

Long-term investors see value of forestry in light of Brexit chill

Forest market report by Fenning Welstead, of John Clegg & Co



In the immediate aftermath of the surprising EU referendum result, and I am writing this less than a week after David Cameron intimated his intention to stand down, there has been a great deal of noise signifying largely nothing. By the time you read this perhaps all will be clear but so, perhaps, will the blue moon!

The months of May and June seemed to be characterised by extremes – boom or bust – depending on whether ‘Remain’ or ‘Brexit’ was making the utterances. Confusion abounded as there did not seem to be any facts to back up the claims. Facts are still in short supply.

What of UK Forestry? John Clegg & Co’s Haddenham office reported brisk business in the six week period covering the latter half of May and June. **Fact:** 17 woods sold in England and Wales. **Fact:** ten woods launched on the market over the same period. **Fact:** strong interest registered. The Edinburgh office also saw an upturn in interest and successful sales during this period.

The immediate reaction from those who have been expressing an interest in acquiring forestry has been positive. John Clegg & Co currently has on the market, the very extensive Invertrossachs Forest, 1358ha asking £6.38m, which is being inspected closely by a number of prospective purchasers. None of these show any sign of withdrawing or, at this stage, of adjusting their views on values. Other clients have also said that they regard forestry and timber assets as excellent long-term investments and some of them are seeking to acquire more.

Bidwells have just launched the extensive Glen Massan Estate into the market. Extending to 3279ha and priced at over £9m this may be one of the largest forests presented this year. It offers commercial timber and a superb, secluded setting. It should likewise draw strong interest. Timber price movements are not yet clear but if the £GB remains weakened, the historical effect has been to increase home-grown timber prices as imports become more expensive.

The one big thing that comes out of the result is that the political system has become divorced from the everyday concerns of the electorate. I believe that this is a Europe-wide, if not even a global issue. The British electorate have simply had a chance to express their views. We might also remember that the vote was only carried by a small margin and that almost half

of the votes cast were for us to remain in Europe. It might not be unreasonable to assume that a degree of pragmatism will prevail in the interests of continued trade and economic activity. Neither Europe, nor Britain, can afford a downturn.

Forestry does benefit from grant support and much of this is funded through a European route, although not all of it. The indications this week are that we should continue to submit applications under the various grant schemes in the different countries and that these will be considered as if there was no change. We are, effectively, still part of Europe for at least two years, plus however long it takes for somebody to activate Article 50 of the Lisbon Treaty. If EU funding disappears for forestry presumably the same will occur in respect of EU subsidies for farming which would provoke a really hard look at land-use.

Scotland, England and Wales all have stated intentions to increase new planting and woodland cover. The grants available in each of the countries appear, at face value, to be very attractive; however, the problem has been, and continues to be, the significant hassle in securing the approval for the forestry development. The consultation process and uncertainty is very off-putting for prospective new planting investment. My personal view is that new planting targets would be met if we accepted forestry as a fundamentally sound land use that can be integrated into farming. While there is some sign that this is happening, might that become eas-

ier in the post-EU world where we could make decisions tailored to the UK.

This article usually focuses on current forestry market activity. In the south-east of England Possingworth Park Lake and Woodland, 42ha, are well managed mixed woodlands, principally mid to late rotation, with a beautiful 4ha lake and three further ponds. Guided at £750,000 there is already good interest at this level.

Moving west to Devon, Goodstone Forest is a fine mixed age wood with mainly coniferous crops; principally of Douglas fir and Sitka spruce offering excellent opportunities for capital growth and future investment income. Within the 43ha is an attractive winding stretch of the River Lemon. Guided at £499,999 Goodstone Forest has attracted immediate interest in the marketplace.

In Wales, a very swift offer took Coed Caer-saeson, 56ha in the Snowdonia National Park, out of the market. The late 1960s crops, mainly Sitka spruce, larch and pine achieved over the guide price of £450,000.

In south Scotland the sale of Hartside, 394ha of 30-year-old commercial spruce crops went under offer at well over the guide price of £8756 per ha.

We believe that the market for woods and commercial forestry will continue to perform in reflection of the underlying value in land and a renewable timber resource. For those buying smaller scale woodlands the joy of ownership is an added bonus. At the industrial scale raw material supply may be a key driver.



The extensive Invertrossachs Forest with an asking price of £6.38m is attracting a number of prospective purchasers.

Threats and opportunities in uncertain times

Euroforest Timber
Market report by
Graeme Ralph



The last few months of 2015 saw domestic sawlog demand at low levels primarily as a result of exchange rates favouring imported sawn timber. This effect was felt the most by the big carcassing mills in the north of the country whereas the predominantly fencing-based mills further south were cushioned, to some extent at least, from the worst of the pressure. This resulted in low log prices over much of the country which continued into early 2016.

Weakening of the pound, combined with the usual spring increase in building activity, has produced better sawlog demand during the first half of this year with co-products supplies being as high as anyone can remember as a direct result of sawmills operating flat out as well as

adding extra shifts in many cases. The result has been steadily rising log prices at the forest gate and logs moving to customers as quickly as they can be produced. While we are not yet back up to the price levels of a couple of years ago, and sawmills are reporting that they are well bought over the summer and early autumn, many are keen to secure volume now to take them through the latter part of this year and into next.

In the small roundwood sector the picture is not quite so rosy. The high level of sawmill co-products has meant that in plants where this is an option, round timber has been replaced by chips and sawdust, leading to reduced demand and price. There have also been a number of outages, both planned and unplanned, up and down the country, which has further reduced demand and price. However, with an increasing reliance on the biomass sector underwriting small roundwood prices, as we enter autumn and into winter demand can be expected to rise along with price.

And then there is the effect of Brexit. It is

too early to say for sure which way this will take us in the forestry market. On the one hand the early casualties of the stock market have been the housebuilders, as reduced confidence is reflected in an anticipated fall in new house builds and reduced demand for all grades of timber. On the other hand the falling pound makes export of our forest products more attractive and may make up for any reduction in volume in the domestic market.

A very real worry, and something that has been mentioned in this column in the past, is the skills shortage we face in our industry. As more and more of the forest machine operators at one end, and planters at the other, are sourced from outside the UK, we must remain aware of the effect of any limitations on the free movement of people on our industry. What is for sure is that we are entering a brave new world in so many ways, and that there will be as many opportunities as there are threats, and we should take advantage of whatever opportunities present themselves to strengthen our industry over the coming months and years.



Community gets backing to invest in Scottish hydro project

A community group in Lochgoilhead in Argyllshire has secured £740,000 backing to invest in a new hydro scheme – on land leased through a deal with Forest Enterprise Scotland and Scottish Water – giving them a regular income for the future.

The backing is from the Scottish Government's Renewable Energy Investment Fund, delivered by Scottish Enterprise. The funding will enable the community group to obtain a 20% stake in the £3.7m 1.35MW hydro development being built by Broadlands Energy (Donich) on the Donich Water.

Welcoming the investment, Fergus Ewing, Cabinet Secretary for Rural Economy and Connectivity said: "I am delighted that the Scottish Government is contributing to the funding of the Donich scheme – the first Forest Enterprise Scotland shared ownership project to secure REIF funding. This is great news for the community and the local rural economy."

When the hydro project becomes operational around September this year, the community will start benefiting from revenue generated by the scheme and for the project's lease period of 40 years.

Good start to year for timber sales but will it last?

While prices were down during 2015 for small roundwood, logs and standing timber, the first half of 2016 has seen a rebound driven mostly by the sawn fencing market and the weakened sterling, according to the latest *Timber Bulletin*, published by Tilhill Forestry.

The Bulletin – now in its 15th year – provides commentary and interpretation on key themes affecting the timber market.

Peter Whitfield, timber operations director at Tilhill, said: "The report clearly illustrates that the last year has been a turbulent one with many parts of our industry being negatively affected. However, it is not all doom and gloom; in the context of the global average, the UK has performed strongly and with exchange rates likely to be in our favour, it is forecast to continue to do so in comparison with other countries."

The vote to leave the EU and the potential impact of Brexit is also discussed. The report states that the vote has created uncertainty in the market but that the upside is that it is now more expensive to import timber which could provide a welcome boost for UK sawmilling. However, the sawmilling sector is vulnerable to the economy and exchange rates. Fortunately, biomass and the panel sector are less exposed to economic uncertainty although biomass will be hit hard by the reforms to the Renewable Heat Initiative (RHI).

Another concern is that insufficient trees are being planted to meet long-term demand.

To read the full copy of the report go to <http://tinyurl.com/gof6nzd>