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PRESENTATION

Operator

Welcome, and thank you for joining Rayonier's Third 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 Philip Mings ***Rayonier Inc. - VP of Capital Markets & Strategic Planning***

Thank you, and good morning. Welcome to Rayonier's investor teleconference covering third 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 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 remainder of 2022.

Before discussing our results for the quarter, I'd like to first highlight the acquisitions in the U.S. South that we announced yesterday afternoon concurrent with our earnings release. Specifically, we announced that we've entered into 2 separate agreements to acquire approximately 172,400 acres of high-quality commercial timberlands located in Texas, Georgia, Alabama and Louisiana for an aggregate purchase price of $474 million from Manulife Investment Management, a leading timber investment manager.

Approximately 80% of the acreage consists of fee ownership, while the remaining 20% consists of a long-term lease. We are very excited about these additions to our portfolio as they comprise a well-stocked and highly productive timberlands located in some of the strongest market -- timber markets in the U.S. South. It's extremely rare to come across an acquisition opportunity with this unique combination of quality, scale and fit with our existing portfolio.

For the acquired fee lands, 72% are plantable with an average expressed site index of 73 feet. This translates to a sustainable yield of approximately 670,000 tons per year or 4.8 tons per acre per year which is well above industry average productivity levels. The fee properties also have a mature age-class profile and an extraordinarily high level of merchantable timber inventory. The average plantation age is 18 years and the average stocking is 54 tons per acre, of which 66% is grade product.

Based on these factors, along with the expected contribution from the leased properties, we anticipate an annual average harvest level of approximately 860,000 tons from the acquisitions over the next decade and an increase in our U.S. South sustainable yield of 11% to 7 million tons per year.

In addition to strong productivity characteristics and inventory stocking, the properties are also located in some of the best markets in the U.S. South. Specifically, based on TimberMart South composite stumpage pricing, the acre weighted average market ranking of the acquisitions is 4.9 out of 22 markets, representing an average composite price that is roughly 30% above the median composite price in the U.S. South in the third quarter of 2022. Putting all of this together, we expect that the acquisitions will contribute average annual adjusted EBITDA of roughly $25 million to our Southern Timber segment over the next 10 years with additional upside potential from higher and better use real estate sales and natural climate solutions.

This represents a timber only EBITDA multiple of 19x, which compares favorably with public market trading multiples, the implied multiple on the NCREIF Timberland Index and multiples which we've seen other U.S. South assets transact recently. We expect to close the acquisitions before year-end, and we anticipate financing the acquisitions with cash on hand as well as a $250 million term loan through the Farm Credit system.

As discussed in the past, our strategy to acquire high-quality properties located in strong markets, as we believe this improves optionality and ultimately contributes to better long-term financial returns. Following these acquisitions, our U.S. South timberland portfolio will total 2 million acres of which 72% will be in the top quartile markets as measured by TimberMart-South composite stumpage pricing.

We believe that the U.S. South overall is well positioned to capture increased market share of North American lumber production as well as global fiber and wood chip markets. We further believe that the strongest regional markets in the U.S. South are well positioned to capture favorable relative pricing gains for both sawlog and pulpwood products going forward, given their competitive and diverse customer mix, balanced timber inventories relative to demand and strong pricing tension.

In sum, we believe that these acquisitions represent an excellent fit with our capital allocation strategy and a compelling use of our balance sheet capacity. We look forward to integrating the properties into our portfolio and managing them for long-term value creation.

Now I'd like to switch gears and discuss our third quarter results. We achieved earnings per share of $0.15 and adjusted EBITDA of $65 million in the third quarter. Adjusted EBITDA was 44% below the prior year quarter as 2 significant development transactions drove exceptionally strong real estate results in the prior year period.

Notably, total adjusted EBITDA in our timber segments increased 14% versus the prior year quarter as favorable results in our Southern Timber segment more than offset a lower contribution from our New Zealand Timber segment. Drilling down further on our Operating segments, our Southern Timber segment generated adjusted EBITDA of $37 million in the third quarter, which was 50% 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 27% increase in harvest volumes. More broadly, our Southern Timber segment continued to benefit from our concentration and scale in some of the most tensioned log markets across the U.S. South as well as strong contractor relationships which have allowed us to successfully navigate a challenging supply chain and cost environment.

In our Pacific Northwest Timber segment, we achieved adjusted EBITDA of $13 million up 1% from the prior year quarter. The year-over-year increase was primarily attributable to 13% higher weighted average log prices, partially offset by higher costs and an 11% reduction in harvest volumes. Our operations in the region continued to benefit from favorable supply-demand dynamics as domestic lumber markets, export markets and pulpwood markets competed for a limited supply of logs.

In sum, our U.S. Timber segments continued to generate strong financial performance and pricing gains in the third quarter, driven by favorable end market demand as well as localized supply tension and both segments remain on pace to achieve record full year adjusted EBITDA.

Conversely, our New Zealand Timber segment continues to contend with a challenging operating environment particularly in the export market. Third quarter adjusted EBITDA of $16 million declined 22% from the prior year period. While port inventories in China have gradually declined to a more normalized level, demand continues to be constrained by lockdown measures in response to COVID-19 outbreaks as well as a slowdown in the construction market.

In our Real Estate segment, we generated adjusted EBITDA of $8 million, down from $64 million in the prior year period as the prior year period benefited from the closing of 2 significant development transactions. While we expect that the timing of land sales will remain lumpy quarter-to-quarter, we remain encouraged by the continued strong pricing for rural land in our markets as well as the positive momentum across both our Wildlight and Heartwood development projects.

As Mark will discuss in greater detail later in the call, we remain on track to achieve our full year adjusted EBITDA guidance of $310 million to $330 million with our Southern Timber and Pacific Northwest Timber segments, both expected to post record years in 2022.

With that, let me turn it over to Mark for more details on our third 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 third quarter totaled $195 million, while operating income was $41 million and net income attributable to Rayonier was $21 million or $0.14 per share. On a pro forma basis, net income was $22 million or $0.15 per share after adjusting for a $1.1 million timber write-off related to a fire in Washington.

Third quarter adjusted EBITDA was $65 million, down considerably from $115 million in the prior year period, which, as Dave mentioned, was driven by an exceptionally strong real estate contribution 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 9 months of the year was $159 million versus $204 million in the prior year period. The decrease was primarily driven by lower adjusted EBITDA, higher cash interest paid, higher cash taxes and higher capital expenditures. Note that cash taxes were elevated in the first 9 months 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 third quarter with $261 million of cash and $1.3 billion of debt. Our net debt of approximately $1 billion represented 18% of our enterprise value based on our closing stock price at the end of the third quarter. As Dave noted, we anticipate closing on a new 5-year $250 million term loan through the Farm Credit system in the fourth quarter to partially fund our pending acquisitions. The balance will be funded with cash on hand, including $16 million of restricted cash earmarked for like-kind exchange. We expect to swap a portion of the new term loan to fixed. Taking into account the new term loan spread over SOFR, estimated patronage payments and estimated swap rates, we expect that the all-in effective cost of the new term loan will be in the range of 4.5%.

On a pro forma basis, this should translate to a total weighted average cost of debt of approximately 3% and a weighted average maturity on our debt portfolio of approximately 6 years. Following the completion of the acquisitions, we expect to maintain liquidity of approximately $350 million, including $300 million from our revolving credit facility and approximately $50 million of remaining cash on hand.

I'll now turn the call over to Doug to provide a more detailed review of our third 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 third quarter of $37 million was $12 million above the prior year quarter. The year-over-year improvement was primarily driven by a significant increase in net stumpage pricing, higher harvest volumes and higher non-timber income partially offset by higher overhead and other 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 27% versus the prior year quarter.

Average sawlog stumpage pricing was roughly $33 per ton, a 19% increase compared to the prior year period. The improved pricing reflects robust demand from sawmills which continued to benefit from healthy margins as well as competition for chip-n-saw volume from pulp mills.

Pulpwood net stumpage pricing also improved significantly from the prior year quarter, increasing 19% to nearly $23 per ton. This increase was driven by a favorable shift in our geographic mix versus the prior year period, coupled with strong end market demand and competition among mills to secure supply. Overall, weighted average stumpage prices improved 18% year-over-year to nearly $26 per ton.

We continue to believe there has been a step change in log prices in many of our markets as compared to the past several years. That said, we have also seen our net stumpage realizations moderate in certain markets relative to early 2022 as mill inventories have normalized and higher costs have compressed margins on delivered log sales.

As previously discussed, Southern log exports remain constrained by the Pine Wood Nematode policies implemented by China earlier this year. For now, our U.S. South log export program has pivoted to Vietnam and India. And while we are excited about the potential to further expand our presence in these markets over the long term, both are relatively small markets compared to China currently.

Also of note, third quarter non-timber sales of $7 million were up over $1 million versus the prior year quarter.

Moving to our Pacific Northwest Timber segment on Page 10. Adjusted EBITDA of $13 million was similar to the prior year quarter as higher net stumpage realizations and non-timber income were largely offset by lower harvest volumes and higher costs. Volume declined 11% in the third quarter as compared to the prior year quarter due to constraints around contractor availability as we lost 1 crew to early retirement and let another crew go that was not meeting our safety expectations.

At nearly $118 per ton, our average delivered sawlog price during the third quarter was up 10% from the prior year quarter, driven by continued strong demand from domestic lumber mills as well as a favorable species mix with a higher proportion of Douglas-fir volume. Meanwhile, third quarter pulpwood pricing of $51 per ton climbed 62% over the prior year quarter, reflecting strong end market demand coupled with supply constraints due to fewer residuals and increased competition from pulp mills or a limited supply of smaller-sized logs. Overall, we've been very encouraged by the trajectory of pulp wood prices in the Pacific Northwest over the past several quarters.

Moving to New Zealand. Page 11 shows results and key operating metrics for our New Zealand Timber segment. Adjusted EBITDA in the third quarter of $16 million was $4 million below the prior year quarter. The decline in adjusted EBITDA compared to the prior year quarter was largely driven by lower net stumpage realizations and higher costs, partially offset by higher carbon credit sales, higher harvest volumes and favorable foreign exchange impacts.

Average delivered export sawtimber prices of $123 per ton declined 18% as compared to the prior year quarter, reflecting reduced demand from China. While we've been encouraged by the gradual reduction of log inventory levels in China, offtake from ports has remained weak due to COVID-19 containment disruptions and weaker construction activity. Most sawmills are running well below capacity due to lack of new orders and are reluctant to build inventory in the current market environment. Furthermore, the Chinese yuan has depreciated against the U.S. dollar, making all U.S. dollar-denominated imports, including our logs, more expensive. Collectively, these factors will likely continue to negatively impact export log demand in our New Zealand business for the balance of the year.

Despite these near-term headwinds, we expect that log inventories in China will continue to normalize which should ultimately translate to a gradual improvement in export pricing. Longer term, we remain optimistic that ongoing supply side constraints, including a reduced flow of European salvaged logs into 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 a more favorable export market backdrop once demand picks back up.

Shifting to the New Zealand domestic market, demand has remained relatively steady due to strong construction backlogs, although the framing and industrial markets have started to cool more recently. Despite relatively favorable market conditions, domestic sawtimber prices declined 18% versus the prior year quarter, largely driven by a sharp decline in the New Zealand dollar / U.S. dollar exchange rate.

Excluding foreign exchange impacts, domestic saw timber prices decreased 8%, reflecting weaker competition from the export market. Domestic pulpwood prices in New Zealand were likewise impacted by foreign exchange rates--, declining 24% on a U.S. dollar basis compared to the prior year quarter.

Excluding foreign exchange impacts, domestic pulpwood prices declined 14%, reflecting less competition from export markets for lower-quality logs. While log markets in New Zealand have been challenging, non-timber income in New Zealand, which primarily reflects carbon credit sales has continued to bolster our financial results generating $6.4 million of revenue in the third quarter.

Our decision last year to defer the sale of carbon credits has paid off as carbon pricing has increased above 2021 average pricing levels. Going forward, we plan to remain opportunistic in our sale of carbon credits depending on carbon market conditions and our pricing expectations.

Lastly, in our Trading segment, we posted a slight operating profit in the third 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 Real Estate results. Mark?

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

Thanks, Doug. As detailed on Page 12, following a strong first half of the year and consistent with our expectations, the contribution from our Real Estate segment was relatively light during the third quarter. Real Estate sales totaled $12 million on roughly 1,800 acres sold at an average price of nearly $5,100 per acre. Our real estate results also benefited from a $4.5 million gain attributable to Rayonier from the sale of a multi-family apartment complex in Bainbridge Island, Washington which was held in a joint venture acquired as part of our merger with Pope Resources in 2020.

In total, Real Estate segment adjusted EBITDA in the third quarter was $8 million. Drilling down, Sales in the improved development category totaled $2 million.

In our Wildlight development project north of Jacksonville, Florida, we closed on $800,000 of sales during the quarter, consisting of 13 residential lots for an average base price of roughly $65,000 per lot. In our Heartwood development project, south of Savannah, Georgia we closed on $1.5 million of sales during the quarter, consisting of 10 residential lots at an average base price of roughly $44,000 per lot as well as a 15-acre commercial health care site for roughly $67,000 per acre. The sale of the health care site is notable as it is the first takedown by St. Joseph's Candler for a multiphase medical campus, which we expect will grow over time. We believe collaborating with a high-quality healthcare provider early in the development of Heartwood offers a number of strategic benefits and will serve as another catalyst for this project.

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 as well as relatively affordable price points.

Turning to the rural category, sales totaled $7 million, consisting of approximately 1,800 acres at an average price of roughly $3,800 per acre. While we are encouraged by the strong pricing and HBU premiums that we've continued to generate in our rural land sales business, we are starting to see indications that some rural buyers are hesitant to transact given the increase in interest rates and recent financial market volatility. That said, we continue to see solid demand from cash buyers that are not reliant on mortgage financing. Overall, we continue to expect that the space, privacy and recreational opportunities offered by rural properties will continue to attract buyers in a post-pandemic environment.

Now moving on to our outlook for the balance of the year. As noted in our earnings release, we are on track to achieve our prior full year adjusted EBITDA guidance of $310 million to $330 million. With respect to our individual segments, in our Southern Timber segment, we still expect full year harvest volumes consistent with the 6.4 million to 6.6 million ton range we provided in August.

While we remain encouraged by the step change in pricing that we've registered across most of our operating areas in the U.S. South, we expect that our weighted average log pricing will soften a bit in the fourth quarter as compared to the third quarter. Overall, we continue to expect record full year adjusted EBITDA in our Southern Timber segment with results in line with our prior guidance range of $156 million to $162 million. Note that this guidance does not reflect any contribution from the pending acquisitions that Dave discussed earlier.

In our Pacific Northwest Timber segment, we now expect full year harvest volumes toward the lower end of the 1.6 million to 1.7 million ton range we provided in August. While we have seen some pullback in log pricing in response to the decline in lumber prices, we expect continued favorable pricing for both pulpwood and sawtimber in the fourth quarter as compared to the prior year, albeit partially offset by ongoing cost pressures.

Similar to our Southern Timber segment, we continue to expect a record year in our Pacific Northwest Timber segment with adjusted EBITDA towards the higher end of our prior guidance of $59 million to $63 million.

In our New Zealand Timber segment, we now expect full year harvest volumes toward the lower end of the 2.6 million to 2.7 million ton range we provided in August. As Doug discussed, while log inventory levels in China have been trending lower, demand remains constrained due to various headwinds. Accordingly, we now expect full year adjusted EBITDA toward the lower end of our prior guidance of $55 million to $60 million.

In our Real Estate segment, we expect full year adjusted EBITDA toward the lower end of our prior guidance range of $74 million to $79 million, primarily due to the delayed timing of a few transactions as well as a modest slowdown in rural land sales activity.

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

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

Thanks, Mark. Overall, I'm encouraged by our third quarter results, particularly given the challenges presented by ongoing cost pressures, the recent slowdown in U.S. housing market and continued headwinds in China as it relates to our export business. Despite these challenges, our U.S. Timber segments remain on track to deliver another record year in 2022. We believe these results continue to underscore the relative strength of the markets in which we operate as well as our commitment to active portfolio management and the operational flexibility afforded by our pure-play timber REIT model. Moreover, we expect that our pending U.S. South acquisitions will further bolster our competitive positioning.

Our Southern Timber segment has historically been the most stable component of our cash flow profile and more recently, has also been the fastest-growing component. Despite the slowdown in the housing market over the near term, we believe the addition of significant lumber manufacturing capacity in the region leaves the U.S. South very well positioned for long-term pricing and cash flow growth, particularly in our core markets where we enjoy uniquely favorable supply-demand dynamics. As such, we're very excited to be in a position to deploy capital to meaningfully expand our presence and sustainable yield in the region.

In addition to our focus on achieving important financial goals and ongoing portfolio management activities, we also continued to advance initiatives related to emerging opportunities associated with ecosystem services and natural climate solutions as well as the disclosure of our environmental, social and governance practices.

To this end, we released our 2021 sustainability report and supplemental carbon report in August. All said, I'm very pleased with how our teams continues -- how our team continues to come together to maximize the potential of our existing assets, evaluate and execute on growth opportunities and navigate an ever-evolving economic landscape in an effort to build long-term value for our shareholders. This concludes our prepared remarks, and I'll now turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Anthony Pettinari from Citi.

Anthony James Pettinari ***Citigroup Inc., Research Division - Director & US Paper, Packaging & Building Products Analyst***

On the Southern Timberlands acquisitions, the 5% EBITDA yield that you estimate does that assume a certain level of log price improvement over the next decade? Is it low single digits or maybe something higher given the strength that you've seen recently? And then I'm just wondering, is it possible to talk overall when you look at the overall Timberlands market, sort of how Timberland cap rates have responded to the higher rate environment to the extent you have any sort of general observations there?

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

Sure, Anthony. This is Mark. I'll take that. I mean as it relates to the forecast for EBITDA for the acquisitions, we didn't assume any material price improvement from current levels. I mean we've essentially modeled the acquisition on kind of a 2- or 3-year look back in terms of where our average pricing has been and then kind of rolled that forward more just sort of a base inflationary rate to kind of get to a nominal forecast. But we haven't assumed any lift from current pricing. And in fact, I think we modeled it below where current pricing has been in this year because that's obviously been significantly elevated relative to prior couple of years. As it relates to timber...

Anthony James Pettinari ***Citigroup Inc., Research Division - Director & US Paper, Packaging & Building Products Analyst***

I'm sorry. Please go ahead.

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

As it relates to timber cap rates, as we think about timber values and just kind of the impact of the current inflationary environment, I guess I'd make a couple of observations. Timberland is generally viewed as a very effective inflation hedge. And somewhat related to that is that timberlands are generally valued on a long-range DCF basis using real rather than nominal discount rates. I mean if you look back over the last 20 or 30 years, U.S. South timberlands have very consistently been valued at around a 2.5% EBITDA cap rate, and that's really been irrespective of where interest rates have been at any point in time.

So to some extent, I think this reflects the notion that timberland is going to deliver kind of a base real return plus some inflationary component of return over the long term. So to the extent that the higher rates we're seeing today are reflective of higher inflation assumption, I'd argue that that's not necessarily going to impact timberland cap rates to the same extent, certainly not on a one-to-one basis relative to market interest rates. 10-year TIPS yield is currently around 1.5%. It's moved up significantly in the last couple of months, but not significantly elevated from a longer-term historical perspective. So I'd say that the values that we've seen in recent timberland transactions have certainly suggested that we have not seen an increase in cap rates, if anything, I think cap rates have continued to compress. And I think to some extent, that's reflective of the perceived carbon optionality that's embedded within timberlands today.

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

Yes. And Anthony, if I could just tack on to that. I mean, you sort of hit on the key issue on this, which is really strong cash flow properties from this. And that's based on strong markets, really good productivity from both the soils and percent plantable but then also very high stocking level at 54 tons per acre on the fee lands and on an average age of 18. So it's a very unique property in that respect. And you end up -- that ends up driving out $145 of EBITDA per acre. And that is substantially higher than our already sector-leading returns that we did last year of $68 of EBITDA per acre.

And with our anticipated 2022 performance where we see a 30% improvement that gets you to $89 of EBITDA per acre. And those compare to NCREIF averages over the last 5 to 10 years that are in the $45 to $50. And so it's just very much a unique asset from a cash flow generating standpoint. And then on adding on top of that is just the fit relative to our existing footprint, which gives us lower execution risk, lower overhead costs in terms of managing it. And we really don't think you could have dialed in a better fit with our asset base and our desire to go after quality than this.

Anthony James Pettinari ***Citigroup Inc., Research Division - Director & US Paper, Packaging & Building Products Analyst***

Okay. That's very helpful. And those log price assumptions on the acquisition seem very conservative given the strength that you're seeing in the South. Maybe if I could just sneak one, last one in. On leverage, so you'll be below 4.5 turns on a pro forma basis and you don't have any maturities for a number of years. I'm just wondering if you could talk about sort of capital allocation into '23 and maybe the opportunity to deleverage given we may be in a tougher housing environment.

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

Yes, sure Anthony, this is Mark. I'll take that. As we think about capital allocation going forward, we're certainly going to be at a higher leverage level post these acquisitions than we've been at for the last 18 months or so. I'd say in the wake of the Pope Resources merger, we had taken leverage up to a level that was actually above kind of where we're going with this transaction but we are able to delever pretty effectively thereafter through large dispositions as well as our at-the-market equity offering program that we put in place in late 2020. So we continue to believe that we have a lot of levers at our disposal to manage the balance sheet.

And so while we're going to be more limited from a capital allocation capacity standpoint, post these transactions, we still feel pretty good about where the balance sheet is at. Obviously, all of our debt was fixed we're entering into a new $250 million term loan to partially fund this acquisition. Obviously, in a higher interest rate environment, so our weighted average cost of debt will go up modestly from 2.7% to around 3%, but still very attractive overall cost of debt and very -- still very attractive and conservative balance sheet from our vantage point.

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

I'd also add that we have a fair bit of flexibility to kind of work on that, and that's something that's in our playbook in terms of things that we can do, levers we can pull to try to bring that down. It's part of the reason why we left some of that debt floating, just giving ourselves a little bit of flexibility going forward.

Anthony James Pettinari ***Citigroup Inc., Research Division - Director & US Paper, Packaging & Building Products Analyst***

Okay. That's helpful. I'll turn it over.

Operator

Our next caller is Ketan Mamtora from BMO Capital Market.

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

First question on China. The weakness that you're seeing, are you seeing signs of stabilization in terms of the demand trends you are seeing? Or are you seeing trends worsening there?

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

Ketan, this is Doug Long. I'll take that one. With the COVID lockdowns, it's very hard to basically focus on the trends that are happening because you never know at any point in time where things are going. But we have seen a gradual reduction the current inventories at 3.7 million cubic meters at the end of October, which is about 800,000 cubic meters less than September. And so we're kind of seeing a balance here now, which is good to see of the incoming and the outgoing basically. And so radiata pine inventory is around 2.8 million, which is about 70,000 cubic meters less than last month.

So like I said, it's fairly balanced, but the demand has softened over the year, and it really does depend on whether these lockdowns impact us or not. So I'd say the COVID lockdowns are hard to predict, and they really do exacerbate the economic slowdown right now, but we are at a supply balance right now, which is a good thing, and we do see it gradually coming down. So I think the good thing is that the incoming volume has actually been less than the demand. So we're seeing that balance come down. So I think it's positive, and we're just waiting for this COVID-lockdown to open up and hopefully see some restocking and things happen from there.

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

Got it. That's helpful, Doug. And then switching to the M&A landscape again. So in general, are you guys seeing kind of increased interest in sort of M&A sort of opportunity here? I mean, just yesterday, there was a pretty big announcement of an acquisition focused mostly to capture the carbon offset market. So are you seeing signs that these kind of alternative revenue streams are starting to get priced into sort of valuation?

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

This is Dave. I don't think that we're explicitly seeing that priced into transactions as much. I do think that we are seeing an increased flow of capital into the space with that as a consideration. And so I think from our vantage point, we see that probably having more of an effect of having compression in the discount rate to factor in that -- that additionality that you have. And keep in mind, carbon prices are still very low. And so I don't think that they're high enough for folks to explicitly factor that in from a valuation standpoint. But I think more and more people are thinking about that as an option that they have going forward as they look at new acquisition opportunities. And we certainly do as well. I mean, we factor that into our thinking, but it's not really moving the needle from a pricing perspective at this juncture.

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

Ketan, then it's not really just the carbon value in forests. It's really the whole range of opportunities that exist around competition for land use and competition for fiber. So be it solar installations or carbon capture and storage opportunities, sustainable aviation fuels, bioenergy, wood pellets, just the whole range of opportunities that exist for timberlands as we enter a trajectory towards a low-carbon economy. And so I think it's -- we tend to kind of focus just on the carbon, but I think there are a whole range of other opportunities around ESG and decarbonization that have impacted timberland -- or the perception of timberland values.

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

Got it. That's very helpful. I'll turn it over.

Operator

(Operator Instructions) Mark Weintraub with Seaport Research Partners.

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

First question, the $25 million EBITDA over the next 10 years, is that something you expect to be getting to pretty quickly? Or is that something that's going to ramp up over time? And maybe similarly, and speaking to the harvest the 860,000 tons on average over the next 10 years, similar. Is that something you expect to getting quickly? Or is that something that ramps up over time?

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

Yes. We would actually expect to get to that very quickly, Mark. These are very well-stocked properties with a very mature age class, an average plantation age of 18 years, which is kind of a well-above average. And so we would expect to get to that pretty much right out of the gate.

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

Okay. Great. And has it been -- has the harvest volumes been at those levels in the last couple of years? Or is this a step-up from where harvest levels had been?

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

I can't speak to where the harvest volumes have been. We don't generally -- when we're underwriting timberland acquisitions, it tends to be very much forward-looking and not necessarily backwards looking. And so generally speaking, though, when you see properties like this that are very well stocked, it's because they've been operating below a sustainable yield for some period of time to allow for that inventory stocking. So again, I don't have a great sense of where they've been from a harvest standpoint over the last 3 to 5 years. But we -- modeling kind of where the inventory stands today, we have a very good sense of where they'll be in the next 5 to 10 years.

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

And Mark, that's another reason why it's important to understand sort of the markets that you're in. Sometimes you'll see a property that has higher stocking, but it might be for a very good reason that they've got weak markets. And in this case, these are markets that we operate in currently we're very familiar with them. We're very familiar with the downstream customers. And so we have a lot of confidence from an execution risk standpoint on the ability to bring that volume to market. And so that's where -- that familiarity is pretty important. But yes, we're getting started. And I wouldn't expect much this year because this isn't going to likely close until pretty close to the end of the year. But certainly, we expect to come out of the gates in 2023, right? And...

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

I would just add to that, that just since the announcement, we've seen quite a bit of interest already and wanting to know how we're going to manage the property and if we're going to have stumpage sales because during the sales process, the harvest had been wind down. So to Dave's point, there's not a lot of contracts to take over when we do close. But there's already been significant customer demand in a very short period of time wanting to know when sales will resume off the property. So I do believe to Mark's point earlier that going into the new year, we'll be able to move pretty quickly.

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

That's helpful. That's exactly kind of what I was trying to understand. And then lastly, if we think about this from a CAD perspective so if we start with our $25 million or so of EBITDA. As you think about the CAD, what are the offsets? And so what do I end up with as a likely CAD.

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

Mark, I guess there are couple of different ways to look at that. I mean, obviously, part of the transaction is being financed with a new $250 million term loan that will have sort of a known cost attached to that and the balance is being funded with cash on hand. A couple -- the ways that we kind of thought about the CAD accretion. One way to look at it would just be to apply kind of opportunity cost of that cash. We could invest that cash in interest-bearing securities and we'd get a known return on that, but we wouldn't get any inflation protection.

Another way to look at it is that cash on hand was largely raised through the ATM program at an average price of about $36.50 a share. And so as we kind of thought about the CAD per share accretion, we really thought of that as equivalent to equity issuance. That a portion of the deal was essentially funded with equity issuance through the ATM program. And on that basis, it's modestly CAD accretive on a per share basis.

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

Okay. And I assume relatively minimal capital-type needs against the $25 million?

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

Yes, I'd say that they're fairly typical for what we would see for Southern Timberland. So it's going to be in the range of the kind of CapEx per acre that we would see for existing portfolio, perhaps a bit higher kind of at the front end because obviously, when you're harvesting more heavily, you have higher reestablishment CapEx but generally in line with the rest of our portfolio.

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

Great. And 1 last one. On the ATM, do you -- are you able to execute on that immediately? Does this transaction have to be closed before the ATM can be reenergized?

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

Well, I mean, essentially, we had an ATM program authorization that was put in place in 2020 that we're largely through at this point. We've raised $299 million under the $300 million authorization that we had in place at the time.

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

Okay. So you'd have to issue a -- have a new one. Can you share with us if you're planning to do another ATM? And how you felt about that as a way of raising capital?

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

Yes. I mean I think from an SEC standpoint, I can't really comment on any prospective offerings.

Operator

Our next caller is 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 a question around the acquisition and congratulations. But just trying to break out this lease. My understanding is the South Georgia property that's got 8 years left on the lease. So I'm just wondering where that additional 860,000 tons go for the next 10 years? What's the volume breakdown over the following 10 years?

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

Yes. We haven't provided a specific volume breakdown. There could be some sensitivity around that specifically, but recognize that we provided some information around the value attribution to that lease. And so it was roughly 3.5% or 4% of the overall value in the transaction. And so I wouldn't say that it's a significant driver of EBITDA and cash flow kind of given that value attribution to the lease.

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

Okay. So the 3.5% to 4% value attributed to the lease. How do you get to that?

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

If you look at the supplemental presentation that we put out, it provides some information in terms of the value ascribed to the lease versus the value ascribed to the fee properties. So it's about $500 per acre that's in the lease and about $3,300 per acre that was in the fee properties.

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

Okay. That's helpful. And is the inventory stocking materially different in the lease stuff as opposed to fee simple?

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

Yes, the inventory stocking is different in the lease. I mean, generally speaking, when you have these long-term timberland leases, you have to manage them to a certain kind of endpoint in terms of average plantation age or average stocking. But generally speaking, the fee properties, I would say, are much more heavily stocked than the lease properties.

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

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

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

Yes. And Paul, that was one of the reasons that we said-- if you sort of spend some time in that supplemental deck, we wanted to make sure that we segregated the attributes of those just so people could understand them a little bit better.

Operator

Our next caller is Buck Horne with Raymond James.

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

I was just wondering if you could maybe characterize how competitive the bidding process was for this particular deal, kind of what you were seeing out there in the marketplace? Was there anything specific to your bid that made it more or less attractive to Manulife?

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

I mean that's -- I can't speak for Manulife or their -- or their client base. I think that we had the benefit at some level of participating in a number of transactions this year and getting a sense based on our own bidding relative to successful bids as to where the market was. And as you know, there were a couple of transactions by our peers that we looked at very closely, and it's one of the reasons in our supplemental materials we've sort of laid some of that out on a side-by-side basis. So we had a -- we had a general sense of kind of where the market was. And we always have some feel for where the capital flows look and where people have particular interest in particular geographies. And you look at a footprint of an asset and you're going to have a sense of what players might be interested in different pieces of that. And so that's something that we do every time there's a transaction that's out there.

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

I think it's fair to say, Buck, that it was -- this is a highly coveted asset. It's an extraordinarily high-quality asset that I'm sure many parties were interested in.

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

Yes. And I think from our standpoint, it's easily once a decade or once a couple of decade type of opportunity to have something that's that good of a fit with your existing footprint and in our minds, kind of it was, to Mark's point, probably the premier offering this year and was sort of well regarded that way.

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

All right. Very helpful. Appreciate the color there. And I'm curious how you're thinking about sawtimber pricing looking ahead versus the pulpwood market? Housing is probably in for a rough spell here with mortgage rates where they're at, lumber prices seem to be relatively stable, but could that lead to some softness in sawtimber pricing. And I'm curious how you think pulpwood will hang -- or manage through the soft housing environment? Could it remain more resilient during this tough economic period?

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

Yes, I'll take it, this is Doug. You're right. I mean, we've seen a little bit of softening in the lumber markets, but it's -- there's a couple of things. One, as we've talked about before, the fast increases that we've seen possibly in the lumber market hasn't flowed all way back to the timberland owners and vice versa, it is muted coming back down the other way.

So it hasn't been a drastic swing like we've seen in lumber pricing. And there's a lag effect that does happen through there. But we have a strong pulpwood markets can help provide a floor to kind of offset reduction in sawlog demand. And it's really due to that natural hedge of residuals. So if lumber demand slows down, there's fewer chips on the market, and then we have opportunity for more pulpwood kind of to your point.

And another thing that's kind of new that we haven't seen in the past necessarily when we've had kind of some reductions like this and that's the strengthening pellet demand. And just this year in 2022, it's expected to be up about 11% or 4.7 million tons across the globe, which is pretty significant. And then they're forecasting another 4 million tons in 2023. So a lot of growth in pellets and that's helping basically also to hedge some of the softness we're seeing.

And for the first time, we're seeing pellets exported from the U.S. South to Asia, and that's new this year, the first shipments of that and we're currently tracking about 3.2 million tons of new capacity builds in pellets in the U.S. South. So there's some underlying strength in there in the pulpwood that we believe that will help offset if there's any of that. But like I said, right now, we haven't seen any real structural shifts in sawlogs, both in the Northwest or the South. We have seen some weakening in pricing, but at the same point in time, particularly in the Northwest, we've seen pulp really climb and really is offsetting that sawlog [pricing] that we're seeing right now.

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

Buck, the other thing I'd add to that in the context particularly of this -- these transactions is that keep in mind that the U.S. South has a material cost advantage relative to other producing regions for lumber. And so even in a declining lumber environment, we feel that the U.S. South is very well positioned to gain market share. And we've tried to lay some of that out in our supplemental deck looking at both that relative cost position, but also looking at scenarios where even with a substantial decrease in new home construction, you're still going to see U.S. South softwood lumber production that was equivalent to where we were in the pre-pandemic level back in 2019. And so that was something that gave us some comfort from a risk mitigation standpoint as we thought about those -- as we thought about those market conditions going forward.

Operator

Thank you. There are no further questions at this time. I'll now turn the call back over to Collin.

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

All right. 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.