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PRESENTATION

Operator

Welcome, and thank you for joining Rayonier's First Quarter 2024 Conference Call. (Operator Instructions) Today's conference is being recorded. (Operator Instructions) Now I will turn the meeting over to Mr. Collin Mings, Vice President, Capital Markets and Strategic Planning.

Collin Philip Mings ***Rayonier Inc. - VP of Capital Markets & Strategic Planning***

Thank you, and good morning. Welcome to Rayonier's investor teleconference covering first quarter earnings.

Our earnings statements and financial supplement were released yesterday afternoon and are available on our website at rayonier.com. I would like to remind you that in these presentations, we include forward-looking statements made pursuant to the safe harbor provisions of federal securities laws. Our earnings release and Forms 10-K and 10-Q 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 measures in our earnings release and supplemental materials.

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

Mark D. McHugh ***Rayonier Inc. - President, CEO & Director***

Thanks, Collin. Good morning, everyone. First, I'll make some high-level comments before turning it over to April Tice, Senior Vice President and Chief Financial Officer, to review our consolidated financial results. Then we'll ask Doug Long, Executive Vice President and Chief Resource Officer, to comment on our U.S. and New Zealand Timber results. And following the review of our timber segments, April will discuss our real estate results and our outlook for the balance of the year.

As this is my first earnings call since officially stepping into the CEO role, I want to reiterate how honored I feel that our Board has entrusted me to lead Rayonier at this exciting time for our company. I'm fortunate to be partnering with an experienced and dedicated team of senior leaders, all of whom are incredibly energized by the refreshed vision that we've laid out for Rayonier and eager to execute on our future growth opportunities.

On that note, I'd like to also formally welcome April to our earnings call this quarter in her new role as CFO. April has held multiple positions of increasing responsibility within the finance and accounting department since she joined Rayonier in 2010, most recently serving as our Chief Accounting Officer for the last 3 years before she assumed the CFO role last month. April has been instrumental in building out our finance and accounting department as well as implementing a transparent financial reporting framework for the company. I'm confident that her transition into the CFO role will continue to be seamless.

Now I'll switch gears and discuss our first quarter results, which were modestly improved relative to the prior year quarter and in line with our expectations at the start of the year. Specifically, we generated adjusted EBITDA of $56 million and pro forma net income of $7 million or $0.05 per share. The 3% increase in adjusted EBITDA versus the prior year period was driven by stronger results from our Southern Timber and New Zealand Timber segments, partially offset by lower results in our Pacific Northwest Timber and Real Estate segments.

Drilling down further on our operating segment results. Our Southern Timber segment generated first quarter adjusted EBITDA of $45 million, up $2 million from the prior year period, as a 6% increase in harvest volumes more than offset a 4% decline in net stumpage realizations. In our Pacific Northwest Timber segment, first quarter adjusted EBITDA of $5 million was down $2 million from the prior year quarter, driven by a 17% reduction in harvest volumes due to the Oregon sale completed late last year, as well as an 11% decline in weighted average log prices.

Turning to our New Zealand Timber segment. First quarter adjusted EBITDA of $11 million increased $5 million versus the prior year quarter. The increase in adjusted EBITDA was driven by higher carbon credit sales and favorable foreign exchange impacts, partially offset by a 4% decrease in export sawtimber prices.

In our Real Estate segment, we generated first quarter adjusted EBITDA of $5 million, down $2 million from the prior year period. Consistent with our prior guidance, real estate closings were relatively light to start the year. However, our full year real estate pipeline remains strong, and we expect a significant increase in closing activity during the second quarter.

As April will discuss in greater detail later in the call, we are on track to deliver on our full year 2024 adjusted EBITDA guidance of $290 million to $325 million. As we indicated at the beginning of the year, our full year 2024 financial guidance excludes the potential impact of any additional asset sales as part of our $1 billion disposition target that we announced in November.

As it relates to the disposition target, we are continuing to make progress and are actively evaluating several large-scale transactions. Specifically, we are currently marketing approximately 115,000 acres in Washington State and we have further identified approximately 100,000 acres in the U.S. South that may be suitable for disposition. In addition to these opportunities in the U.S., we are evaluating strategic alternatives for our New Zealand joint venture interest and have engaged a financial adviser to assist us with this process. We look forward to sharing additional progress on our disposition program in the coming quarters as we continue to advance our efforts to reduce leverage in a higher interest rate environment and capitalize on the continued disconnect between public and private values for timberland asset.

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

April J. Tice ***Rayonier Inc. - Senior VP, Chief Financial Officer***

Thanks, Mark. Before covering the financial highlights from the quarter, I would first like to express that I'm very honored to be leading such a talented accounting and finance organization and look forward to building an already strong foundation. I'm intently focused on maintaining Rayonier's position as an industry leader in transparency as well as further enhancing our finance platforms to support data-driven decisions across our organization.

Our balance sheet and liquidity position is strong. And as Mark highlighted earlier, we are actively taking steps to achieve the new leverage targets we communicated in November.

Moving on to the financial highlights on Page 5 of the supplement. Sales for the first quarter totaled $168 million, while operating income was $16 million and net income attributable to Rayonier was $1 million or $0.01 per share. On a pro forma basis, net income was $7 million or $0.05 per share. Pro forma items in the first quarter included a $4.5 million pension settlement charge and $1.3 million of net costs associated with a legal settlement.

Adjusted EBITDA was $56 million in the first quarter, up slightly from $55 million in the prior year period. On the bottom of Page 5, we provide an overview of our capital resources and liquidity. Our cash available for distribution or CAD, for the first quarter was $37 million, versus $30 million in the prior year period. The increase was driven primarily by higher adjusted EBITDA and cash interest received during the quarter. A reconciliation of CAD to cash provided by operating activities and other GAAP measures is provided on Page 7 of the financial supplement.

We closed the first quarter with $160 million of cash and roughly $1.4 billion of debt, implying net debt to trailing 12-month adjusted EBITDA of approximately 4.1x. At quarter end, our weighted average cost of debt was approximately 2.8% and the weighted average maturity on our debt portfolio was approximately 5 years with no significant debt maturities until 2026. We expect to use our cash on hand to pay $150 million of debt that becomes unhedged in August, which will keep our debt 100% fixed rate. Our net debt to enterprise value based on our closing stock price at the end of the quarter was 19%.

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

Douglas M. Long ***Rayonier Inc. - Executive VP & Chief Resource Officer***

Thanks, April. Let's start on Page 8 with our Southern Timber segment. Adjusted EBITDA in the first quarter of $45 million was $2 million or 5% above the prior year quarter, driven by higher volumes and lower costs, partially offset by lower pricing and a decline in nontimber income. Total harvest volumes rose 6% versus the prior year quarter, primarily driven by healthy demand from customers due to wet weather related constraints on competing log supply. Our continued investment in road infrastructure and drive ground optionality proved to once again be competitive advantages amid wet weather conditions that limited the ability of other timberland owners to bring volume to the market.

Meanwhile, non-timber income declined 3% from the prior year period as continued growth in our land-based solutions revenue was more than offset by lower pipeline easement revenue. Average sawlog stumpage pricing was $31 per ton, a 3% decrease compared to the prior year period. Meanwhile, pulpwood net stumpage pricing fell 2% versus the prior year quarter to roughly $17 per ton. The moderation in pricing for both sawlogs and pulpwood was largely driven by a shift in geographic mix toward lower-priced operating areas versus the prior year period. Overall, weighted average stumpage prices in the first quarter fell 4% versus the prior year quarter to roughly $23 per ton.

Improved end market demand, coupled with wet weather conditions, translated into fairly stable pulpwood pricing to start the year across most of our markets in the U.S. South. Encouragingly, we believe the inventory destocking cycle that weighed on containerboard demand in 2022 and 2023 has largely run its course. Mill operating rates are generally improving, giving us reason for optimism as we move through the balance of the year.

Turning to grade markets. Market conditions were generally stable throughout the first quarter despite some softness in Southern Yellow Pine lumber prices as the El Nino climate pattern resulted in wet weather conditions that limited the supply of competing logs. However, sawlog pricing has been under some pressure in recent weeks as demand from lumber mills has softened amid the continued pullback in Southern Yellow Pine lumber prices and drier weather conditions.

Looking ahead, we believe the significant discount that Southern Yellow Pine lumber currently trades at compared to other species will likely narrow, which should translate to improved demand and pricing for sawtimber.

Moving to our Pacific Northwest Timber segment on Page 9. Adjusted EBITDA of $5 million was $2 million below the prior year quarter. The year-over-year decrease was driven by lower harvest volumes and lower net stumpage realization. Volumes decreased 17% in the first quarter as compared to the prior year period, reflecting the large disposition, we completed in Oregon during late 2023. At $84 per ton, average delivered domestic sawlog pricing in the first quarter fell 9% from the prior year period, due to a combination of weaker demand from domestic lumber mills, reduced export market tension and an unfavorable species mix as a lower proportion of Douglas-Fir sawtimber was harvested in the current year period.

Meanwhile, at $29 per ton, pulpwood pricing appears to have stabilized. It was down 39% versus the prior year comp that benefited from exceptionally favorable supply-demand dynamics for pulpwood in the region. The Pacific Northwest log market has faced headwinds in the form of both soft domestic lumber markets and limited demand for log exports to start the year. However, we are optimistic that demand has bottomed and is poised to improve over the course of 2024 as we have seen mill inventories normalize in recent weeks.

Moving to New Zealand. Page 10 shows results and key operating metrics for our New Zealand Timber segment. Adjusted EBITDA in the first quarter of $11 million was $5 million above the prior year quarter. The increase in adjusted EBITDA compared to the prior year period was primarily driven by higher carbon credit sales and favorable foreign exchange impacts, partially offset by lower net stumpage realizations. Average delivered export sawtimber prices of $109 per ton declined 4% compared to the prior year quarter as demand continues to be constrained by ongoing challenges in China's property sector.

While improving seasonally following the Lunar New Year, offtake from Chinese ports has remained relatively subdued at approximately 70,000 cubic meters per day. However, softwood log inventories at Chinese ports are currently 9% below year ago levels at roughly 3.9 million cubic meters. On response to the ongoing weakness in construction activity, we have seen many exporters reduce log shipments into China. In turn, we anticipate log inventories are poised to decline over the course of the second quarter, which we expect will lead to more favorable pricing conditions in the second half of the year.

Shifting to the New Zealand domestic market. First quarter average delivered sawlog prices fell 5% from the prior year period or 3% when excluding foreign exchange impacts. The decline in pricing reflects continued challenges facing the local construction market amid a higher interest rate environment as well as reduced competition from the export market. First quarter non-timber income in New Zealand of $4 million increased $3 million relative to the prior year period. The year-over-year increase reflects higher carbon credit sales in the current year period as we temporarily suspended our sales program in early 2023 amid significant market volatility. We anticipate that we will remain active in the New Zealand carbon market over the course of 2024 as pricing remains healthy from a historical standpoint, albeit down in recent weeks as compared to beginning of the year.

Lastly, in our Trading segment, we registered a breakeven result in the first quarter. As a reminder, our trading activities typically generate low margins and are primarily designed to provide additional economies of scale to our key timber export business.

I'll now turn it back over to April to cover our real estate results.

April J. Tice *Rayonier Inc. - Senior VP, Chief Financial Officer*

Thanks, Doug. As detailed on Page 11, the contribution from our Real Estate segment during the first quarter was relatively light, consistent with our expectations entering the year. Real estate revenue totaled $16 million, including roughly 1,900 acres sold at an average price of $5,800 per acre. Real Estate segment adjusted EBITDA in the first quarter was $5 million.

Drilling down. Sales in the improved development category totaled $2 million and were driven by 2 transactions in our Heartwood development project, south of Savannah, Georgia. The Heartwood sales consisted of a 3.1 acre multi-tenant retail parcel for $1 million or $321,000 per acre as well as 18 residential lots for $800,000, reflecting an average base price of approximately $46,000 per lot.

While the first quarter was relatively light in terms of closing activity, we continue to see favorable momentum at both of our development projects. In February, the St. Joseph Candler Healthcare system opened the initial phase of its health and wellness campus at Heartwood. This was an important milestone. And as we move forward, we expect that Heartwood's diverse mix of residential, commercial and industrial end users will serve to further catalyze demand.

In Wildlight, homebuilder interest in the next phase of development has continued to increase. We expect initial sales over the next year within the 15,000-acre area that we received entitlement improvement for in November. Overall, we continue to see a tremendous runway for both our Wildlight and Heartwood development projects going forward.

Turning to the rural category. First quarter sales totaled $9 million, consisting of approximately 1,500 acres at an average price of roughly $5,800 per acre. Key transactions during the quarter included the sale of 409 acres in Texas for $2.3 million or over $5,500 per acre, as well as the sale of 2 properties totaling 364 acres in South Carolina for a total of $1.4 million or nearly $3,800 per acre.

Overall, demand from prospective buyers on rural lands remains healthy, and we expect a larger contribution from these sales as we move through the balance of the year. While interest in smaller tracks has moderated somewhat amid a current interest rate environment, demand for the larger tracks remains strong. In addition, we have recently seen growing interest among conservation and impact-oriented buyers looking to place capital.

Lastly, during the quarter, we also closed on a 430-acre nonstrategic timberland sale in Louisiana for roughly $600,000 or $1,400 per acre.

Now moving on to the outlook for the balance of 2024. Based on our first quarter results and our expectations for the remainder of the year, we are on track to achieve our prior full year adjusted EBITDA guidance of $290 million to $325 million. As a reminder, our guidance excludes the potential impact of any additional asset sales as part of our previously announced $1 billion disposition target.

With respect to our individual segments, in our Southern Timber segment, we expect to achieve our full year volume guidance. But following strong harvest activity to the start of the year, we anticipate lower quarterly volumes for the remainder of the year. Further, we anticipate that pine stumpage realizations will decrease modestly over the remainder of the year due to a less favorable geographic mix and a relatively higher proportion of thinning volume.

Lastly, we remain encouraged by the momentum in our land-based solutions business, and we continue to expect higher non-timber income for the full year 2024 relative to the full year 2023.

In our Pacific Northwest Timber segment, we remain on track to achieve our full year volume guidance as we expect harvest volumes to increase during the second half of the year. We believe that market conditions have stabilized and anticipate that end market demand will improve modestly over the course of the year given the continued favorable dynamics in the single-family construction activity. We further expect weighted average delivered log prices will increase modestly into the second half of the year as log inventories at mills continue to normalize.

In our New Zealand Timber segment, we are on track to achieve our full year volume guidance as we anticipate higher quarterly harvest volumes for the remainder of the year. We expect weighted average log prices to decline modestly in the near term before rebounding in the second half of the year as the inventory-to-demand ratio normalizes. Following the recent pullback in carbon credit pricing, we now anticipate the full year contribution from carbon credit sales to be comparable with the prior year.

In our Real Estate segment, we remain on track to achieve our prior adjusted EBITDA guidance following a relatively light first quarter as our full year pipeline of transactions remains strong. Consistent with our prior guidance, we expect a significant uptake in the transaction volume and operating results in the second quarter.

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

Mark D. McHugh ***Rayonier Inc. - President, CEO & Director***

Thanks, April. As we wrap up today's call, I'd like to recognize the extraordinary efforts of our team during what has been an incredibly busy period of time for our entire organization. Amid challenging end market conditions, our team has worked diligently to make value-optimizing decisions throughout our operations while also advancing several important strategic initiatives. As we move through the remainder of the year, we are optimistic that continued favorable dynamics for single-family housing, higher operating rates for many of our pulpwood customers and lower log inventories in China will translate to improving fundamentals in our timber segments.

On the real estate front, we've been pleased by the continued strong demand for our rural land and development properties despite the higher interest rate environment. We are especially excited to start executing on new opportunities in Wildlight, stemming from the entitlements that our team secured last November. We've also continued to make progress in our land-based solutions business. Specifically, we've increased the number of acres we have under lease for carbon capture and storage to 70,000 acres as of today, up from 59,000 acres at the time of our Investor Day.

In addition, we now have 33,000 acres under option for solar development, up from 27,000 acres at the end of 2023. As we've expanded our pipeline of opportunities in land-based solutions, we've continued to focus on working with high-caliber counterparties that we believe will ultimately see a stronger conversion rate to operational facilities.

All said, I'm very proud of how we worked together to effectively manage through some difficult market conditions while also advancing these important strategic initiatives.

In closing, I'd further like to thank our Board as well as our recently retired CEO, Dave Nunes, for guiding us through a smooth leadership transition process over the past 2 years. Their collective efforts helped ensure that the organization didn't skip a beat amid a very dynamic market environment.

Lastly, I also want to take a moment to recognize the significant contributions of our Board Chair, Dod Fraser, who will be retiring from our Board in May. Dod has served on the Board of Rayonier since the 2014 spinoff of the Performance Fibers business, including as Chair for the past 4 years as well as Audit Chair for the prior 6 years. Throughout this time, he's demonstrated impeccable leadership, dedication and judgment. On behalf of the Board and the entire company, I want to thank Dod for his invaluable contributions, the governance of Rayonier and wish him well in his future endeavors.

That concludes our prepared remarks. And I'll now turn the call back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ketan Mamtora with BMO Capital Markets, you may go ahead.

Ketan Mamtora ***BMO Capital Markets Equity Research - VP & Building Products Analyst***

Perhaps we'll start with Mark, can you talk a little more about sort of the progress on the land-based solutions side. As you look at, you talked about solar, you talked about CCS. As you think about next 2, 3, 5 years, where do you think sort of from your standpoint, you see the most opportunity? And how should we sort of think about when this starts to have an impact on EBITDA?

Douglas M. Long ***Rayonier Inc. - Executive VP & Chief Resource Officer***

Sure. This is Doug. I'll start off with that. So as we laid out at our Investor Day, we talked about kind of a process here with respect to getting these -- the pipeline built out on our land-based solutions, particularly on the CCS side of things as well as the solar. And then there's that, depending on what it is, a multiyear project to get it permitted and get it into the grid, if it's a solar and then to get it built. So we are building that out as we talked about and very happy we're out on those, and I'll talk about kind of progress in each of those in a second.

But when it comes to delivering on those things, as we mentioned at Investor Day, there's kind of these incremental steps, which is why we put out kind of interim targets to share with that. So we see that building, but there is going to be a slight delay as we get these in the pipeline, which we do recognize option values and lease payments at that point in time. But it's really at the point in time when they start to produce either power or we sequester carbon where we'll see the real benefit of those hit in and we see that still kind of in that 3- to 5-year time horizon.

Mark D. McHugh ***Rayonier Inc. - President, CEO & Director***

Ketan, we did lay out our targets at our Investor Day back in February, $75 million of adjusted EBITDA by 2030 and that interim target that Doug referenced of $30 million by 2027. We've also started to break out our land-based solutions contribution in our Southern Timber segment detail in our supplement just so investors can start to track our progress against those targets.

Douglas M. Long ***Rayonier Inc. - Executive VP & Chief Resource Officer***

Yes. What I would say is that we're seeing really strong interest in both those areas. On the carbon capture storage, that market just continues to grow for us, and we're seeing just a lot of interest from other people. We started off in the oil and gas industry. We are really starting to see more interest broader from utilities, pulp and paper industries. And we have our pipeline of projects is really strong, and we're advancing multiple large-scale opportunities across the U.S. South that we think will meaningfully contribute towards our goals in

2024.

Mark mentioned that we've increased our actual lease acres up to 70,000 acres in his comments, and we're actively in exploration discussions on an additional 200,000 acres with several other companies. So we feel good about the progress we're making in our carbon capture storage.

And on the solar side of things, also really happy with the progress we're seeing there. So our pipeline projects, again, is really strong and growing. We now have over 33,000 acres under option for solar development, which is up from 27,000 at the end of 2023. And we're on track to achieve our year-end objective of having 50,000 acres under options. And we're advancing quite a few multiple large-scale solar relationships across the South. And we think those will contribute meaningfully over the next few years as we go forward.

What I'm really excited to see is that some of the ISOs, those independent system operators for the regional transmissions, they have started to implement interconnection queue reforms with the goal of ensuring that projects that are going to basically have a high level of success get brought up in the queue. And in the past, we talked about we've seen where there's been a lot of projects clog in the queue and some of those had low probability of success. And we're seeing reforms that help with that. And we believe that our focus on working with high-quality counterparties who are, in a lot of cases, the utility companies themselves, that will help speed that process up and move it up the queue. So we do believe that, that will bring some of these forward and we've seen one of those projects kind of moving forward, and we believe will be under construction this year.

Ketan Mamtora ***BMO Capital Markets Equity Research - VP & Building Products Analyst***

Got it. That's very helpful. And just on solar, are you looking at mostly to lease land? Or are you also looking at outright sale? And this is just specific to solar.

Douglas M. Long ***Rayonier Inc. - Executive VP & Chief Resource Officer***

Yes, specific to solar, we're particularly looking at the leasing opportunity. We believe that's the best option for us from a financial standpoint as well as we find, a lot of our customers also find that favorable not to put that high capital upfront. So it's worked out to be a good solution for most of our customers.

Ketan Mamtora ***BMO Capital Markets Equity Research - VP & Building Products Analyst***

Understood. And then just switching to just China. You talked about sort of offtake, it's a little bit slower. Curious kind of to see in terms of just activity level, have you seen things pick up at all? Is it sort of pretty similar? Any more color there?

Douglas M. Long ***Rayonier Inc. - Executive VP & Chief Resource Officer***

Sure. This is Doug again. I'll grab on that one also. So yes, the economy's come out of the Lunar New Year, it's grown relatively strong. That hasn't really spread in the property sector yet, but we have seen with that GDP running over 5%. We're seeing strength in areas like the infrastructure and manufacturing and exports are recovering also, which is really positive for the packaging industry as well as the furniture exports. We've seen those increase by over 25% year-over-year in the first quarter. So we're seeing growth in a lot of areas.

And these trends tend to favor radiata particularly from New Zealand, due the wood quality there. So it's a very versatile product. And while we saw relatively strong pricing at the start of the year, that was due to low port stocks that came into there. And so we were pleased with that. But then the Chinese New Year came along and we saw that kind of build back up. So going into the year, we were at an inventory-to-demand ratio below 1.5 months, which historically yields on strong pricing, and we saw that. But through the Lunar New Year, built up to over 4 million cubic meters at the ports. And we're happy to say, though, that at the end of April, it's dropped down below 3.9 million cubic meters.

And where we're seeing offtakes in the 40,000 to 60,000 cubic meters per day kind of over the first quarter of the year, we're now seeing that offtake up to 70,000 to 80,000 recently in the last couple of weeks. And so that inventory demand ratio has fallen back below 2 months, which again historically has led to that upward pressure on prices. And we're seeing a lot of increase in shipping costs from the rest of the world. We don't talk about that too much, but most people understand that, particularly from Europe. And so we think that both log and lumber supply will be constrained over the coming months. So that's why our comments we believe that we've kind of seen the buildup, but that's drawing down, and we're seeing increased offtake with less input coming in. So we have seen that inventory ratio drop below 2. So we believe that will lead to some improved pricing and demand going forward, particularly for radiata pine.

Operator

Our next call is Matthew McKellar with RBC Capital Markets.

Matthew McKellar ***RBC Capital Markets, Research Division - Assistant VP***

Does weak Southern Yellow Pine lumber pricing represent a potential risk to your outlook for harvest volumes in the U.S. South this year?

Douglas M. Long ***Rayonier Inc. - Executive VP & Chief Resource Officer***

Yes, this is Doug again. I'll cover that. Yes, it's always hard to predict exactly how things are going to work out with respect to that. But what we've seen is that operating rates for pulpwood customers have really picked up over the year, too. So we have the ability to flex between this. We did last year, we flexed more towards lumber and sawlogs. And this year, we're seeing a lot of demand basically on the pulp side as well as still continued demand on our log side. So we're pleased to see that the operating rates for pulp customers have moved from the mid-70s up in the low 90s now. So we're really seeing increased demand there. It seems like most of that the closures and economic downtime that followed that post COVID inventory stocking cycle are over. And that we've seen the increases in pricing.

So we're still seeing strong demand on the pulp side. And while we have seen some weakness in the lumber side, overall, we're still -- the mills are still running, and we see that demand. So it's -- it's hard to say exactly how that would look. We have the ability to flex between those 2. So we still believe we're comfortable as we put in our outlook on our removals.

Mark D. McHugh ***Rayonier Inc. - President, CEO & Director***

Matthew, I think we also believe that, that price divergence that we've seen is likely going to tighten. I mean we just haven't -- it's pretty unprecedented that disconnect that we're seeing right now between SYP and SPF lumber prices. And so our expectation is that will start to converge as the year progresses.

Douglas M. Long ***Rayonier Inc. - Executive VP & Chief Resource Officer***

Yes, absolutely. One thing we've seen is that particularly in the repair remodel, there's been some weakness for there's higher grade sawlogs. They are destined usually for trading facilities, and that's where we've seen some of the weakness to date. But overall, we're still seeing reasonable demand.

Matthew McKellar ***RBC Capital Markets, Research Division - Assistant VP***

Great. That's helpful. Next, I was wondering if you could just provide a bit more color on how you're thinking about your evaluation of strategic options for the New Zealand business at this point. I think you talked about that process potentially taking a little while due to the JV governance structure. So my question would be is how you proceed with that process or evaluate your options there contingent on the outcomes of the Washington State sale and any potential sales processes you might run on the 100,000-plus acres you've identified as suitable for disposition in the U.S. South?

Mark D. McHugh ***Rayonier Inc. - President, CEO & Director***

Yes. I guess the way that we're approaching that Matthew is that we're really looking at structuring a number of different options that would ultimately get us to that $1 billion disposition target. We haven't sort of laid out one specific path that gets us there, but really assessing a number of different options, various combinations of which could ultimately get us to that $1 billion target.

As it relates to New Zealand specifically, as we've noted in our -- in the release, we've engaged a financial adviser to assist with an evaluation of strategic alternatives there. As part of that process, one of the alternatives that we will consider is exiting our position in New Zealand. I can't really comment beyond that at this point. But again, we are we have entered into that process in earnest, and we expect that we'll have further updates in the next couple of quarters.

Matthew McKellar ***RBC Capital Markets, Research Division - Assistant VP***

Okay. And then last one for me, just on carbon credit prices in New Zealand. It sounds like you've tempered your expectations there slightly with prices trending lower over the past couple of months. Could you talk about what you think has driven prices lower and what your expectations would be for prices for the balance of the year?

Mark D. McHugh ***Rayonier Inc. - President, CEO & Director***

Yes. As we detailed in our supplement, we sold about $3.4 million worth of carbon credits in New Zealand in the first quarter. And that's relative to zero in Q1 2023. Recall that we elected to defer NZU sales in early 2023 due to the significant volatility that we were seeing in the carbon market that we ultimately ended up resuming sales later in the year as the market recovered. So we've continued to be opportunistic as it relates to how we've approached carbon credit sales in New Zealand.

Overall, the regulatory backdrop, I would say, has stabilized relative to last year. The government has indicated that they're not contemplating any significant changes to the ETS in the near term, which is really driving some of that volatility last year. That said, the most recent NZU auction failed to reach full subscription, so the pricing has backed up some from where it was at the start of the year. Overall, though, pricing, which has recently been in the range of NZD 50 to NZD 60 per unit, still relatively strong from a historical perspective. So we've continued to be active in that market.

Operator

Our next caller is Mark Weintraub with Seaport Research Partners.

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

So I guess, just sort of two related questions. One is to the extent that you can provide an update on where you are in the process on the 115,000 acres Pacific Northwest and the 100,000 acres in the U.S. South. And then also, though, in conjunction with that, if one of the alternatives for New Zealand that is being considered is a potential exit of the position. I would imagine to get to the $1 billion you -- that would take you pretty far away, given you've already done the 55,000-acre sale. And so I'm just sort of trying to understand would you potentially -- and is there a scenario where you might end up selling more than the $1 billion or -- more than $1 billion? Or are there ways you're juggling that, so that wouldn't happen? Or how should we just think that all through?

Mark D. McHugh ***Rayonier Inc. - President, CEO & Director***

Yes. Like I said earlier, Mark, we've really laid out a number of different options, any -- number of combinations of which could ultimately get us to that $1 billion target. Our objective as we sit here today is not to deliberately exceed that target, certainly not as it relates to our capital allocation objectives in terms of the deleveraging and the return of capital to shareholders. But recognize that if we do find compelling values in the market for some of these different assets that we're exploring sale alternatives around, we certainly have the ability to redeploy that capital into acquisitions through like-kind exchanges.

And so the top priority is to achieve the new leverage targets, return capital to shareholders and then we'll evaluate how much further beyond that, that we wish to go. Look, as a general matter, we don't comment on M&A until there's a closed transaction or at least a signed contract. That said, we recognize that there's going to be an elevated level of interest around our disposition plans given the $1 billion target that we announced last November. We also recognize that there's invariably going to be chatter in the industry regarding assets that we've taken to market or considering taking to market.

So given these factors, we try to be more transparent and specific around some of the efforts that we currently have underway. But just given that you're still in the evaluation phase on a number of these different potential transactions, again, we don't want to comment much more beyond that.

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

Fair enough. But if I heard you right, I mean there's a scenario though where you are not prevented from moving forward on doing something in the U.S. until you sort of decided what you're doing with New Zealand though, you could do something in the U.S. And then ultimately, if you were to do something in New Zealand, you may then just reposition some of those monies to acquire. Is that -- so again, there's no reason to be thinking you're going to delay making decisions in the U.S. Is that fair?

Mark D. McHugh ***Rayonier Inc. - President, CEO & Director***

Yes. I think that's fair. I mean look, when we laid out -- at the outset of this plan, we laid out two objectives. And it was really to concentrate capital in the markets we think that have the most favorable long-term growth prospects and the most favorable cash flow attributes. And so we don't have $1 billion of assets that I would characterize as nonstrategic. But we have $1 billion worth of assets that we could characterize as less strategic and potentially able to recycle that capital into kind of higher returning areas or areas of which we feel as though we have a unique ability or opportunity to add value.

And so again, we've identified those properties that we believe are less strategic and will help us to achieve our $1 billion target within the parameters that we've laid out in terms of the features under which we're kind of evaluating different transactions. And as we proceed through that, as we see transaction outcomes, we'll recalibrate our plans and expectations thereafter.

Operator

Our next caller is Anthony Pettinari from Citi.

Gregory Andreopoulos ***Citigroup Inc., Research Division - Research Analyst***

This is Gregory on for Anthony this morning. Although it has been covered already in the prepared remarks and Q&A, but I did want to just bring something up that was said in the prepared remarks. I think what was mentioned about Southern Yellow Pine was there's a significant discount right now between Southern Yellow Pine and other species. So I just was wondering if you could provide a little bit more context on what other species you're comping Southern Yellow Pine to when you say that? And then timeline for that discount to narrowing like key drivers? And then I had one follow-on after that.

Douglas M. Long ***Rayonier Inc. - Executive VP & Chief Resource Officer***

Sure. This is Doug. I'll talk to that. So yes, as Mark mentioned, we do believe this historically unprecedented discount the Southern Yellow Pine lumber is trading at compared to SPF and other Western grades will eventually correct. And there are a few factors there at play. As you mentioned, there are different species preferences for different end uses. But in the long run, we think we'll see increasing substitution for Southern Yellow Pine for SPF as the market adapts to those.

In the near term, as I mentioned, there's some weakness in repair and remodel activity. And that particularly plays out in our higher-grade logs and those are going to be used in outdoor and DIY projects where Southern Yellow Pine is favored for treating on outdoor use. And on top of that custom, weaker multifamily construction also plays a role in this. The Southern Yellow Pine is increasingly being utilized in prefabricating trusses and wall panels as well as engineered wood products, which make up a larger share of the lumber consumption for multifamily or commercial construction compared to single-family construction.

But we believe that it's very much can be used in that process. And so the market is just going to fill that gap as we see things work its way out. And then Canadian tariffs are set to increase from 8% to 14% as we go into the summer. So builders who preferred those Western grades have been more active buying ahead basically, and that's particularly in the single-family home construction. But as we said before, eventually, we believe that builders and other consumers will continue to move towards the value that's presented by Southern Yellow Pine and then these markets will normalize as we've seen in the past.

Gregory Andreopoulos ***Citigroup Inc., Research Division - Research Analyst***

Great. That's helpful. And just thinking about Southern -- like returning to Southern saw-wood pricing in the first quarter. You called out the year-over-year decline, but I was just looking, pricing looks like it was up about 6% or so from the fourth quarter. So I'm wondering if you can just kind of comment on what drove that increase, whether it was mix or the fact that competitors couldn't bring logs to market? And then how you think that kind of dynamic plays out over the second quarter and then into the second half if lumber op rates are a little bit stronger than you're anticipating?

Douglas M. Long ***Rayonier Inc. - Executive VP & Chief Resource Officer***

Sure. Yes. So yes, you're right. On a quarter-over-quarter basis, we did see improvement in that pricing and the -- some of that was due to wet weather we saw. But also, I think going in the year, there was some encouragement in the mills. So we saw lots of strength basically in the sawmills and going into that. And that has tempered a little bit as we've gone through the rest of the quarter basically as we see that.

When we talked about that some of our pricing that we're seeing going from Q1 to kind of Q2 and think can go on outlook really the shift in geography basically. So we're going to have a shift in our harvest moving a little bit from the Atlantic or more towards the Gulf states, which typically have just slightly lower pricing as well as we're going to have an increase in our thinning harvest throughout the rest of the year. And that typically produces either more pulpwood but as well as lower grade sawlogs and smaller ones.

Operator

(Operator Instructions) Our last caller is Michael Roxland with Truist Securities.

Niccolo Piccini ***Truist Securities***

This is Niko Pacini on for Mike Roxland. Just on the $1 billion disposition plan, can you comment maybe on where you're seeing the most interest, is it public companies, TIMOs, things like that? And then on the Washington parcel the nonstrategic qualities that make it attractive for disposition. Is that similar to the Oregon parcel and that it maybe is geographically dislocated from the rest of your holdings in the area?

Mark D. McHugh ***Rayonier Inc. - President, CEO & Director***

Yeah, I mean in terms of the first question, I'd say that we're seeing a pretty wide range of interest across the board. I mean the TIMOs continue to have a fair amount of capital to place. By our estimates about the $4 billion that's actively looking for timberland acquisitions. I think there's also a fair amount of capital that's flowing into the space or looking to get in the space just around carbon related or impact related investments. And so again, we continue to see pretty strong bid in the timberland market and just a pretty robust M&A market overall.

As it relates to the Washington properties, again, we're not commenting specifically on the nature of those properties at this juncture. Suffice it to say, as we've looked at potential properties for disposition, we have really looked at trying to maintain strategic scale within each of our regions. And so again, we've generally focused on properties that we think will allow us to maintain that across our three different operating areas.

Niccolo Piccini ***Truist Securities***

Got it. And then I guess just switching gears. You talked about some of the demand for your development projects. What are you hearing from some of your customers that are homebuilders on take up on interest demand? Can you give any update on that, please?

Mark D. McHugh ***Rayonier Inc. - President, CEO & Director***

Again, single-family dynamics continue to be pretty strong and favorable. And then we've certainly seen that in our development projects. Recognize that a lot of the activity that we are focused on right now is around single-family residential, including age restricted. And so we continue to see pretty robust demand in both of our major development projects.

Operator

There are no further questions at this time. I'll turn the call over to Collin Mings.

Collin Philip Mings ***Rayonier Inc. - VP of Capital Markets & Strategic Planning***

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.

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