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RYN - Q2 2015 Rayonier Inc Earnings Call

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OVERVIEW:

Co. reported 2Q15 sales of $116m and net loss $1.5m or $0.01 per share.

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PRESENTATION

Operator

Welcome, and thank you for joining Rayonier's second quarter 2015 teleconference call.

(Operator Instructions)

Today's conference is being recorded. If you have any objections, you may disconnect at this time. Now I'll turn the meeting over to Mr. Mark McHugh, Senior Vice President and CFO. Sir, you may begin.

Mark McHugh, *- Rayonier Inc - SVP & CFO*

Thank you, and good morning. Welcome to Rayonier's investor teleconference covering second-quarter earnings. Our earnings statements and financial supplement were released yesterday afternoon, and are available on our website at Rayonier.com. I would like to remind you that in these presentations, we include forward-looking statements made pursuant to the Safe Harbor provisions of federal securities laws. Our earnings release and Form 10-K filed with the SEC lists 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. With that, let's start our teleconference with opening comments from Dave Nunes, President and CEO. Dave?

Dave Nunes *- Rayonier Inc - President & CEO*

Thanks. I'll make a few overall comments, before turning it back over to Mark to review our financial results. And then, we'll ask Doug Long, our Vice President of US operations to comment on US timber results. I'll discuss our New Zealand results. And following the review of our timber segments, Chris Corr, our Senior Vice President for Real Estate will discuss real estate results.

While we remain on track to achieve our full-year adjusted EBITDA guidance, our second quarter results were well below last quarter, and the prior-year quarter as we had anticipated and discussed on last quarter's call. Our Southern Timber segment had another solid quarter, as we continue to see strong pulpwood demand in our core market areas, and slowly improving demand for sawtimber. Wet weather conditions across the south benefited pricing, but it also restricted harvesting in certain areas.

In the Pacific Northwest timber segment, we generated lower volumes, as we continued to implement our previously announced strategy. Pricing in both the Pacific Northwest and New Zealand continued to be challenged by weaker demand coming from China. Real estate results declined significantly this quarter as anticipated, primarily due to the timing of closings, in the absence of large non-strategic timber sales. During the quarter, we continue to make progress in executing our strategy to enhance the value and marketability of selected development properties.

Yesterday, we also announced that we closed on $550 million of new credit facilities, which will be used to refinance existing debt, and to fund anticipated recapitalization of our New Zealand joint venture. By way of background, our New Zealand JV, which we've consolidated since increasing our equity stake to 65% in 2013, was saddled with relatively expensive debt at a rate of about 6.5%. The fact that this debt resided in a subsidiary level and was denominated in New Zealand dollars, also added unnecessary complexity to our capital structure. We recently made the decision in consultation with our minority equity partner to recapitalize the joint venture with an equity infusion. We were pleased that we were able to provide the full amount of this equity infusion, and thereby increase our stake in the JV, at what we believe is a favorable valuation, as well as a foreign currency exchange rate.

Pro forma following the equity infusion, the JV will be debt-free, and Rayonier will own approximately 77% of the entity. On a consolidated basis, we estimate that this a recapitalization will yield approximately $5 million in interest expense savings annually. This transaction values the JV at approximately NZD706 million or $466 million, at an assumed exchange rate of [NZD0.66]. So with that, let me turn it back over to Mark for a brief review of our financial results.

Mark McHugh, *- Rayonier Inc - SVP & CFO*

Thanks, Dave. Let's start on page 5 with our financial highlights. Sales for the quarter totaled $116 million, while operating income was $6.5 million, and our net loss was $1.5 million or a loss of $0.01 per share. On a pro forma basis, we're breakeven for the quarter. For comparison purposes, our income from continuing operations excludes the income of the discontinued Performance Fibers business, which was spun off in June of last year. Our pro forma results also exclude a second quarter 2014 adjustment of $3.8 million for costs related to the spin-off, and a second quarter 2015 adjustment of $1.5 million for costs related to our ongoing securities litigation. A reconciliation of our pro forma results to the nearest GAAP metric is provided on page 17 of the financial supplement.

Adjusted EBITDA of $33 million for the quarter was well below last quarter and the prior-year quarter, reflecting lower income in our Pacific Northwest and New Zealand Timber segments, as well as lower income in our Real Estate segment due to the timing of closings, and the absence of any significant non-strategic timberland sales.

On the bottom of page 5, we provided an overview of our capital resources and liquidity at quarter end, as well as a comparison to prior periods. Our cash available for distribution or CAD for the first six months was $52 million, compared to $40 million in the prior year, which included tax payments related to the Performance Fibers business, and cash interest paid on a higher level of pre-spin debt. A reconciliation of CAD to cash provided by operating activities and other GAAP metrics is provided on page 9 of the financial supplement.

We closed the quarter with $92 million of cash and $752 million of debt. Our net debt of $661 million represented 17% of our enterprise value, based on our closing stock price at quarter end. As Dave noted, we have closed on new credit facilities totaling $550 million, which are comprised of a five-year $200 million revolving credit facility, and a nine-year $350 million term loan. We plan to utilize a portion of the new debt facilities to repay approximately $131 million of senior exchangeable notes coming due later in August, and to repay approximately $45 million outstanding on our existing revolver, and to fund an anticipated capital infusion into our New Zealand joint venture for repayment of NZD235 million of JV debt and related costs, which equates to about $160 million based on current exchange rates.

We are very pleased with the terms that we are able to achieve on these new credit facilities, and our term loan facility was syndicated through the Farm Credit system, and is eligible for patronage payments. We also entered into an interest rate swap to fix the cost of this facility. With interest rate swap, and the anticipated patronage payments, we expect the all-in costs of the term loan to be approximately 3.3%, while our revolver is priced at LIBOR plus 1.25%, based on our current credit metrics.

The capital infusion into our New Zealand JV subject to certain closing conditions, including New Zealand Overseas Investment Office approval. We expect to close this transaction by year end, and our term loan provides us with the option to draw the funds for up to eight months, to facilitate the timing of this capital need. With these new facilities, and our relatively low debt as a percentage of enterprise value, we continue to have ample debt capacity to fund acquisitions and other capital allocation priorities, including share repurchases. In mid June, we announced a $100 million share repurchase authorization, and through the end of the quarter we had repurchased roughly $11 million of stock, at an average price of $25.94 per share. I'll now turn the call over to Doug Long, to provide a more detailed review of our US timber results.

Doug Long - *Rayonier Inc - VP, US Operations*

Thank you, Mark. Good morning. Let's start with page 10, and the Southern Timber segment. We had a solid second quarter in Southern Timber, with adjusted EBITDA $24 million, versus $20 million in the prior-year quarter. Total volume was approximately1.3 million tons versus 1.1 million tons in the prior-year period. Fine volume was favorable due to stronger markets on the Atlantic Coast, partially offset by reduced volume in Texas and Louisiana as the result of unseasonably wet weather.

Our percentage mix of sawtimber was approximately 30%, which is 3% less than the prior-year period, as we focused deliver crews more heavily on thinning. Fine [sawlog] prices were up 4.5%, and pine pulpwood prices were up 1% over the prior-year period.

Wet weather conditions in Texas and Louisiana during the quarter restricted supply, allowing us to capture some favorable spot stumpage pricing, which contributed to the sawtimber price improvements over prior-year period. THe improvement in pine pulpwood prices was primarily driven by change in geographic mix, resulting from a reduction of pulpwood volume from our Alabama and Mississippi markets, which had a lower price point than our Atlantic Coast markets.

Non-timber income in the Southern Timber segment also improved by about $1.9 million, primarily as a result of recognizing our hunting lease income ratably over the full-year, as discussed on last quarter's call, and from some increased mineral income. Although we did see an expected decrease in volume in Q2 versus Q1 2015, we still just [hit] reaching our 2015 goal of 5 million tons of pine and 360,000 tons of hardwood. Improved ground conditions in the Gulf area are boosting production, and we expect to see an increase in the volume in the third-quarter.

Now moving to Pacific Northwest Timber on page 11. In the second quarter, we generated adjusted EBITDA of $4.6 million in Pacific Northwest, versus $14 million in the prior-year period. Volumes declined considerably from the prior-year quarter, as we implemented our previously announced strategy of stepping down volumes, combined with difficult market conditions from weak demand in China and local mill curtailments and shutdowns. The average delivered sawtimber price declined by about 9% to $76.80 per ton. This decline was primarily the result of weakness in the China export market, which also impacted domestic pricing given the increased supply.

Strong local demand for pulpwood, coupled with reduced harvesting and transportation costs, increased our pulp net stumpage price by 17%, compared to the prior-year quarter. Non-timber income in the Pacific Northwest timber segment also improved by $0.5 million, due to a strong [cedar] salvage market. We expect (inaudible) market conditions in China will continue to put near-term price and volume pressure on the Northwest market. However, due to the impact of domestic sawmill curtailment and closures in the Pacific Northwest region, our export mix actually rose to 26% in Q2, and we anticipate a similar mix in Q3.

We have recently seen some stabilizing of log prices and even localized increases as fire restrictions across the Northwest begin to restrict supply. Many of our crews are currently under a hoot-owl restriction, forcing them to shut down 1 PM, and there isn't much relief in sight, with the National Interagency Fire Center predicting above normal wildfire potential through the end of Q3. As fire danger conditions worsen, we anticipate some improvement in log prices. We are adjusting our near-term harvest plans to account for current conditions, but we still expect Pacific Northwest volume to be approximately 1.4 million tons for the full year. Now Dave will review New Zealand Timber results. Dave?

Dave Nunes - *Rayonier Inc - President & CEO*

Thanks, Doug. Page 12 shows results of key operating metrics for our joint venture New Zealand. Adjusted EBITDA of $6.2 million, decreased from $9.9 million in the prior-year quarter, as an 11% increase in volume, harvest volume, was more than offset by lower domestic and export product prices, and a reduction in the New Zealand dollar exchange rate. Export and domestic prices declined significantly in the second quarter, due to weaker demand from China. As we progressed through the balance of the year, we expect continued near-term demand pressure in China, based on stubbornly high log and lumber inventories, as well as tight credit.

Offsetting this is a strong market in Korea, and reduced shipments to China from both in New Zealand and the US Pacific Northwest. Following what we expect to be a slightly softer market conditions in the third quarter, we anticipate markets improving by the end of the year to current levels. We also continue to expect that total 2015 volume at will be roughly flat versus 2014. In our trading business, volumes and prices were lower compared to last quarter and the prior-year quarter, due to continued weak demand in China. I'll now turn this over to Chris to cover Real Estate.

Chris Corr - *Rayonier Inc - VP, Real Estate*

Thanks, Dave. Let's turn over to page 14. As we anticipated and discussed on our call last quarter, second-quarter sales for the real estate business were light, due to timing of larger transactions. In the Improved Development category, we closed our second sale in the Belfast Commerce Centre to Caesarstone totaling 19 acres. Recall that the Belfast Commerce Centre is a 936 acre rail-served class A industrial park located approximately 20 miles south of Savannah, Georgia. Caesarstone, an Israeli-based international company leading the countertop market, selected the Belfast Commerce Centre for construction of its third plant, which is its first plant in the US, near the end of 2013 after considering dozens of alternatives across the southeast.

After more than a year of construction, Caesarstone opened its new 285,000 square foot manufacturing facility in May, and is already making plans to expand. We think it is a great anchor, and has validated the Belfast Commerce Centre in the marketplace. To say it another way, it has put us on the map. The project is getting a lot of attention as a result, and interest by new prospects has been high since Caesarstone's opening.

Now let me shift to provide a brief update on the East Nassau mixed-use project that we announced on our call last quarter. As reminder, East Nassau is a proposed mixed-use community located north of Jacksonville near the interchange of Interstate 95 and Florida State Road A1A at the gateway to Ameila Island, and only 13 miles to the Jacksonville International Airport. The project is a 285 net acres in size, and is planned for both residential and commercial uses.

Progress continues on securing final regulatory approvals for the overall project, and we are on track with the development of the 27 acre site for a new K-5 school, which has a planned opening in the fall of 2017. Once cleared of final regulatory steps, we expect to break ground on a small sub phase of the project, including primary roads and utilities to create parcels for multi-family apartments, retail, dining, and office uses, as well as lots for single-family homes. We are pleased by the early interest we are receiving from developers. Our marketing will pick up later this year, as the project progresses.

Let's switch now to discuss Q2 results in our other categories. Sales in the unimproved development category were just under $800,000, with 86 acres selling at a price of about $8,900 per acre. In the rural categories, sales totaled $3.3 million on 1,400 acres at an average price of $2,380 per acre. Interest in rural property was lighter through most of the quarter, largely due to the impact of weather in the Gulf states, and strong competition from timberland buyers in the Atlantic states.

In the non-strategic and timberland categories, sales of 840 acres totaled approximately $2 million at an average price of $2,440 per acre. By way of comparison, the prior-year quarter included a 19,600 acre sale of non-strategic timberlands in Florida, and a 3,600 acre sale in Alabama to a conservation buyer.

As we've discussed in the past, we manage our real estate business for long-term value, and manage our day-to-day operations towards annual targets. So when invariably, there will be some lumpiness from quarter-to-quarter in our segment results. We believe that we are still solidly on track to achieve our full-year guidance, and we expect a comparatively strong third-quarter, based on our current pipeline. I'll now turn the call back to Dave for closing comments.

Dave Nunes - *Rayonier Inc - President & CEO*

Thanks, Chris. First, I'd like a few comments to update on timberland acquisitions. We previously announced acquisition of two high-quality properties totaling 18,000 acres, including a little over 12,000 acres in Louisiana for $25.5 million, and 5,600 acres in northwest Oregon for $34 million.

These properties are both very well-stocked properties, and highly productive that will be accretive to CAD. Specifically, the Louisiana property has a sustainable yield of roughly 3.7 tons per acre per year, relative to our Southern portfolio average of 2.9 tons per acre per year, or about 25% higher, while the Oregon property has a sustainable yield of roughly 780 board feet per acre per year, relative to our northwest portfolio average of 430 board feet per acre per year, or about 80% higher. We continue to believe that focusing our acquisition efforts on high-quality highly productive properties such as these will generate the best the long-term returns. These transactions reflect our discipline growth strategy to focus on select acquisitions that upgrade our land portfolio, grow our sustainable harvest, and contribute to growth and cash flows.

During the quarter, we also closed on three smaller transactions in Florida, Georgia, and Mississippi totaling just under 4,600 acres for approximately $6 million. Year to date, we've closed on eight transactions totaling 35,000 acres for approximately $88 million. We continue to see an active timberland market, and we'll focus -- we'll follow a disciplined process to evaluate acquisition opportunities, as we execute our growth strategy.

As we look through the remainder of 2015, we expect continued strong pulpwood demand in our core markets, and improving sawtimber prices over the long term, but limited upside in the near term as end market lumber prices continue to be constrained. We also anticipate continued near-term weakness in the China log export markets, but slowly improving conditions later in the year. Long-term, we're confident that China will remain an important source of additional demand for our logs from the Pacific Northwest and New Zealand, and we like our exposure to these markets and the optionality they provide.

In our real estate business, we are excited about the strategy to unlock value in our coastal corridor properties, and are encouraged by the progress we are seeing within both our Belfast Commerce Centre and East Nassau projects.

Finally, we are pleased to have closed on our new debt facilities. We expect that they will enable the recapitalization of our New Zealand JV, and increase our long-term exposure in this strategic asset and its markets, simplify its structure, result in material reduction in interest expense, and enhanced our strategic flexibility going forward. I'd like to now close of the formal part of the presentation, and turn the call back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

[Ketan Mamtora], BMO.

Ketan Mamtora - *BMO Capital Markets - Analyst*

Good morning.

Dave Nunes - *Rayonier Inc - President & CEO*

Good morning.

Ketan Mamtora - *BMO Capital Markets - Analyst*

Just first question, on New Zealand, can you just talk about why you think this is sort of the best use of capital. And over time, do you think the plan is to gain 100% ownership there?

Dave Nunes - *Rayonier Inc - President & CEO*

Well, I think there's a two pieces to the question. The first is, recognize that we were really looking to improve our interest expense over there. With the 6.5% debt, we felt that we can improve upon that, by essentially taking out that in the US. And so, that's the main element to that.

In the process of that, we were able to increase our ownership by paying the full amount of capital infusion. And again I just repeat that we feel this is a good market for us to be in from a diversification standpoint. It improves our optionality, whether we stay at the existing ownership level or increase it. We feel that we're doing this transaction in US dollars, taking out New Zealand denominated debt, at a point where the exchange rate is about a five-year low. And so, we feel like that was a very advantageous timing for us. And we also recognize that New Zealand is in the early stages of some discount rate compression, as offshore capital has flowed into that market, not dissimilar from the US. And we feel that increasing our equity stake gives us more exposure to that trend as it continues to evolve.

Ketan Mamtora - *BMO Capital Markets - Analyst*

That's very helpful. And second question, on Russia, have you seen any change in competitive dynamics over the last three to six months, especially even where the ruble is right now? I know last quarter you talked about not seeing any increase in shipments, the ocean -- have you seen any change there?

Dave Nunes - *Rayonier Inc - President & CEO*

We continue to see that same trend where the Russian supply has not been able to respond to market conditions, and I think that's just a function, as we've discussed before, of some challenging infrastructure. And so Russian supply has not been gaining market share.

Ketan Mamtora - *BMO Capital Markets - Analyst*

Okay. That's helpful. And do you think for the next three to five years, do you think is it possible they could improve and (inaudible) shipments could increase quite a bit, especially if the ruble stays at current levels, do think there is -- that's a realistic risk?

Dave Nunes - *Rayonier Inc - President & CEO*

No I think the infrastructure issues are much deeper and longer term in nature. So I think it's going to take a considerably longer time to see any material improvement that would translate to more shipments.

Ketan Mamtora - *BMO Capital Markets - Analyst*

That's very helpful. Last question, you've given the US at timber CapEx in the presentation. And sorry if I missed this, but can you break that out between the Pacific Northwest and US South?

Dave Nunes - *Rayonier Inc - President & CEO*

I'm sorry. Could you repeat the question? We're not getting much volume on this yet.

Ketan Mamtora - *BMO Capital Markets - Analyst*

I'm sorry. My question was, on the US timber CapEx, I saw that you've given that in the presentation, and I'm sorry if I missed it, But do you have a breakout between Pacific Northwest and US South?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

We don't provide the breakdown. We provide it between USFR, our US Forest Resources and New Zealand. We can certainly provide some guidance on around that; I mean, the reforestation expenses, I would say, would be roughly equivalent between the two regions, as it relates to the acreage in each. It is more expensive to replant an acre in the Pacific Northwest. But you're replanting fewer acres, as a percentage of your total acreage in that region. And so, I would say that it's roughly equivalent between the two.

The property taxes and lease payments would be -- the significant majority of those would be in the US South. The property taxes are generally much lower the Pacific Northwest, and we don't have any leased property there, and allocated overhead would be roughly equivalent to kind of an allocation based on sales.

Ketan Mamtora - *BMO Capital Markets - Analyst*

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

Operator

George Staphos, Bank of America.

George Staphos - *BofA Merrill Lynch - Analyst*

Hi, everyone. Good morning. Thanks for taking my question. I guess, maybe starting off with New Zealand, I mean those numbers are not huge in the whole of Rayonier, but I noticed your expert volumes were up quite a bit, I think something around 30% or so. Yet you mentioned in your presentation, and certainly you had in your slide deck that prices were down quite a bit. And so, can you help us reconcile why you're meeting demand in the market and supplying as prices are down quite significantly? And would there be any thought to maybe removing some supply from the market, given what's been happening with prices?

Dave Nunes - *Rayonier Inc - President & CEO*

Well, I think to some degree this gets back to the operational flexibility that we felt the recapitalization provides. The New Zealand joint venture had that of roughly one-third of its asset value, and that does preclude some operational flexibility. And one of the reasons that we felt it was important to make this change from a capital structure standpoint, is it does give us greater flexibility going forward in weaker market conditions, to fluctuate harvest in a downward direction, and that flexibility was less available to us in the past.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay. I mean, I -- that's fine, and I understand that greater flexibility is better than less flexibility. But just specifically and perhaps I'm just missing it. Again, volumes were up roughly speaking 50,000, tons in the second quarter, and again, that's roughly 30%. Why would you do that with prices being down roughly speaking $30 a ton? Aside from the operational flexibility, why is that a good operating decision from the Rayonier standpoint, guys? Just curious?

Dave Nunes - *Rayonier Inc - President & CEO*

Well, I think we're looking at this market by market. So I don't think the volume increase is quite that large.

Mark McHugh, - *Rayonier Inc - SVP & CFO*

And I think it's also fair to say, that we've talked a lot in the past about operational flexibility and ability to kind of modulate harvest to market conditions but there is some limit to that. I mean, you have a harvest schedule. You have harvest crews that you are employing that you have to keep busy or they go elsewhere. And so, while you do try to flex volume, up or down depending on market conditions, there are some limitations on the magnitude to which you can do that, And so, specifically as it relates to the export sawtimber in New Zealand, I'd have to get back to you on kind of how those factors impacted it. But again, there's -- you can't just decide, we're not going to be in the market this month, because that's just not how the business operates.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay.

Dave Nunes - *Rayonier Inc - President & CEO*

Recognize, too, that you are dealing with -- we're selling wood on a delivered basis. So you are dealing with very material reduction in ocean freight charges that have reduced, or that have eaten into a fair bit of that price reduction.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay. That's clearer and I appreciate the additional clarity on it, and your patience with the question. The second question I had, just on Southern prices, I want to make sure that I heard you or read it correctly. So should we assume that southern sawlog prices are relatively flat sequentially over the balance of the year? Or flat on a year on year basis, versus 2014 levels and third quarter and fourth quarter, again to the extent that you can predict anything like this?

Doug Long - *Rayonier Inc - VP, US Operations*

Sure. I'll take that question. Basically we do see sawlog prices being relatively comparable to the second quarter of this year. It's a real dynamic market right now, and across our geography we've seen pricing impacted by a lot of different local factors including mill curtailments, improvements, end use products for our customers, log availability from fire restrictions in the Pacific Northwest or wet weather in the south. So our teams look at it, these markets every week and try to do their best to match what they think is going to beat the value there. And so we do think overall, that taking up all the variables at play, looking at his local markets, and what can happen, that we'll see comparable pricing for the Q2.

George Staphos - *BofA Merrill Lynch - Analyst*

And would be safe to say given that the weather-related supply restrictions that you had in 2Q, that's now a thing of the past, right? There should not be much if any benefit from that in 3Q?

Doug Long - *Rayonier Inc - VP, US Operations*

In the south it has reduced, although we did sell stumpage in Q2 that will be harvested in Q3. So we'll still have some of the benefit to those pricings that we sold at that time. So the sales will still be harvested into Q3 and Q4. Though when we saw the opportunity, we did sell stumpage for it. One of the benefit of the stumpage market is being able to sell that wood at a time, and then have that harvest. And then, we have in the Northwest we have more the restrictions in the fire, that we're seeing particularly impacting prices.

George Staphos - *BofA Merrill Lynch - Analyst*

Sure. Two questions from me and then I'll turn it over. First of all, from your vantage point, are you seeing any reduction in the pace of growth and multi-family projects or demand for land for multi-family versus single-family and residential? Or are you seeing a continued shift, as we've been seeing in the broader macro data, again from what you see within your land for multi-family? And then my other question, can you remind us, the Northwestern Oregon purchase -- that was a relatively large price per acre. You mentioned that they are well-stocked, but was there anything else that was particularly attractive to you about those lands? Thank you.

Chris Corr - *Rayonier Inc - VP, Real Estate*

Hey, George, this is Chris. On the question about multi-family, we are not seeing any slowdown. We've got a site within our project. We expect it to be an early part of the project, and we've got strong interest in it. And so, from our vantage point in Northeast Florida, it's still the strongest segment.

Dave Nunes - *Rayonier Inc - President & CEO*

And we are still seeing the multi-family leading the recovery here. From a mix standpoint.

Mark McHugh, - *Rayonier Inc - SVP & CFO*

This is Mark. I'll take the question on the acquisitions, and I'll let Dave add any additional color. But really what the driving those outside values, because it was a high per acre price, is not so much of the inventory stocking but the productivity. There is -- there tends to be a view in the space, that values are really kind of driven by inventory stocking. And while it's good to get a property that's well-stocked, it's really the underlying factory, and the productivity of that factory that has -- it's a much more significant driver of value.

And so, if you have a property that's overstocked and you have sort of a one-time inventory takedown opportunity, that's going to be sort of a fixed value as opposed to a perpetual value. What was unique about the property in Oregon, was really it's productivity. As Dave mentioned in his prepared comments, that property is generating a sustainable yield of about 780 board feet per acre per year, relative to our existing Northwest portfolio which is about 430 board feet per acre per year. So it's -- about 80% more productive than the rest of the Northwest portfolio.

And I would say, relative to any comparable large sized portfolio in the Pacific Northwest, it's going to have a significantly higher productivity. And it was also almost exclusively Douglas fir, I believe 95% Douglas fir. And the inventory stocking on that particular property can be a little bit misleading, because keep in mind we don't count inventory as merchantable in the Northwest until it's 35 years old. This property has such a high site index and such high productivity that a lot of the harvest is actually occurring on the property inside of 35 years.

And so a lot of property -- or a lot of that standing inventory may not even sort of reach at age 35, before gets harvested. Or if it does is getting harvested relatively quickly thereafter. And so, if you looked at a pure inventory stocking kind of merchantable inventory per acre, it may not look that advantageous relative to the rest of the portfolio. But you have to keep in mind, the proportion of it that's actually going to be over 35, because of the productivity.

Dave Nunes - *Rayonier Inc - President & CEO*

And it's also very close to Longview, which is the largest export port, and very good domestic mills.

George Staphos - *BofA Merrill Lynch - Analyst*

Okay. Well that makes sense too, as well. I'll turn it over. Thanks very much.

Operator

Collin Mings, Raymond James & Associates.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Hey, good morning, guys. A couple of questions. I guess, first, Dave, just really a lot of activity over the last two months. I mean you have been buying timberland, repurchasing shares, now increasing your investment in New Zealand. Just particularly, with shares now trading well below NAV, just curious your thoughts about how you are thinking about capital allocation priorities from here?

Dave Nunes - *Rayonier Inc - President & CEO*

Yes. I mean, we -- and this is certainly one of the reasons that we launched a share buyback program in the month of June. That program is on a 10b-18 program. So while we're in a trading window, that can't be -- a closed window, that certainly can't be altered. But we view that as one of the capital allocation elements that we want to focus on during this time, when we believe the shares are trading below NAV.

Having said that, we also think it's important to be looking for opportunities on the acquisition front, where we can improve the quality of our assets, and improve our cash flow per share. And we really feel that they both have a role in our capital allocation priorities, and that's why you see us continuing to allocate dollars to both. But I think this is a very dynamic equation. We continue to have these types of discussions with our Board every time we get together.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. So going forward, even kind of with the share price where it is now, kind of expect a balance of both repurchases, as well as acquisitions, is that fair?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Yes, I mean Collin, I think it's hard to specify precise targets. We want to be nimble, we want to be opportunistic. Obviously, when the share price is lower, that trade-off can sort of shift to the balance. And share repurchases, when we are seeing really good opportunities for CAD accretion on a particular acquisition, we may still take advantage of those opportunities. And so, it's hard to specify precise targets, other than to say we want to be nimble, we want to be opportunistic, and it's an ongoing evaluation for us.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. Well, I guess, Mark, maybe just in context of credit balancing these different priorities, and kind of the increase in leverage, maybe just can you talk to us about what metrics are trying to balance or manage the balance sheet around?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Yes. I can talk about the metrics, that I think we want to manage the balance sheet around, but then there also metrics that I think we have to manage them around, to be consistent with how the rating agencies are looking at the Company. And so, I think that in terms of leverage, and in terms of our comfort with the leverage, I would say that we tend to look at it as sort of a debt to asset value. I think if that's fairly consistent with how the real estate sector, as a whole would tend to look at leverage and comfort levels.

Now on that basis, we're very low levered. I mean, even if you look at enterprise value, which I don't think is a reflective of our asset value, I think it's below. But we were 17% -- net debt to enterprise value at quarter end. And so, I think, certainly think we have some room for increased leverage there.

On your point about leverage having increased, I do think it's important to note that by virtue of these transactions that we announced yesterday, our leverage didn't really increase. We ref -- it was essentially all for refinancing of debt. The capital infusion in New Zealand, keep in mind was being used exclusively to repay New Zealand denominated debt that was consolidated in our balance sheet. And so, again the agencies look at that as debt of Rayonier. The outside market looks at is debt of Rayonier because it is consolidated. So while we did provide 100% of the capital infusion to essentially take out our JV partner share of that debt, it was not a levering event per se.

And so, about $160 million is being used to repay that NZD235 million of debt, which came at a very attractive exchange ratio. Where it again, as Dave mentioned, we're at a five-year low and exchange ratio. It wasn't too far back, that that was over [NZD0.80], and now it's at about [NZD0.66] or [NZD0.65]. A $131 million was going to refinance our exchangeable notes, which are coming due later in August. Those were at about 4.5% coupon relative to the 3.3% that we got on the new facilities. And about $45 million was being used to repay debt outstanding under our existing credit facility. And so again, it's important to note, it wasn't a levering event, it was effectively leverage neutral.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. That's a fair point, Mark. And then, I guess, maybe just putting that in context of interest expense, what are you thinking about, as far as kind of a run rate for interest expense going forward?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Well, I think if you look at our current capital structure on a cash basis, I mean we really simplified the capital structure quite a bit. I mean we now have two significant pieces of debt outstanding, on our outstanding senior notes and the new bank facility that we just put in place. And so if you take the two of those, and then we've got some other modest debt, some debt that came with an acquisition. And I think some revenue bonds that are outstanding, our run rate interest expense based on today's pro forma capital structure, keep in mind that we haven't deployed the capital in New Zealand yet, but assuming pro forma for all these transactions it's going to be right about $26 million.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. That's helpful. And then, I guess, just switching gears a little bit, Doug and Dave, I mean in the press release and in the prepared remarks, you just highlight again, kind of the weak export markets. But then talk a little bit more about domestically, potentially getting some lift as relates to the fire restrictions, and some restrictions on log supply. I mean, just from current levels, what type of overall lift are you thinking about in the

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Pacific Northwest, going into the fourth quarter? Because it does sound like you think that there is going to be a lift in the fourth quarter. But can you maybe put some color about what sort of magnitude of a lift you are expecting?

Doug Long - *Rayonier Inc - VP, US Operations*

Yes, Collin, this is Doug. I think what we're seeing is with the potential weakness we talked about in Q3, with the export market and the potential upside we might have on the fire in the Pacific Northwest, we're really looking at it also be very comparable to the second quarter basically. So we do think there be some potential uplift. But there's some puts and takes in there with those markets. As I said before, kind of very localized right now, and very dynamic market. So really we're looking at things being comparable to where we are in the second quarter, with the overall pricing, just differences between domestic and export offsetting.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. Are you thinking that for the third quarter and the fourth quarter, or are you just providing color on the third-quarter right now?

Doug Long - *Rayonier Inc - VP, US Operations*

Primarily color on the third quarter. But it -- probably color on the third-quarter, I think I'd leave it at that right now, and I'll let Dave talk now.

Dave Nunes - *Rayonier Inc - President & CEO*

And I would say, too, Collin, keep in mind that the US Pacific Northwest has taken a large part of the volume reductions coming into China. Typically you're going to see 10 to 12 boats a month coming out of the Pacific Northwest. That's down to about four right now, and that's a mixture of market, and some of the impact from these fire closures. And so, it really is going to depend on how extensive these are, how long they last, and the role that domestic mills have from an inventory standpoint. I think a lot of mills have loaded up on inventory. And so, they're -- we're likely not to see an effect for quite some time. But we're certainly not banking on any material changes in price as we go through the balance of the year, just based in part on the situation and the domestic housing market.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. All right. And then just one last one for me, and then I'll turn it over. Just as far as just on the litigation expenses, I know it can be kind of lumpy quarter-to-quarter. But is kind of the amount registered this quarter, close to a fair run rate? And then, maybe just if you can provide any update on the proceedings on that front?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Yes. We have to -- there's not a lot that we can speak to, from a run rate standpoint. I mean, recognize there's three components to this. There is a class-action lawsuit, there is a -- there has been a lot of work on that, associated with an upcoming motion to dismiss that case. And so, we're certainly seeing some activity there. Then the second component of it, is a derivatives claim, and that has its own course of action. And then, the third piece is the SEC investigation. And all three of these pieces have a different characteristics that contribute to that run rate. But it's a very hard thing for us to make a projection on, at this juncture.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. Thanks. I'll jump back in the queue. Thanks.

Operator

Paul Quinn, RBC Capital Markets.

Paul Quinn - *RBC Capital Markets - Analyst*

Yes. Thanks very much, and good morning. Just a few questions here. Just if you could help me reconcile, on the New Zealand I guess, increased ownership. In 2013, you spent about $140 million for the 39%. We spent $160 million now for 12%, what am I missing here?

Dave Nunes - *Rayonier Inc - President & CEO*

No. The $160 million is for the full -- a repayment of the debt. So it's really more like $55 million for the 12%.

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Yes, and even that, Paul, is not directly comparable, because keep in mind when we bought the 39%, we were buying it from an existing equity partner in the JV, and that JV was significantly levered at the time. This was a capital infusion into the JV to repay the debt. So the pro forma equity value of the JV reflects that repayment of debt. And so, you can't look at it on sort of an apples to apples basis, or kind of look at what we paid per percent, relative to what we paid per percent in this transaction, because the different nature, the primary equity versus purchasing secondary equity of a levered entity. That's why we try to provide a breakout of the math. But on a US dollar basis, we think that this was a more advantageous acquisition, than the one we made in 2013.

Paul Quinn - *RBC Capital Markets - Analyst*

Okay. That's helpful. And then, just on the US side, it sounds like you are expecting flat prices in the near term. One of your competitors is out there, expecting the market to turn when you get US starts at about 1.3 million tons. Have you done any similar analysis, and what are you expecting, sort of the mid-to long-term?

Dave Nunes - *Rayonier Inc - President & CEO*

Yes, we have. If you look in our latest investor deck, there's a -- there is an interesting progression in there, that looks at housing starts and pricing, and it really does confirm that $1.3 million housing start inflection point. And sort of below that, you tend to see a lot of data points that are below trend, above that, above trend. And so, I think you've got two things to focus on.

One is, as we get closer to that inflection point, we should start to see more price elasticity. And then, the second piece gets back to the mix between multi and single family. And that's another key piece of this, is as we increase starts, we're likely to see that mix start to improve from a single family standpoint. And that probably reflects on that regression, in terms of the demand for lumber.

Paul Quinn - *RBC Capital Markets - Analyst*

Okay. And hazard a guess, as to when we get to the 1.3?

Dave Nunes - *Rayonier Inc - President & CEO*

Well, I mean, I -- it's -- this has been a delayed housing recovery for quite a few years. And I think that we still feel that we are some ways off, when you just look at some of the broader demographics around job creation, income growth, and the like. And so, we certainly don't see this as a near-term activity, and we're planning for it to occur, but not banking on it occurring fast.

Paul Quinn - *RBC Capital Markets - Analyst*

Okay. And then, just on real estate, it sounds like Chris is comfortable with meeting the 2015 guidance. If you could help me with -- give me a recollection of what that guidance is in 2015 for real estate, and how that splits between Q3 and Q4?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Yes. The guidance for -- going back to the guidance, this is Mark, going back to the guidance that we provided. After Q4, adjusted EBITDA guidance for real estate was $47 million to $57 million. I would say right now, we're trending towards the higher end of that, and we're anticipating a comparatively strong third quarter.

Paul Quinn - *RBC Capital Markets - Analyst*

Okay. That's great. And then just lastly, I too was mystified, with the New Zealand harvest up, with prices down. You cited increased flexibility. I still don't quite understand that, because you've got majority control of the JV. How do you have increased flexibility, now that you've got a higher percentage?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Well, keep in mind we had bank debt at the New Zealand joint venture, and it was a heavily levered JV at a pretty healthy rate of interest, 6.5%. And so, there were operational constraints related to debt covenants.

Paul Quinn - *RBC Capital Markets - Analyst*

Ah, okay. Got it. Thanks guys.

Mark McHugh, - *Rayonier Inc - SVP & CFO*

But that's saying -- we've alleviated those now, with this refinancing.

Paul Quinn - *RBC Capital Markets - Analyst*

Thanks very much. Best of luck.

Operator

Chip Dillon, Vertical Research Partners.

Chip Dillon - *Vertical Research Partners - Analyst*

Yes. Good morning. Can you all hear me?

Dave Nunes - *Rayonier Inc - President & CEO*

Yes.

Chip Dillon - *Vertical Research Partners - Analyst*

Yes. First question has to do with, when we looked at the New Zealand joint venture. Maybe just to simplify it, but basically, the way I look at it is -- is that the equity is [NZD706 million], and now the debt if you capitalize the fees, it's [NZD242 million]. And then, we're just going stick to [NJ], New Zealand dollars here. So you obviously own 77% of the equity, which is 706 times 77% or [NZD544 million]. And you in essence own, or are owed the entire debt of [NZD242 million]. So if I look at the enterprise value, it looks like you're capitalizing it at 9.48%. And that Rayonier is either owed or owns 83% of that, which again is your 77% of the equity, and all the debt. Is that -- am I missing something there?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Yes. I'm not following you on the 900. So pro forma for the debt repayment, the net asset value which is effectively equivalent to the enterprise value, because it's now unlevered is NZD706 million. That was the valuation at which the capital was invested. But again, it gets (multiple speakers).

Chip Dillon - *Vertical Research Partners - Analyst*

I see (multiple speakers).

Mark McHugh, - *Rayonier Inc - SVP & CFO*

This wasn't a purchase of third-party equity, it was a capital infusion.

Chip Dillon - *Vertical Research Partners - Analyst*

I see.

Mark McHugh, - *Rayonier Inc - SVP & CFO*

And so, the right way to think about it is -- (multiple speakers) -- is the investment was made at a NZD706 million enterprise value, which is effectively the same as net asset value, because there's no debt on the entity, and we own 70% of that pro forma for the infusion.

Chip Dillon - *Vertical Research Partners - Analyst*

I see. So that would then suggest, the equity value was under 500 -- well, prior higher equity value was before -- was below NZD500 million, right? In other words, NZD706 minus the NZD235?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Yes. It would've been NZD706 minus the NZD235, would have been the equity value before this capital infusion. The total equity value (multiple speakers).

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. I see (multiple speakers)..

Mark McHugh, - *Rayonier Inc - SVP & CFO*

65% (multiple speakers).

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. So you basically paid off, Rayonier decided to take it upon themselves to pay off that NZD235 million. That's all on your balance sheet right now, but you're only getting [85 million] more of the value of the company. Tell me why that's wrong, or not wrong?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Well, yes, because the entity is now unlevered. And so, if you took 706 minus 235, and you took our 65%, that will calculate the value. Yes, we have now invested the [240 million], paid off the debt, so our equity value has increased by that amount of the capital infusion.

Chip Dillon - *Vertical Research Partners - Analyst*

Yes. Okay. All right, that make sense

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Pre-infusion and post infusion, because the net asset value or the equity value so to speak was lower before this infusion.

Dave Nunes - *Rayonier Inc - President & CEO*

And we essentially transferred that debt into the US at both a better interest rate and a favorable exchange conversion.

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Yes. And it's important to note that this debt -- even though we control the JV, we own 65%. I mean, I think that the rating agencies look at it as a segment of Rayonier, they've looked at that debt. We consolidate 100% of the debt consolidated 100% of the interest expense. And so this has been, looked at as debt of Rayonier, even though this is the JV was less than a wholly-owned. And so this was really we saw this as an opportunity to clean of the balance sheet of New Zealand, provide that operational flexibility, and get very significant interest cost savings in the process. And increase our ownership stake in the entity, because we provide 100% of that capital infusion.

Chip Dillon - *Vertical Research Partners - Analyst*

Got you. Okay. That's very helpful. And were there any tax -- obviously you're getting or paying effectively a lower interest rate. But if I have this right I guess -- well, given the new debt, does that have any tax advantages of any type, having [rescore] -- or is it just all the lower interest rate, and the flexibility on operations?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

There aren't tax advantages per se, because we're not a corporate taxpayer. Other than our -- the operations within our TRS. And so there wasn't a tax advantage necessarily to the new debt. But we do have quite a bit of NOLs at the New Zealand joint venture, and so the New Zealand joint venture we don't anticipate will be a cash taxpayer for some time as well.

Chip Dillon - *Vertical Research Partners - Analyst*

Got you. And obviously, with no interest expense at the New Zealand venture, you would presume that you'll be able to use those up faster than if you had to pay interest there?

Dave Nunes - *Rayonier Inc - President & CEO*

Correct.

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Yes. That's right.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. And then last thing is, I think if I heard you right, you mentioned the buyback and that you started it in mid-June, did you actually by $10 million worth just in the last two weeks of the month? Or is that -- or does that buyback -- yes, I guess what you're saying, right?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Yes, that's (multiple speakers) at the end of June.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. Got you. And is it your intention to actually -- well, I don't want -- I get this is a little unfair to ask it quite as aggressively as I was about to -- but can you -- I mean, do have a time frame? I'll ask that -- is this like something you want to get done in a year, or is it more open ended than that, and based on the opportunities you see?

Dave Nunes - *Rayonier Inc - President & CEO*

It's a 10b18 program, and so it's really a function of the guidelines under that. But I think it was important when we launched this program, we didn't want to just launch it to launch it. We wanted to launch it, and we wanted to make a meaningful dent in that repurchase authorization.

Chip Dillon - *Vertical Research Partners - Analyst*

Okay. And then last question, do you view the sort of dividend and the share buyback a sort of alternatives, or do think that your view of the dividend is irrespective of the buyback activity?

Dave Nunes - *Rayonier Inc - President & CEO*

Well, I think they certainly are both a form of returning cash to shareholders. I think, as it relates to the dividend, we are more focused at this juncture on having that be funded from our continuing timber and rural real estate sales operations. And so we think about it in a slightly different manner, even though they're both forms of cash that's going back to shareholders.

Chip Dillon - *Vertical Research Partners - Analyst*

I see. Thanks very much.

Operator

Steve Chercover, D.A. Davidson.

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

Thank you, and good morning. I guess it's a little bit late in the session. So hopefully these are redundant, but I was actually wondering why you're New Zealand partners are allowing you to dilute them, or did they have a say in the matter?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Well, our partner is -- is Phaunos Timber Fund, and it's effectively a closed in publicly traded fund in London. And quite candidly, I don't think that they had the capital available to fund their pro rata share, and so it gave us an opportunity to increase our stake there, which we were happy to do.

Dave Nunes - *Rayonier Inc - President & CEO*

And from their standpoint, Steve, it was also a case where by paying this debt off, it will free up at a joint venture level roughly NZD15 million of interest expense. And so, they're going to see more of a steady dividend flow going forward, and that was important to them, And so, that all factored into the decision from their standpoint.

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

Okay. And perhaps I should know this, but I'm assuming that the sale out of New Zealand are denominated in Kiwi dollars, and therefore when you repatriate it, we just faced almost a 20% headwind in terms of both revenues and earnings?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Steve, this is Mark. I'll take that. New Zealand is actually interesting as it relates to currency, because it's not all denominated in New Zealand dollars. A good portion of their volume, all the export volume is actually denominated in US dollars. And so, currency fluctuation have a much less significant impact on the profitability of New Zealand than you may otherwise think. Because again, keep in mind roughly 40% of the volume is going into the export market at US dollar prices. There's also a portion of the freight, the export freight, that's in US dollars. But then all of the domestic sales, and the domestic costs are in New Zealand dollars. And so, there sort of a natural hedge that is built into the entity, such that changes -- purely changes in exchange rates, actually don't have a very materially impact on the US dollar income.

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

So to the certain extent, New Zealand has become less competitive in the global markets, compared to for instance, the Russians or somewhere else with a currency that has declined?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Well, I mean, I think the New Zealand currency has declined.

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

But the price of the logs hasn't. There kind of more like -- it's analogous to being in Washington or Oregon as opposed to being in British Columbia.

Mark McHugh, - *Rayonier Inc - SVP & CFO*

But the US dollars are now converting into more New Zealand dollars.

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

Yes. But I'm saying from, I guess from the buyers perspective. Okay.

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Yes.

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

And then, also on the repo, I mean it's the first one to the best of my knowledge in Rayonier history, let alone Rayonier version 2.0. I mean, do think you've got the financial flexibility to be aggressive on the repo, and to participate in lumber market -- or in timber markets in size?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

I guess it depends on what you mean by being aggressive, but we feel as though we have ample leverage capacity. I don't want to put a fine point on that, because candidly, it depends on whether the buyback or the acquisition, because obviously with acquisitions you are increasing your cash flow and your EBITDA, whereas with buybacks you're not. And so that's going to be a more levering event, then say an acquisition on a sort of dollar for dollar basis. But we think the 17% net debt to enterprise value, probably well inside of that on a sort of debt to market value of assets, we think -- certainly, feel like we're in a position to increase leverage at least modestly.

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

Okay. Do you want to throw out a figure that kind of delineates how -- where you think net asset value is?

Mark McHugh, *- Rayonier Inc - SVP & CFO*

We don't publish our own internal view of NAV. But we certainly -- we can certainly help you walk through the different components of it.

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

All right. I'll phone you to make sure mine is right. Okay, thank you very much.

Operator

Mark Weintraub, Buckingham Research.

Mark Weintraub *- Buckingham Research Group - Analyst*

Thank you. A couple follow-up questions. First, just on the debt capacity, I recognize the difference between share repurchase and acquisitions. But on your current footprint, could you give us a sense of how much additional debt capacity you feel you might have?

Mark McHugh, *- Rayonier Inc - SVP & CFO*

It's a bit of a loaded question. The reason -- I think that there is a leverage level at which we would be very comfortable operating, just because of what -- the predictability of our cash flows, and the way that we operate the business. for a timber assets, it's not an asset that lends itself to a lot of leverage, whereas in the commercial real estate space, commercial REITs may very comfortable taking on kind of 40% to 50% leverage. That's certainly too high for a timber REIT, because you want some operational flexibility to operate the business.

But right now where, if you use kind of enterprise values as just a rough proxy for market value, we're at 17%. I certainly think that we could be higher than that. In terms of where our comfort level is, I think we said in the past that we think 30%, we could certainly comfortably operate at that level. Kind of over 35%, I would say would, start to kind of push our comfort level. And so, we have some room to run. But we also have to be sensitive to sort of what that implies, in terms of debt to EBITDA, and the rating implications of that. And so, that's again, it's one of those things that's a constant evaluation process, working with the agencies.

The agency still lump us with the paper and forest product sector, as opposed to the REIT sector. And so, whereas commercial REITs, investment-grade commercial REITs might see debt to EBITDA 6 to 8 times, paper and forest product space, the prescriptive debt to EBITDA to be an investment-grade company in that space is more in a sort of the 3 to 3.5 times leverage. And so, we kind of have to balance of the two, and there is a recognition amongst the agencies, that timber is different, and there is an asset coverage that makes it a more attractive credit profile. But again from an operational standpoint, I think we could very comfortably get to 30% leverage. I don't know that we would do that in one fell swoop, because of the potential rating implications.

Mark Weintraub *- Buckingham Research Group - Analyst*

Understood. And presumably, it's an ongoing conversation, and that's with the rating agencies, and hence some reluctance to get a little bit more specific?

Mark McHugh, *- Rayonier Inc - SVP & CFO*

I think that's fair. I mean the rating agencies publish pretty detailed views of the companies that they cover. And so they effectively both sort of put out in kind of 4 times debt to EBITDA levels, at which they would kind of re-look at the credit, if we were to exceed that. And so, that's something

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that we are sensitive to, but again I would say it's also an ongoing dialogue, in kind of helping to understand the different nature of timberland as an asset class, and the higher EBITDA to free cash flow conversion that it would have, relative to a paper mill.

Mark Weintraub - *Buckingham Research Group - Analyst*

Okay. That is very helpful. And then, also, are there perhaps assets in the portfolio, timberland assets in the portfolio which would be viewed as less core, that don't particularly -- that perhaps don't have the characteristics that you are seeking for the portfolio to the same extent, and might that be considered as a source of financing, for either growth through acquisition and/or through share repurchase?

Dave Nunes - *Rayonier Inc - President & CEO*

A couple of points there. First of all, in our -- we completed a detailed assessment last year on our land classification, roughly 4% to 5% of our timber portfolio is in that non-core category. As it relates to sales though, keep in mind that unless you're doing a 1031 type of transaction, you essentially have to distribute that capital out to shareholders, and you're left really just with the basis of that property to be able to utilize from a capital allocation standpoint.

Mark Weintraub - *Buckingham Research Group - Analyst*

Understood. But would there be anything that would preclude you from doing [1031s], was given that you have been in the market acquiring timberlands is the size of the transaction?

Dave Nunes - *Rayonier Inc - President & CEO*

No. Not at all. And certainly, we have an active 1031 program.

Mark Weintraub - *Buckingham Research Group - Analyst*

Okay. And just following up on the New Zealand harvest, understand your explanations as to what was going on in the decision-making process up until now. But given that there now won't be debt on the New Zealand operation, given that the markets have continued to be pretty weak, would it be your intent to reduce the harvest, and let the crews know, et cetera on a go forward basis for a while? Or what is at the prospective thought process for New Zealand?

Dave Nunes - *Rayonier Inc - President & CEO*

Well, I think it's -- it's as Mark said, it's dynamic and you've got harvesting crews that you are managing. The other thing to keep in mind is, we have a fair bit of market flexibility right now. The Korean market is as strong as it's been for quite a number of years, and that we've shifted our mix away from China, and into that Korean market at stronger pricing. And so that's really what we focused on in the near-term sense.

Mark McHugh, - *Rayonier Inc - SVP & CFO*

And I think it's also important to note, that we haven't yet closed the New Zealand transaction, and so any operational constraints by virtue of debt covenants are effectively still in place, until we closed that transaction. And really the timing obstacle there is, is the regulatory approval in New Zealand.

Mark Weintraub - *Buckingham Research Group - Analyst*

Yes. Fair enough. And I'm sorry, had you mention when you thought that would get completed?

Dave Nunes - *Rayonier Inc - President & CEO*

We said we expect by the end of the year, but we'll continue to update on that. Again, it's really on -- we don't have a clear sense of the New Zealand OIO approval time line just yet.

Mark Weintraub - *Buckingham Research Group - Analyst*

Right. And one last one, don't want to be picky, but I wasn't quite sure -- I think you had mentioned that the reducing the debt would free up [15 million] of interest expense. I was kind of thinking it's more [10 million] at the JV level. Or at the --

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Mark McHugh, - *Rayonier Inc - SVP & CFO*

[15 million] was --

Dave Nunes - *Rayonier Inc - President & CEO*

Was New Zealand.

Mark McHugh, - *Rayonier Inc - SVP & CFO*

New Zealand, yes.

Mark Weintraub - *Buckingham Research Group - Analyst*

New Zealand. Okay. But [$160 million], then the interest -- and it was at 6.6%?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Yes, effectively on a consolidated basis in US dollars, we are saving about a little over 300 basis points on [$160 million.

Mark Weintraub - *Buckingham Research Group - Analyst*

Got it. Okay, you were saying New Zealand dollars (multiple speakers).

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Actually it was [$5 million] of consolidated interest expense.

Mark Weintraub - *Buckingham Research Group - Analyst*

Okay, but (multiple speakers)

Dave Nunes - *Rayonier Inc - President & CEO*

(multiple speakers) it's kiwi dollars.

Mark Weintraub - *Buckingham Research Group - Analyst*

Totally understood. Okay, thank you.

Operator

Collin Mings, Raymond James & Associates.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

First is, just going back to Chip's question, I know you guys established a dividend with potential tax consequences in mind, kind of just giving your [REIT] status last year. Anything on that front change, do you still feel comfortable with the current distribution?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

We do.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. And then, the second question is, just going back -- all the conversation again between New Zealand, the outlook there, and kind of some of the balancing price and volumes, just how do you rank potential incremental investment in New Zealand from here, versus domestic acquisitions?

Dave Nunes - *Rayonier Inc - President & CEO*

Well, I mean, a lot of it is a function of -- when we are looking at any acquisitions, we're looking for return. We're looking at markets. We're looking at productivity of the land. I'd say that the New Zealand market generally, has had a higher discount rate from a valuation standpoint, than the US market. But as we've seen, it also is more volatile.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. So you're just trying to strike -- I mean, I guess to take that another way, you're still looking at both domestic and incremental investment in New Zealand?

Mark McHugh, - *Rayonier Inc - SVP & CFO*

Yes, I think that's fair. And again, I think that this was a unique opportunity as it relates to New Zealand. We did feel as though there was a need to restructure the capital profile there, and we had an opportunity to increase our stake there. But I think we would still -- we're still more focused I'd say, on domestic opportunities as it relates to M&A.

Collin Mings - *Raymond James & Associates, Inc. - Analyst*

Okay. Great. Thanks, guys.

Operator

Thank you. At this time, speakers, we don't have any questions on the queue. I would now like to hand the call back to you.

Mark McHugh, - *Rayonier Inc - SVP & CFO*

All right, this is Mark McHugh. I would like to thank everybody for joining us and your interest in Rayonier. Please contact me with any follow-up questions.

Operator

Thank you. That concludes today's conference. Thank you all for participating. You may now disconnect.
