



Market starts to creep up

Timber Auctions market report by **Oliver Combe**



The spring of 2016 has seen a gradual improvement in market conditions throughout the mainland of UK. I have looked at three main market areas to try and identify the market trends in each area.

After a harsh downturn in late 2015 the market has stabilised over the winter and now started to slowly creep back upwards, this is largely supply driven. There has been a steady weakening of the pound against the euro over the first half of 2016. This is now making the importers look to increase their UK selling prices, there is however still a lot of imported carcassing timber in the supply chain. The outlook for the UK timber market hopefully remains one of modest recovery.

If you wish to discuss parcels of timber or for further information please contact Oliver Combe on 07771 958975, oliver.combe@timberauctions.co.uk for free independent marketing advice.

Wales & south England

Supply Again in Wales and the South of England it appears that the private sector has been cautious in bringing timber to the market in 2016. This coupled with NRW's new marketing concept has led to less timber available to buy and has translated into a very tight supply situation currently. April and May have seen an increase in offerings from the private sector (FIM, Tilhill and independent managers) which is at last giving buyers the chance to fill the gaps in their forward supplies.

Demand Wales and the South of England have a very diverse range of markets many of which are versatile.

Many of the processors operate either in niche markets or a number of different market sectors; this coupled with being close to the major markets has meant demand has remained pretty constant. This has given the market great resilience and has meant whilst the prices did not hit the peaks that the North saw 12 to 24 months ago it has not seen the slump that they have experienced in the last 6 months.

Competition to buy timber has remained strong from board mills, sawmills, fencing manufacturers and energy wood users all of whom have seen a seasonal upturn in demand over the last few months.

Sawmills specialising in fencing products had a late start to the fencing season but the good weather since mid April has kick started this market and has quickly lead to reduced yard stocks and increased order lead times. Some mills are now quoting a four week lead time on new enquiries which is a sudden and welcome "ex stock" situation of two months ago.

Prices have remained strong in Wales for most crop types but especially sawlog crops. Good large parcels of easily worked sawlog crops close to sawmills have been seeing prices pushing towards £40 per tonne standing.

Summary Strong demand for good quality crops especially FSC certified spruce and Douglas fir with excellent prices being achieved.

North Scotland

Supply Whilst the Forestry Commission have marketed their planned volumes this year the offerings from the private sector appear to be lower than in previous years. Maybe this is a response to the fall in prices seen in the second half of 2015. Sawlogs and small roundwood prices fell back by approximately 20%; this meant that a lot of marginal crops and lower value thinning have been put on the back burner so restricting the overall volume offered to the market. Supply has stabilised now at a lower level than a year ago as growers adjust their plans to the lower price levels.

Demand Although the falling pound against the euro has led the timber importers to look for price increases and finally given the domestic producers an opportunity to try and push their prices up, the market is currently steady and strongly resisting price increases. There are still high stocks of carcassing timber and most pallet and fencing customers have good stocks, lead times on orders are increasing, processors are starting to see some space in their stock yards but the spring rush is really just getting going. Market conditions have meant that most processors have been running in 3rd and 4th gear this spring and have not had to shift into higher gears yet so intake of sawlogs is also steady.

Export of small roundwood has virtually stopped although there is some export of sawlog material from the west coast to Ireland currently so the market demand is dependent on activity levels of domestic processors. There are signs in early May that demand for sawlog material is picking up and forest stocks are now declining. As the days get longer and the weather improves output from the forests will increase but it will not take a big upturn in demand to create shortages of prime sawlogs in some areas.

Summary The market has stabilised at a level approximately 20% lower than its peak 12 to 24 months ago, domestic demand is starting to increase thanks to exchange rates and seasonal upturn in demand.

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South Scotland & north England

Supply It appears that less timber has been offered to the market in the Borders this spring than in recent years and that which has been offered has hit the market one to two months later than normal. Again growers have seen the decline in the market by anything up to 20% in the second half of 2015 and adjusted their plans accordingly leading to reduced overall supply.

The February offerings attracted good interest and saw some good prices whilst those offered in March and April have seen further modest price increases due to improved exchange rates and domestic demand. As the prices have improved this spring we have seen more timber coming to the market in April and May which has allowed buyers to purchase their requirements for the second and third quarters.

Demand Whilst the sawlog market in the Borders slowed down noticeably in the second half of 2015 for the same reasons as the North of Scotland the small roundwood demand remained strong. Sawlog prices did fall back by about 20% in the second half of 2015 but stabilised in December and January and began to show modest increases in February of around 5%. Small round wood and energy wood prices did not fall back by the same amount and demand remained strong throughout winter. Standing prices for small roundwood crops remained good and allowed merchants to redeploy contractor resources into lower grade crops and reduce supplies of sawlogs to balance with the lower demand. Whereas the sawlog market in the North of Scotland is heavily dependent on kiln dried carcassing sales the Borders has a more diverse customer range selling into the fencing and pallet markets. February and March saw signs of improvement in these markets and led these mills to look to secure raw material supplies for the second quarter and in doing so pushed prices up.

May has seen an improvement in the market in general which has led to an increased production and uplift of sawlogs from the forest

Despite planned shutdowns at Land Energy in Girvan, Caledonian paper, Iggesund and the Lockerbie power plant, demand for small roundwood and energy wood remains good in the Borders. The shutdowns have seen a temporary build up of roadside stocks but the material is still moving through the supply chain.

Summary After positive developments in February, March and April of between 5 and 10% the market has stabilised again in the Borders during May as supply and demand have come back into balance.

Apparent uplift but underlying economic data is still poor

Timber market report
by Peter Whitfield
Timber Operations
Director Tilhill Forestry



On the face of it a weaker sterling and increased demand from the sawmills would appear to be good news. It has begun to encourage forest owners to push more standing timber to the market after a relative dearth of standing sales over the winter. However the underlying drivers are not encouraging; Howard Archer, chief UK and European economist at IHS Global Insight, is quoted as saying: "There is now compelling evidence that heightened uncertainty ahead of June's referendum on EU membership is taking an increasing toll on economic activity." So is it Brexit alone that creates all this uncertainty? Probably not, as I indicated in my last piece earlier in the year there are a number of other global factors that bear on the health of the UK and indeed world economies.

Construction sector data for April 2016 signalled a further loss of momentum across the UK, with new order volumes stagnating and optimism starting to dampen. Commercial building was the strongest performing broad category of activity in April, although the latest upturn was the slowest since July 2013. Residential construction growth rebounded only slightly from March's 38-month low, while civil engineering activity expanded at its weakest pace so far in 2016. The overall slowdown in construction output growth largely reflected stagnating new business volumes in April. Moreover, the latest survey signalled the weakest momentum for exactly three years. Construction firms signalled a renewed decline in confidence about the year-ahead business outlook in April, thereby resuming the general downward trend seen since June 2015. The latest reading pointed to the weakest degree of positive sentiment for almost three years, which survey respondents mainly linked to stagnating new business volumes and a lack of new invitations to tender.

The latest PMI survey indicated the UK's services sector grew at its slowest pace in three years in April. The services PMI reading fell to 52.3 from 53.7 in March. A reading above 50 indicates growth. Research firm Markit said its Purchasing Managers' Index (PMI) surveys for April pointed to growth of just 0.1% in the month.

The increased sawmill demand mentioned above has been substantially driven by demand for sawn fencing rather than carcassing timber.

The good news has been that there are very few harvesting sites with any stock of logs at roadside and mills are chasing every available log. Some mills have found it challenging to keep log stocks at a manageable level to allow for the mix of products they are cutting. Imports still continue despite a weaker sterling, and in particular there still appears to be a strong flow of Swedish sawn timber landing in the UK. For the most part this is due to a continued lack of demand from Asia and N Africa. The UK remains the default export destination for Swedish sawn goods due to location and well established shipping and marketing links. Capacity in Sweden continues to grow both in sawmilling and pulp production. Ireland also continues to push in cheap fencing products that compete head on with our domestic offering.

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demand we have seen a significant decline in small roundwood demand in the first half of the year. If only our customers would understand, we have to sell the whole of the tree not just one end or the other! Some of this was known and planned as a number of major biomass markets have taken long maintenance shuts in the first part of the year. In the north Balcas's Invergordon pellet plant has a breakdown which may take it off line for a number of weeks and Landenergy's Girvan plant is running up to a modification shut that will last through June, although re-opening thereafter with increased capacity.

Demand for biomass has been reasonable, but the milder winter has yet again had a negative impact on firewood demand. The continuous review by government and associated uncertainty around subsidies for biomass has clearly slowed development of both medium and large scale projects. The only ones that have happened are using waste wood and there is likely to be a shortage of this as a result by the end of 2017.

So no stability for the market in the near future, but that is nothing new and we seem to be able to face and deal with the challenges in a manner that works but is far from ideal.

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Market holds steady but tinged with caution

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



It is amazing how quickly we forget the dark and wet of winter; with leaf burst and the energy of spring, everything takes on a much brighter optimism. However, it has been a slow spring with little to report other than steady interest in the market tinged by some caution about investing in Scotland where, of course, the bulk of commercial forests are located.

Perhaps there has been an element of taking stock after the very significant growth in values over the last decade but also a need to consider what the future holds in the light of various elections and referenda in the immediate future. The timber trade has seen fluctuations in price driven by exchange rate movements and the level of general economic activity, particularly in the construction industry. The demand from the biomass sector has undoubtedly been of significant help to some harvesting operations.

Reflecting on activity towards the end of last year and the first quarter of 2016, there were a number of interesting sales. The largest of these of course was the sale of The Barracks by John Clegg & Co on behalf of the Forestry Commission in Scotland. Extending to almost

4,500ha, this extensive block of commercial forestry sits astride the West Highland Railway Line, close to Rannoch Moor. This has been acquired by a private investor at a sale price of £9.5m. This is a large investment in forestry, but on a hectare basis the price is relatively modest at just over £2,100 per ha. There are unlikely to be any new disposals from FCS as a result of the Land Reform Bill and community empowerment; therefore, private sales will dominate the market from hereon in.

At the other end of the age scale, a modest area of clear-felled land to the south of Edinburgh amounting to 27ha in total, which now carries a liability to replant, achieved a sale price of £3,000 per ha. This price reflects better quality land, proximity to the capital and the fact that the total price is within the budget of many more people.

Commercial strength

The first property of really solid commercial spruce that John Clegg & Co marketed in 2016 was Black Stockarton Forest near Castle Douglas. This extended to 144ha with a guide price of £1.285m. At a competitive closing date it sold at comfortably over 25% above guide. Strong interest was exhibited in this property, which hopefully reflects continued strength in the demand for commercial coniferous forestry with relatively predictable production forecast.

At the time of writing, John Clegg & Co has just put on to the market Hartside Hill Forest, 394ha of coniferous forestry to the south-east of Edinburgh. Planted between 1984 and 1990

and with a guide price of £3.45m, this is already attracting interest. The website marketing of this property includes video footage shot from a drone flying above the forest.

Bidwells is in the process of preparing for market two extensive properties. Knockower Forest in Galloway extends to 748ha in total but only 131ha is planted. The mixed conifers laid out in scalloped blocks with wide rides are growing well and there may be scope to extend planting. The guide price is £1.2m.

A more conventional forest but on a much larger scale is Glen Massan in the hills behind Dunoon. Bidwells will be asking over £9m for this extensive commercial forest, which includes a 4-bedroom cottage and an Approved Site for a new main house. Only a few minutes by helicopter from Glasgow Airport, this promises to be an interesting sale.

At the amenity end of the spectrum, Bannodle Wood to the west of Aberdeen, generated reasonable interest. Only 21ha in size and about 15 years old, this Farm Woodland Scheme project is entirely of broadleaved trees and is very much an amenity woodland that could, in the future, produce firewood and the odd hardwood stick. The sale price equates to about £3,600 per ha.

Savills have Tomchrasky on the market. Just over 200ha of mixed Scots and Lodgepole pine, this attractive forest should be a popular buy but it has access limitations and the species content is less productive than the site could carry. With a reduced guide price of £625,000, it now has potential and, being set in stunning scenery, is worth a look.

The same agents now have Monachyle Wood under offer (probably settled by the time you read this). 647ha in total and with some excellent crops situated in Rob Roy country, it forms its own glen with waterfalls and pano-

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Black Stockarton Wood near Castle Douglas, 144ha of commercial spruce, sold for “comfortably over 25%” above a guide price £1.285m.



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ramic views. The minor public road is, again, the real issue as it was not built with timber wagons in mind.

Further south, the burst of bluebells has prompted the usual flurry of properties on to the market in time for the "carpet of blue". John Clegg & Co's Buckinghamshire office has released 19 new properties to the market over the past six weeks. Many of these are commercial and, unusually, several are clustered in South Wales.

Surrey prize

Since November, there have been several notable woodlands sold in England and Wales. Of most significance was the sale of a large, principally pine and native broadleaf woodland in deepest Surrey, where urban and amenity pressures are high. The Hurtwood, totalling over 120ha in five small lots, with a further two larger woodland parcels of 84ha and 37ha, was sold to two private buyers at a price in excess of £1.3m. This sale showed just how well a large area in rural Surrey could sell when priced and lotted correctly.

Travelling further west, there have also been a number of good commercial woodlands sold in Wales, which included 55ha known as Nant Efail, a maturing spruce plantation situated almost on the roof of Wales, close to the edge of Snowdonia. This sold for well above the guide of £310,000. Dolberthog, 16ha on the edge of Rhyader, where a combination of replanted crops and mature Douglas fir served to attract people with various objectives, eventually sold nicely in excess of the £140,000 guide price.

Moving south and into Devon, of particular significance was South Hayne Woodland, over 36 hectares of half and half commercial conifers and replanted broadleaves, where government policy and commercial requirements prompted good debate on the future of a large area of native broadleaved replanting. This did not quite make the guide of £260,000.

Quality counts

The general summary seems to be that good commercial forests are still sought after and attract competitive bidding but that secondary quality or remote forests are viewed with more caution. Issues with minor public roads have become more relevant as harvesting increases the pressure from timber traffic and council budgets are stretched. Further south in the country, demand for woodland remains strong with supply and demand in reasonable balance.

Disease issues seem to have receded somewhat and do not appear to be a major factor in investment decisions. At the time of writing, there are a number of properties being readied for marketing. These include solid blocks of Sitka spruce in the south of Scotland and also a range of woodlands across the country. With the Scottish Election now behind us and a more balanced Parliament taking shape, we move forward to the EU Referendum. We could ponder on the ramifications of that for a good while – just remember the trees will still be growing!

Don't panic over land reform

COMMENT

That's the view of **David Hall**, of Hall Baird Solicitors



Land reform has been a hot topic in Scotland for quite some time and many connotations have sprung up around the phrase. It's time for a brief look at what the impact may actually be on forestry ownership.

The Land Reform Act is split into 12 parts covering such diverse topics as small land ownings, deer management, Common Good land and additions to the agricultural holdings legislation in Scotland among others.

An obsession seems to have sprung up regarding transparency of land ownership and the Act has a part dealing with this. For the most part this will be of an irrelevance with only an extremely small number of people concerned about cloaking ownership. The parts of the Act that I believe will be of most interest to forest owners are the parts dealing with community engagement and the right to buy for sustainable development.

The devil is always in the detail and much of the detail regarding the legislation will be flushed out in secondary legislation but in basic terms communities require to be engaged in any decisions relating to the land that may affect the community.

Standards of practice will be established and providing these are adhered to and followed in an appropriate manner then the obligation will have been complied with. Much of this quite probably already takes place albeit under a different guise with the Forestry Commission and other bodies.

Of more concern is the right to buy by community bodies where current land ownership is hindering sustainable development. All very noble aspirations some might say. Of critical importance is the requirement that sustainable community development is being stifled. In my experience the vast majority of landowners are open and alive to development opportunities and as such these provisions are perhaps not the terror they may appear.

There will be quite specific definitions of community, sustainable development and the manner in which a landowner is acting as a barrier. There are also quite specific provisions regarding a significant community benefit. There are compensation provisions and there is an appeals procedure virtually every step of the way. The situation is somewhat more akin to a compulsory purchase as opposed to an unknown entity cherry picking the best of a landowner's ownership.

It is probable there will be a challenge of the legislation by some of the significant land holding interest in Scotland as being a breach of the European Convention protocols – the right to peaceful enjoyment of your possessions.

All in all the spectre of land reform should not be taken as a discouragement to forestry investment in Scotland.

David Hall, of Hall Baird Solicitors, is a member of The Law Society of Scotland rural affairs sub-Committee which advised on and inputted to content on the final legislation of the Land Reform Bill. The committee also advises on other legal issues affecting rural affairs in Scotland. He is also a member of Royal Scottish Forestry Society (RSFS), a member of Agricultural Law Association and a member of South West Agricultural Valuers Association.

Final Draft of UKWAS 4th Edition

A Final Draft of the UKWAS 4th Edition has been completed by the UKWAS Steering Group following more than two years of work. Forestry interests were well represented in the drafting group by Ewan McIntosh of Tilhill, Andrew Heald of Confor and especially by Stuart Wilkie of Scottish Woodlands who attended every meeting.

UKWAS Executive Chair, Peter Wilson said: "I am absolutely delighted that the Steering Group has now concluded a Final Draft: UKWAS 4 represents the most comprehensive review of UKWAS since its 1999 launch. The draft has been formally presented to FSC UK and PEFC UK which are the two schemes using the UKWAS as a basis for their national certification standards in the UK. Both will now prepare the documentation and submit the UKWAS 4 to their international parent bodies for approval.

Peter added that "Users should be aware that some further changes will be requested

by FSC or PEFC to meet their scheme requirements but the target is for UKWAS 4 to be confirmed and published in late 2016."

Andrew Heald of Confor stated that he was broadly happy with the revision, particularly now that all the requirements are clearly identified as requirements, and that there is a much logical approach to the ordering the sections. "Obviously we would have liked to have achieved more but the process is about building consensus; we hope that both FSC and PEFC international will recognize that consensus and balanced input, and quickly process UKWAS."

Andrew would like to thank the many Confor members who helped work on this revision, especially to Ewan and Stuart.

"Any revision process is not only great opportunity to improve the standard but also to build dialogue and understanding with organisations such as RSPB and the Woodland Trust."