will increase at least 5% in 2014, even with the currently less favorable supply/demand balance in Asia.

Currently, pricing for over 70% of the 2014 volume under contract, are locked in at first quarter levels. We anticipate that 2014 volumes will be slightly above 2013. However, depending on export prices during the second half of the year, we may consider deferring some fourth quarter volume until stronger pricing environment returns.

Now on page 10, let's focus on our joint venture in New Zealand in which we own 65% interest. Export prices fell sharply in the quarter, as China log inventories reached an imbalance due to strong worldwide supply. For the quarter, average export prices declined 6% from the prior quarter; however, due to the robust New Zealand economy, domestic prices increased 8% from the first quarter.

For the full year, we believe export demand will continue. And now that signs of reduced supply are evident, we expect to see prices begin rising later in the third quarter. Overall, we anticipate Forest Resources 2014 operating income will be somewhat below our previous guidance, due to lower Asian log prices, but still well above 2013, reflecting continued strong demand across all markets.

Now I'll provide a brief update on timberland acquisitions. So far this year, we have evaluated 360,000 acres, and have either closed or have under contract nearly 47,000 acres, for a total of $93 million. The largest transaction came in the second quarter acquisition of a well stocked property in Georgia, located near some of our existing timberland, that benefit from strong competitive pulpwood and saw log markets.

Now let me turn it over to Chris Corr to cover the Real Estate segments.

Chris Corr - *Rayonier Inc - SVP Real Estate*

Thank you, Lynn, and good afternoon, everybody.

The Real Estate earnings for the second quarter were significantly higher than the first quarter, and higher than the same quarter last year. Due primarily to the completion of a large non-strategic timberland sale in Florida.

Rural sales remained steady, and we continue to make good progress on selected properties with potential to transition more of our sales mix from non-strategic timberland to development properties over time. Our sales pipeline is solid, and as we noted on our previous call, we expect results for the full year to be somewhat comparable to 2013.

Now, turning to slide 11, rural HBU pricing was higher in the second quarter this of year than the same quarter last year, with sales such as a recreational property in Western Nassau County, Florida totaling 658 acres at $2,750 an acre.

In our development sales, the elevated pricing is the result of a sale of approximately six acres in Nassau County, Florida for $174,000 an acre to the Florida Department of Transportation for highway expansion. Volume for HBU sales can be found on page 12.

As indicated by my remarks, the variety of sales and pricing overall reflects the diversity of our land resources portfolio, and the fact that all real estate markets are local, with sales mix varying widely from non-strategic timberland to rural recreation, to rural residential, to conservation, to development. Our focus is to constantly evaluate, upgrade and manage to optimize the highest and best use of all of our land holdings.

Now let me provide a brief update on progress in our development sector. We are excited to report that earlier this month, we closed on the transfer of 27 acres to Nassau County Florida District Schools to provide land for the construction of a new K-5 elementary school in the heart of our property in the East Nassau portion of the county, which is north of Jacksonville. As part of our agreement, the Nassau District School Board will plan, design and construct a new elementary school, as well as a road and utilities to service it.

The school district's investment in out East Nassau planning area is estimated to be approximately $20 million, with the new school expected to open in the Fall of 2017. This is an important milestone, as we know from experience and market research that a school can be a very powerful driver of demand for residential real estate.

Over the past few months, we have been focusing on master planning the wider area to optimize the location of the school, and to program adjacent properties for complementary uses. We have been coordinating with high quality community developers and home builders to develop the strategy, and are encouraged by the interest we are receiving.

Slide 13 illustrates the significant activity we had in the second quarter, attributable to a planned non-strategic timberland sale. As we've discussed on previous calls, we are always looking for opportunities to upgrade our portfolio by divesting properties of lesser strategic importance, and investing in higher potential properties when it makes sense. Through our land classification process, we identified a tract totaling approximately 19,500 acres located in Gilcrest County Florida that had lower site characteristics and market potential than the bulk of our core timberland portfolio.

To be clear, this was a good timberland asset, but not as productive as the vast majority of Rayonier's portfolio, and not in our more desirable log markets. We conducted a competitive bid process and sold this property at a sales price of $1,125 an acre. The proceeds from this non-strategic timberland sale effectively were reinvested into new timberland properties with superior relative investment attributes in targeted markets, such as in the recent acquisition in Georgia that Lynn noted earlier.

In summary, planned timberland sales led to a big sales quarter. Our rural pipeline remains steady, and the sales reflect the diversity of our portfolio. We consider our disciplined approach to evaluating prospective land sales a core competency, and will continue to scrutinize timing, turns and strategy on an opportunity by opportunity basis.

In addition to a quality sales quarter, we continue to advance our Real Estate strategy for our East Nassau property, catalyzed by the construction of a new elementary school now in the planning and design phase on our land just north of Jacksonville, Florida. For the balance of the year, we anticipate a consistent rate of sales based upon transactions in the pipeline, and therefore, as we've noted, still expect 2014 results to be comparable to 2013.

Now let me turn it back to Ed Kiker.

Ed Kiker - *Rayonier Inc - SVP, CFO*

The financial summary on page 14 provides updated 2014 guidance for key financial metrics by segment. Now this guidance is consistent, for the most part, with our earlier guidance, but does reflect moderated expectations for Forest Resources for the remainder of 2014. As Lynn discussed, due to weaker export log prices from our New Zealand and Pacific Northwest operations.

We continue to expect full year 2014 CapEx, excluding strategic investment in timberland acquisitions, of $65 million to $70 million, and DD&A of $115 million to $120 million. EBITDA and DD&A do not include the non-cash cost basis of the Real Estate land sold, which we anticipate will be approximately $9 million for 2014.

The segment guidance, shown on the summary table, excludes estimated corporate expenses, which were significantly impacted in the second quarter by spinoff related costs. Going forward, on a normalized basis, we continue to expect the annual corporate G&A cost, not directly associated or allocated to segments, will approximate $20 million.

To provide you with updates and other key metrics for your models, we expect interest expense for the second half of 2014 will $18 million. Income tax expense will be dramatically lower for the new Rayonier, now that the taxable earnings from the Performance Fibers business are with Rayonier Advanced Materials.

Going forward, in the normal course of business, we expect the taxable REIT subsidiary to be a loss company, and that only the Company's New Zealand joint venture will be subject to income tax. New Zealand taxes the JV at a rate of 28%.

On a cash tax basis, we expect the Company, overall, to be subject to minimal amounts of income taxes, as the New Zealand JV has significant net operating losses with no expiration, and the US taxable REIT subsidiary is expected to generate losses. However, large high value sales of Real Estate development property above its tax basis in the taxable REIT subsidiary could generate income tax expense in the future.

I'll now turn it over to Dave for some final comments.

Dave Nunes - *Rayonier Inc - President & CEO*

Thanks, Ed.

So in summary, as we look at each of our two business segments, we're excited about the quality of our assets and the strategies we have in place for growing shareholder value. Within our Forest Resources segment, we believe we're well-positioned to capitalize on gradually recovering US housing starts, which should translate to significant improvement in log pricing, as mills increase operating rates and production.

We have a broad exposure to diverse end markets, with recovering saw log and strong pulpwood markets in the US South and great exposure to Pacific Rim markets in our Pacific Northwest and New Zealand timberlands. In addition, we expect strong contributions in the years ahead from the timberland acquisitions of recent years, and we're pleased with the smaller acquisitions of high quality timberlands that we've either closed on or have under contract thus far this year.

In our Real Estate segment, we're confident that our strategic direction, including a focus on identifying catalysts for growth in selected markets, well-situated HBU properties, steady rural recreation and rural residential business, and improving demand will generate long-term shareholder value.

In summary, we're excited to have the spinoff of Rayonier Advanced Materials now behind us. I'd like to acknowledge the hard work by the management teams of both companies. The spinoff was completed on schedule and with minimal business disruption, which is really a tribute to the dedication of all involved.

As we emerge as the new Rayonier post spinoff, I'm excited to lead a more focused timber and land resources Company with a great team, greats assets, and a tradition of adding shareholder value. We're well-positioned to utilize our strong balance sheet to grow the Company, while maintaining our disciplined acquisition, due diligence approach to create additional long-term shareholder value.

So I'd like to thank you all for taking your time to join the call. And with that, we'll close the formal part of the presentation and turn it back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

The first question today is from Mike Roxland with Bank of America.

Mike Roxland - *BofA Merrill Lynch - Analyst*

Good afternoon. Thanks very much. Good afternoon, and congrats, Dave, on your new role and also the spin.

I know that you guys are regarding Southern saw log prices to be flat in the second half. Obviously, there's been a lot of capital investment that has gone into lumbers mills in the US South.

Just wondering, if ignoring the benefits from weather, are you starting to see tension that would warrant higher saw log prices? Even though you are guiding flat prices, I guess at what point do you start to see those prices or the dynamic in the South get tense enough to really drive Southern saw log prices higher?

Dave Nunes - *Rayonier Inc - President & CEO*

Thanks, Mike. I'm going to ask Lynn to address that question.

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

Hello, Mike.

Just wanted to break it down into several different markets. So in addition to the wet weather, we have seen a change in ownership in some of our key facilities across the South, investment by our Canadian mills and companies in the Southeast. So capital investment has started with those facilities, as well as we've seen some key restarts and additional shift. And so the tension that we have seen to date has been very market driven by a local condition within 75 to 100 miles of those key facilities, we have started to see that tension build and that demand increase. So we do see that already occurring. But then from a south-wide perspective, we think that it will take time to see all of that increase come back online. So we really have a moderate approach to how we view that response in the marketplace.

Mike Roxland - *BofA Merrill Lynch - Analyst*

Got you. Let me ask you this then, where are you seeing those pockets of weakness to drive your overall average or to keep your overall average flat in the second half? So if you are seeing pockets of strength, where are the pockets of weakness to bring down that average?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

I'll turn that around and say where we're seeing the pockets of strength are in the coastal Florida, Georgia markets, and in our East Texas markets, and in our lower Alabama markets. So that's where we're seeing our strongest markets at this point in time.

Mike Roxland - *BofA Merrill Lynch - Analyst*

Got you. And then just one quick follow-up.

Just one of your peers recently lowered their own forecast for Southern timber harvest this year. I guess, can you comment on the demand situation in the South? Do you expect to hit your own internal target, internal harvest level for the South at this point?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

Yes, we are. We have very strong pulpwood demand in our markets, and we are going to continue to stay on track with that. We will be at a point where we will continue to manage our mix. As you know, traditionally, our harvest profile has been a 50/50 saw log, pulpwood mix.

Over the past few years, to protect value, we have shifted to a higher percentage of pulpwood, 70% to 80%. This year, we're going to be on track at about 66% pulpwood. But we'll manage our harvest level about that for the remainder of the year to make sure that we're in balance with the demand, and ease into our saw log mix over the next three to four years.

Mike Roxland - *BofA Merrill Lynch - Analyst*

Got you. Thank you for that. And then one last question before I turn it over.

Chris, as you've gone through analyzing land and restratifying the acreage, can you just give us an update on the various buckets? Of the 2.6 million acres that Rayonier owns, how many are non-strategic HBU and rural Real Estate?

And also, the Company obviously over the last couple of years has been targeting about 200,000 acres for sale in the I-95 corridor. As you've gone through the restratification process, are you still comfortable with that number? Is it higher? Is it lower?

Chris Corr - *Rayonier Inc - SVP Real Estate*

Hey, Mike, I'll try to take that one on. On the first question, we have been through a very detailed and elaborate land classification process over the last six months or so. So, we've been through a complete re-evaluation of the portfolio, new definitions, a new process.

It was a bottom's up look that included over 65 people in the Company, a lot of boots on the ground and folks that know the land very well. So we think we've got a good handle on it, and it's a promising story. I'll sort of summarize it that way.

And also say that it's also an analysis that's constantly evolving. We're always looking at opportunity on a portfolio at this scale. And markets change, things change, situations change, and it's a process that continues to go.

One note on land classification from this process. We have intentionally managed the process to look for what we call overlap. So it means that there may be more than one potential kind of opportunity for any number of classifications.

So when you think about it, simplisticly, lands wouldn't neatly fall into necessarily any one given bucket. There can be opportunities for more than one use in a lot of different places. Certainly from timberland, to conservation, to rural recreation and properties like that.

So we've got a fair amount of the portfolio that we see as being able to go in different directions over the long term, and we see that as good news. Because it just means optionality.

To your question about, Mike, about the corridor. I think the way I would characterize it is, is we've got -- these are timberland assets, of course, and have been managed as such and they don't tend to be in the middle of urbanization or growth. The good news is, we've got some lands that are however starting to feel a little bit of the pressure from bigger markets.

Like in Northeast Florida, and I think I mentioned Nassau County Florida, the county north of Jacksonville a couple of times, that the trajectory is starting to sort of press in that direction. So it provides us some opportunities there, certainly over the long term, and we'll continue to look at opportunities that catalyze that.

And then, maybe up further North towards Savannah, similarly so, there's some growth pressures that give us some opportunity there. So the bigger opportunities are longer term, and we'll continue to manage in that direction. But what I'm seeing, I like, and I think we're making progress to continue to look for specific opportunities.

Mike Roxland - *BofA Merrill Lynch - Analyst*

Thanks for all the color. Good luck in the second half.

Chris Corr - *Rayonier Inc - SVP Real Estate*

Thank you.

Operator

Thank you. The next question is from Chip Dillon with Vertical Research Partners.

Chip Dillon - *Vertical Research Partners - Analyst*

Yes, and good morning. And again, congratulations, Dave, on your new position.

Dave Nunes - *Rayonier Inc - President & CEO*

Thanks, Chip.

Chip Dillon - *Vertical Research Partners - Analyst*

First question I guess is for Lynn. I think who turned around the first question, but just to make sure I'm right on where the offsetting weakness might be. You mentioned the strength, and we heard that from a competitor along the Atlantic Coast.

But would that I guess by the process of elimination be basically in Alabama, Mississippi and Oklahoma? Or is it really more just what you're really saying is you're seeing -- or did you really mean to say that the West Coast is where that's offsetting the decline in the export log prices? Or were you just talking about the South where the strength is the east -- along the coast, and that's offset by the Alabama, Mississippi and Oklahoma activity?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

I was primarily focused on the South, Chip, when I made that comment. So when you think about south-wide, it's much more granular than that. When you think about the supply/demand dynamics, our 1.1 million acres in Florida and Georgia really are five distinct markets, not just one.

So within those, for example, the interior of Georgia has somewhat lower demand than the coastal part of Georgia. If you move into our Gulf states region, from Alabama West, Alabama and Mississippi and three distinct markets within that 400,000 plus acres that we have within that part of our ownership and one of those is weaker than the other two. So that's how I was thinking about that south-wide demand.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. That's helpful.

And Ed, I didn't quite -- I must have missed an element. But you were helping us on the taxes, and I know you said the TRS would probably I think you said run at a loss, and then there would be taxes in New Zealand. If it's sort of -- and I know there's no such thing as a typical quarter or a typical year. What would the end result be?

Would it be like a zero tax rate, or could it be negative? I guess that can't be perpetual. Or would it be slightly positive like a percent or two?

Ed Kiker - *Rayonier Inc - SVP, CFO*

It would be slightly positive, Chip. It would be pretty minimal, on the order of perhaps $2 million a year, depending on a number of things. But it would be a pretty small number.

Of course the REIT properties are not -- the REIT income is not subject to tax, the REIT qualifying income. And then our taxable REIT subsidiary, as I mentioned, that does generate some level of loss.

So unless we have large sales, and we do expect over time to have some larger sales of development property from our TRS, but unless we have a particularly large sale in a given year, we would not expect to have taxable income in our taxable REIT subsidiary. Going forward, now that we're separated, we would expect to have fairly minimal tax expense. And on a cash basis, virtually nil, except for a few small items.

Chip Dillon - *Vertical Research Partners - Analyst*

I see. That's very helpful.

Let's say as you sell land, obviously, if there's any kind of I guess improvement, if I hear you right in the development in the TRS -- or I guess you've transferred the land so that makes sense. So then as it gets improved, there would be a corporate tax there.

But I know, and I don't want to get my terms wrong. But I know that back in the you day, that when a REIT would buy land there was like a 10 year period where there was some kind of recapture if you sold it. And I know it's been a very long time since I think you bought -- like the late 1990's, some [Smurfit] land, but you did make those two big acquisitions a few years ago.

So, is there any risk on any of your let's say non-development, non-TRS -- lands that you would have a significant tax because you bought it recently?

Ed Kiker - *Rayonier Inc - SVP, CFO*

No, I think, Chip, you're referring to the built in gains period that was in place 10 years after conversion to a REIT. We converted January of 2004, so we're beyond the built in gains period.

In fact, in 2012 and 2013, it was just under more general tax relief, we were free from that as well in those years. So we're past that built in gains period, and do not anticipate any tax issues related to those years.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. And then one more quick one. Yes, now I totally remember.

As you look at the future, and I know, Dave, you've been there for a relatively short period of time, how should we think about sort of normalized CapEx and DD&A? Is the $65 million to $70 million you're looking at this year, and I guess the $115 million to $120 million in DD&A, is that a normal year or could you see some variability notwithstanding some big acquisitions that might change the character of the Company?

Dave Nunes - *Rayonier Inc - President & CEO*

Well recognize that that excludes timber acquisitions, and so it's really designed to give you more of the look into the timber business.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay, I see. That's helpful. And I guess anything -- one last one for you, Dave, is the -- in your time there at Rayonier, can you tell us what you would regard as your biggest positive surprise, and maybe what you think is more of a challenge than you thought when you were taking the position?

Dave Nunes - *Rayonier Inc - President & CEO*

Sure. Good question.

I think that on a couple of fronts I've been very impressed by the people and the culture here, and I also have been very impressed by the acquisition diligence effort. It's a very disciplined process, and a really well functioning team on that front. And so, the amount of things that we're able to look at at any one point in time is quite large, and so we have a pretty good system there.

In terms of areas where I think we need more work, I'd say that as part of the downturn during the global financial crisis, like a lot of companies we pulled back on resources. And I think we saw that particularly in the Real Estate side, where we were pretty hunkered down.

And so I think one of our challenges going forward, is to build upon the land classification work that Chris talked about. And we're going to start putting more resources into some of thee targeted projects to try to build on some of the catalysts that Chris talked about, and work those things to where we can start unlocking some of that value. So that's an effort that we're working on actively as we speak in terms of adding some more expertise to our existing staff.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. That's very helpful. Good luck to you.

Dave Nunes - *Rayonier Inc - President & CEO*

Thanks.

Operator

Thank you. The next question is from Collin Mings with Raymond James & Associates.

Collin Mings - *Raymond James & Associates - Analyst*

Hey, good afternoon. Dave, congrats again on the new role at Rayonier. I guess my first question is for you.

Can you maybe touch a little bit about how you're thinking about the current acquisition environment? The general consensus right now is that most opportunities exist in the US South. But just given your background in the Pacific Northwest and the background you have there, how do you see the relative opportunities between the US South and the Pacific Northwest right now?

Dave Nunes - *Rayonier Inc - President & CEO*

Well, I think it certainly is a competitive acquisition environment. It's one thing, as we indicated earlier in the call, to have a balance sheet that's got room for a lot of growth. But it's important that we keep our discipline, and I think that's part of what I was referencing when I referred to the team. I've been impressed by the discipline that I've seen, and thinking about this more, or how do we allocate this capital most effectively?

In terms of the various regions, I think that we're certainly seeing more deal flow out of the South than we are out of the West. But the West has always had slightly less deal flow than in the South.

And in terms of how we think about various opportunities, I'd say that we're somewhat agnostic. We'd like to expand in geographies where we already have a footprint, and some view of market expertise. And then as we look at geographies where we have less of a presence, that's where we'll take a little bit different look and look at some potentially larger beachhead type opportunities where we can establish that market presence in those markets.

But we're looking at it on a market by market basis. And we're looking at opportunities really in all of the markets right now, and we're going to let our financial discipline really ultimately dictate where we're successful.

Collin Mings - *Raymond James & Associates - Analyst*

Okay. Well I guess on that disciplined approach to looking at the acquisitions, rough math, you guys have closed or have under contract about 10% or so or a little bit more than 10% of the 360,000 plus acres that you guys have looked at year-to-date.

What has been the biggest reason you haven't closed on some of the deals? Has it just been pricing? You didn't want to enter a new wood basket or a new state? What's caused the 85% of that not to end up be something you guys pursue?

Dave Nunes - *Rayonier Inc - President & CEO*

I'd say this is one of those times to borrow a baseball analogy. We're really happy with our low batting average. And I think that generally, in a number of these transactions, where we're in more of an auction environment, certainly a portion of those are going to be not successful from our standpoint, due to relative price expectations that we might have versus others.

It's conceivable that there could be some differences in discount rates or inventory levels. I think in the areas where we have been successful, we have looked at a number of smaller bolt-on transactions that are below the radar screen of the larger auction environments. And while those individually aren't moving the needle very far, I've been impressed by how many of them the team has been able to close and get done, and they're all additive acquisitions, even though they're a lot smaller.

Lynn, what more would you add to Collin's question?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

Collin, the first part of that question would be, of that 360,000 acres, about 50% of those didn't meet our fit criteria for our investment. So it either didn't have the productive timberland, the HBU component, or other property attributes such that we would not want to bid on or participate in the process. So we set those aside.

For the remainder of the properties that we've participated in the process, it was a very competitive environment. And we stayed very disciplined to Dave's point, and stayed with where we thought the values would be and our own internal benchmarks. And we were not the successful bidder on some of the properties.

So I would break it down that way. With the remainder of the properties, we had a significant number of the ones we have closed that have been negotiated.

Collin Mings - *Raymond James & Associates - Analyst*

Okay. And that 47,000 acres, is that all in the US South, Lynn?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

All but one small transaction in the Pacific Northwest.

Collin Mings - *Raymond James & Associates - Analyst*

Okay. And then just rough number, how much of that Georgia property that you guys have referenced either in terms of value or acreage did that represent of that total?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

One-third.

Collin Mings - *Raymond James & Associates - Analyst*

Okay. And in terms of acres or value or both?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

In acres.

Collin Mings - *Raymond James & Associates - Analyst*

Okay. And then Lynn, just as it relates to the commentary in the prepared remarks around the pine prices, you reiterated the guidance of from earlier this year of up 10% to 15%. In recognizing that, again, your outlook that saw log pricing as stable through the back half of the year, can you maybe just give us a better way of thinking about what you guys are seeing this year, year-over-year, up specifically in pulpwood versus year-over-year in saw logs in the US South?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

Well, we are seeing a significant shift based on both wet weather, and then increased demand in the pulpwood market. So we are in a situation where what we've seen is that as OSB facilities come online and chip-n-saw and other solid wood facilities come online as well as wood pellet facilities, that all prices in our pulpwood markets have been -- continue to increase.

One of the things that we've seen over a period of time, is that in markets where there was already a strong demand, adding one more facility in that market like an OSB facility in greater Georgia, that that continues to press on all other markets. Same thing in east Texas, where you see increased demand from a biomass facility and a wood pellet facility, that puts pressure on the pulpwood pricing. So overall, we're seeing that that will continue to be the case in all of our pulpwood markets.

Collin Mings - *Raymond James & Associates - Analyst*

Okay. So I guess thinking about it another way, as we think about pulpwood pricing, is it safe to say as you guys are looking at it year-over-year, that's probably north of up 15% year-over-year, while saw log pricing is going to be maybe somewhere up 5% to 10% year-over-year? Is that a fair way to think about the two different buckets.

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

Correct.

Collin Mings - *Raymond James & Associates - Analyst*

Okay. And then just really one last one. Just going back to the -- I'm just curious, I'm trying to get a better feel for how all the timber REITs are thinking about the housing environment for 2015. Internally, how do you think about the progression from this year to next year as you guys are doing your internal planning?

During the Summer, you guys have your strategic view, long-term strategic review. How are you thinking about that going into 2015?

Dave Nunes - *Rayonier Inc - President & CEO*

Well, I'd say first of all there's generally been, as a lot of people have noted, a slowing down of reaching kind of that 1.5 million level. Housing starts are lower.

The expectation for this year is lower than it was at the beginning of the year, and I think everything's getting pushed out a little bit more. I'll let Ed speak a little bit more specifically to the planning process, but this continues on a theme that we've heard of just this recovery getting pushed out and being slower as we go.

Ed Kiker - *Rayonier Inc - SVP, CFO*

Right. In terms of housing starts, it seems that most estimates are in the -- for 2014, are in the range of 1.025 million to 1.050 million, and things do feel like they're pointing more towards the lower end of that range for 2014. And as Dave mentioned, for our planning purposes, we initially thought, I'd say a year or so ago, that we may be back to the 1.5 million starts level at about, say, in 2016.

It looks now like that might be 2017, or beyond. But it all seems to be moving out a bit, and our planning will reflect that accordingly.

Collin Mings - *Raymond James & Associates - Analyst*

Okay. I'll turn it over. Thanks, guys.

Operator

Thank you. The next question is from Mark Wilde with Bank of Montreal.

Mark Wilde - *Deutsche Bank - Analyst*

Good afternoon.

Dave Nunes - *Rayonier Inc - President & CEO*

Hello, Mark.

Mark Wilde - *Deutsche Bank - Analyst*

Just curious, Ed or Dave or even Lynn, if I look back in around the 11th of June, you had a filing. And at that point, you were still thinking Forest Resources EBIT would be up about 30% to 35%. Now we're at 20%. When did you really start to realize that things had changed either in the Northwest and things had changed down in New Zealand?

Dave Nunes - *Rayonier Inc - President & CEO*

We certainly saw -- the China inventory situation was certainly evident in Q2. I'd say our results or the impact of that was somewhat differential by geography, as Lynn had described in her comments. We saw that more quickly in New Zealand, where we had a heavier delivered log mix than in the Northwest, where there's more of a mix of stumpage.

Our second quarter pricing was really more reflected in, as first quarter pricing. So I think we saw that coming, but I think that the inventories stayed up higher than a lot of people thought or they stayed high longer than a lot of people thought they would. And so part of the reason for our pulling that back is just the fact that we haven't seen the type of reduction in those inventory levels that we had hoped for earlier in the quarter.

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

And to add onto that, Mark, one of the things that we noted in June was the increased impact, higher than we anticipated from the April deliveries. If you look back at the numbers through June 2014, all of the -- it surged as much as 20% in April. And that was the highest peak this year, and then it started to come down somewhat in May, and then dropped a little bit more in June.

But those imports into China really are hard to measure until you're already there. So internally, we saw about mid-June that we saw the pricing start to come in question, because there was a slowdown in off- take. And that's really -- that supply/demand is the key to it. How many ships are going to leave New Zealand or the Pacific Northwest?

Those orders started to change, so the impact is going to be in third-quarter specifically for New Zealand, as I stated in my prepared remarks. And the reason we're saying flat in the Pacific Northwest, is that we still have commitments and sales from the first quarter that are going to carry us through that period of time.

But that's really when we saw the biggest change. And as you know, data it's not as transparent. And so it was about mid-June when we saw it, that big imbalance between the supply and demand in the ports that was a result of that peak in April.

Mark Wilde - *Deutsche Bank - Analyst*

Okay. It sounds like somebody did a great job of selling forward up in the Northwest. Just when you try to read China, and you try and get a sense of where these inventories, what do you really rely on? Is it just boots on the ground that are walking the docks down there, or how do you read the Chinese market?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

Mark, there are three ways that we put together and triangulate within Rayonier and within our New Zealand team to bring that together. Because it's not one direct place that you can go to get that data. So the primary internal way that we look at that is that we do have two team members in Shanghai that are part of that New Zealand team, and that log trading business is very key to keeping that pulse on what is going on.

Secondly, our Pacific Northwest team has a direct relationship with our brokers in the Pacific Northwest, and they're the ones who are selling logs in China. There's a lot of very experienced people within those brokerage businesses. And that ship off take, we get a ship report of how many ships are scheduled every month ahead and that's updated every month. So we keep that on a timely basis.

And finally, we use reports that come to us that are published. So we look at China customs information, and you look at Dragonomics, which is published by Gavekal. And then several other published reports, and usually there's a lag with those. So what we try to do is triangulate with those three pieces of information.

Mark Wilde - *Deutsche Bank - Analyst*

Sounds like kind of being an analyst. So just to be clear, in the third quarter then, Lynn, in New Zealand log prices are going to -- export log price is going to be stable at the second quarter levels? Or is there -- did they continue down through the second quarter, such that the third quarter price may actually be lower than what you show for the second quarter?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

They will be where we ended the second quarter is where our prices will be flat in third quarter. On average, they'll be a little bit lower. But where we ended June is where we're going to stay for the third quarter, and we expect in the tail end of the third quarter, that's when it will pick up starting in September with those orders.

Mark Wilde - *Deutsche Bank - Analyst*

Okay. All right. But net-net, the average quarter-to-quarter will be down a bit.

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

Yes.

Mark Wilde - *Deutsche Bank - Analyst*

Okay. Dave, I just had kind of following on that question Chip asked about where the surprises have been. What are really the three key priorities for you over the next 12 months?

Dave Nunes - *Rayonier Inc - President & CEO*

Well, I think certainly one of them is to get to know all the people in the Company, and get to know these assets better. We operate in 10 states and New Zealand. So, I look forward to getting out and meeting the balance of our folks.

I've started some of that, but certainly have more of it to go. That's one piece.

I think too setting some of the stage for operating as more of a pure play timber and land resource Company. And so working with our new Board, and recognize that roughly half of our Board is new, and so sort of coming -- developing an operating rhythm both with our Board and our management team across this narrower business focus.

And then I think lastly, really working at developing and implementing strategies to utilize our balance sheet so that we can grow the Company, and grow the Company in a smart way.

Mark Wilde - *Deutsche Bank - Analyst*

Okay. All right. That's helpful.

And then finally, I was just curious, do you have any sense, Dave, from managing timber investments, you had separate business up at Pope, do you have any sense for just how much money might be sitting out there in the private market looking for a home in timberland right now? And how that might compare --

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Dave Nunes - *Rayonier Inc - President & CEO*

The short answer, Mark, is too much. There's -- that's always a hard one to peg, just in the sense that you have a mixture of committed capital in funds, as well as discretionary capital that's out there.

So there are people who had made estimates of such numbers, but those are difficult things to peg. But there's plenty of capital just based on the number of players that we see out there in the transactions market.

Mark Wilde - *Deutsche Bank - Analyst*

Okay. That's helpful. I'll turn it over. Good luck in the second half.

Dave Nunes - *Rayonier Inc - President & CEO*

Thanks, Mark.

Operator

Thank you. The next question comes from Steve Chercover with D.A. Davidson.

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

Thank you, and welcome, Dave. A lot of these have been pretty well flogged to death. But I wanted to ask a little bit on the criteria for timberland acquisitions as well.

Presumably, they've got to be quickly accretive, maybe not instantly. And then Lynn invoked having some sort of HBU potential in there. Do you really think that HBU is often not embedded in valuations already at this stage?

Dave Nunes - *Rayonier Inc - President & CEO*

Well, I'll give my answer, and Lynn can add to it.

I think that it really depends on the particular sales transaction, and the geography. And certainly, as you look at Southern ownerships that are more spread out with smaller parcel sizes, there's going to be a natural mix of some of those parcels that either from a market demand or a timber quality or growth site are natural candidates to dispose of. And I think that to be competitive in some of these processes, you need to look specifically at that aspect and place some values on it, depending again on the property to be successful.

And this is an area where I think Chris' team and Lynn's team do a very good job of working hand in hand, and coming up with a joint perspective on properties and making some specific underwriting assumptions as it relates to how much or little of the HBU is really there. And then you layer in the competitive element of how properties are sold to decide, all right, how much of that are you going to include in a bid value, and how much of that are you going to in effect keep for yourself.

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

Got it.

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

Steve, I would add to that, that a lot of the industrial timberland that is traded and a lot of the land that's out there in the bid environment may already have the Real Estate value embedded in it. But many of those successful transactions that we've had over the last few years have been with long-held acquisitions, such as63,000 acres in Texas that we acquired at the end of 2012.

What we have found is as we've built roads, as we've commenced timber harvest and opened up that property, and a lot of that was natural pine, hardwood mix. As we commence that, what we found is that there was this pent up demand because that property had been held by the prior family for about 80 years. And that Chris' team has had a very successful rural real estate and rural development type land sales program since we acquired that property, because of the pent-up demand and the fact that it was within 50 miles of Houston.

And it just wasn't on the market before, and it needed capital investment in roads to make it prime for that type of a market. So sometimes it takes time, but it also those do with the nature of the property.

I do agree with you that some properties that trade already have that in there. But some of the ones that we've been successful on are ones that we've invested up front.

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

You probably want to make sure that the people who might be selling aren't listening to these conference calls.

And then, of the, I think you said you evaluated several hundred thousand acres thus far this year. You've pulled the trigger on just under 50,000 now, and I think about another 100,000 has transacted. So does that mean that the remainder of them just didn't hit some sort of reserve price, or we just missed the transaction?

Dave Nunes - *Rayonier Inc - President & CEO*

Recognize that we didn't place bids on all of those. And so there are quite a few that, as Lynn discussed earlier, that a number of them either didn't fit our criteria, or there was some aspect of them where we chose not to participate. And so Lynn, what was the count in terms of a transaction count to give Steve an idea as we've described the 40 some?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

So we've looked at, for example last year, we looked at over 40 properties. And we placed bids on 11, and were successful on 4. This year, we've looked at significantly more than that.

We've already looked at almost 30 properties this year, just in the first half. And we've placed -- we've negotiated or placed bids on 9, and many of them have been very small except for that one last transaction that we've bid on. To your point, there's been a lot in the pipeline, that a lot of them have been privately traded, as well as the bids that you're well aware of.

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

Okay. And my last question, I suppose, is for Chris Corr. Forgive me if I missed it. But did you give us an update on what's going on in the two mega sites in Georgia and Florida?

Chris Corr - *Rayonier Inc - SVP Real Estate*

No, Steve. Quickly, up in the Belfast Commerce Center near Savannah, CaesarStone, which broke ground in November of last year is well under construction with a building that's framed, and has skin on it, and scheduled to open the early part of next year. Remember, it's a 265,000 foot manufacturing facility that will employ about 130 people.

So that's under construction, along with the infrastructure and utilities to service it plus an additional 400 plus acres around it. So we see it as a catalyst.

It's getting some exposure in the marketplace, and with the state of Georgia, and good traffic a as a result. So all positive there.

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

And do those lead tenants spur development the same way a school would for a residential area?

Chris Corr - *Rayonier Inc - SVP Real Estate*

It's hard to say. Certainly, you'd rather have it than not. And it just brings traffic and eyeballs and that sort of thing, and certainly the infrastructure that serves it, that lets the potential for others come is a positive.

But so we'll see. Again, this is -- we've always said that kind of business is -- it's a very competitive. These big users look at a lot of states and a lot of sites, and we think we're well poised.

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

Great. Well, thanks for taking my questions.

Chris Corr - *Rayonier Inc - SVP Real Estate*

Thank you.

Operator

Thank you. The next question is from Paul Quinn with RBC Capital Markets.

Paul Quinn - *RBC Capital Markets - Analyst*

Thanks very much. Just a couple questions, and congratulations on the spin.

One is, your realizations on the log price line seem to be better than benchmark prices in a number of jurisdictions. Just wondering whether that's really your selling forward, or it's just a lag in prices and that will eventually catch up to you?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

Paul, are you focused right now on the Pacific Northwest primarily?

Paul Quinn - *RBC Capital Markets - Analyst*

I noticed that in New Zealand where I've got benchmark prices down 15% to 20% quarter-over-quarter, where you saw a much lower drop in pricing. And I would say the same thing in the US South.

Dave Nunes - *Rayonier Inc - President & CEO*

Well some of the New Zealand stuff has to do with the fact that we're doing the direct marketing into China. So you're cutting out that broker piece of the business. So that certainly explains a portion of the new New Zealand piece.

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

Really, to break it down, Paul, in New Zealand, we have direct exposure because we're the ones brokering the ships. We're selling the logs in China. So when we see a price change, we have an immediate impact to the business, and so it's very real-time.

In the Pacific Northwest, remember part of it's our strategy is that we have invested over the last five years a significant upfront capital investment in our roads to be well positioned to sell when we think the markets are the best. So there are some companies that only do Summer logging, because that's the least capital investment.

We've gone in the opposite direction, and said that we know when peak pricing, we need to have all weather roads. And, be able to do wet weather hauling in the Pacific Northwest, because all of our properties are within 75 miles of the coast and proximal to five ports. So we think that that's our competitive advantage.

So to do that, we have sold -- a very high percentage of our stumpage is already sold, and then we are already committed on our delivered programs to some of our key customers. That puts us at 70%. They can say, well it's price lagging. But it's also strategy that we've implemented primarily since 2010. It took us almost two years to get to that point, because we're now at 18 to 24 months ?row to the head position.

And that's an important part of the way that we look at our business. But that really is also the point that we slow down our stumpage sales whenever we began to see the drop in pricing, because we think we have an opportunity in the back half of the year.

One of the things that we also have is a lag with our pricing index, so one of our key customers, it's only every two months that we recalculate and it's a lagging price index. So that's also an indicator. Certainly when we're heading in the other direction and prices are spiking, we're on the opposite side of that.

But right now, as the prices come down, it eases that direct impact. So those are all of the things.

And then to get down to the South, it really is wet weather driving the pricing. And we don't have long-term supply agreements in the South, and we've been able to position sale after sale of stumpage sales when key customers have needed that volume. And we're capturing that in those key markets, and it's primarily driven by OSB, pulpwood, and all of those facilities that are looking for that same size log needing volume on an immediate basis.

Paul Quinn - *RBC Capital Markets - Analyst*

Okay. Thanks very much for the detail.

And then one other thing that really was curious that I found, to some in New Zealand log sales, obviously New Zealand has really stepped up the export into places like China. And you obviously had inventories back up in China into Q2. I'm curious that you had a domestic price rise from Q1 to Q2, and is that -- that surprises me, because I would have thought that more of that export oriented would have had to stay home and supply would have offset the rising demand.

Dave Nunes - *Rayonier Inc - President & CEO*

Some of that you've got the rebuilding of Christ Church after the earthquake that I think has had some impact in the domestic market.

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

Some of it has to do with timing of sales, that to compete, many of the domestic mills have had to go after those same logs. So, it's just the fact that you don't see that impact until they start severing or taking delivery of those logs.

So they're very closely tied to each other and that competitive nature. Because they have the demand, the domestic saw mills are willing to get in there and compete, which in some quarters they don't do that.

Paul Quinn - *RBC Capital Markets - Analyst*

Okay, thanks. And just the last question. Are you guys doing any log exports out of the US South to tighten markets there?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

We are, Paul. We've shipped logs out of Beaumont, Texas, Savannah, Georgia and Jacksonville, Florida. And they're going in different directions. Some of those are poles, and some of them are logs, and some of it's pulpwood depending on the spec. And it's primarily going to either China or India. But yes, we have.

Paul Quinn - *RBC Capital Markets - Analyst*

And you're making money and just a volume estimate is what do you think you'd do and exports this year? Is it material?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

No, it's not material at this time, Paul. We've had customers approach us to export that volume, and we've, for example, our volume out of Beaumont has been trials and seeing if we can make it work. And working closely with key customers who have the will to do this and the interest to do this.

And at this point in time, many of our domestic destinations have a higher timber margin, and that's where we're focused. But we want to make sure that we understand all aspects of the cost part of this, as well as the operational challenges, and the way to do it. So we feel like we understand it, and can do it tomorrow.

But remember, it's primarily a container opportunity at this point in time, which is a lot more handling, a lot higher cost per piece. As compared to our Pacific Northwest operations, which are great bulk, and very efficient at this point in time.

So, we're still working at it. We could do it tomorrow, but we still have our domestic customers that are -- we're achieving a higher net timber margin.

Paul Quinn - *RBC Capital Markets - Analyst*

Great. That's all I had. Best of luck.

Dave Nunes - *Rayonier Inc - President & CEO*

Thanks.

Operator

Thank you. The next question is from Daniel Rohr with Morningstar.

Daniel Rohr - *Morningstar - Analyst*

Thanks a lot. Could you share with us your thoughts on long-term volume and mix expectations for the Atlantic region, versus the Gulf region?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

Daniel, one of the things that we look at South-wide, is that our mix expectations at this point in time are quite consistent from the Atlantic to the Gulf states. So right now we're at 67%, 66% to 67% pulpwood South-wide, and 33% grade. We expect that in concert with and aligned with the housing recovery, we're going to shift to 50/50, to 50% grade.

And that is a value discussion. We have that volume out there on the stumps. So we will align our harvest with that.

In given years, we will exceed 50% of grade, just because we have that inventory out there. So that's where we're headed.

I would say the only place where that's a little bit different than that is our Oklahoma properties we're at almost 70% saw timber at this point in time on our holdings in Oklahoma. But South-wide, we're at about 50/50, because of the thinnings and the age class distribution of our properties.

Daniel Rohr - *Morningstar - Analyst*

Thanks, that's helpful. And then just really briefly on the log demand you're seeing right now in the Atlantic region, the 23% decline in volumes we saw versus the second quarter of 2013, was that wholly attributable to the unusually wet weather?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

It is. We've had 100% ceasing of our thinning operations. We've had anywhere between 6 and 25 inches of rain during the quarter, depending on where you are.

And one of the things we've had to do because of the potential damage to the ground conditions on the site, we've had to cease those in any given week. And that is -- we could sell significant more volumes as the operational conditions allow.

Dave Nunes - *Rayonier Inc - President & CEO*

It get back to that two-thirds thinning volume.

Daniel Rohr - *Morningstar - Analyst*

Got it. Thank you very much.

Operator

Thank you. The next question is from Mark Weintraub with Buckingham Research Group.

Mark Weintraub - *Buckingham Research Group - Analyst*

Thank you. Lynn, you had mentioned in your comments that the pricing in Pacific Northwest domestic tends to lag the export markets. Does that mean that it is highly likely that we are going to see softness in the domestic Pacific Northwest? And if so, when, and if not, why not?

Dave Nunes - *Rayonier Inc - President & CEO*

I think there's lag, but the lag has gotten less and less. So I think you absolutely see the domestic mills follow the lead of the export mills. And so I would say that you are seeing that already in the Pacific Northwest.

And I think the difference from a Rayonier standpoint, it gets back to what Lynn was describing earlier, where we went out and made some tactical moves to sell a large proportion of stumpage sales during the first quarter. And so that protected us a little bit from some of those declining log prices that began in the second quarter.

Mark Weintraub - *Buckingham Research Group - Analyst*

Okay. So you were delayed from the market, because of that move you made in the first quarter. A lot of it's already -- so you've already seen it in the domestic market what had happened in the export market? Is that how I should interpret your comments?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

I'd like to break it into two parts. One, is that a significant portion of our delivered volume is in this calculation that lags for a period of time. So as it's recalculated, it's in the rear view mirror looking. So we have this constant move every few months where as we look back, so we're still living off those higher prices from that calculated portion of our delivered volume on the domestic side.

In addition, we have sold enough volume that many of the other customers are going to want to buy, so there is a natural tension there. So pricing has come down, the market conditions are one thing, but the pricing that we're going to achieve that will be reflected in our actual sales will be somewhat muted. So it will come down somewhat, but not to the extent when you read market reports because of that weighted average of what we've already sold prior being averaged in with what's being sold real-time in the next two quarters on the domestic side.

Mark Weintraub - *Buckingham Research Group - Analyst*

Thank you.

Operator

Thank you.

(Operator Instructions)

The next question is from Chip Dillon with Vertical Research Partners.

Chip Dillon - *Vertical Research Partners - Analyst*

Hello. I promise I'm not asking a question to make this the longest Rayonier call ever. But I will say that, maybe you guys should do more restructuring because it certainly must be contributing. But seriously, I had just one quick he question.

I think it was mentioned earlier that an OSB plant or start-up had you affected the Georgia operations, and I just wanted to be clear. This wasn't a new mill, right? This was the restart or the start-up of one that had been built maybe over in South -- across the Augusta river in South Carolina. Is that fair?

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

It's really Norborde. I'll call it out as the customer name. It's in greater Georgia.

They were running at smaller volumes, and they've ramped up significantly. They're a leading indicator of building products out there ahead of the US housing recovery. It's still modest, but they've had a direct impact in those markets.

Chip Dillon - *Vertical Research Partners - Analyst*

And so that would be in Cordell, Georgia, then.

Lynn Wilson - *Rayonier Inc - EVP Forest Resources*

Right, and that's an existing facility.

Chip Dillon - *Vertical Research Partners - Analyst*

Yes. Exactly. Well thanks for that clarification.

Operator

Thank you. I'm showing no further questions.

Ed Kiker - *Rayonier Inc - SVP, CFO*

Great. This is Ed Kiker. We'd like to thank everyone for joining us, and please contact me with any follow-up questions. Thanks again.

Operator

Thank you. This concludes today's conference. Thank you for joining. You may disconnect at this time.