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CHARTERED SURVEYORS & FORESTRY AGENTS

Tilhill FORESTRY

The UK Forest Market Report

Issue 20 2018

John Clegg & Co
CHARTERED SURVEYORS & FORESTRY AGENTS
The forestry division of STRUTT & PARKER

Tilhill FORESTRY

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The Buyer's Perspective >

The last year has proven to be another busy one for forestry investors with over £100m of sales recorded in the period. This is made up of a slightly complicated picture of a reduced number of larger properties trading at a higher unit price than was recorded in 2017.

Last year we saw the long-term returns from the forestry market improve as measured by the MSCI IPD Index (Source IPD, 2018) with one year returns of 13.9%, up from 9.9% in the previous year. Forestry has produced better overall returns than equities, bonds and other UK property classes over 3, 5 and 10 year periods which partly explains its continued popularity with a range of investors – particularly those far-sighted enough to have invested a few years ago.

The investment funds continue their dominance of the market and seem to favour the better quality, most productive properties within south and west Scotland. However, private investors are still active through all sectors of the market although they need to be well prepared in order to act quickly when the right property comes up. Many new investors are coming through to investigate the marketplace. Surprisingly perhaps, given the situation with Brexit, many of these are based within the EU but seem reassuringly confident to invest in the UK.

Motivation for investors can vary quite widely but the traditional objectives still dominate. These include the long-term financial returns, the contra cyclical nature of forestry investment, the potential for tax planning, long-term capital growth, especially within a pension, or the amenity value. Increasingly, we are seeing people with an interest in natural capital although we are still trying to find a way to 'monetise' this.

Overall, we have seen a slightly tighter market for commercial forest properties, with only 57 sales completing in the reporting period. However, this year has seen a good spread of the price range for these properties, with the £250,000-£500,000 range having the most sales.

During the year we have worked with investors who are interested in developing new planting schemes. We see this level of interest, particularly in Scotland, as a very positive and necessary development to secure the long-term future of the industry and is supported by the FC(S) and the Scottish Government. Many hurdles still exist to get planting schemes off the ground, not least of which is uncertainty on long-term grant-aid support for woodland creation, but there are encouraging levels of activity planned in Scotland at least.

Mixed woodlands, which are generally smaller and managed for a variety of objectives rather than purely for a timber crop, remain popular with investors, particularly those who enjoy taking an active role in developing their woodland. We have recorded a slightly smaller acreage sold this year, but an improvement in the average price paid.

The wider economic climate remains highly volatile, but in this environment the security of owning real assets, the improvement in timber prices and general confidence that these can be sustained, strong political support for the industry together with the amenity values mean that forestry remains an attractive investment for many investors.

Peter Whitfield
BSc(For), FICFor, MRICS
Business Development Director

Tilhill Forestry is the leading forest management and timber harvesting company in the UK.

The Seller's Perspective >

Back in the early 1980s I planted a hillside with Sitka spruce and other mixed species for an investor. Ever since the trees reached thirty years of age he has been asking me "When is the income coming?" I have always stalled his enthusiasm for felling by pointing out that the final years of a crop's life increase the volume of logs significantly and that we were sure to see a rise in timber prices.

However, the answer at last seems to be "About now". After years of waiting for jam tomorrow, forest owners with mature crops can enjoy their rewards. Owners have the option of selling their forest at a very strong moment in the forestry cycle or of enjoying the receipt of timber income far above what was seen a few years ago.

The upward movement in the price of timber in the last twelve months has been staggering; around 30% according to some commentators. Driven partly by the weak pound and consequently more expensive imports but also, I believe, by a dawning realisation that the supply of fibre is finite. In the words of the James Bond film: *The World is not Enough*. As the second largest timber importer in the world the UK needs to be aware that the ability to secure material in the global market is likely to get more difficult as other nations become increasingly affluent.

The last fifteen years has seen such a remarkable rise in the value of plantations and timber it would only be reasonable to question whether this rate of growth can continue. The simple answer to that is that if we wish to use timber as a primary raw material the price will rise until we reach some unbreakable ceiling. In our opinion there is more to come.

We look at the timber market in more detail elsewhere in this report but one of the very strong influences on timber pricing is the subsidised demand for biomass fuel. Making use of what we used to call waste as a source of energy makes some sense but using prime raw timber as a fuel is questionable when other options offer longer term carbon storage. However, we must play the market with the hand of cards we currently have.

The demand from investors seeking ownership of forestry assets has never been stronger in my experience. The strength of competitive bidding at closing dates is remarkable and any owners contemplating a sale would be advised to take great care in how their property is marketed to ensure that they benefit from this. As the importance of what is termed Natural Capital assumes greater prominence this demand applies as much to amenity/conservation woods as it does to commercial plantations.

The highlights of some of the timber and property sales during 2017-18 can often take the eye away from the need to compare apples with apples. Some of the highest prices paid have either been for solid spruce properties or for properties that offer more in the way of amenity and locational attraction. A simple look at headline figures, without understanding the underlying reality of individual circumstances, often leads to wrong conclusions. This applies particularly when considering the marketing and/or acquisition of property. It is essential that one fully understands how market evidence relates to the specific property under consideration.

Fenning Welstead
BSc (For) Hons, FICFor, FRICS
Partner, John Clegg & Co

John Clegg & Co is the leading forestry agent, particularly active in forestry sales.

Acknowledgements: **Cover photo**: McAllister's Wood, Avonbridge, West Lothian courtesy of John Clegg & Co.
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Introduction >

The main section of The UK Forest Market Report focuses on completed sales of commercial forest properties over 20 hectares in size which are predominantly conifer. We refer to individual years (2018 etc.) but the actual period each year covers is the 1st October to the 30th September of the following year. Other woodlands are covered in the Mixed Woodlands section.

The report includes publically recorded sales, and where possible, off market sales. By their nature it is difficult to track off market sales, although they are included where we are aware of them.

The UK Forest Market Report has been produced since 1998 and the data series now covers 21 years, incorporating some 1,700 transactions totalling some £1,137m and 266,000 stocked hectares. As such we believe it is the most comprehensive publicly available record of forestry transactions in the UK.

More detail on the data analysis is available on request from **Tilhill Forestry** or **John Clegg & Co.** See contact details at the back.

Our database now exceeds **£1.1bn** recorded sales

Market Overview >

IN 2018 WE SAW A TOTAL OF **£104.2 MILLION** OF FOREST PROPERTIES TRADED, A DECREASE OF **£6.8M (6%)** FROM 2017. THIS IS MADE UP OF **57** SEPARATE FOREST SALES AGAINST **87** IN 2017.

In many ways, 2018 has been a difficult year to categorise. Despite a smaller number of forestry transactions, the value of the market has sustained the upward trend we started to see in 2007. Perhaps the best description of the year would be 'brisk'. The total return from forestry in 2017 was **13.9%** according to the IPD UK Annual Forestry Index.

Scotland retained its dominant position in the commercial forestry marketplace with **69%** of the sales recorded. **England** recorded a higher than usual position in the market with **26%** of recorded sales, driven by one large transaction in the north of England. **Wales** remains a smaller part of the market at **5%**, generally consisting of smaller properties.

In total some **14,369 gross hectares** (ha) of forestry was traded, of which **11,166ha were stocked or plantable**. Our analysis focusses on the stocked area in the forest (the productive commercial element) in line with the overall intention of the report. This is **lower** than last year (2017: 12,985ha) and made up of considerably fewer properties.

This year has seen a good mix of several large estates and a selection of smaller properties coming to market. In Scotland the sale of Dunderave Forest by Inveraray, comprising over 1,000ha of predominately 1980s spruce, attracted considerable attention from investors and sold quickly, well above the guide price of £8 million. In England, there was substantial interest in the sale of Dipton Woods in Northumberland, a diverse mixed age commercial plantation close to Corbridge, which sold considerably above its guide price of £1.6 million. Encouragingly, we have also seen investors eager to buy land to plant with suitable land being keenly contested.

The average size of a sold property this year has increased to 196ha (from 149ha in 2017) and the **average cost of a property is now £1.83 million**. On average, the market has consisted of a smaller number of larger properties, with a higher unit value. But, of course, there is much variety hidden within the averages.

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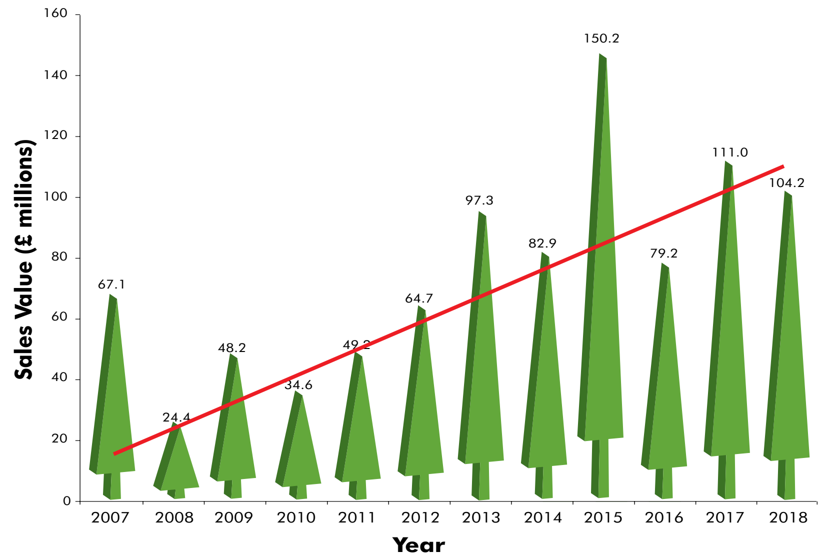


Fig 1: Total Annual Value of Forest Sold

KEY FACT:
Recorded sales
69% Scotland, **26%** England, **5%** Wales

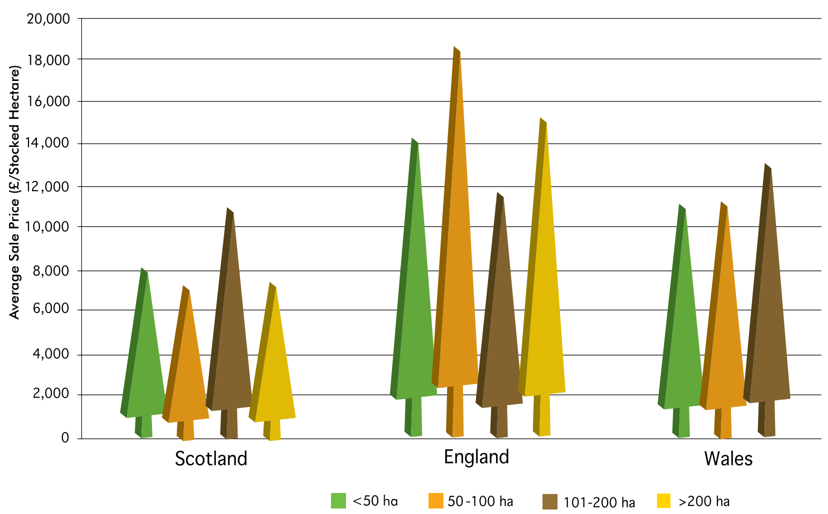


Fig 2. Average Sale Price per Stocked Hectare by Country and Size Class

Case Study

Newmore Forest – North Scotland

To prove that the heat in the market isn't just isolated to the southern lowlands, Newmore Forest (218ha/539 acres) was launched onto the market in June 2018. It had been acquired by the owners in 2006 for £386,000 as a family business investment and managed primarily for commercial purposes. Works were carried out including improving the access, thinning and then felling a small coupe before the family considered they should sell it.

To complete the picture, Newmore Forest is located 25 miles north of Inverness in Easter Ross, overlooking the Cromarty Firth and is reasonably close to the cluster of timber processors around Inverness. It was established in stages between 1970 and 1986 consisting of approximately 38% Scots pine, 22% mixed conifer, 19% Sitka spruce and 10% Hybrid larch on former upland pasture and heather moorland.

Having such a mixed species and age class structure in the north of Scotland, we were a little unsure how the market would respond to this property as the market preference is for Sitka spruce and tends to focus on properties towards the south of Scotland. A guide price was set for offers over £1.25 million to stimulate interest.

Once launched on the market it soon became clear that keen interest was developing and following six weeks of marketing five offers were received on the closing date. Offers were in excess of £1.5 million and the sale was secured at a bid price of £1.7 million, demonstrating a range of 20% - 36% over guide. Understandably, the owners were very happy with their investment having achieved an annual capital growth rate of 13.2%.

Newmore Forest, Easter Ross.

Market Overview *continued*

Average prices in Scotland show consistency in the average unit price per hectare paid across all forest size ranges, with the 101-200ha standing out in 2018. Some of these higher value properties have additional interests as small estates.

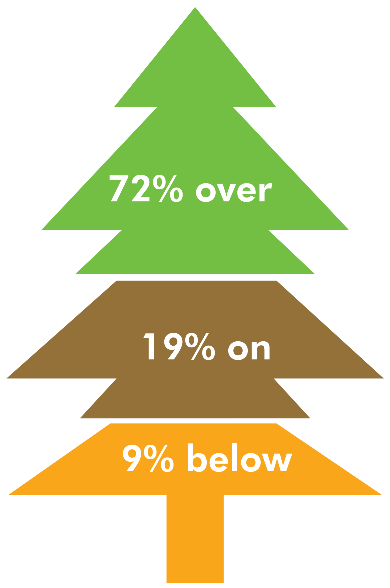
Overall prices in England are consistently higher, no doubt driven by higher land prices. This would certainly account for the average prices above £18,000/stocked hectare in the 50-100ha category in England.

With average prices in Wales now at around £12,000 per hectare it is looking rather more expensive than Scotland although, as it is based on a small sample size, it is difficult to draw any sound conclusions from this.

The very active state of the market in the year has shown the difficulty that buyers have in determining a bid price. Over the year we have seen **72% of recorded sales over the guide, only 9% below guide, and 14% of properties selling at more than 50% above guide**. This does reflect differing marketing strategies in the different countries, with 70% of the properties that sold over guide being located in Scotland. Buyers from outside of Scotland take some time to understand the market in these circumstances.

Overall, we believe that the market continues to behave robustly in the light of the wider economic environment, demonstrating the strength and resilience of forestry as a long-term investment. We have recorded a tightening in the number of commercial properties coming to market in 2018 although there remains a good selection of property marketed to attract a wide range of investors' interests.

Further details of our market analysis are available on request from Tilhill Forestry or John Clegg & Co. See contact details at the back.



Recorded sales against guide price

Average cost of a forest property

2018: **£1.83m**

2017: **£1.28m**

Case Study

North England market

One curious aspect of the market in recent years has been the apparent dearth of commercial forestry offered for sale in the north of England. This seems rather counter-intuitive, given the strong demand we have seen from investors for commercial forestry in this area.

However, this year we saw two larger properties come to the open market, one being in Northumberland and the other in Cumbria.

Dipton Woods in Northumberland was offered at £1.6m for 227ha of predominantly Scots pine, with a wide range of age classes and land to restock. This had the added attraction of the potential for further planting.

On the other side of the country, Hollin Cleugh in Cumbria was offered at £550,000 for 146ha comprising young, second rotation commercial conifers and attracted a great deal of attention. Both properties sold briskly and well above the guide price.

However, these open sales belie the state of the market, where much action is taking place off market. Over the last couple of years we have tracked over 2,400ha of commercial forestry sold off market, usually to well-informed institutional investors, with prices achieved exceeding those seen in Scotland.

Timber crop from Dipton Woods.

Market Conditions >

WORLD MARKETS HAVE SHOWN REMARKABLE EQUANIMITY IN THE FACE OF MAJOR THREATS SUCH AS THE OIL PRICE, TRADE WARS, DEBT CRISES AND INDEED BREXIT. THE FTSE HAS TRADED ABOVE THE 7,000 LEVEL THROUGHOUT THE YEAR, DESPITE A RAPID DROP AT THE END OF OUR REPORTING PERIOD.

The improvement in exchange rates, with GBR:EUR rates varying at historically low values between about 1.10 to 1.16 has been positive for UK timber prices and is discussed further on in this report. We have seen standing timber prices improving strongly in the period, with the Forestry Commission Index showing a 30% increase between March 2017 – 2018. As the value of standing timber represents a substantial proportion of the value in a forest this partially explains the improvement in forestry prices seen recently. Some investors have anticipated higher timber prices in recent years and this may be behind some of the improvement on forestry prices covered in previous editions of this report.

Against this backdrop, investors continue to look favourably on forestry investment. The market remains robust with both institutional and private investors looking for appropriate investments.

Standing timber prices have improved strongly in the period with the Forestry Commission Index showing a **30%** increase.

Dunderave Forest, Loch Fyne

Image courtesy of Guthrie Aerial Photography

New Planting >

LAST YEAR WE REPORTED A WELCOME RENEWAL OF INTEREST IN THE PLANTING OF NEW COMMERCIAL CONIFER SCHEMES. THIS HAS BEEN CONTINUED IN 2018 AND HAS BEEN A MAJOR AREA OF WORK FOR THOSE INVOLVED IN THE ASSESSMENT AND PLANNING OF WOODLAND CREATION SCHEMES.

This has not been an area traditionally covered in the Forest Market Report although we have been recording any land sales which we believe may have a future forestry use and will be reporting on this in due course.

Ascertaining the price paid for plantable land is always complex as it is very rarely offered in a simple land package. Land price will depend on the proportion of land that is deemed 'plantable', the capability of the land to grow productive quality conifers and, crucially, the level of grant support. Complexity arises when the property comes with other assets such as residential interests, potential for sustainable energy projects, other buildings, and development potential and so on, and the successful projects are those which can take a wider view of the full potential of the site.

In the UK we have seen a steady decline in the amount of woodland created since the heady days of the 1970's. Indeed some commentators suggest that given the amount of forestry taken out of commercial production by failure to restock, or taken for wind farms, infrastructure developments, habitat restoration and other projects, we may not be increasing woodland cover at all but this is tricky to prove.

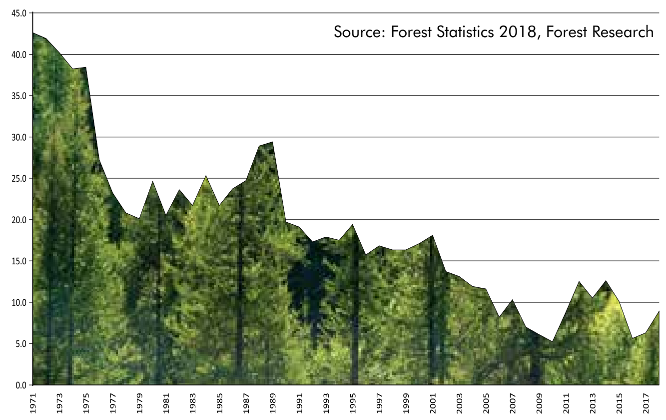


Fig 3. Total new planting in UK since 1970's

In **Scotland**, where the majority of new planting interest lies, we saw 4,700ha of new conifer planting last year, the best figures since 2000. This represented 95% of new conifer planting across the country.

Encouragingly, Forestry Commission Scotland (FCS) has reported strong demand for woodland creation schemes for 2018/19 and 2019/20 with over 12,000ha (*FCS Briefing Note 19*) of woodland creation currently being assessed for both years. These site assessments and applications are already putting pressure on Woodland Officers and Forest Managers.

When these schemes come to fruition then it will in turn create considerable pressure on suppliers and the contractor base – undoubtedly a good problem to have. The grant budget has been increased for 2018/19 to accommodate this increased demand, a sign of the importance the Scottish Government gives to forestry as a key part of the rural economy.

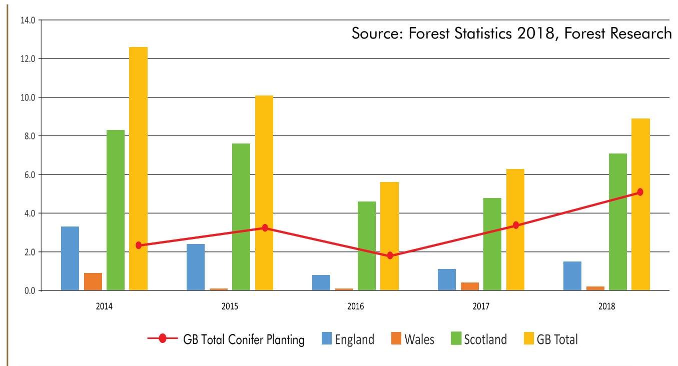


Fig 4. Total new planting in UK 2014-2018 (including conifer planting)

In **England** we have seen commercial schemes approved at Doddington Moor and on the Lowther Estate which have received much welcomed publicity. Two funding schemes are in place for woodland creation: Countryside Stewardship, seen by investors as focussed on the creation of small scale mixed woodlands and the Woodland Carbon Fund scheme for the more commercial schemes. Both of these schemes provide generous support for woodland creation and it is difficult to explain why more land hasn't been planted. The price of land plays a part in this of course, but there is still a perception amongst investors that only diverse schemes are welcomed in England.

It is good to see some positive movements in the support for woodland creation in England, with the announcement of a Forestry Investment Zone in the north of England, the appointment of two FC Woodland Creation Officers to promote new schemes, and the publicity around the HS2 Woodland Fund and the Northern Forest. In addition, the appointment of Sir William Worsley, a highly respected figure in the industry, as the Tree Champion for England with a brief to drive forward planting rates, are all very positive steps.

However, we have seen very little woodland creation in **Wales** in 2018 (about 200ha according to the statistics) and we await news on a new woodland creation scheme in due course.

After a long absence it was good to hear forestry being mentioned in the budget this year (Oct 18) with £60m allocated to tree planting divided out as £50m for woodland creation and £10m for urban trees in England.

Timber Markets >

THE PAST YEAR HAS SEEN EXCEPTIONAL OPPORTUNITIES FOR FOREST AND WOODLAND OWNERS WHO HAVE STANDING OR ROADSIDE TIMBER AVAILABLE FOR SALE.

Peter Whitfield – Business Development Director

Timber prices have risen at unprecedented rates, with the Forestry Commission's Coniferous Standing Sales Index showing an increase of 28.2% in real terms (30.5% in nominal terms) in the year to March 2018, compared with the previous year.

The Forestry Commission's last set of figures for their standing and roadside log indices overlaid by Tilhill's own pulpwood index are shown in Fig. 5.

What is behind these steep price rises?

As with most markets many factors influence the price and, in the past, the most consistent driver has been the exchange rate. As we import almost 60% of our sawn timber, the weaker pound makes the UK sawmilling industry more competitive. Currently, there has been a significant increase in demand in the traditional wood using industries such as sawmilling and board production as well as in the biomass and renewable energy sector. Here, we have seen rises in demand for virgin fibre over the past 10 years. Currently, it is estimated that virgin wood burnt as biomass amounts to some 4M tonnes per annum.

Timber values are showing no signs of falling.

The Scottish wood processors – including Norbord in Inverness, James Jones at Lockerbie, BSW at Fort William and Glennon Brothers in East Lothian – have made major investments to reflect the growing demand for timber across a range of products, including timber frames for housing.

This year a new manufacturing line has been officially opened at the Norbord wood panel factory as part of a £95 million investment

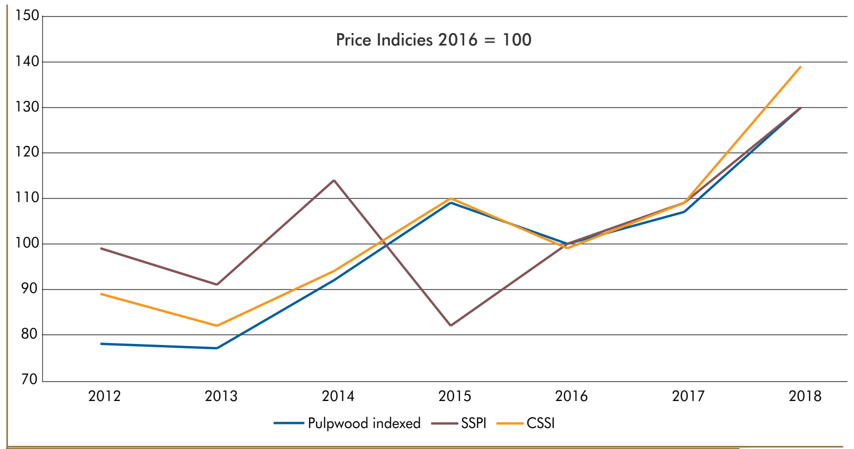


Fig 5. FC's Coniferous Standing Sale Price (CSSI) and Softwood Sawlog Price Indices for Great Britain (SSPI) with Tilhill's Pulpwood Index for the same period

assisted by a £12 million development grant from Highlands and Islands Enterprise. That's twice the amount wood processors have been investing every year over the last decade or more in just one project.

Fig. 6 shows the price trend of the sawn-timber output price. Industrial wood processors have to be able to pass on raw material price increases to their customers. This has been a hard, slow push for sawmills but they are now in a more equitable position as far as the raw material end product price ratio is concerned.

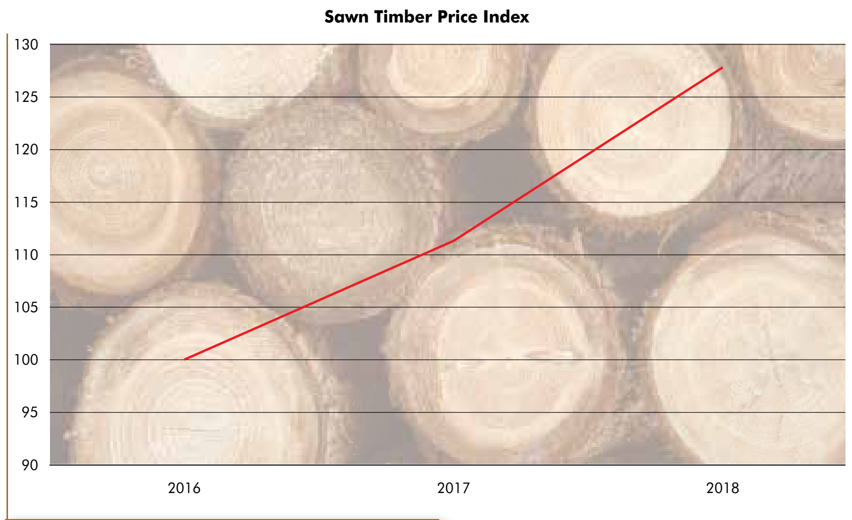


Fig 6. Price trend of the sawn-timber output price

During the past 7 years timber production from UK forests has remained relatively flat, despite forecasts of increasing production over the next 15-20 years indicated in the 25 year and 50 year production forecasts produced by the Forestry Commission.

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Timber Markets *continued*

The increase in forecast production has a number of key assumptions built into it. These assumptions are associated with thinning regimes and the age of final felling. The issue being that these practices have not taken place in alignment with the forecast. Additionally, the forecasts did not account for the increased clearance of forests for windfarms and environmental enhancement to mention but a number of the variables that have to be considered.

In both these cases the average age of felling has been much reduced and the cleared areas have not been replanted, thus impacting adversely on the overall production potential from our forests.

The status of the exchange rate has resulted in the UK becoming a less attractive market for Euro based producers. This is reflected in Fig. 7 where both the 2017 year total and 2018 year to date figures show a decline in imports both for 2017 over 2016 and the first two quarters of 2018 compared to the same quarter in 2017.

Looking forward there is significant uncertainty as a result of an unresolved process for Brexit (at the time of writing) which will continue to keep the pound low against the Euro. The demand for all categories of roundwood is likely to continue and thus the expectation is that prices will hold and stabilise. In Scotland most mills are currently well bought ahead whilst in Wales the picture is much tighter and the supply demand imbalance is significantly more noticeable. One of the factors assisting the Scottish position is the reduced demand in Ireland for logs due to a sawmill fire taking out some 200kt of log capacity and reducing, in the short to medium term, the Irish dependency on Scottish log material.

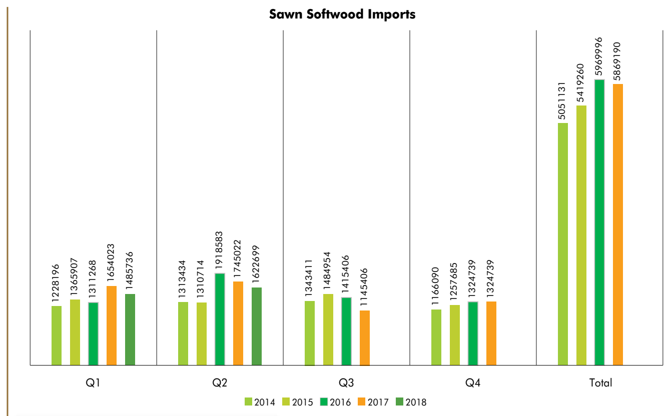


Fig 7. Softwood Import Index

Source EUWID based on data by Eurostat

> "The upward price movement in the market over the last year has been unprecedented, certainly I have not seen anything like it during my forestry career of 31 years. All roundwood prices have been driven by an underlying shortage, particularly for industrial roundwood, which shows no sign of settling.
>
> "It would be a brave person who would predict where the market is going currently, but one thing is certain it is showing no sign of falling anytime soon."

Harry Stevens – Timber Purchasing Director

Whither Brexit Again The Uncertainty Remains >

FOR THE LAST TWO YEARS WE HAVE COMMENTED THAT *"WE HAVE TO ASSUME THAT UNCERTAINTY WILL REMAIN FOR SOME TIME NOW"*. IT IS THEREFORE WORRYING THAT AT THE TIME OF WRITING UNCERTAINTY STILL REMAINS.

Two opportunities are becoming clear however. Firstly, that as a result of the UK's withdrawal from the EU, changes in the rural economy and other land uses will impact on forests and vice versa. Secondly, that as the primary support regimes for forestry across the UK are part of the EU Common Agricultural Policy they will need to be reviewed and replaced.

These are already being discussed, for example, through the Consultation on Scotland's Forestry Strategy and the UK Government's new Agriculture Bill. There is an opportunity when designing new policies to create a more integrated approach to land use, particularly with forestry and farming. Further, the focus on 'public goods' in the Agriculture Bill needs to recognise the significant public goods delivered by forestry and a thriving local timber industry.

Forestry vs Other Asset Classes >

AN OVERVIEW BY JASON BEEDELL, DIRECTOR, STRUTT & PARKER

Forestry investments remains one of the highest performing assets with a total return of **13.9%** in 2017, a rise from 9.9% in 2016 and just below the ten-year average of 15.7% pa. Its performance has been boosted by timber imports becoming more expensive due to the weakening of Sterling since the Referendum vote in March 2016.

Capital growth remains the main driver of returns, at 14.5% in 2017, due to continuing strong demand for forest land as an investment.

Capital receipts from timber sales were equivalent to 2.7% of the total value of the index; this can be loosely considered an annual income yield from forestry, although the income is lumpy, with most generated when a forest is thinned or felled.

There is a significant difference in performance between the highest performing forests (the upper quartile in *Table 2*) and the lowest performing ones. This highlights the importance of property selection combined with active forestry management.

Some of the interest from investors is due to the favourable tax treatment of commercial forest investment, which has not changed and continues to be held constant by successive governments. Governments continue to want to support tree planting in the UK, and in Scotland in particular, which should also support capital values. The Office of Tax Simplification is due to publish its recommendations for amending inheritance tax in late 2018, which may affect forestry's tax treatment.

> With a total return of **13.9%**, forestry remains one of the highest performing assets.

Looking forward to the next five years (2019-2023), we continue to expect returns from commercial property investments to be lower than in the recent past.

Total returns from commercial property are expected to be around 3% pa in 2019 and 2020 as prices of some types of commercial property fall and demand weakens due to economic uncertainties. Returns are then expected to rise to 4-6% pa in 2021 and 2022, with the strongest performance expected from industrial property, including warehousing, and the weakest from shopping centres.

Returns on farmland are also likely to be lower than the 10% or more a year rises seen until 2014. The Government has confirmed in the Agriculture Bill that direct payments for farming land will be phased out to zero between 2021 and 2027. Instead, land managers will be paid for providing a range of public goods, such as improving air and water quality, soil health, higher animal welfare standards, providing habitats for wildlife, reducing flood risk though tree planting, preventing climate change through protecting carbon stores, and improving public access to the countryside.

It is not clear yet precisely what payments will be for, who will pay them and how much they will be – but the policy direction has been set. The Government continues to consult widely on the new policy and wants to involve farmers, foresters and other stakeholders in its design. It will be implemented in stages between 2019 and 2025.

However, what is clear is that there is greater recognition of the importance of tree planting and forestry for a range of purposes – timber production, flood risk management, carbon storage and recreation. This can only increase the value of forestry but we can't yet answer the critical question – by how much.

Total Return (%)	2017	2016	2015	5 years	10 years	25 years
UK forestry	13.9	9.9	10.9	13.6	15.7	9.2
UK rural[2]	n/a	n/a	5.5	10.6	11.3	11.4
UK commercial property	9.6	3.9	13.3	11.0	5.8	9.5
UK residential market lets	2.8	2.7	7.1	7.9	6.3	-
Equities	11.8	19.2	-2.2	9.2	5.6	7.6
Bonds	1.8	7.9	1.0	3.3	6.0	6.8

Table 1: Investment performance of UK forestry compared with other core asset classes[1]

3 year period	Weighted average	Upper quartile	Median	Lower quartile
2010-2013	21.9	23.9	16.9	9.8
2011-2014	17.4	22.9	18.1	12.0
2012-2015	14.8	18.1	13.7	8.3
2013-2016	13.1	18.5	11.0	6.0
2014-2017	11.6	13.4	8.2	4.7

Table 2: Investment performance of UK forestry by 3 year rolling annualised total returns (% pa)

[1] All figures are from the MSCI IPD UK Forestry Index. The figures for property assets are for standing investments and so exclude transactions, which is MSCI's favoured measurement of returns. Including transactions, so sales from portfolios and uplift from development or tenancy reversions, typically adds 1-2% to total returns.

[2] NB No data was published for the year ending 2017 or 2016. The performance figures shown are those published for the year ending December 2015, and so the periods (e.g., 5 years) do not precisely match the others.

Natural Capital >

A DIFFERENT WAY OF THINKING?

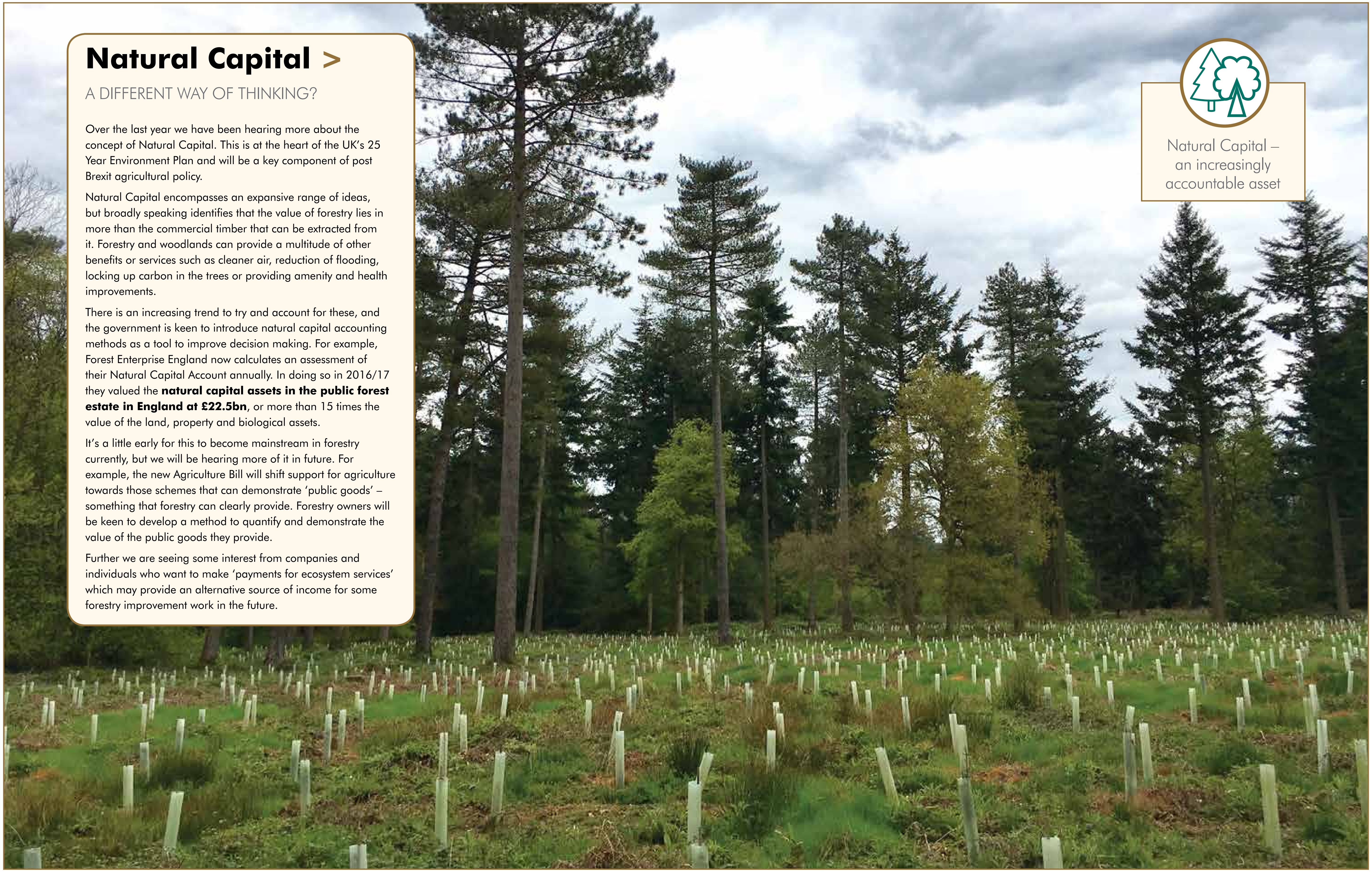
Over the last year we have been hearing more about the concept of Natural Capital. This is at the heart of the UK's 25 Year Environment Plan and will be a key component of post Brexit agricultural policy.

Natural Capital encompasses an expansive range of ideas, but broadly speaking identifies that the value of forestry lies in more than the commercial timber that can be extracted from it. Forestry and woodlands can provide a multitude of other benefits or services such as cleaner air, reduction of flooding, locking up carbon in the trees or providing amenity and health improvements.

There is an increasing trend to try and account for these, and the government is keen to introduce natural capital accounting methods as a tool to improve decision making. For example, Forest Enterprise England now calculates an assessment of their Natural Capital Account annually. In doing so in 2016/17 they valued the **natural capital assets in the public forest estate in England at £22.5bn**, or more than 15 times the value of the land, property and biological assets.

It's a little early for this to become mainstream in forestry currently, but we will be hearing more of it in future. For example, the new Agriculture Bill will shift support for agriculture towards those schemes that can demonstrate 'public goods' – something that forestry can clearly provide. Forestry owners will be keen to develop a method to quantify and demonstrate the value of the public goods they provide.

Further we are seeing some interest from companies and individuals who want to make 'payments for ecosystem services' which may provide an alternative source of income for some forestry improvement work in the future.



Natural Capital – an increasingly accountable asset

Mixed Woodlands >

IN THIS SECTION WE LOOK AT THOSE WOODLANDS THAT DO NOT MEET THE CRITERIA FOR THE MAIN REPORT.

Generally, these are smaller woodlands with more variety of species which are managed with mixed objectives. These are usually 25 acres or greater, but some smaller woodlands are included where they form part of a larger sale.

This is potentially a large and mixed marketplace, with some properties being sold into highly localised markets. Our sample of 35 properties is far from complete but we believe is broadly typical of the marketplace.

Our sample includes **1,982 acres** of mixed woodlands, with a **total guide price** of **£7.22m**. The total selling price was £7.98m representing an average of **10% over the guide price**. At around 56 acres, the average property size in the sample is **exactly the same** as last year, although the average sale price has increased to £4,025/acre (2017: £3,850/acre).

Average prices and the gross acres sold by country are shown in Fig. 8. **England** achieved the highest average price at **£4,650/acre**, with **Wales** at **£2,700/acre** and **Scotland £2,900/acre**.

As might be expected, region determines the potential value, with seven of the ten properties with the highest unit prices being in Southern England. Within a region however we can see quite a wide variation in price depending on a number of factors. Of these, the properties which have a building of any sort or some development potential consistently come out on top. Good access, high landscape attractiveness and seclusion are important factors as well.

We warned readers last year that in order to qualify for the tax advantages from owning woodland the woodland must meet the criteria of 'commercial management'. This warning seems to have been heeded as we are now regularly asked to comment on this when carrying out woodland valuations.

This is a complex area for which formal advice from an authorised tax advisor is required. Please discuss with us for more information but in principle there is no reason why smaller woodlands cannot qualify.

KEY FACT:
Buildings, good access, landscape attractiveness and seclusion are key value factors.

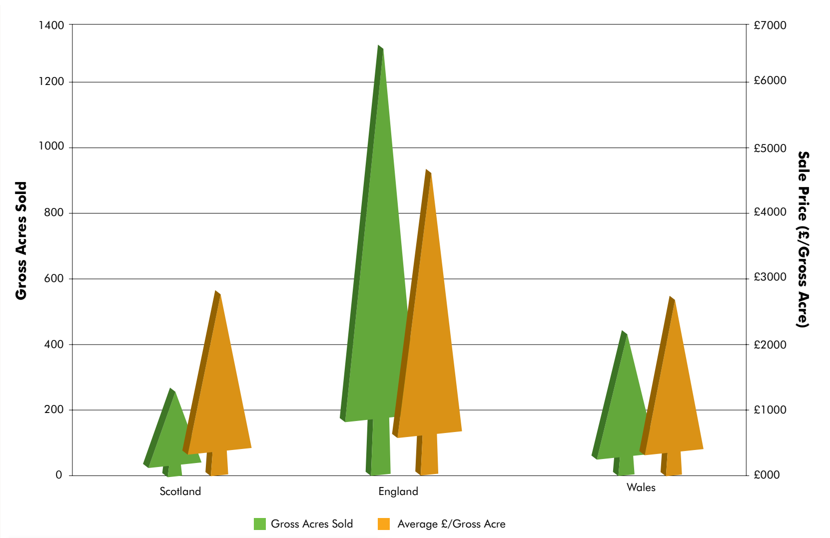


Fig 8: Mixed woodlands by country 2018

Price Average per Acre
England: **£4,650**
Wales: **£2,700**
Scotland: **£2,900**


Above: Broadleaf woodland in Southern England

Case Study

Haldon Park Wood and Humberdown Wood

This property was a unique sale during 2018 for John Clegg & Co as the woodland came with the addition of a forest school. It is also a woodland which provides an interesting perspective on prices over the decades with John Clegg & Co having previously sold the property in 1997 and 2014.

Haldon Park Wood and Humberdown Wood are beautifully situated at Little Haldon in Devon some 1½ miles from the Teign Estuary and 2 miles from Teignmouth. Exeter is about 13 miles. Opposite the wood is Teignmouth Golf Club, an 18-hole moorland links designed by the legendary Dr Alister MacKenzie and opened in 1924 some 9 years before he completed Augusta National, home of the US Masters.

The woods are divided into two blocks by a minor lane. The crops are principally coniferous in nature with well-presented selectively thinned stands established mainly between 1969 and 1980. Some restocking has taken place post 1993. There is a strong percentage of high quality Sitka spruce, Douglas fir and Norway spruce crops. The total area is about 128 acres.

Following the 2014 sale, consent was obtained for a mixed use forestry and forest school utilising around 21 acres. The previously even aged conifer woodland was transformed into a substantial timber building together with a range of habitats including conifer and broadleaved woodland, orchard, heathland regeneration, parking and a forest garden providing a crafts and teaching activities area.

Whilst the property has undergone some changes over the past 20 plus years, its composition and location has ensured competitive interest on each offering. At the 2018 sale the guide price of £670,000 (c. £5250 per acre) was comfortably exceeded. From a base at under £700 per acre in 1997 we have seen the value rise to around £3700 per acre in 2014 to well over £5000 per acre this year, showing an annual capital growth rate of over 10%.

Market Background >

Many of the forests being traded today were originally planted between the 1960's and the late 1980's and contain predominantly Sitka spruce. Individual properties were typically planted in one operation to create an even aged forest which, as discussed earlier, are now becoming much more age diverse as the original crops are harvested and replaced. Current forest regulations restrict extensive harvesting within a single property so harvesting has to be undertaken in stages. Around 30% of our commercial sample is of 'mid rotation properties' with no easily identifiable planting year.

This research is a snapshot of the commercial forestry market in the year to September 2018. Woods sold in previous years are therefore different from those analysed here. While these results show useful trends, readers should not base investment decisions on these comparisons alone and should always seek professional advice before committing to an investment.

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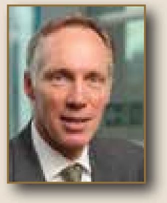
John Clegg & Co

Scotland and Northern England



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