

Market settles to business as usual

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



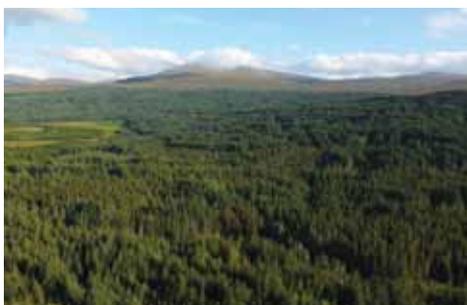
After a record year in 2015, the volume of UK forestry transactions has returned to its usual level. The exceptional activity in 2015 was the sale of UPM's Portfolio at £50m which was a one-off event.

Scotland

The activity through 2016 has been slightly different in terms of the quality of forestry property presented to the market. There have been several forests of large acreage but relatively lower quality than in previous years. For example, the Forestry Commission's sale of The Barracks - 4500ha of maturing conifer crop. Located close to Rannoch Moor in the very heart of Scotland, it is some distance from markets and correspondingly not of the same value per hectare as a similarly aged crop in, say, the Scottish Borders. There have also been sales in the far north of Scotland where the road structure is not designed for carrying regular timber traffic. Agreed protocols for timber haulage have been put in place but this tends to prolong the forecast harvesting period for any specific forest, with a corresponding knock-on effect on the market value. These extensive plantations will produce substantial volumes of timber. It may be no bad thing that its extraction will be spread over a longer period in the context of sustainability.

In terms of market values, the sale of The Barracks achieved £2632 per stocked hectare for crops dating from 1960 through to 1990. In Caithness the Strathmore forest, 2769 hectare, comprised crops dating from 1981 to 1987. The sale price equated to about £2200 per stocked hectare. This reflected the quality of the crop and the distance from timber markets.

In contrast, market activity in the commercial forestry hotspots of the Scottish Borders has been relatively quieter this year, at least until recently. A notable sale at Black Stockarton, 143ha of high-yield class spruce, sold at over £14,000 per stocked hectare. As we go to print, John Clegg & Co is just launching Heathpool on to the market - 233ha of prime quality spruce,



Clockwise from above: The Barracks, Lock Wood and Heathpool

planted in 1990. This looks on track to generate timber income in about 10 years from now, potentially a very good time to have timber for sale. The guide price is £1.425m. Situated not far south of Edinburgh, this is likely to attract very strong interest.

New afforestation is being encouraged across the UK. Grant support for planting has generally looked attractive. The off-putting problem has been the convoluted consultation process with no predictable outcomes. This uncertainty has undoubtedly had a negative effect on potential investment. We detect that this is changing. The Scottish Government is now very keen to see new forestry moving ahead. England, particularly northern counties, is looking to forestry as a means of flood amelioration and we are beginning to see a number of quite substantial new planting schemes being considered. Recent announcements include £19m of grant support for new productive forest planting in England with a carbon sequestration target. Looking ahead to the projected reduction in home grown timber supplies beyond about 2035, this is very encouraging and, indeed, essential for the long-term wellbeing of the forestry sector.

England and Wales

In England and Wales large-scale opportunities on the open market have been very scarce despite strong demand for quality woods in good locations. A private transaction was completed for substantial productive forest in northern

England at an indicated price of over £11,750 per hectare.

As I write, Savills have launched the Dunster Woods in Somerset. They are offered in three lots of 264ha, 183ha and 77ha, described as "a productive commercial forestry investment" guided at £2,950,000, £2,400,000 and £900,000 respectively. These are woods with a long reputation for quality and are expected to attract good interest.

At a smaller scale Lock Wood comprises 35.5ha on the banks of the River Thames. Visitors will be impressed by the quality of trees and its privacy. Unusually, the property includes an island in the Thames. In the past, an ornate bridge connected Lock Wood to the island where a most attractive pair of thatched cottages - now gone - was situated. Pleasure steamers ran from Oxford to the island, where afternoon tea could be taken by appointment. It is reputed Alice Liddell used to visit the island with Lewis Carroll who penned 'Alice Through the Looking Glass' shortly after one of these visits. All this at a guide price of offers over £800,000 via John Clegg & Co.

The same agents saw remarkable interest in Oakwood West, 34.0ha of beautifully presented late rotation conifers and broadleaves - a fine tribute to over 40 years of management by Roger Fitter, MBE - close to the popular location of Chichester, again demonstrated the virtues of quality and location. Guided at £560,000, offers over this figure were received at a very competi-

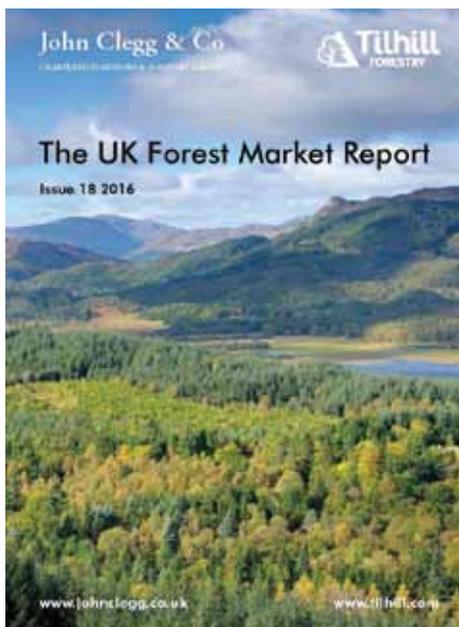
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tive closing date.

Swinn Wood in Lincolnshire was one of the strongest conservation woodlands seen on the market in many years. Managed for conservation over many years, detailed records had been kept on the wide variety of flora and fauna and six ponds had been created to attract additional wildlife. Despite its fairly remote location near Mablethorpe, the 20ha created strong interest with a sale price well in excess of the guide of £160,000. The quality here was not in the timber content but in the conservation interest.

Mid-November, at last saw a substantial Welsh upland, principally Sitka spruce, plantation in the 2016 market. Blaen Lliw Uchaf, 58.75ha near Bala in North Wales is guided at £450,000 via John Clegg & Co.

So although a quieter year in terms of total value, the market has shown considerable resilience with investors continuing to show confidence in forestry as a long term asset. The most important feature is that this is spread across the quality and geographic spectrum. There really is a forest to suit everyone.



UK Forest Market Report

The annual report was launched on 16 and 17 November, in London and Edinburgh, to a diverse audience of woodland owners, investors, lawyers, land owners and other representatives of the UK forest industry.

Confor's Technical Director Andrew Heald attended: "At a time of economic uncertainty, particularly around the future of agricultural support payments, it was good to see so much confidence in the forestry and timber sector. Productive forestry is a great opportunity to deliver both economically and environmental diversity and resilience for our rural economy, and to create secure well paid jobs." The above article is a summary of the information compiled in the annual report.

www.confor.org.uk/resources/publications/reference-publications/

Currency movements dominate home grown sawn markets

Euroforest market report, by Ashley Williams

The pound has been on a rollercoaster ride ever since the United Kingdom voted to leave the EU in June this year. The pound which began 2016 at about 1.40 to the euro is now trading at 1.15 having dipped to almost 1.05 post the Brexit vote. The value of sawn timber in the UK is heavily influenced by currency movements and having been held back by the value of sterling earlier in the year sawn timber prices are beginning to recover and the hope is that as the market picks up next spring that prices will recover. This should enable the UK home grown trade to recover some of the margin it has certainly lost since the second half of 2015 and all through 2016.

The signs are positive for UK sawmillers to have a very good year in 2017 provided there are no further significant movements in currency or other shocks in the economy. This augers very well for timber growers, with an anticipated strong demand for sawlogs in particular. UK sawmiller will be looking to respond to strong demand for their product by operating at full capacity and therefore looking for increased log volume with all the usual associated movement in price that follows increased demand.

The only downside on the demand front is small roundwood; there are significant downward pressures on small roundwood demand, the biggest of these being the slowdown of intake into Kronospan's plant at Chirk. Following a reduction in power availability at the plant due to a turbine failure, production has had to be readjusted. This has led to a significant reduction in small roundwood intake of almost 30,000 tonnes a week. The removal of such a substantial volume from the market has an inevitable effect on the movement of small roundwood on a national basis. It illustrates just how important the board manufactures are to the health of a functioning market in home grown timber. The disruption of supplies into Chirk is likely to continue until March and it will be sometime after that, that the market begins

to restore some equilibrium.

Other challenges in the small round wood market are the demise of Verdo as a pellet manufacturer in the UK. Verdo announced in October that they are closing both manufacturing plants at Andover and Grangemouth citing changes in carbon taxation and competition from imported pellets keeping prices at unsustainably low levels. Verdo will continue to distribute pellets and briquettes from the site at Andover. The movement in carbon taxes is effecting several biomass type operations with the biomass power station at Port Talbot in south Wales recently going into administration. The plant is still operating whilst a new buyer is sought.

There are, however, some good news for the small roundwood market - the commissioning of the Volac biomass plant near Lampeter in South Wales, together with the announcement of a new biomass-fired power station at Sandwich in Kent. The new plant in Kent being built by CIP of Denmark, will take largely hardwood roundwood, providing an outlet for hardwood that has been short of a market since the closure of the Bowater's plant in Kemsley some 30 years ago. The plant at Sandwich will begin taking deliveries from mid-2017, gearing up towards full production in mid-2018.

The market for standing timber in England and Wales has remained buoyant throughout the year with stable prices and plenty of demand for all softwood standing parcels. This reflects the nature of the sawn market in the south which is dominated by sawmillers who are by and large servicing the sawn fencing market which has been reasonably steady this year. The market in the north has been more subdued earlier in the year with demand beginning to strengthen as the year draws to a close. This reflects the sawn construction market which most mills believe is set fair for next year, and are therefore looking to make sure they are well placed for log supplies going into 2017. The picture for the growers going into 2017 looks somewhat rosier than it did twelve months ago. Prices for sawlogs look set fair for next year with the only constraining factor on standing prices being the restricted outlets for small round wood.

Investing in forestry

Asset manager Gresham House has announced the first close of the Gresham House Forestry Fund LP with £15m of commitments and finance raised, including £1.25m from Gresham House.

There is a new expression of interest window open for Enterprise M3 Wood Processing Grants in Sussex Surrey and Hampshire that Confor work has helped put in place. The

window closes on 09 December, but calls for Expressions of Interest are anticipated. www.enterprisem3.org.uk/enterprise-m3-wood-processing-grant-programme

The Wales Business Fund supports businesses looking to start up or expand through debt and equity investments. Funding is available for SMEs with fewer than 250 employees, based in, or willing to relocate to Wales. Details at: <https://businesswales.gov.wales/blog/news/wales-business-fund>