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CORPORATE PARTICIPANTS

Collin Mings *Rayonier Inc. - VP, Capital Markets & Strategic Planning*
David L. Nunes *Rayonier Inc. - President, CEO & Director*
Douglas M. Long *Rayonier Inc. - SVP of Forest Resources*
Mark D. McHugh *Rayonier Inc. - Senior VP & CFO*

CONFERENCE CALL PARTICIPANTS

Gregory Andreopoulos
Mark Adam Weintraub *Seaport Research Partners - MD & Senior Research Analyst*
Mark William Wilde *BMO Capital Markets Equity Research - Senior Analyst*
Paul C. Quinn *RBC Capital Markets, Research Division - Director of Paper and Forest Products & Paper and Forest Products Analyst*

PRESENTATION

Operator

Welcome, and thank you for joining Rayonier's Second Quarter 2022 Teleconference 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 Mings ***Rayonier Inc. - VP, Capital Markets & Strategic Planning***

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 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 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. 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 2022. We achieved earnings per share of $0.16 and adjusted EBITDA of $83 million in the second quarter.

Adjusted EBITDA was 13% below the prior year quarter as favorable results in our Southern Timber and Pacific Northwest Timber segments were more than offset by lower adjusted EBITDA in our New Zealand Timber and Real Estate segments. Drilling down further, our Southern Timber segment generated adjusted EBITDA of $39 million in the second quarter, which was 27% above the prior year period.

Weighted average net stumpage realizations increased by 18%, driven by strong demand for both pulpwood and sawtimber, while favorable logging conditions further contributed to a 4% increase in harvest volumes. The construction of our southern timberlands portfolio with 73% of our ownership located in top quartile markets helps us benefit from some of the most tension markets across the U.S. South, which in turn allowed us to register higher stumpage realizations despite increased cut and haul costs.

In our Pacific Northwest Timber segment, we achieved adjusted EBITDA of $14 million, up 3% from the prior year quarter. The year-over-year increase was primarily attributable to 19% higher weighted average log prices, partially offset by a 6% reduction in harvest volumes and higher costs. Our operations in the region continued to benefit from favorable domestic lumber markets as well as incremental tension created by export market demand.

In sum, our U.S. Timber segments continued to generate strong financial performance and pricing gains driven by favorable end market demand as well as localized supply tension, and both segments are on pace to achieve record adjusted EBITDA for the full year. Conversely, our New Zealand segment continues to be impacted by various export market headwinds.

Second quarter adjusted EBITDA of $15 million declined 46% from the prior year period, as our team contended with compressed margins due to significantly higher fuel, shipping and port costs, coupled with lower delivered log pricing. Export demand continued to be impacted by China's strict lockdown measures in response to a rise in COVID-19 cases, which in turn led to persistently high port inventories.

In our Real Estate segment, we generated adjusted EBITDA of $25 million, down from $29 million in the prior year period, and significantly higher per acre values in the current quarter were more than offset by a 41% reduction of in acres sold. While the timing of land sales will remain lumpy quarter-to-quarter, our real estate team continues to capitalize on strong demand for rural land, as well as positive momentum across both our Wildlight and Heartwood development projects. As Mark will discuss in greater detail later in the call, we are updating our full year adjusted EBITDA guidance to $310 million to $330 million. Following an excellent start to 2022, we are on track for a stronger year than we had originally anticipated in both our Southern Timber and Pacific Northwest Timber segments and expect that both segments will post record years.

In addition, our real estate segment outlook is fairly consistent with our prior guidance. However, in our New Zealand Timber segment, export market headwinds have persisted longer than we had anticipated and have negatively impacted our full year outlook. Overall, the net impact of our revised outlook by segment translates to a modest reduction in the upper end of our total full year adjusted EBITDA guidance versus our prior guidance.

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 second quarter totaled $246 million, while operating income was $36 million and net income attributable to Rayonier was $24 million or $0.16 per share. Pro forma EPS was also $0.16 per share as we had no pro forma items in the quarter. Second quarter adjusted EBITDA was $83 million, down from $95 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 half of the year was $120 million versus $111 million in the prior year period. The increase was primarily driven by higher adjusted EBITDA and lower cash interest paid, partially offset by higher cash taxes and capital expenditures.

Note that cash taxes were elevated in the first half of the year due to the required timing of estimated tax payments for our New Zealand subsidiary following the full utilization of its NOLs in 2020. A reconciliation of CAD to cash provided by operating activities and other GAAP measures is provided on Page 8 of the financial supplement.

We closed the second quarter with $279 million of cash and $1.3 billion of debt. Our net debt of $1 billion represented 15% of our enterprise value based on our closing stock price at the end of the second quarter. We continue to believe that our balance sheet is well positioned for a higher interest rate environment following the steps we took in 2021 to extend our debt maturities and lower our average cost of debt. Currently, our weighted average maturity is roughly 7 years, our weighted average cost of debt is 2.7%, and essentially all of our debt is fixed.

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 $39 million was $8 million above the prior year quarter. The year-over-year improvement was primarily driven by a significant increase in net stumpage pricing, higher non-timber income and modestly higher harvest volumes, partially offset by higher overhead costs. Strong customer demand and drier weather conditions across most of our operating areas allowed us to execute on our harvest plan with volume increasing 4% versus the prior year quarter despite ongoing challenges with trucking availability.

Average sawlog stumpage pricing was roughly $34 per ton, a 22% increase compared to the prior year period. The improved pricing reflects robust demand from sawmills, which continued to benefit from strong lumber prices as well as increased competition for chip-n-saw volume from pulp mills. Pulpwood net stumpage pricing also improved significantly from the prior year quarter, increasing 18% to over $21 per ton. Despite an unfavorable shift in our geographic mix versus the prior year period, strong end market demand and competition among mills to secure supply allowed us to capture favorable price increases. Overall, weighted average lumber prices improved 18% year-over-year.

We have been encouraged by our ability to maintain strong pricing throughout the summer and believe there has been a step change in log prices in many of our markets as compared to the past several years. As expected, though, our net stumpage realizations in certain markets have moderated relative to early 2022 as mill inventories have normalized and rising costs led by diesel fuel have compressed margins on delivered log sales.

While domestic demand for both sawtimber and pulpwood remain strong across our operating areas, Southern log exports remain constrained by the pine wood nematode policies implemented by China earlier this year. As previously discussed, several exporters in the U.S. South have exited the market, and we have largely pivoted our U.S. South log exports to Vietnam and India. While these markets are relatively small compared to China, we saw a significant increase in log exports to both countries during the second quarter and are excited about the potential to further expand our presence in these markets over the long term. Also of note, second quarter nontimber sales of $8 million were up over $2 million versus the prior year quarter, with a large pipeline easement sale driving the increase.

Moving to our Pacific Northwest Timber segment on Page 10. Adjusted EBITDA of $14 million was 3% above the prior year quarter with higher net stumpage realizations more than offsetting lower harvest volumes, higher costs and lower non-timber income. Volume declined 6% in the second quarter as compared to the prior year quarter as wet weather conditions hindered production early in the quarter. At nearly $117 per ton our average delivered selling price during the second quarter was up 19% from the prior year quarter, driven by continued strong demand from domestic lumber mills as well as a favorable species mix as a higher proportion of Douglas fir sawtimber was harvested in the current year quarter.

Meanwhile, second quarter pulpwood pricing of $45 per ton was up 56% year-over-year, reflecting strong end market demand as well as the resumption of chip exports, which resulted in greater competition from pulp mills to secure supply.

Page 11 shows results and key operating metrics for our New Zealand Timber segment. Adjusted EBITDA in the second quarter of $15 million was $13 million below the prior year quarter. The decline in adjusted EBITDA was largely driven by higher costs and lower delivered log pricing, partially offset by higher carbon credit sales, favorable foreign exchange rate impacts and a slight increase in harvest volumes as compared to the prior year quarter. Average delivered export sawtimber prices of $140 per ton were down 5% as compared to prior year quarter, reflecting reduced demand stemming from the COVID-19 lockdowns in China.

Net stumpage realizations for export sawtimber were further reduced by elevated fuel prices, significantly higher port costs and freight costs and increased demurrage charges due to port congestion. While log inventory levels in China continue to gradually trend lower, they are still elevated as the offtake from ports remains weak given the country's Zero COVID strategy and strict lockdown measures.

Ongoing COVID-19 containment efforts in China will likely continue to negatively impact log demand over the near term, and there remains uncertainty regarding the degree to which these Chinese policymakers will implement stimulus measures as they look to balance COVID-19 prevention, economic growth and growing inflationary pressures. Despite these near-term headwinds, we expect that log inventories in China will continue to normalize as the year progresses, which should lead to improved export pricing. Longer term, we remain optimistic that ongoing supply side constraints, including a reduced flow of European logs in China, the continued ban on Australian log imports by China and the ban on Russian log exports, which commenced at the beginning of this year, will collectively translate to more favorable export market backdrop as COVID-related headwinds ease.

Shifting to the New Zealand domestic market, demand has remained quite resilient due to strong construction backlogs. That said, the sharp decline in the New Zealand dollar drove a 10% decline in U.S. dollar domestic sawtimber prices. Excluding foreign exchange impacts, domestic sawtimber prices decreased 2% in the second quarter, reflecting less competition from the export market.

Domestic pulpwood prices in New Zealand were likewise impacted by foreign exchange rates, declining 20% in U.S. dollars versus 14% in New Zealand dollars. The decline in New Zealand dollar domestic pulpwood prices was driven by less competition from export markets for lower quality logs. While log markets in New Zealand have been challenging, this has been partially offset by higher non-timber income, which increased to $3.8 million in the current quarter.

Non-timber income in New Zealand primarily reflects carbon credit sales. Carbon pricing has generally stabilized and remained well above 2021 average pricing, following a sharp pullback earlier this year when carbon markets globally were disrupted by the Russian-Ukraine war.

Moving ahead, we plan to remain opportunistic in our sale of carbon credits, depending on carbon market conditions and pricing expectations. Lastly, in our Trading segment, we posted a slight operating loss in the second quarter. As a reminder, our trading activities typically generate low margins and are primarily designed to provide additional economies of scale to our fee 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 12, our Real Estate segment delivered strong second quarter results. Real Estate sales totaled $34 million on roughly 4,700 acres sold at an average price of nearly $7,500 per acre. Real Estate adjusted EBITDA in the second quarter was $25 million. Sales in the improved development category totaled $12 million.

In our Wildlight development project north of Jacksonville, Florida, we closed on $10.5 million of sales during the quarter including a 22-acre multifamily apartment site for $4.8 million, a 31-acre single-family build for rent site for $4.4 million and 19 residential lots for $1.3 million or roughly $70,000 per lot.

In our Heartwood development project, south of Savannah, Georgia, we closed on $1.1 million of sales during the quarter, consisting of 26 residential lots at an average price of roughly $42,000 per lot. Overall, we are encouraged by the momentum that continues to build across our Wildlight and Heartwood development projects and expect that both projects will continue to benefit from favorable migration and demographic trends.

Turning to the rural category, sales totaled $23 million, consisting of approximately 4,600 acres at an average price of roughly $5,100 per acre. Notably, over half of our rural sales during the quarter consisted of a 2,300 acre sale in St. Johns County, Florida for $13.7 million or $5,850 per acre. On the rural sales front, we have seen some indications that higher interest rates and recent financial market volatility are impacting the willingness of certain buyers to transact. However, the overall level of demand and pricing that we're seeing for rural land, especially larger tracks, remains favorable relative to pre-pandemic levels as buyers continue to be attracted to the space, privacy and recreational opportunities offered by these properties in a post-pandemic environment.

Now moving on to our updated outlook for the full year. Based on our first half results and our expectations for the balance of the year we now anticipate full year adjusted EBITDA of $310 million to $330 million, reflecting a modest reduction in the upper end of our total full year adjusted EBITDA guidance relative to our prior guidance. With respect to our individual segments, we now expect that our Southern Timber segment will achieve full year harvest volumes of 6.4 million to 6.6 million tons, which is at the higher end of our prior guidance, reflecting strong year-to-date production. We further expect that pricing in the U.S. South will remain relatively strong, although we expect that stumpage realizations in the second half of the year will moderate to some extent primarily due to increased cut and haul costs. Overall, we expect to achieve record full year adjusted EBITDA in our Southern Timber segment of $156 million to $162 million, which represents a 7% increase at the midpoint from our prior guidance and roughly a 30% increase from the prior record we set in 2021.

In our Pacific Northwest Timber segment, we now expect full year harvest volumes of 1.6 million to 1.7 million tons due in part to a modest adjustment in our harvest plan to reflect land sales as well as reduced China export volume. We further expect that weighted average delivered log prices will remain well above prior year levels for the balance of the year. However, we anticipate these pricing gains will be partially offset by higher cut and haul costs due to elevated diesel fuel prices. Similar to our Southern Timber segment, we are on track for a record year in our Pacific Northwest Timber segment and are now expecting adjusted EBITDA of $59 million to $63 million.

In our New Zealand Timber segment, we now expect full year harvest volumes of 2.6 million to 2.7 million tons. While domestic log demand was strong throughout the first half of the year, export market dynamics were negatively impacted by ongoing COVID-19 lockdowns in China. We remain optimistic that export sawtimber prices will stabilize in the second half of the year in response to improved offtake from Chinese ports and a reduction in competing log supply. However, we expect that net stumpage realizations on export volume will continue to be constrained by elevated port and freight costs.

In the domestic market, we anticipate log demand will remain strong, although we expect that pricing will be modestly lower in the second half of the year as compared to the first half of the year due to added supply pressure from reduced export volume. Partially offsetting these headwinds, we expect increased carbon credit sales for the second half of the year as compared to the first half. Overall, we now expect the New Zealand Timber segment will generate full year adjusted EBITDA of $55 million to $60 million.

In our Real Estate segment, we now expect full year adjusted EBITDA of $74 million to $79 million. Following a strong start to the year, we expect relatively lighter real estate transaction activity in the third and fourth quarters. Lastly, we now expect corporate segment expense of $33 million to $34 million. The increase from prior guidance is largely due to the accelerated realization of equity compensation expense for retirement-eligible employees. More details regarding our updated guidance can be found on Page 14 of the financial supplement and Schedule G of our earnings release.

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

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

Thanks, Mark. Overall, as we reflect on the second quarter, we were pleased with how our team worked together to navigate the challenges posed by the inflationary environment that is impacting many parts of the global economy as well as the transitory impacts of the COVID-related lockdowns in China.

Despite these challenges, our U.S. Timber segments are on track to deliver another record year in 2022, highlighting the relative strength of the markets in which we operate, the operational flexibility afforded by our pure play timber REIT model and our relentless focus on active portfolio management to create long-term shareholder value.

While the near-term operating environment in New Zealand is more challenging, we believe that our operations there are very well positioned over the long term, given China's significant fiber supply deficit, coupled with our broad export market capabilities. Underscoring the sustainability of our core businesses, the advantageous positioning of our timberland portfolio and the company's strong capital structure, our Board of Directors approved a 5.6% increase in our quarterly cash dividend to $0.285 per share in May.

We have consistently communicated that a stable and growing dividend is a fundamental component of our capital allocation strategy and long-term value proposition. And this recent dividend increase reflects our commitment to growing our dividend over time in a measured and sustainable manner. In addition to our focus on achieving important operational and financial goals, we also continue to direct efforts toward improving the disclosure of our environmental, social and governance practices. To this end, we are planning to release our 2021 sustainability report in the coming weeks.

We look forward to reporting on how we are advancing various ESG-related initiatives in the pursuit of our mission to provide industry-leading financial returns while also serving as a responsible steward of the environment. In sum, we're very pleased with our strong first half results and relatively stable outlook for the balance of the year, particularly in light of the significant export challenges and inflationary headwinds that we've contended with.

As we move forward, I remain confident that the strength of our markets, our nimble approach to capital allocation and the dedication of our employees leave us very well positioned to execute on our growth strategy and to build long-term value for our shareholders across the economic cycle.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Greg Andreopoulos with Citi.

Gregory Andreopoulos

This is Greg on for Anthony. Congrats on the solid quarter despite all the challenges. So I'm just thinking about Southern log prices. So I'm just looking on a year-over-year basis, Southern log prices were up for you guys, like 5%, 6% in the first half of '21 accelerated to like mid-teens in the second half and then now in the first half of this year, somewhere around 25% year-over-year.

So is it fair to say that Southern log price growth has met or exceeded your expectations? I guess, first, and then, if so, can you give us some context around what has driven that, whether it be general inflation, sawmills coming online sooner than expected or more favorable weather? I'm just trying to think about the drivers as I think about pricing in the second half of the year.

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

Sure. This is Doug. I would say we've been expecting to see this price shift. We've been talking about that for quite a few years now as we see more capacity come online in the wood baskets we operate. So we continue to see new capacity announcements across the South as companies reposition themselves in the region. And with the high cost of lumber, British Columbia, now we've seen a lot of lumber production in British Columbia, we've seen a lot of mills moving to the south. And we really think it's a benefit to us. So the price announcements made since 2020, which total roughly 6 billion board feet across U.S. South, about half of that's fallen into our operating area. And of that, we've seen about 1.8 billion of it start to come operational. So we've seen the impact of those operations, particularly in Florida and Georgia, but also going into Alabama.

And we expect the additional new capacity to add optionality and further tension in our markets as facilities complete their various ramp-up scheduled on a remaining approximately 1.2 billion board feet over the next 18 to 24 months in our wood baskets. When you think about that, 1 billion board feet is roughly equivalent to 4 million green tons of demand.

So it's a significant amount of demand in the wood basket. The recent announcement by Canfor of their 250 million board feet greenfield mill to place a smaller 1 in Alabama. Mobile, is a good example of what we're seeing. So what we've really seen is an increase in demand as we go across. And in those wood baskets where there's already tight growth demand ratio, we're seeing that response in the market.

Gregory Andreopoulos

That makes sense. That's very helpful.

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

If I could add to that. Keep in mind as well, and this gets to Doug's opening comment that we expected this, go back to the comment in the prepared remarks, that 73% of our Southern portfolios in top quartile markets. And the thing that separates those markets is the growth drain relationship is roughly balanced.

And so those markets are essentially poised for greater price elasticity than the weaker markets that have had all the inventory build that we've been hearing about for a number of years. And so you combine that with the added capacity that Doug touched on, the added pressure and tensioning from log exports, we are not surprised to see this kind of response in those top markets.

Gregory Andreopoulos

That's very helpful. I appreciate it. And just 1 more question, if I may, about kind of the market for Timberlands. So I guess in May, we saw obviously a merger announcement between 2 of your large peers. And then another 1 of your peers bought almost 90,000 acres in the Carolinas. I guess I'm just wondering what you think those transactions say about the current market for Timberlands.

I know you mentioned the increase in rates has kind of changed fire psychology a little bit. And maybe going forward where you see the most opportunity furthering your portfolio in terms of a Timberlands acquisition or selling standpoint. Do you guys see yourselves as a net buyer or seller of Timberlands in the current market?

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

I think we're -- we always are in the market. We're looking at all the deals. There's more deal flow in the South than there is in the Northwest or New Zealand. And we're actively looking in all of our regions at any point in time. I think some of what you're seeing is you've got a lot of factors that have contributed to stronger timberland markets. You've got a little bit of a flight to quality as we have a deteriorating macro environment, that's drawn more capital into this asset class.

We've seen that with foreign capital, either in direct timber investments or through the public companies. I think you're also seeing a lot of integrated players putting more of the cash that they've generated off of higher lumber prices and plowing that back into timberland assets. We are trying to be -- remain fairly disciplined.

But I'd say it's a pretty active and pretty strong market right now on the Timberland side. We're always looking to grow, but we're going to be careful and thoughtful where we do that. We have a bias towards looking for properties that have a benefit to our existing age class structure. So we're always looking for that complementary fit as we look at various opportunities.

One of the things that we have -- feel really good about is how we're positioned from a balance sheet standpoint, the ATM program that we put in place, we have as well as the cash flow that we're generating above our dividend level puts us in a really good position to go after properties that we think have a good fit for us.

Gregory Andreopoulos

That's very helpful. And just 1 more, if I could speak 1 more in. Just kind of similar vein, in New Zealand, I'm just wondering what you're seeing in terms of transaction trends there. Whether you can talk about deal size or dollar per acre values, especially given some of the headwinds you're seeing there in terms of Chinese demand, freight costs, et cetera.

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

Yes, I'd say that New Zealand has had fairly similar characteristics. Keep in mind, New Zealand has an added element that we don't have in the U.S., which is a regulated carbon market. There's an awful lot of capital that's flowing into New Zealand timber deals right now really in pursuit of some of those carbon metrics.

And I think the positioning that New Zealand has with China is also drawing a lot of that capital. So it's also a very strong market. But keep in mind, the deal flow in New Zealand tends to be a lot smaller than what we're used to, particularly in the U.S. South. And so we tend to see more smaller deals in New Zealand than we do larger ones.

Operator

Our next question will come from Mark Wilde with Bank of Montreal.

Mark William Wilde ***BMO Capital Markets Equity Research - Senior Analyst***

Dave, Mark, Doug, just to kind of follow on a question around Southern timber markets. I know you probably want to avoid kind of broad generalizations. But do you think we can finally kind of say that the Southern timber market has turned after 15 pretty rough years.

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

Well, I think we can say that for a subset of it, but not for the whole. I mean, I think keep in mind, Mark, you have the lower quartile markets have a growth drain in excess of two and so those markets are not seeing price increases for a fairly long time. And you're seeing that in the relative results.

Mark William Wilde ***BMO Capital Markets Equity Research - Senior Analyst***

Yes. It does seem to me though, Dave, you're starting to see capital go into some of these markets where timber prices have been quite weak. So it's -- in terms of just capital for kind of converting projects. Do you think that's fair?

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

What we have always said is you have to have a lot of components to draw that capital. And right now, you have strong lumber markets. Historically, markets need a strong residual market to draw that capital. And if you don't have a strong residual market, and we see that in the context of pulpwood pricing, if you've got very low pulpwood prices, you're going to have low residual markets. And so that's going to be an impediment to drawing some of that capital.

And then also, I think labor is increasingly an issue. And so I don't think that you're -- and this is why you're not seeing kind of a one-for-one relationship of where that capital is flowing to where you've got the biggest builds in inventory. And so we see that as translating to very differential price elasticity going forward.

And as you look in our investor materials, you're seeing the spread between the top markets and the bottom markets in excess of 2x from a composite stumpage standpoint. And so again, that's where we get back to sort of harping on the fact that we're fortunate we have 73% in the top quartile we have nothing in the bottom quartile. And that's why our overall stumpage prices are performing the way they are.

Mark William Wilde ***BMO Capital Markets Equity Research - Senior Analyst***

Yes. Dave, just turning a bit here. Can you help us just think through any impact from the Ukrainian war and the drop in Russian wood volumes to the West and what that might mean for the New Zealand business, if it means anything?

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

Yes. And I think that we certainly see that as a positive when we think about New Zealand. And right now, a lot of the focus on New Zealand is really about the COVID restrictions that China has in place, which we don't see those as permanent. But keep in mind that Russia has embarked on a long-term goal of eliminating log exports. And this started back in 2007 when they put tariffs in place and then it culminated at the beginning of this year with an outright ban on logs.

And so they were a fairly large log supplier into China. And I think New Zealand has been the primary beneficiary of that. And so if you shift into the Western part of Russia, Western Russia has been a significant supplier of lumber into the European and North African markets and that has really started to decline.

And as that has declined, you're going to see more pressure on traditional European lumber exports into the U.S. start to go back into Europe. And so we see that as a positive for our U.S. holdings. But in a bigger picture sense, we don't see -- we see a net benefit for New Zealand primarily because of the log flows. Russia is a large supplier of lumber into China, but we don't think they have enough capacity to offset the decline that they've had on the log side.

Mark William Wilde ***BMO Capital Markets Equity Research - Senior Analyst***

Okay. All right. That's helpful. And then finally, just 1 for Mark. You guys mentioned the shift in investor interest that you're seeing from different parts of the world. I've definitely picked this up when we talk to some of the TIMOs and they talk about how incrementally much of their capital now is coming from places like kind of Canada and in Europe, which I think is much, much different than it was 10 or 20 years ago. Can you just talk from a Rayonier perspective about where you're seeing investor interest and whether it kind of mirrors that those trends that we're hearing about in the private market?

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

Yes, I'd say it continues to be relatively diverse. And I think it's certainly interest in among European investors, for example, has picked up pretty considerably. The percentage of our shareholder base that's comprised of European investors has picked up pretty considerably in the last several years.

And so -- and I think there are a lot of things driving that. Certainly, ESG and the recognition of timberland is a solution around climate change, as well as the potential future to monetize natural carbons -- natural climate solutions, within our portfolio. I think all of those things are driving interest in this sector and certainly outsized interest relative to what we were seeing 5 years ago.

Operator

Our next question will come from Mark Weintraub with Seaport Research Partners.

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

For sure, that step change in your markets in the U.S. South has been evident. I guess the question I have is the context has also been we've had stronger housing, which has sort of helped to get that lumber production demand up, although COVID did perhaps keep it lower than what might otherwise have been because of operational issues there.

And containerboard demand has also been quite strong. So if we do go into a period where housing is weaker, and there are some signs where maybe that containerboard demand growth is going to slacken at least in the near term. Does that create a pause? Does that create a potential pullback or because of structural shifts, particularly in lumber, do you think that we continue to see strengthening in your markets with a focus on the U.S. South?

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

Thanks, Mark. I mean there's a lot of aspects to that question. I think certainly, as we look at housing, we don't see this as something akin to the global financial crisis, where you saw a collapse in housing. And you go back to that and you had really accelerated inventory of new homes, and we don't have that right now. We've had an increase certainly in the inventory of new homes. But I think behind that, you have a historically low inventory of existing homes for sale.

And so we sort of look at the interplay between those 2 as being fairly important. I think another thing to keep in mind just structurally is that you've got -- historically, the U.S. has relied a lot on Western Canadian lumber, particularly from British Columbia. And that's where you're seeing kind of a structural shift of that capacity shifting into the U.S. South. This has been an ongoing process.

And so I think that is going on at the same time that you've got any of these changes going on in the housing market. And so we see that as governing any type of kind of decline similar to what we had in that last cycle. And then I think on the containerboard side, we see that as a pretty broad and defensible sector. Keep in mind that we've also got strong exports out of that sector. And so we don't feel that we're in that same level of risk that you may have seen a cycle ago.

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

And so just to contextualize those seem to definitely be kind of medium, longer-term comments. In the shorter time frame, that the timber markets, are they sort of at a different velocity so that if there's a hiccup, you wouldn't expect to see it to meaningfully impact your markets and only if it was a longer duration would that show up? And maybe relatedly, is there any kind of update you gave -- when you are establishing contracts for wood, how far in advance are you doing it for kind of for what length of time?

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

Sure. This is Doug. It's a variety, and I won't really go into percentages because that's kind of part of our secret of sauces in timber marketing. But we have sales that we look at across the board. In some cases, we have stumpage agreements that are 12 to 18 months out. So we've locked in pricing for 12 to 18 months, which kind of hedge us for any downside to your point.

But then we also have a mix of delivered wood and other agreements that may go anywhere from monthly to 6 monthly and also a leverage up to the upside of things. So to your point about a short-term hiccup, I think where our strategy is very well protected to try to minimize anything that could happen from that, but also give us a flexibility to capitalize if there are opportunities upsides. We use that stumpage delivered mix to try to manage through those issues you're talking about.

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

And more generally speaking, timber prices historically have been much stickier than lumber prices. I mean you saw that in the wake of the global financial crisis with the kind of the cratering of the housing market. Timber prices didn't bottom out for 3 or 4 years thereafter. And it's obviously been a pretty slow period of years that's taken to kind of get prices back up to a more attractive level.

And so again, it's hard to say with certainty in a kind of meaningfully downside scenario around the economy or housing kind of how exactly that translates to timber prices in the South and Northwest. But generally speaking, those prices have tended to move a lot slower than kind of the knee-jerk reactions that we'll see in lumber prices or in kind of more markets more broadly.

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

And at the risk of overstaying my welcome in the Q&A here. Just New Zealand, now you talked about step change in the U.S. How about New Zealand? Would you say there has been any kind of structural step change to the better, to the worse? Or -- and what would the drivers have been as you think about that business?

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

I think the primary step change I touched on earlier has been this gradual decline in Russian log volume beginning in '07. And you've seen -- if you look in our investor materials, you can see the growth in New Zealand taking up the largest share of that increase in log volume coming from other countries. And so I think we've largely experienced it. There's a lot of noise going on right now with some of the short-term aspects associated with the COVID lockdowns in China. And so that's kind of getting the news. But I think the underlying fundamental is that New Zealand is extremely well positioned to serve that China market.

Operator

(Operator Instructions) Our next question will come from Paul Quinn with RBC Capital Markets.

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

Just maybe start on -- just on lumber markets. I mean, we've seen a major correction in cash prices and features are down in the $480 range this morning. So just you commented that you don't expect Southern log prices to -- you haven't seen any slowdown over the summer. I wonder if that's true what you're seeing in the Pacific Northwest.

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

Yes. In Pacific Northwest, we also haven't seen any slowdown, still strong and steady demand from our customers. I think that kind of balanced supply growth drain ratio is helping out in that area. And then we always have the opportunity for exports to kind of help maintain a bit of a floor there, and we have seen our export program continue on. Actually exports from the Northwest to China, and this isn't a Rayonier statement, it is a U.S. statement, have been up 3% over the last quarter but down to Japan. So we haven't seen any falloff yet in those markets and customers are still actively looking for logs.

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

Okay. And then, Dave, you mentioned the regulated carbon markets in New Zealand. Just wondering how that works and what your outlook is, is that an outlook for those credits to be similar to Q2 '22 going forward or to back off from that level?

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

We have -- the carbon markets in New Zealand, the biggest hurdle that any kind of carbon market has is around the idea of additionality. And New Zealand developed methodology for this by basically drawing a line in the sand at 1990. And so kind of pre that period, you're not getting credit as timber was already in place. Post that period, you're getting credit.

So as we plant trees from 1990 on, we generate carbon credits. Ultimately, when we sell those trees or we harvest those trees, we give credits back, we retain a small increment that we have the ability to monetize. And so we have a fairly large inventory of carbon credits today that we have been opportunistically looking to sell when we see strong pricing. You'll recall, we laid off that market completely last year because we saw softer pricing and we had an expectation for stronger pricing.

As we've seen the stronger pricing this year, we've been dipping into that market. But we have a pretty steady supply of these carbon credits going forward over the next rotation as we see these post 1990 forests being reestablished over and over again. And so we continue to look opportunistically. And I think you'll see that -- you'll see some level of carbon sales in our results going forward every year.

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

And where does that carbon pricing currently at in New Zealand?

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

The current pricing there is roughly $80 New Zealand per New Zealand unit, which is the measure for those carbon credits.

Operator

This concludes the question-and-answer session. Now I will turn the conference back over for closing remarks.

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

This is Mark McHugh. Thanks for joining us today, and feel free to follow up with me or Collin with any additional questions. Thank you.

Operator

Thank you. That does conclude today's conference. Thank you for participating. You may disconnect at this time.
