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PRESENTATION

Operator

Welcome, and thank you for joining Rayonier's Second Quarter 2021 Teleconference Call. (Operator Instructions)

Today's conference is being recorded. (Operator Instructions). Now I would like to turn the meeting over to Mr. Collin Mings, Vice President, Capital Markets and Strategic Planning.

Collin Mings

Thank you, and good morning. Welcome to Rayonier's investor teleconference covering second 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.

Throughout these presentations, we will also discuss non-GAAP financial measures, which are defined and reconciled to the nearest GAAP measure in our earnings release and supplemental materials.

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

David L. Nunes ***Rayonier Inc. - President, CEO & Director***

Thanks, Collin, and good morning, everyone. First, I'll make some high-level comments before turning it over to Mark McHugh, Senior Vice President and Chief Financial Officer, to review our consolidated financial results. Then we'll ask Doug Long, Senior Vice President, Forest Resources, to comment on our U.S. and New Zealand timber results. And following the review of our timber segments, Mark will discuss our real estate results as well as our outlook for the balance of 2021.

We are pleased to report that the encouraging momentum we experienced across all our businesses to start 2021, continued into the second quarter. Specifically, we generated adjusted EBITDA of $95 million and pro forma EPS of $0.22 per share. Adjusted EBITDA exceeded the prior year quarter by 21% as favorable results in each of our Timber segments more than offset lower adjusted EBITDA in the Real Estate segment. As we reflect on the second quarter, the operating environment was markedly improved as compared to the prior year period. We're pleased with how our team continues to capitalize on strong domestic lumber markets, improving real estate market trends and export market opportunities. As Mark will discuss in greater detail, based on our solid first half results and our expectations for the balance of the year, we are modestly raising our 2021 adjusted EBITDA guidance.

Drilling down to our different operating segments, our Southern Timber segment generated adjusted EBITDA of $31 million for the quarter, which was 16% above the prior year second quarter. Net stumpage prices increased 14%, which more than offset a 4% reduction in harvest volumes as wet weather conditions impacted productions across the South.

In our Pacific Northwest Timber segment, we achieved adjusted EBITDA of $14 million, an improvement of $10 million versus the prior year quarter. This sharp increase in adjusted EBITDA was driven by a 30% increase in delivered sawtimber prices, stemming from favorable domestic market -- domestic lumber markets and increased log export demand as well as higher volumes following the merger with Pope Resources.

In our New Zealand Timber segment, second quarter adjusted EBITDA nearly tripled to $28 million. The year-over-year increase in adjusted EBITDA was due to both significantly higher harvest volumes, as the second quarter of 2020 was severely impacted by COVID-19-related headwinds, and weighted average log prices that increased 51% as a result of robust export and domestic log demand.

In our Real Estate segment, we generated adjusted EBITDA of $29 million, down from $45 million in an exceptionally strong period last year. The prior -- the decline versus the prior year quarter was driven by a 61% reduction in acres sold, partially offset by significantly higher per acre prices. Importantly, our real estate team closed significant transactions in both our Wildlight and Belfast Commerce Park development projects during the quarter.

Switching gears from second quarter results, I'd like to provide an update on the Timber Fund business that we acquired last year through our merger with Pope Resources. Two weeks ago, we announced that we had sold the rights to manage 2 of the Timber Funds as well as our co-investment stake in both of these funds. The aggregate purchase price was $35.9 million, and the transaction will be reflected in our third quarter financial results.

As we had previously communicated, the private equity Timber Funds business was not a long-term strategic fit for Rayonier. We believe this transaction reflects a favorable outcome for our shareholders as it allows us to simplify our operations and allocate capital to other strategic priorities. Following this transaction, we continue to manage as well as own a 20% co-investment stake in 1 Timber Fund comprising 31,000 acres in the Pacific Northwest. Since this fund is at the end of its investment term, it was not included in the sale transaction. Rather, we have commenced a process to liquidate the assets from this fund, which, if successful, will complete our exit from the fund business.

With that, let me turn it over to Mark for more details on our second quarter financial results.

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

Thanks, Dave. Let's start on Page 5 with our financial highlights. Sales for the quarter totaled $291 million while operating income was $84 million and net income attributable to Rayonier was $57 million or $0.41 per share. On a pro forma basis, net income was $31 million or $0.22 per share. Pro forma adjustments for the quarter were primarily associated with a large disposition in the Pacific Northwest as well as a series of debt actions that I will discuss momentarily.

As Dave touched on, second quarter adjusted EBITDA of $95 million was above the prior year period as higher results across all of our Timber segments more than offset a lower contribution from our 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, for the first half of the year was $111 million versus $80 million in the prior year period, primarily due to higher adjusted EBITDA, partially offset by higher cash taxes, interest expense and capital expenditures. A reconciliation of CAD to cash provided by operating activities and other GAAP measures is provided on Page 8 of the financial supplement.

Consistent with our nimble approach to capital allocation, we raised $81 million through our at-the-market equity offering program during the second quarter at an average price of $36.79 per share. As previously discussed, we view the ATM program as a cost-effective tool to opportunistically raise capital, strengthen our balance sheet and match fund bolt-on acquisitions. We are also active in the debt market during the quarter, taking steps to address our 2022 bond maturity, improve our debt maturity profile and lower our weighted average borrowing cost. Specifically, in May, we issued $450 million of 2.75% senior notes due 2031. Additionally, while it currently remains undrawn, we executed a credit agreement for a delayed draw term loan for up to $200 million, which if utilized, would mature in 2029.

We also obtained an amendment to lower the interest rate on the term loan we have maturing in 2026 and amended the terms of the debt we assumed in the Pope acquisition to make this debt unsecured. Furthermore, we also lowered the pricing of our revolving credit facility as well as extended its maturity by a year to April 2026. A portion of the proceeds from the May debt offering were used to completely repay a $250 million term loan that was due in 2025. Additionally, given our strong cash position following the large disposition completed during the quarter, we prepaid $100 million of the term loan that matures in 2026, reducing the outstanding balance to $200 million.

In conjunction with these actions, we recorded a $2.2 million loss associated with the termination of an interest rate swap as well as cost of $1.1 million related to debt extinguishments and modifications. Collectively, these items translated to $0.02 per share of pro forma adjustments in the quarter.

Looking ahead, we believe the actions taken during the quarter helped to facilitate an optimal capital structure and leave us with ample liquidity to fund the repayment of our 2022 bond maturity early next year. Pro forma for the repayment of our 2022 bond maturity, we expect that our weighted average cost of debt will drop below 3%, and our weighted average maturity will extend to roughly 7 years. Moreover, almost all of our term debt has been swapped to fixed, which gives us strong visibility on our forecasted interest expense.

Lastly, by tapping into the bond markets at an advantageous time, we preserve additional debt capacity within the farm credit system, providing us with increased future financing flexibility.

In sum, we closed the quarter with $310 million of cash and $1.4 billion of debt, both of which exclude cash and debt attributable to the Timber Funds segment, which is nonrecourse to Rayonier. Our net debt of $1.1 billion represented 17% of our enterprise value based on our closing stock price at the end of the second quarter.

I'll now turn the call over to Doug to provide a more detailed review of our second quarter timber results.

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Thanks, Mark. Good morning. Let's start on Page 9 with our Southern Timber segment. Adjusted EBITDA in the second quarter of $31 million was $4 million above the prior year quarter. The year-over-year improvement was largely attributable to higher net stumpage pricing, albeit partially offset by lower harvest volumes. The 4% decline in volume during the second quarter was largely due to wet weather resulting in lost production days. This modest decline in volume, though, was more than offset by higher prices. Specifically, average sawlog stumpage pricing was roughly $28 per ton, a 10% increase compared to the prior year quarter. Improved pricing reflects strong demand from sawmills as well as improved export log demand in certain markets.

Pulpwood pricing climbed 14% from the prior year quarter, reflecting robust customer demand, coupled with tighter supply due to wet weather conditions. A favorable mix shift toward our coastal Atlantic markets also contributed to the strong year-over-year comparison. Overall, weighted average pine stumpage prices increased 14% versus the prior year quarter due to higher sawtimber and pulpwood prices as well as a more favorable mix of sawtimber. We are encouraged by the pricing gains registered during the quarter, which underscore the importance of local timber market dynamics across the U.S. South, and the construction of our portfolio across those markets.

Moving to our Pacific Northwest Timber segment on Page 10. Adjusted EBITDA of $14 million was $10 million above the prior year quarter. The year-over-year increase was largely attributable to significantly improved pricing due to strong domestic lumber markets and the incremental tension created by healthier export demand. Second quarter harvest volume was 4% above the prior year quarter due to additional volume from last year's merger with Pope Resources. At $98 per ton, our average delivered sawlog price during the second quarter was up 30% from the prior year quarter. Strong pricing was sustained throughout the quarter even as lumber prices receded from the record levels set in May, in part due to the pricing support created by stronger export market demand. Meanwhile, pulpwood pricing fell 21% in the second quarter relative to prior year quarter as sawmill residuals remain plentiful amid increased lumber production.

As it relates to the export market in Pacific Northwest, improved demand we discussed on our last call has continued into recent months.

The constricted flow of European spruce salvage logs, the ban on Australian log exports to China and an improvement in Japanese demand have all contributed to a favorable environment for log exports from the region. We have seen log inventories in China rise in recent weeks. We believe these forces continue to support healthy demand for log exports in Pacific Northwest. We believe continued strong demand from domestic sawmills as well as the tension created by the flow of Pacific Northwest logs into the export market will translate into a relatively stable pricing environment in the second half of the year.

While we are closely monitoring the correction in lumber prices, we believe the underlying log demand remains healthy. In particular, demand for green logs remains robust given the supply disruptions caused by wildfires in other regions.

On that note, I'd also like to offer a few comments regarding the recent wildfires across parts of the Western United States. Thus far, none of our properties have been seriously threatened by the fires that have impacted the region in 2021. As a reminder, none of our feed timber properties were impacted by last year's fires either, although roughly 10,000 acres of Timber Fund properties sustained fire damage. While there continues to be upward pressure on hauling costs in the areas that have been directly impacted by fires over the past year, our operations have not been materially impacted from the salvage efforts conducted by others.

Page 11 shows results and key operating metrics for our New Zealand Timber segment. Adjusted EBITDA in the second quarter of $28 million was nearly triple the $10 million that we reported in the prior year quarter. The increase in adjusted EBITDA was driven by much stronger pricing and a more normalized level of harvest activity versus a prior year period constrained by COVID-19 disruptions. Increased volumes and pricing were partially offset by reduced carbon credit sales. We continue to defer carbon credit sales during the quarter as we expect that the value of these credits is poised for further price appreciation.

Turning to pricing. Average delivery prices for export sawtimber jumped 50% in the second quarter from the prior year period to $148 per ton, reflecting improved China demand, the ban on Australian log exports to China and the reduced flow of European spruce salvage logs into China. As we have previously noted, prior to the ban, Australia was supplying approximately 10% of the total volume imported by China. Furthermore, shipments of European spruce salvage logs into China remained constrained by higher transportation costs and the lack of container availability. These constraints on the flow of logs into China when coupled with the healthy demand translated an exceptionally strong export pricing in New Zealand. Underscoring the favorable pricing environment, A-grade log export prices to China surpassed previous record highs during the second quarter. Since reaching record levels, though, there has been a pullback in pricing in recent weeks as demand for radiata logs has softened in response to higher log inventories in China.

Shifting to the New Zealand domestic market. Average delivered sawlog prices increased 27% from the prior year period to $85 per ton. The increase in U.S. dollar pricing was driven primarily by foreign exchange rates as New Zealand domestic pricing improved by a more modest 9% in the second quarter versus the prior year quarter. Average domestic pulpwood pricing climbed 35% as compared to the prior year quarter.

In sum, while we expect lower pricing over the balance of the year, our New Zealand operations continue to generate strong net stumpage realizations. We believe we are well positioned to continue to capture market share from Australia and Europe and the export market as well as a benefit from strong domestic demand.

I'll now briefly discuss the results from our Timber Funds segment. Highlight on Page 12, Timber Funds segment generated consolidated EBITDA of $8 million in the second quarter on harvest volume of 175,000 tons. Adjusted EBITDA, which reflects the look-through contribution from Timber Funds, was $1 million. As discussed earlier, we are in the process of exiting the Timber Funds business and expect contribution from this segment will be negligible moving forward.

Lastly, in our Trading segment, we reported $400,000 of adjusted EBITDA in the second quarter. As a reminder, our trading activities typically generate low margins and are primarily designed to provide additional economies of scale for our feed timber export business. I'll now turn it back over to Mark to cover our real estate results. Mark?

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

Thanks, Doug. As detailed on Page 13, our Real Estate segment delivered strong results in the second quarter. Second quarter real estate sales totaled $75 million on roughly 17,000 acres sold, which included a large disposition in Washington, consisting of roughly 8,500 acres. Excluding this transaction, second quarter sales totaled $39 million on roughly 8,000 acres sold at an average price of $4,900 per acre. Adjusted EBITDA for the quarter was $29 million.

Sales in the improved development category totaled a record high $19 million in the second quarter as we closed significant transactions within both our Wildlight and Belfast Commerce Park development projects. In our Wildlight development project north of Jacksonville, Florida, sales included a $9.1 million sale of 130 acres to a national homebuilder for the first phase of an active adult community. Due to post-closing obligations, roughly $5 million of revenue from this transaction was deferred and will be recognized in future periods. The addition of an active adult community is a significant milestone for the Wildlight project, as it adds a complementary market segment, which we believe will help to catalyze additional downstream demand. In addition, we closed on 36 residential lots in our Wildlight project for $2.3 million or $65,000 per lot. Meanwhile, in our Belfast Commerce Park development project, south of Savannah, Georgia, we sold a 153-acre parcel to a national developer of industrial properties for $7.9 million or $51,000 per acre.

Overall, we are pleased with the demand for entitled infrastructure served land that is translating into additional momentum across our development projects. We remain encouraged by the pipeline of opportunities in Wildlight, Richmond Hill and the West Puget Sound area of Washington.

In the rural category, sales totaled roughly 7,700 acres at an average price of just over $2,600 per acre. A nearly 6,200-acre sale in Georgia to the Conservation Fund comprised the bulk of our second quarter activity. More broadly, demand for rural land remains healthy as the space, privacy and recreational opportunities offered by these properties continue to attract buyers. We are well positioned to capitalize on these demand trends moving forward and remain focused on achieving price realizations well above timberland values.

We also closed on a Conservation Easement sale covering 18 acres in Washington for $4 million in the second quarter. The property covered by this easement was in the town of Port Gamble, which was acquired as part of the merger with Pope Resources.

Lastly, we closed on a large disposition in Western Washington during the quarter for $36 million or roughly $4,200 per acre. This roughly 8,500 acre property was a relatively less strategic holding for us in the region and was sold through a competitive bid process.

Now moving on to our outlook for the year. Based on our solid first half results and our expectations for the balance of the year, we are raising our full year adjusted EBITDA guidance to a range of $300 million to $320 million, which reflects a 3% increase at the midpoint from our original guidance. In our Southern Timber segment, we now expect full year harvest volumes of 5.9 million to 6.1 million tons as production has been constrained by regional weather conditions and trucking availability. We expect that weighted average pricing will remain above prior year levels, driven by continued strong demand from domestic pulp and lumber mills as well as improving export demand in select U.S. South markets. However, we are seeing higher trucking costs, which could limit the upside in net stumpage realizations over the balance of the year. We are taking measures to mitigate the upward pressure on these costs by optimizing haul distances on our delivered log sales and targeting stumpage sales to customers with great advantages. Overall, we expect full year adjusted EBITDA of $118 million to $122 million in our Southern Timber segment, a modest increase from prior guidance.

In our Pacific Northwest Timber segment, we are maintaining our full year volume guidance of 1.7 million to 1.8 million tons, along with our full year adjusted EBITDA guidance of $50 million to $55 million. We expect pricing in the region will remain relatively stable as log demand across both the domestic and export markets remains favorable.

In our New Zealand Timber segment, we are maintaining our full year volume guidance of 2.6 million to 2.8 million tons. Given the robust start to 2021, we now expect full year adjusted EBITDA of $78 million to $82 million. That said, we expect relatively lower export pricing over the second half of the year as log inventories in China have increased significantly in recent weeks. Further, we anticipate that shipping and demurrage costs will remain elevated.

In our Real Estate segment, we now expect full year adjusted EBITDA of $78 million to $86 million. We expect a strong second half of the year in this segment given the healthy demand for residential and commercial properties within our real estate development project as well as continued strength in rural land sales activity. More details regarding our updated guidance can be found on Page 2 of the earnings release as well as Page 15 of the financial supplement.

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

David L. Nunes ***Rayonier Inc. - President, CEO & Director***

Thanks, Mark. Overall, we're very pleased with the quarter and optimistic about our outlook for the balance of the year. As I reflect on the last 18 months, I'm very proud of how our team has successfully navigated pandemic-related disruptions and integrated Pope Resources, while also continuing to execute on several other strategic priorities. To this end, in the second quarter, we continued to improve our portfolio through both addition and subtraction. We opportunistically recycled capital out of a nonstrategic timberland holding in Washington state while also closing on a total of $22 million of bolt-on acquisitions. These portfolio moves have helped us improve our positioning in the strongest softwood log markets in the U.S. and New Zealand, which should help us grow both cash flows and value per share over time.

Subsequent to quarter end, we also closed on the sale of 2 Timber Funds, an important step towards exiting a private equity fund business that is not a strategic fit for Rayonier. Meanwhile, the benefits of the strategic investments we've made on the real estate front are being increasingly realized as quarterly improved development real estate sales reached a record high in the second quarter. Furthermore, we took steps to optimize our cost of capital and better position our balance sheet for long-term growth by accessing both the debt and equity markets during the quarter.

In addition to achieving the important operational and financial goals, we also continue to embrace the increased interest from stakeholders in our environmental, social and governance practices. As previously discussed, we believe our mission of providing industry-leading returns while serving as a responsible steward of the lands is well aligned with key ESG principles that we're looking to advance. Building on the inaugural carbon report we published earlier this year, we're planning to release a comprehensive sustainability report in the coming weeks, which will further enhance our ESG disclosures.

Overall, I continue to be impressed by the dedication and focus of our employees as they work together to better position Rayonier for long-term success.

This concludes our prepared remarks, and I'll now turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mark Wilde from BMO Capital Markets.

Jesse Barone ***BMO Capital Markets Equity Research - Associate***

It's Jesse Barone on for Mark. First question, could you guys just kind of dive a little deeper into what's driving the rise in inventories in China? Is it more just slower demand? Is there kind of a return of European supply into China? Just any additional color would be helpful.

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Sure. This is Doug. I'll take that one. So at the end of July, we did see China log inventories go up to around 5.9 million cubic meters. That's radiata pine making up about 70% of that, and European spruce actually down significantly to only around 15%. So while demand is typically weaker during the hot summer months, there are a lot of storms, monsoons, things like that. We even saw less than normal demand of about 60,000 cubic meters per day in June and the first weeks of July. That was due to a couple of things. There was on shortage of electricity in some of the areas where the mills operate. There's also a government antipollution regulation lockdown at the Port of Taicang and then there was deferrals of construction due to lack of materials or high cost. So just beyond lumber, just for other products also.

Over the recent weeks, we've seen demand return to more normal kind of 70,000-plus cubic meters per day for this time of the year. And as we move into August, construction typically begins to pick back up as we get into a little bit cooler months and get past the rains, and log inventories typically fall after that. So with this 10,000 cubic meter per day increase in log demand we recently saw, it appears that trend may be starting to happen. And last year, as we moved in this time of the year going into fall, we saw about 80,000 to 110,000 cubic meters per day of demand. Lastly, we're also encouraged that for the first half of 2021 National Bureau of Statistics reported that investment in Chinese real estate is up over 15% compared to 2019 pre-COVID. So I think there's still a strong demand out there for construction as we go forward.

Jesse Barone ***BMO Capital Markets Equity Research - Associate***

Great. And then could you guys give an update on legislation around the Australian log ban? And then if there is any update on the Russian legislation you guys kind of mentioned in Q1?

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Sure, I'll take that again. Right now, the Australian log ban is still ongoing. We haven't seen any changes that are making anything -- make us think this isn't going to happen for some more time here going forward. We've actually seen some of the Australian sawmillers and other folks repositioning and some wood suppliers. So we think this is here for a while. So there's no real update on the actual regulations themselves, but just the way people positioning it, it appears that this looks to be drawn out. And on the Russian log ban, all indications are it's still going forward for January 1, and that will be a ban of exporting those sawlogs into China. And also we've seen markets reposition themselves looking how to procure either logs or lumber. I mean we expect there'd be some more lumber that will come out of Russia as time goes in the midterm. But in the short term, we're seeing increased demand for logs particularly out of the United States.

Jesse Barone ***BMO Capital Markets Equity Research - Associate***

Great. And then last one for me. Have you guys seen any kind of alleviation on the logistics front, especially on the ocean freight side? It sounds like trucking in the U.S. South still remains pretty tight. Just any color there, and then I'll turn it over.

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Sure. I'll happy to answer that one again. So ocean freight is still a major issue for us. The economies pick back up in the world. We're seeing a lot of competition for ships on -- particularly out of New Zealand, and we've seen freight rates go up there. When it comes to containers out of the United States, also very competitive, but so far, we have ourselves positioned with multiple container lines, and we don't want to procure containers. So there hasn't been too much of a problem for us. The bigger issue, as you mentioned, has been the trucking and at the ports -- slowdowns of the ports. So where we see the biggest issue is that those ports and getting trucks and turnaround times where it can take 2 or 3 hours for a truck to turn around. So it's -- not to say that we don't have enough drivers of trucks, that the time of the port is so long that it's causing us to not deliver as much as possible.

Operator

Our next question comes from Anthony Pettinari from Citi Research.

Unidentified Analyst

This is [Ashu Soden] sitting in for Anthony. Just my first question. During the quarter, I think Europe unveiled their plan to go carbon neutral. At the same time, a large asset management firm bought Campbell Global to get into the carbon market. So can you just talk about how this drive to go carbon neutral by different stakeholders, which seems to me to be accelerating. It's impacting the business. Are you seeing any premium creep in timberland values? Just wondering how this could move the needle for you financially in coming years?

David L. Nunes ***Rayonier Inc. - President, CEO & Director***

I mean, we are certainly watching this very carefully. I think right now, there's a lot of speculation around how carbon is playing a role. And in terms of the rationale for the purchase of Campbell Global, I mean, I'll leave that to JPMorgan Chase to sort of address. I think there are a number of people that certainly look at the space, both on the private equity side as well as public equities. And are making assumptions that there's some carbon value that is starting to creep in to various valuations, but that's a pretty hard one to segregate out.

I think the key though going forward is that working forests are going to be part of the solution. And I think there's a greater awareness of the carbon sequestration that is taking place when we use wood products relative to other construction materials. So I think there's generally a view that we're going to see more wood used in the future, and that's a positive for for the sector, whether it's related to carbon monetization or just overall demand of wood. But this is an evolving thing on both kind of a regulatory level as well as a private markets level, and we're continuing to participate in it. And we feel that we have a little bit of an advantage in that we've been operating under an emissions trading scheme in New Zealand for a number of years. And so we've seen how that has evolved over time. And expect to participate in the U.S. as it too evolves over time.

Unidentified Analyst

That's helpful. And then just with regards to your raised guidance. Can you talk about what the biggest swing factors that could get you to maybe the high or low end of the range? Is it fair to say that China demand and maybe New Zealand are the biggest sources of variability? Or are there other factors that we should keep top of mind?

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

I mean real estate is going to always be the biggest swing factor just in terms of the lumpiness of revenue there. And obviously, one larger transaction can really kind of move the dial pretty significantly. I mean just in terms of the overall stability of our different business segments, without a doubt, U.S. South tends to be the most stable and predictable followed by Pacific Northwest, followed by New Zealand. We obviously had extraordinarily strong first half of the year in New Zealand. We've seen some inventory build in China that's giving us a little bit more muted view of the second half, but clearly, if that resolves, we could see some price upside there in the back half of the year as well. But generally speaking, I'd say real estate, followed by New Zealand are likely going to be the biggest upside swing factors.

Operator

Our next question comes from Mark Weintraub from Seaport Research Partners.

Mark Adam Weintraub ***Seaport Research Partners - MD & Senior Research Analyst***

First question, when you think about the impact of weather versus stronger demand for -- in the U.S. South on sawlogs and maybe in pulpwood as well. Recognizing it's hard to segregate. But I mean if one were to assume just things dried out again and demand stayed at the types of levels that we've been seeing, do you think that much of the pricing would be -- net pricing would be retained? Or do you think that most of that would be given back? Just trying to get a feel again for how much is weather-driven versus demand-driven?

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Sure. This is Doug. I'll answer that one. So that 14% increase you saw in stumpage across the South. You're right, multiple factors out there. And what I would say is when you think about, we think about kind of the impact to the export business, supply chain cost increases, geographic mix and then improved market demand are 4 of the main drivers. Wet weather is part of that market demand. And as I think about that, each of these factors had a relatively similar contribution to the overall increase as we went through the year or through the quarter.

Mark Adam Weintraub ***Seaport Research Partners - MD & Senior Research Analyst***

Okay. And then on the question of the carbon credits and how that could evolve, understand things can change a lot from where they are now. But if one were to look at how things operate in New Zealand now and apply that to your North American business, if that makes any sense whatsoever. Can you give us a sense as to what type of financial contribution that might provide? And any additional color you want to give us in terms of being cautionary about how to use that even as a starting point?

David L. Nunes ***Rayonier Inc. - President, CEO & Director***

Yes. That's a hard one, Mark, to gauge because it took a lot of time for that New Zealand system to evolve. There are a lot of key policy questions around carbon such as how you treat additionality. There's also a strong effort afoot to focus on emissions reductions versus carbon offsets. And that's more of a public policy debate that will ultimately kind of come into play. So pretty hard to predict both timing and kind of the nature of that. It took a while for the New Zealand system to get into place, and we think the same is going to take place in the U.S. We've seen some efforts in the U.S. to sort of test this. We have the California cap-and-trade system, and that is -- that's been around for a little bit. It has tended to operate in areas that don't have as strong a market for us. We've seen another effort that's looking more at annual deferrals. And so this market is testing itself and evolving, and we expect that's going to continue for some time.

Mark Adam Weintraub ***Seaport Research Partners - MD & Senior Research Analyst***

Okay. And how much -- what is the contribution from carbon credits to the New Zealand business, say, this year, order of magnitude over last year?

David L. Nunes ***Rayonier Inc. - President, CEO & Director***

I mean, it's -- right now, it's pretty de minimis. And part of that is intentional on our part. We have elected to withhold carbon credit sales because we see increasing pressure on carbon credit pricing. And so that's a decision that we have -- that we make each year as we sort of look across that. So it's -- and it's not going to be a super large contribution. But in timber economics, you're looking for those increments of value wherever you get them.

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

Last year, we disclosed that in our financial supplement. Last year, it was roughly $8 million. This year it's been pretty de minimis. Because like Dave said, we've been really holding back on sales of carbon credits given our optimistic view about the trajectory of carbon prices there.

Mark Adam Weintraub ***Seaport Research Partners - MD & Senior Research Analyst***

Got it. And curious, was that $8 million, I don't want to beat a dead horse though. Is that kind of roughly what your -- if you were to monetize the annual credits that your forests provided, would that be more kind of representative of if you were monetizing the credits as they come about?

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

It's a bit more complex than that. We can maybe take that offline, Mark. I can give you a little bit more detail on how the emissions trading scheme works there.

Mark Adam Weintraub ***Seaport Research Partners - MD & Senior Research Analyst***

Sure.

David L. Nunes ***Rayonier Inc. - President, CEO & Director***

Yes. Mark, you have a mix of onetime credits that essentially can be liquidated, then you have a mix of others that are more ongoing through normal forestry operations.

Mark Adam Weintraub ***Seaport Research Partners - MD & Senior Research Analyst***

Okay. Understood. And one last one, if I could. On the real estate business, the guidance for the full year, the EBITDA went up some and then the EBIT guidance went up a lot. Can you sort of talk through that? And I may have a follow-up to me on what you say. So...

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

Yes, it's really just a function of the mix of properties as the year has progressed and as we got better visibility on the pipeline. I'd say more of the real estate transaction activity and upside that we've seen there has come from price and not necessarily volume. And so that's what kind of drives the lower DD&A and noncash basis figures is just kind of having getting on the stronger price per acre. And I'd say that that's what's driving the differential.

Mark Adam Weintraub ***Seaport Research Partners - MD & Senior Research Analyst***

And is that purely -- is that primarily a function of just the mix of businesses? Or are you actually seeing an improvement in the types of realizations you're getting for a given property? So it's -- your assessment of the value would presumably be going up if the latter were the case?

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

It's both. It's both. It's a mix issue as well as just having gotten strong realizations on what's transacted and what we see in the pipeline for the balance of the year.

Operator

(Operator Instructions) Our next caller comes from Buck Horne with Raymond James.

Buck Horne ***Raymond James & Associates, Inc., Research Division - SVP of Equity Research***

I wanted to follow up on the real estate question there a little bit. Maybe if you can offer any additional color on exactly how the pipeline is shaping up for the back half and maybe into next year as well in terms of what types of opportunities you're seeing? If you're seeing additional capital that's interested in different types of residential development. I think the active adult community is a great addition. Are you seeing any other interest from perhaps multifamily developers or even single-family rental operators or what kind of -- what's shaping up in the pipeline for land development these days?

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

I'd say Buck, what you're seeing may have probably within some of your other segments on the homebuilding front is probably representative of what we're seeing in our development projects. I'd say pretty strong demand and interest across the board from different categories of real estate, kind of mixed-use real estate development. And I'd say that, that's been a definitely -- not necessarily a surprise, it's been some upside that we've seen within our development projects here in the last 12 months.

David L. Nunes ***Rayonier Inc. - President, CEO & Director***

To add to that. I think it covers both the full mix, but also I think you're seeing an acceleration of the absorption based on that demand. And so it's been positive both from a timing and value and breadth perspective.

Buck Horne ***Raymond James & Associates, Inc., Research Division - SVP of Equity Research***

And because of that demand, do you anticipate investing additional capital into land development activities? Is that opportunity growing to reinvest some cash flow?

David L. Nunes ***Rayonier Inc. - President, CEO & Director***

Go ahead, Mark.

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

Yes. I mean I'd say that we -- our stance on that is always going to be that we prefer to minimize our investment of development capital. It's not really our core business. We're really investing capital where we see the need to do so to catalyze demand. And so much like we saw in Wildlight and said in the early phase of that, we were doing kind of more of that horizontal infrastructure development. We're now seeking to do less of it. And I think you can kind of see that with the active adult site that we sold. It was more sort of just [masqueraded] land. And so I think our appetite around that is really going to be driven by kind of what we see as the downstream demand opportunity. But generally speaking, I think we're going to seek to minimize our investment of capital, but only do so when we kind of feel like we need to capitalize that demand. We recognize as well that I mean we really have 3 primary areas that we're kind of focused on development activities. It's in Wildlight, Richmond Hill area of Georgia, West Puget Sound area of Washington with the acquisition of Pope. And so the flow of investment capital and kind of the pace of activity is going to be quite differential among those markets. But again, I think that our appetite to invest more capital is really going to be driven by the demand opportunity that we see and kind of the need to invest that capital to catalyze that demand.

Buck Horne ***Raymond James & Associates, Inc., Research Division - SVP of Equity Research***

Got it. That makes a lot of sense. And the last question is with the balance sheet so well positioned now, and congratulations on all the activity in the quarter. Does it afford you more flexibility to accelerate or look at additional M&A opportunities? And kind of what are you seeing out there in terms of availability of offerings and kind of what are sellers' pricing expectations right now?

David L. Nunes ***Rayonier Inc. - President, CEO & Director***

I mean I think we're -- a couple of things. I mean first of all, we're always in the market really across all of our geographies. So that's something that we're monitoring at all times. I think one of the things that we've seen that's a little different right now is that as people are starting to travel more, you're starting to have more of an availability to do on-the-ground due diligence. And I think because of that, you're tending to see some properties that may have come to the market last year starting to come to the market now. So we've got plenty of things to look at right now. But for us, it's -- we continue to have kind of a flexible approach. We're looking across all regions and trying to improve our portfolio where we can. And it was certainly one of the things that we had in mind as we looked at working on our balance sheet this quarter and to really be prepared for properties that might fit us.

Operator

Our next question comes from John Babcock from Bank of America.

John Plimpton Babcock ***BofA Securities, Research Division - Associate***

First one, I was just wondering, have you seen any notable change in activity in the Southern sawlog markets with lumber prices settling lower?

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Yes, I'll cover that. This is Doug again. Yes, well, in the correction we've seen lumber is of an unsustainable historic high. And so while the headline peaked at current price drop is eye-catching, the sawmills in the South are still generating very strong cash flow. And so while lumber pricing trends, both good and bad are inherently a point of discussion we have with our customers, our customers are still doing quite well for now, and they have low log inventories as we've discussed before, particularly the wet weather, but also just on the demand side. And so demand remains very strong in the South as well as in the Northwest. There's an earlier than normal fire season. That has the market nervous about pending fire restriction shutdowns, limiting available logs. So demand has really remained pretty constant for us. And with shutdowns in British Columbia that we're hearing about from the fires, it also seems that Northwest mills are trying to ramp up and capture that lost capacity. So overall, we've seen strong demand across the United States for sawlogs.

John Plimpton Babcock ***BofA Securities, Research Division - Associate***

And on reasonably similar topic, I mean we've also heard a fair bit about increased fiber costs from paper and paperboard mills. And so on that point, I was just wondering if you might be able to provide some color on which regions in the South are seeing or seeing the greatest increases in pulpwood prices? And also how those prices have fared since the end of the quarter?

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Yes. So as we talk about pricing is differential across the U.S. South. And where are we seeing both on fiber and sawlogs, where we have increased demand from the export side in particular. So there's markets in that coastal area of the Atlantic Coast. Florida and Georgia, in particular, we've seen some strong pricing. But we've been really encouraged to see pricing across the board across the South. So there's a stronger uptick where we have leveraged with export. But overall, we've seen a general increase. I'd say the only place where we really haven't seen as much of that probably market response has been in the Arkansas Mississippi area.

John Plimpton Babcock ***BofA Securities, Research Division - Associate***

Okay. And also, you did talk a little bit about some transportation challenges on the trucking side. Is that kind of broad-based across the South and Northwest or more focused in the South? And then also, what -- I mean, are you seeing signs of that getting better?

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

So trucking availability is actually across the United States, New Zealand and China. So trucking is an issue across the board, but there's some kind of ramp back up after post pandemic. What we've seen is we have long-term contracts with a lot of our suppliers. And so we've had relatively good opportunity to get the availability of trucks in most cases, except for the new development area, like I mentioned, and around the ports and exports in the South. And that's where developing new markets, and so we've had to compete strongly for trucking there, and we're competing against other products. So it's been kind of hampering to us there. And really, the wet weather has a major impact in that. It takes longer for the trucks to get down the woods roads as well as in the log yards. So a truck driver might lose a load a day, doesn't sound like a lot, but when you're at max capacity, losing a load a day, you could lose 10% of the capacity in the workforce. So we haven't really necessarily been constrained by not being able to get trucks, it's been a matter of utilization of the trucks, and it's really been more of issue around the ports.

John Plimpton Babcock ***BofA Securities, Research Division - Associate***

Okay. And then just on that front, I mean, might you be able to provide some color on what sort of increases you're seeing on freight rates? Just curious if that's all the trucking availability is having an impact on that? And then also, I think you did mention something around that. And so just overall, I mean, if that does have some past-through effect into log prices, how sustainable would that increase be? Or would that just be something that's variable based on freight rates?

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Yes. I'll kind of go back to -- I mentioned before on that increase we had. It's kind of broken into multiple factors with export, supply chain cost increases, geographic mix and the improved market demand. And each of those factors are relatively similar contributions to that increase. And I'm not going it break down any further than that. I just don't want to get too specific in there, but kind of give you a sense of where things lie.

Operator

Paul Quinn from RBC Capital Markets.

Paul C. Quinn ***RBC Capital Markets, Research Division - Director of Paper and Forest Products & Paper and Forest Products Analyst***

Just strong results, and I'd like to see the increased guidance. One of the areas that we also saw an increase as increase in corporate costs. What is that increase related to?

Mark D. McHugh ***Rayonier Inc. - Senior VP & CFO***

Yes. I mean -- so I guess 1 of the components would be as we measure our corporate costs and our bonus allocation, it's going to be dependent -- will accrue on the basis of kind of where we're tracking relative to budget. And so that will definitely be a component of it, Paul. But also just with the integration of Pope Resources and sort of rightsizing the overall corporate, we're still working through some of that. So I'd say those are probably the 2 biggest components.

Paul C. Quinn ***RBC Capital Markets, Research Division - Director of Paper and Forest Products & Paper and Forest Products Analyst***

Okay. And then just on exports, I know it's a big pickup in the Pacific Northwest. Just what are you seeing in Southern markets? And as you're, I guess, increase in exports sort of on parallel with what we're seeing in the U.S. sales overall?

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Sure, this is Doug, I'll answer that one again. Since this is a competitive and developing market, as I mentioned before, I won't provide you with granular detail on Rayonier's efforts, other than to say, as I mentioned before, it's providing major uplift to our Southern net stumpage prices. So we're very pleased with the outcome so far. But I'll kind of talk about more general terms. And as of May, U.S. South, Southern Yellow Pine log exports have recovered to the 200,000 cubic meters per month achieved prior to the tariffs being implemented in 2018. And we're seeing quite a few parties looking at trying to open up new export yards, including ourselves. While the bulk of the shipments are leading from the Port of Savannah, several other ports are also contributing that flow of logs out of the U.S. South, in particular, Jacksonville is one of the port we operate out of. So we continue to be encouraged by the demand for these logs as well as what that incremental tension is really doing for our pricing mix in our coastal markets. And demand currently exceeds our ability to supply due to the supply chain restriction I mentioned before at the ports, both here in the U.S. and China. And it's quite interesting to see that Southern Yellow Pine monthly exports to China have now exceeded Pacific Northwest exports to China on a monthly basis. So we're seeing quite a bit of growth in this market. And we're also optimistic about the potential to export more logs from the South to markets such as India and Vietnam. And I'm looking at growing this part of our business, too. But for now, the bulk of the logs being exported out of South are still going to China. And so we've got opportunities to move ahead of us, and we believe our timberlands are well positioned to multiple southern ports, as we mentioned before, and particularly the largest ports in Savannah.

Paul C. Quinn ***RBC Capital Markets, Research Division - Director of Paper and Forest Products & Paper and Forest Products Analyst***

Anything going out of the Gulf?

Douglas M. Long ***Rayonier Inc. - SVP of Forest Resources***

Yes, there is some volume going out of the Gulf. Shipping is not as favorable out of Gulf as is out there East Coast. And so we see more container availability on the East Coast, but there are logs going out the Gulf, Mobile and New Orleans area.

Operator

Thank you. At this time, I'm showing no further questions.

Collin Mings

Thank you. This is Collin Mings. I'd like to thank everybody for joining us. Please contact us with any follow-up questions.

Operator

Thank you. This concludes today's conference call. You may go ahead and disconnect at this time.