ATTENTION:
The Tree Shortage is NOW

Timothee Sallin, Director of Sales, Cherry Lake Tree Farm

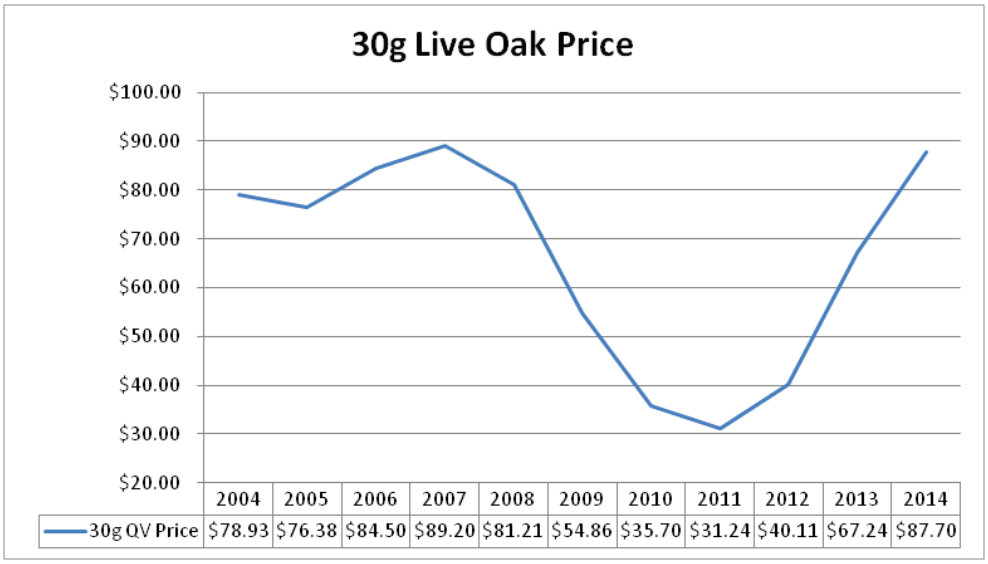
February 25, 2014

The tree market is changing fast. After six years of crisis, low demand and over supply, the market for ornamental trees appears to have turned the corner. Nursery growers report that sales and pricing have been increasing rapidly since the last quarter of 2013. As we move into spring, nursery sales are expected to continue to increase and prices along with them. Availability of core items is becoming a major concern as we are beginning to see shortages in 2, 3 and 4 inch material.

The shift in the market has been dramatic. Items that were oversupplied and deeply discounted less than one year ago are now very scarce and selling at high premiums. This has many scrambling to adjust, causing serious disruptions to both buyers and sellers. Growers, landscape contractors and distributors find themselves having to raise prices while fulfilling existing contracts and managing inventory availability.

The evolution of the 30 gallon Live Oak price is an excellent example of what is happening on a larger scale across the entire tree inventory. Price of the 30g Live oak peaked in 2007 at $89 and then proceeded to fall all the way to $31 in 2011. The price climbed steadily since 2011 and has reached $87 in the first quarter of 2014. This price is expected to continue to rise and could realistically exceed $100 by the end of the second quarter.

Sudden as the shift in supply may seem, it had been forecast and foreseen. As early as 2011 John Barbour of Bold Spring published his open letter to the industry "Why Tree Prices Will Rise". Landscape Architecture Magazine published their article "Sold Out" in June 2013 and Nursery Management Magazine published the article "Missing" in January 2014. In these articles, the authors draw attention to the upcoming shortage which will be the legacy of the past 6 years of oversupply and deflation in the nursery industry.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
30g QV Price	$78.93	$76.38	$84.50	$89.20	$81.21	$54.86	$35.70	$31.24	$40.11	$67.24	$87.70

Now that the shortage is upon us, what can we expect? While no one can know exactly the status of inventories and future demand, we are advising our cus-

tomers and partners to expect a 5 year cycle of shortages. The long production time for producing trees means that very little can be done in the short term to increase availability. The price increases and shortages that we have seen in the past three months are likely just the beginning of a five year pattern.

Our expectation is that prices will continue to rise and will likely exceed the peak levels reached in 2007. These price increases will be driven by supply and demand as buyers outbid one another for access to an increasingly scarce inventory.

Higher prices are ultimately good for the industry and they are desperately needed to restore producers to profitability. The challenge lies in managing these price increases and the expectations of our customers and end users. More communication on the shortage is needed across the board in order to help all parties increase prices in their proformas, proposals and contracts.

Cherry Lake Tree Farm is sending this memo along with links to the aforementioned articles and the Cherry Lake Market Outlook issued in April 2013. In addition, we are willing to participate in discussions, presentations or meetings with clients and industry stakeholders to help communicate on the shortage and explore strategies for sourcing plant material under this new market paradigm.

ADDITIONAL ARTICLES

MISSING
Nursery Management Magazine, January 2014

SOLD OUT
Landscape Architecture Magazine, June 2013

LANDSCAPE TREE MARKET OUTLOOK
Cherry Lake Tree Farm, April 2013

TREE SHORTAGE ON THE HORIZON
Lawn & Landscape, December 2013

WHY TREE PRICES WILL INCREASE
John Barbour, Bold Springs Nursery, 2011

CHERRY LAKE TREE • FARM

Missing: 3-inch red maples for sale in the green industry

Reward offered for a large block of container or field-grown trees. Last seen in 2011 at nurseries across the country.

KELLI RODDA | January 20, 2014

Seasons of recession, drought and pest infestations sound like something out of a novel, but it has been the nursery industry's reality for too long. While the market is on the upswing, these factors have caused a tree shortage that have some in the supply chain scrambling for product.

Whether you're a grower, a retailer or in the landscape trade, you'll be hard-pressed to find certain trees in the 2- to 3-inch category this spring and beyond. The bread-and-butter selections such as red maple, zelkova and pin oak make up a large portion of the shortages.

"Two-inch caliper tree inventory has tightened up a fair amount," said Mike Pezzillo, national nursery manager at McHutchison, a horticultural distribution company. "Some Acer rubrum cultivars are becoming harder to find. Betula nigra clumps have become much tougher to procure. Inventory of cherries, pin oaks and zelkova has gotten very tight in 2-inch caliper."

To some extent, the shortages vary from grower to grower, but there's much more variation from region to region, Pezzillo added.

"Different regions have different shortages, though they also share some common shortages. Overall, we're seeing greater shortages with Tennessee growers as opposed to northern growers in Ohio, Pennsylvania, New York and New Jersey. The shortages on the West Coast, specifically the Pacific Northwest, have become more prominent."

West Coast stats

John L. Lewis is president of JLPN Inc., a seedling grower in Salem Ore. Lewis has noticed much of the same in terms of variety shortages.

"The glut of the Acer rubrum market is finally flushed out, pushed out or burnt up. We are seeing strong demand in many of the red maple cultivars," Lewis said. "Growers are reporting shortages in whips, branched and two-year 1¼-inch trees. I see the shortages persisting for at least four to five years, based on how long it takes to get the demand and the number of years it takes to produce a 1¼-inch tree from the start."

Lewis said birch, flowering cherry, linden, locust and zelkova that were over-produced 10 years ago are now hard to get.

"We have seen a sharp increase in these products due to shortages in the 5- to 6-foot branched to 1¼-inch size. I think the shortages could last for at least four to five years with these varieties, too," he added.

JLPN's production of Acer palmatum is down 90 percent from all-time highs, he said. "There are still some decent amounts of larger material of Acer palmatum available, but there is very little small material coming up through the pipeline. The market is due for some rebounding. Once demand picks up, the shortages will be extreme," Lewis said.

Lewis' approach to selling is to encourage growers to select based on what they can sell, not what the market is long or short on, he said.

"We have varieties that are technically 'flooded' on the market, yet we still produce very high volumes a rock-solid prices. Even if demand is low on certain species, value-added product still sells," he said.

Smart business

When nursery businesses started folding, it obviously created a void in the market. These tree shortages are more of a supply issue, not because of increased demand. But there's a silver lining – the potential of increased prices.

"I hope these shortages will push up prices and the market goes back to people making money again," said Mark West, managing partner at Cedar Valley Nurseries in Ada, Okla.

McHutchison's Pezzillo said growers will have to deliver a high-quality product with prices going up.

"With the enormous discounting days in the rearview mirror, customers want to get the best product if they're going to pay higher prices," he added.

New nurseries are not coming into the market and current businesses are making careful business decisions to avoid another glut of trees.

"Credit still remains tight for many nurseries and cash flow is tight for some. There's no inclination to get aggressive at this point," West said.

Just like the other observers, West is seeing shortages in 2- and 3-inch material. In his region the market is short on red maple, willow oak, live oak, Shumard oak and Thuja 'Green Giant.'

Christopher Uhland, CEO of Harmony Hill Nursery in Downingtown, Penn., was able to prepare for the shortages.

"I could see what was coming, so we were able to line out container material we normally reserve for the spring. By mid-July I had my bare root orders placed and was able to get most of what I needed for spring 2014," Uhland said. "But I saw bare root inventories shrink fast when trying to do some late fall additions. Heading into the winter trade show season, I am placing spring 2015 orders to ensure I get what I need."

Uhland's liner vendors are telling him that inventories are going to remain low for at least one to three years, "which will not allow growers to over-produce immediately," he added.

Supply-chain logistics

To avoid problems with shortages in the future, members of the landscape industry can hire a nursery as a contract grower, West said.

“Contractors or designers need to think about woody plant material as contract-grown material. Strike a three- or four-year contract for some plants,” he said.

Pezzillo stressed that landscape companies need to order early.

“If you don’t have your product booked then you should be prepared to accept substitutions come spring, summer and fall,” he said. “It remains to be seen just how creative landscape contractors and designers will have to get in choosing substitutions, but that point in time is coming soon.”

LANDSCAPE
ARCHITECTURE
MAGAZINE

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SOCIETY OF LANDSCAPE ARCHITECTS

SOLD OUT

June 7, 2013 by Lisa Speckhardt

The shortages are being seen across the country on the bread-and-butter trees and shrubs—live oaks and southern magnolias in the South, for example, October Glory maples in the East—because trees aren't like sod. You can't grow them in a season. "Trees are grown on a three-, five-, seven-, even 10-year cycle, and their production simply can't be cranked up to match the economy and demand," Buley says.

Orders were up 15 percent in May of this year over the previous year at Schmidt, which harvests and ships hundreds of thousands of trees a year. And since the first of the year, Buley has fielded four or five calls a day, compared to a few a week during the slowdown, from landscape architects trying to locate specific trees of a certain size for their clients. Buley uses the company's Tree Locator service to list growers reasonably close to the client who had bought bare-root liners of Amelanchier laevis 'Spring Flurry' (a good Bradford pear substitute), for example, or Ulmus americana 'Jefferson' (it resists Dutch elm disease) three to five years earlier.

Courtesy Nelson Nursery

Buley foresees imminent shortages of trees in the 1.75- to 2.5-inch-caliper range, "particularly the unusual varieties and cultivars." Though solid figures are hard to come by—the U.S. Department of Agriculture no longer surveys the health of the nursery industry, and growers' associations don't track production figures and sales—the Green Industry Research Consortium, a group of agricultural economists and horticulturists, produces a National Nursery Survey of all 50 states every five years.

The industry topped out at $175 billion, according to the consortium's most recent report, in 2009, which collected data from the beginning of 2008, before the effects of the crash took hold. But just how much production and sales would fall over the next four years, and start to pick up again over the next few, is only being assessed this year for the survey to be published in 2014.

In the meantime, Charlie Hall, an agricultural economist based at Texas A&M University, who helped found the consortium and who travels the country speaking and consulting for the industry, offered some estimates.

"Anecdotally speaking, roughly a quarter of our growers have exited the industry, and 40 percent of our landscape contractors," says Hall, a professor and the Ellison Chair in International Floriculture at the university. "About 20 to 25 percent of garden centers have exited as well." (That 40 percent drop in contractors includes the "mow-blow-and-go or have-truck-will-landscape" types, who get into business as easily as they get out.) "And my estimates may even be conservative."

Although a few large growers didn't stop production, many reduced plantings, some by 30 percent, others by 80 percent. And they dumped thousands of trees and shrubs, even though they knew that could mean shortages if the worst recession since the Great Depression ever ended.

"I threw entire crops away, took them to dump," Nelson says. "I can't say how it felt, in words that you could print."

Nelson and his mother, Nadine, who founded the nursery with her husband, Bill, in 1958, grow large containerized specialty shrubs—'Duke Gardens,' Japanese plum yews, 'Zabeliana' English laurels, 'Bartzella' intersectional peonies—on four acres.

Mooresville, a bedroom community of Charlotte, a financial center for the state, was a hotbed of new construction before the crash. "We were rockin' an' rollin,'" says Nelson, who doubled production every year on many items in the boom years. "Then came the severe drop, and we did not have the government or municipalities to rely on as much as the Research Triangle did. So, it's been really tough." His sales dropped 30 percent. But plants were in the pipeline, with maintenance needs for five or six years before sale.

The Nelsons tightened their belts, dipped into personal savings, and kept as many plants in production as they could. And their client base, mostly area garden centers with design/build arms and some landscape architects, remained loyal.

"It was a huge mistake, in retrospect, having those kinds of numbers," Nelson says. "But throwing them away was absolutely the right thing to do. We have 55 years of reputation riding on everything we sell. We can't sell a junky plant." Now, Nelson's inventory is moving out the door fast, and he has started to raise prices 7 to 10 percent, "because they're worth it, and people pay good money for good plants."

Looking back on those glory years, John Barbour, a Georgia tree grower, says, "I would have been pretty smart if I'd said, 'They're lending money to anybody that walks in the bank, building stuff that shouldn't be built; there are too many trees on the market; this is time for caution.' Instead, I made the decision to expand."

Barbour and his wife, Patty, founded Bold Spring Nursery in 1985, when they planted 13 acres of trees outside Monroe, Georgia, northeast of Atlanta. Their specialty is balled-and-burlapped, five- or six-year-old shade and ornamental trees.

By 2005, they were planting 40,000 trees a year on 400 acres. So they decided to buy a 600-acre farm near Hawkinsville, south of Atlanta, and ramped up to 90,000 trees a year.

"A good thing was that we basically sold out our other nursery, just before the crash, so we were fortunate, going into the recession, to not be loaded with a lot of mature inventory," says Barbour. "But the downside was, it was poor timing to expand a tree farm." Meanwhile, the cost of diesel fuel,

plastic, and burlap keeps going up.

Tree prices stopped falling in 2011, Barbour says, and inched up 2 or 3 percent in 2012. Now, inventory is getting scarce, and nurseries can raise their prices. "This year, we've seen a dramatic rise," Barbour says. "Our younger three-year-old trees have gone up 24 percent; all our other material has gone up about 6 percent." That's after a long haul when Barbour was forced to sell two-inch trees, instead of maintaining them to the three- to four-inch-caliper size his machinery and fields are set up for—900 trees per acre, as opposed to 2,000 or so, for small trees sold at garden centers. "We want to grow the tree all the way to the size it's supposed to, but when you're wounded, you sell anything," he says.

Now, he and other growers are starting to hold back the material, to produce larger trees, because they're not desperate for cash. So that will mean a shortage of larger trees down the pike. Designers who want eight-year-old maples will confront a shortage of them in four years. "It's a bubble that's going to haunt us for years to come," Barbour says. "You can't wave your wand and create more four-year-old maples this year."

Barbour foresees a shortage in go-to commodity items for his region: Nellie Stevens hollies, southern magnolias, small conifers such as Thuja 'Green Giant,' and other plants used for screening.

"A nurseryman has 400 for sale, and the first customer with a bid project buys 200 of them. A month later, he's sold out and he's got nine months to go. People call. They're gone." Even if tree production increases rapidly, Barbour says, "there will be a gap in the pipeline of at least three to four years."

With tree shortages looming, landscape architects need to check for availability of specific cultivars and species "before they specify," Buley says.

The trees J. Frank Schmidt is planting this spring, she says, are a decade away from being available as a three-inch-caliper tree harvested from its customers' fields in Boston; Omaha, Nebraska; Atlanta; Chicago; and other parts of the country. And with prices rising, specs for a job that won't be constructed for a year or more need to figure in those increased costs.

Barbour advises landscape architects to contract ahead for projects, to avoid finding themselves without the shade trees and other key plants that define their designs.

"One of our staple shade trees is October Glory maple, and as we got into the spring season, we had customers looking for the two- to three- to four-year-old October Glories, saying, 'I can't find these; they're not there.'"

Three years ago, at Bold Spring Nursery, a two-inch October Glory was selling for $40. This year it's $79. Before the crash, it was $100; a four-inch maple brought $400. That size plunged to $90; now it's selling for $177.

That makes sense to Barbour. "A four-inch tree was planted before the depths of the recession, so there are a lot of them out there," he says. "So the price of a four-inch tree hasn't rebounded to the extent a two-inch tree has, which was planted three years ago, when people just weren't planting trees." The shortage is going to be more acute this fall, as growers hold back more of these beauties for larger sizes.

Some of the large nurseries that weathered the recession most successfully were buffered by prior contracts—for thousands of particular trees, ordered at a particular price, years before sale—forged by landscape architects who regularly walk the grower's fields to tag trees, as well as to ask the grower to plant specific numbers of species and cultivars needed for a particular job.

Barbour encourages more landscape architects to do just that. "But what we hear from architects is that they have less budget for traveling to select plant material—but they have a greater need than ever to do that because there is so much substandard material in nurseries right now."

He hears that fewer are administering contracts. "Now it's more of a design role, where they draw a picture," he says. "Developers are just trying to squeeze a design out of the architect."

But these contracts between grower and designer benefit both in a tight economy. Halka Nurseries, for instance, which grows about 200 different kinds of specimen trees, from liners, on 2,600 acres in southern and central New Jersey, did not reduce production during those four slow years.

"We never stopped planting 20,000 trees a year," says Chet Halka Jr., whose father, Chester, started the nursery in 1954, in Millstone Township. He runs the business with his two daughters, Jaimie and Kate. "We continued to plant because my trees are a minimum of five years, an average of 12 to 14 years, and some are 30 years old. So, if I stopped planting and the economy came back, then I wouldn't have anything to sell."

Now, Halka wishes he had more trees. "This spring has been unbelievable. We can't do enough of the jobs out there before leaf break, and I wish I'd had that money last spring."

But what kept Halka running, aside from dipping into his own savings, were contracts with public projects and high-end residential work. Landscape architects like Edmund D. Hollander, FASLA, and Michael Van Valkenburgh, FASLA, actually come out and personally tag trees. "Certain architects want different trees that have not been grown," says Halka. "Michael said to me three or four years before the project for Brooklyn Bridge Park started, 'I want five or six varieties of trees, multistem, and I can't get a deposit from the owner.' He wanted 150 of each variety, a thousand trees, planted close together for growing multistem. Kentucky coffee, ginkgo, honey locust, red maple, that's part of the diversification."

He has a similar relationship with Hollander, who often needs salt-tolerant trees for oceanfront properties in the Hamptons: Juniperus chinensis (more salt-tolerant than J. virginiana), black cherry, sassafras.

"We do have a market for large trees," he says. "Thank God for the billionaires in the Hamptons."

Anne Raver writes about the environment, including gardening and farming, wildlife habitats, and landscape design.








Landscape Tree Market Outlook

2013

www.cherrylake.com

2013 Landscape Tree Market Outlook

The recovery of residential housing in Florida combined with a historic low in nursery tree inventories will create a significant tree shortage that is likely to last through 2017. This outlook discusses the primary drivers affecting the market for nursery trees and proposes a model for quantifying supply and demand of nursery grown trees over the next five years.

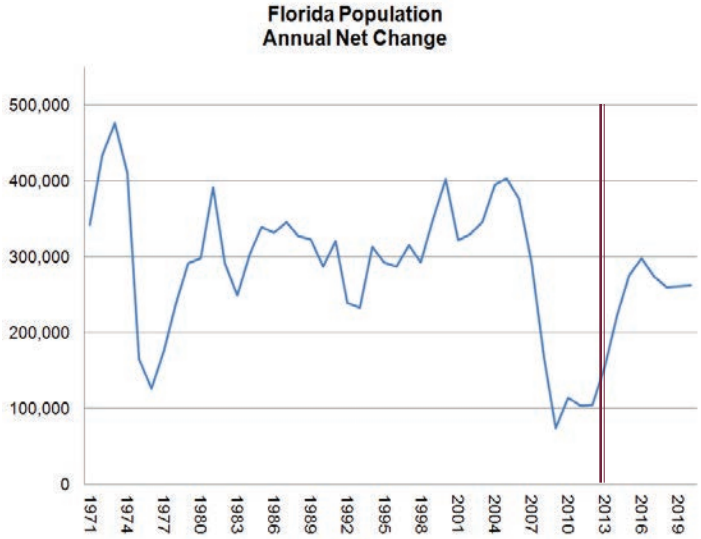
Population & Housing Fundamentals

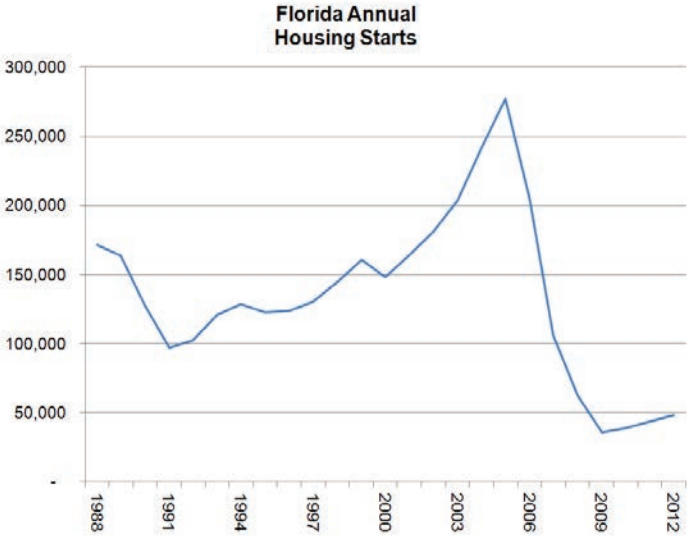
Population growth is a primary driver of economic growth, construction and the demand for landscape trees. Since 1970 Florida's population has grown every year. There was however, a significant drop in the rate of growth beginning in 2008 when Population Net Change fell to 167K from 292K in 2007. Population Net Change bottomed out in 2009 at 74K and has been slowly recovering since, reaching 104K in 2012.

The US Census forecasts that Florida population growth will reach 224K in 2014 and average 251K per year between 2013 and 2020. This suggests that Florida's economy will be support by fundamentally sound population growth in the coming years.

Housing starts are also on the rebound. After peaking in 2005 at 277K, Florida housing starts crashed, falling to 36K in 2009. Since 2009 housing starts have slowly increased reaching 64K in 2012. The past ten year cycle has been unusual because of its extremes. During the boom years of 2002-2006 Florida averaged 222K housing starts per year, while during the bust years of 2007-2012 the average was just 56K housing starts annually. While the swings in housing activity were extreme, the average for the entire 10 year cycle 2002-2012 was fairly normal at 126K housing starts per year. In fact, this was 9.3% lower than the average of the preceding 13 years 1988-2001.

These housing statistics suggests that the housing market has corrected itself and is now ready to return to more stable growth rates. Indeed, the first two quarters of 2013 have brought a significant increase in home builder activity and a rapid rise in housing starts.





2013 Landscape Tree Market Outlook

Impacts on the Nursery Industry

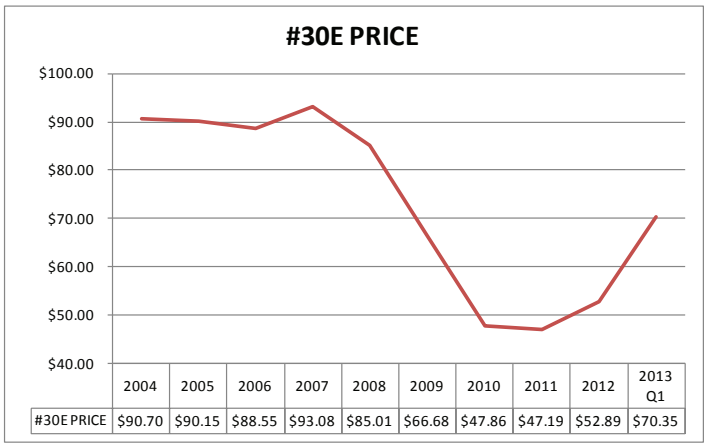
Fundamentals in the housing market may be returning to normal; however the extremes of the past ten years have caused a major disruption to the supply of plant material. The drastic fluctuations in demand for nursery products, driven by the swings in residential construction activity, have had a profound impact on the nursery industry. Unlike many manufactured materials, plant material inventories cannot adjust quickly to changes in demand. Production cycles for trees average 4 -6 years for standard sizes, and therefore supply cannot be increased in time to meet short or mid-term increases in demand.

Conversely, when demand decreases, nursery materials cannot be warehoused or stocked. Plants are perishable, have a limited shelf life and are expensive to maintain. This leaves the industry with few options in the event of a slow-down. Inevitably, a protracted decline in demand leads to inventory destruction and capacity reduction.

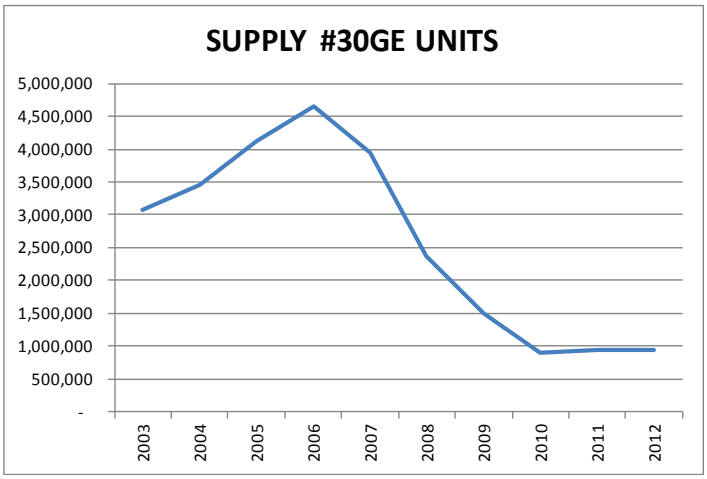
These unique challenges make it difficult to establish equilibrium between supply and demand of nursery products. When growth rates are stable and economic cycles mild, the disequilibrium is relatively minor causing only slight overages or shortages. However, when economic cycles are extreme, as in the past ten years, the effect on nursery supply is dramatic. We have seen supply swing, like a high arching pendulum, from a massive oversupply to a sudden and extreme shortage. Most significantly, the nursery supply is now out of sync with the construction industry and will likely require years to realign.

What is the 30 Gallon Equivalent?

In this study tree material pricing and inventory volume is reported utilizing the 30 Gallon Equivalent unit of measure (expressed as #30E). This is a size-weighted index in which each item influences the index in proportion to its size relative to the 30 Gallon. A typical 30 Gallon tree is 10' tall, 2" caliper and about three years old. Larger sizes take longer to produce and therefore have a higher #30E Value. This index makes it possible to track price and volume of tree inventories as an aggregate including ball and burlap and container inventories.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 Q1
#30E PRICE	$90.70	$90.15	$88.55	$93.08	$85.01	$66.68	$47.86	$47.19	$52.89	$70.35



Price

The #30E Price of nursery grown landscape trees peaked in 2007 at $93.08. Following the decline in construction activity, price plummeted to a low of $47.19 in 2011 – a 49% decrease over 2007. This dramatic decline pushed market price well below production costs, and nursery growers booked negative margins for close to five consecutive years. After 2011, price began to recover gradually reaching $52.89 in 2012 and $71.32 in the first quarter of 2013. As of this writing, price remains below 2007 levels but is now rapidly increasing, having appreciated 48% in less than twelve months. Prices are expected to continue to rise for the foreseeable future. It is likely that prices will soon exceed 2007 levels and it is possible that we will see record highs well over $100 a #30E over the next several years.

Volume

Total Florida nursery grown tree inventories peaked in 2006 at 4,660,000 #30Es. After 2006, supply fell sharply to 900,000 units in 2010 - over 80% in four years. Since 2012, supply has increased slightly to 950,000 units.

Production Capacity

A decrease in supply was the only possible adjustment in the face of the decline in demand. This decline in supply will have an enduring and fundamental impact on nursery production and output moving forwards because it was largely achieved through a reduction in production capacity. Production capacity is the underlying infrastructure required to produce trees - irrigation systems, holding systems and land.

As supply and demand fell between 2006 and 2011, nurseries stop planting new fields, abandoned existing fields, ceased maintaining critical infrastructure, and in many cases completely exited the market. Thus total production capacity of the industry has been critically reduced. Once production capacity is reduced it is very slow to rebuild as it requires heavy capital investment and time. Producers willing and able to make the capital investment today to expand their capacity will need to wait another 4-6 years for the inventories to mature. Thus there will not be any significant increase in the supply of plant material for at least 5 more years.

Supply Forecast

There will be a significant shortage of landscape trees over the next 5 year. We estimate current inventory to be approximately 950K units. Growth in supply will slow and steady over the next five years. Our model assumes a 3% annual growth rate through 2017. After 2017 we can expect a faster rate of growth as new investments expand production capacity.

Demand Forecast

The demand for nursery grown landscape trees is directly correlated to the number of housing starts. We estimate that for every Florida housing start, there is demand generated for 17 #30E trees. This captures the total demand for landscape trees including demand generated by non residential segments of the construction industry.

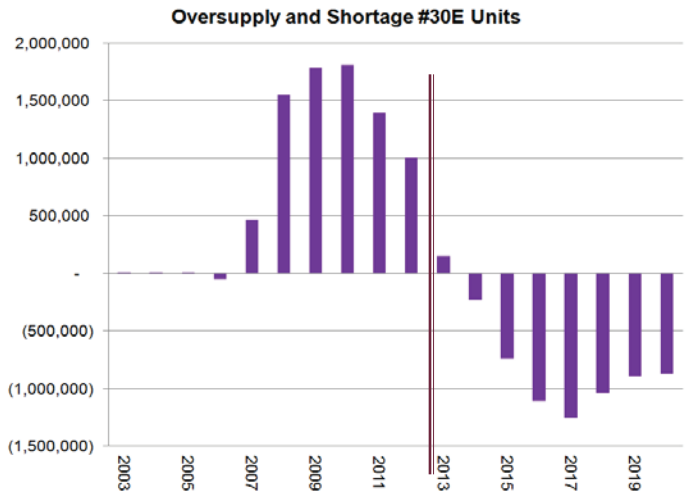
Based on this factor we can forecast demand for landscape trees by forecasting housing starts. Currently there are a

number of reputable forecast for Florida Housing starts available, all of which project substantial growth in housing starts beginning in 2013. For example, the University of Central Florida's Institute for Economic Competitiveness published the Florida and Metro Forecast 2013-2016 in December 2012. In this forecast they project Florida Housing Starts to be over 128,000 in 2013, 164,000 in 2015 and 185,400 in 2016. These numbers represent a 100%, 156%, 190% increase respectively over 2012 Housing Starts.

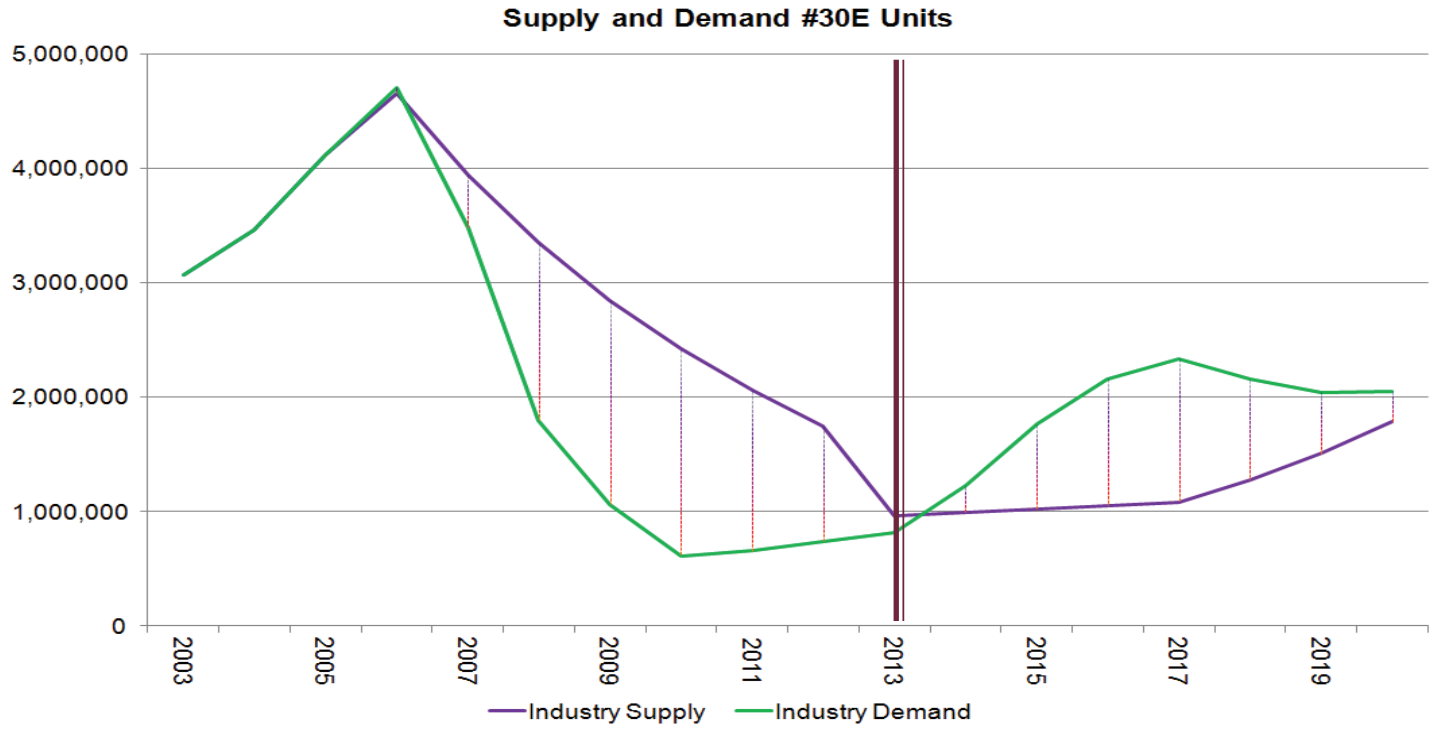
For our study we have chosen a more conservative methodology for forecasting housing start based on the US Census population growth projections. We have taken new population forecast and applied the factor of 2.16 new population per housing start to derive our forecast. This methodology yields 104K housing starts in 2014, 127K in 2015 and 138K in 2016. This forecast is significantly more conservative than the UCF forecast; nevertheless, as we will demonstrate below, even these lower levels of growth will lead to significant shortages in plant material.

Forecasting the Shortage of Trees

Based on the supply and demand forecast presented above, it is possible to forecast the scale and magnitude of the upcoming shortage of landscape trees. This model shows that there will be a shortage of 232K #30E units in 2014, 738K units in 2015, 1.1M units in 2016 and 1.3M units in 2017. That is 19%, 42%, 51% and 54% of total demand respectively in each of those years. In other words, there will be twice as much demand as there will be supply.



As mentioned above, this is likely a conservative forecast. If housing starts exceed our expectations, the shortage will be even more severe. At any rate, this projection raises serious questions as to how the industry will adapt to a situation in which demand is more than twice the supply. As it is not possible to manufacture more supply in time to meet the demand, it is likely that prices will rise significantly. Imports from out of state may increase; however, it is unlikely that imports alone will be able to impact the situation significantly as the national outlook is very similar to that in Florida. Inevitably, there will be unfulfilled demand.



Sourcing Strategies

Sourcing strategies for purchasing and securing plant material in an undersupplied market will be substantially different from those typically pursued in an oversupplied market. Consumers of landscape trees who understand this shift and adapt their sourcing strategies early will have a distinct advantage over the competition. Planning in advance and partnering with producers will become increasingly more important. Designing projects around available material will be critical. Producers and consumers will need to collaborate early in the design and planning stages of a project, in order to assure availability of material throughout the construction phases. Consumers and producers will benefit from developing strategic alliances and partnerships to navigate these challenges.

Looking Ahead

The next five years will be characterized by an extreme shortage of plant material and record high prices. These conditions will surely motivate growers to increase production, attract new capital and new entrants into the market, laying the foundation for the future growth of plant material supply and possibly the next major oversupply. The long production cycle for landscape trees means any major growth of the supply is at least 5 years away. By that time the housing market may be entering its next downturn. As the pendulum swings, it is possible that the nursery industry will remain out of sync with the housing market setting up another protracted oversupply down the road.

"The long production cycle for landscape trees means any major growth of the supply is at least 5 years away."

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WHY TREE PRICES WILL INCREASE

John H. Barbour, President, Bold Spring Nursery

Price increases are a sore topic. In our current economic climate, cost cutting has become a way of life as businesses fight to conserve cash and preserve margins. The unwelcome news of a price increase from a supplier is usually the last thing a buyer wants to hear. The ornamental tree business has been no different. Growers have suffered a crushing over-supply of trees which was, in fact, developing 6 -7 years ago, but was masked by the frenetic pace of construction through the middle part of the decade. When the bubble burst in 2007-2008 the demand for trees was reduced dramatically, beyond what few of us have ever witnessed. Since that time, growers, desperate to maintain a market share, have reacted by cutting prices for each of the last 3 years to the point where prices, on some items, have reached 30-year lows.

Unlike many businesses, tree growers cannot simply downsize their company to a scale that matches their sales. Existing inventory requires upkeep and that costs money. Like everyone else, growers have aggressively cut costs to try to staunch the negative flow of cash. That is a tall order in a world where the costs of raw materials such as burlap, diesel, and plastic have only increased. So, in many cases, fertilizer, pesticides, pruning, and staking have gone by the board. The results of excessive cost cutting are evident in the marketplace this year and many growers are simply not capable of supplying trees of adequate quality. For most growers, even the cost of culling bad trees is daunting when cash is tight and so the trees sit around, on display in the fields or, in the case of containers, growing increasingly pot-bound.

The other major area of cost cutting has been a sharp decrease in tree-planting in nurseries. Many cash conscious growers have realized that if they cannot afford to maintain what they have, then there is little point in putting more trees in the ground. As a result, tree planting has declined 70-80% over this period. This reduction occurred progressively: first by about 20% in 2008-2009 and then an additional 30-40% in each of the two following years. This trend has only just begun to become evident, with many smaller-sized trees and evergreens becoming scarce this spring. Over the next two years the breadth of shortages will increase dramatically and progressively, as more gaps appear while the old inventory outgrows the market, becomes ruined from neglect, is sawed down to increase spacing, or grubbed out entirely to prepare fields for re-planting.

Growers are watching carefully to see which items are selling out and they will raise prices whenever market conditions allow. This is not a matter of greed as much as survival. Most nurseries are just hanging on and absorbing losses, if they are even doing that. We are all watching while prominent nurseries fail, unable to continue in an economic meltdown that was nearly impossible to predict.

The shock waves from the sub-prime melt-down will continue to be felt, but will soon be felt in different ways. The crash of demand will be followed by a crash in supply caused by a reduction in the number of nurseries that have been willing and able to continue to risk investment in the planting and maintenance of quality inventory these last three years. And just as the construction *boom* masked the over-supply of trees 5-6 years ago, the construction *bust* is masking the currently developing shortage. When we experience even a modest resumption in new construction, the shortages will be difficult to manage.

It is important for businesses to educate their customers for what is coming. There is a special challenge for those who are bidding projects that are further out. There is a shocking gap between the desperate pricing of 2010-11, and the prices of, even, the over-supplied market of 2007. But when scarcities become prevalent, prices will return to their former levels, and eventually go higher still. That market of shortages may be much closer than you realize. Buyers should be prepared for price increases in fall 2011 and very large increases in 2012 and 2013.