



# Spotlight **UK Forestry Market**

2017

## **PRIMED FOR GROWTH**

Increased demand from housebuilders is set to give the UK timber industry a boost



### **NEW PLANTING**

Grant funding brings expansion opportunity



### **2016 PERFORMANCE**

UK forestry values remain diverse





# Foreword

## A MULTI-PURPOSE INVESTMENT

Despite a smaller market size, UK forestry has continued to demonstrate strong performance and remains a highly desirable alternative asset class

**Investors are increasingly seeking multi-purpose investments, ones that hedge against uncertainty and provide a long term home for capital.**

Forests provide an ideal vehicle for this, combining the benefits of land acquisition with the profitability of producing a valuable commodity.

The market size in 2016 was much smaller than 2015, but slightly higher than recent trading averages. Demand continues to be strong and remains thwarted by the availability of investment grade property.

Our market analysis shows where available prime sitka spruce forests with strong production forecasts continue to dominate the headlines.

There was also a noticeable distillation of value into more peripheral market areas as purchasers sought to make the most of available opportunities.

Timber prices fell from the highs of mid 2015 through to early 2016 before rising again into the summer, and currently sit at similar levels to 2014.

This had limited impact on the market, as the accepted position is that timber prices have scope to rise considerably over the medium to long term due to exchange rates and increasing demand for wood fuel, together with Government

policy which is firmly behind the construction industry.

### New planting

One of the most buoyant market sectors in 2016 was the purchase of agricultural land for new woodland creation, driven in part by a shortage of quality stocked woodland property on the market.

The market for upland farms is significantly influenced by the potential for afforestation, which can often be quite black or white.

To be attractive to investors, land parcels should be capable of at least 60% plantable area, have good access and be in a reasonably sized parcel; if these criteria are met, there is likely to be a premium offered over base agricultural values, but if not, there is likely to be no forestry interest at all. ■



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**THIS PUBLICATION:**  
This document was published in March 2017. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document.

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"One of the most buoyant market sectors in 2016 was the purchase of agricultural land for new woodland creation"  
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## EXECUTIVE SUMMARY

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Number of hectares sold in 2016 higher than average of previous six years  
See pages 04/06

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Forestry values in the UK remain diverse  
See page 07

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Increased demand from housebuilders can boost the timber industry  
See pages 08/09

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A step change in new planting ambition  
See page 10

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Outlook: Forest values will continue to rise  
See page 11

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**£82.6m**  
The total market value of UK forestry market



# FORESTRY VALUES REMAIN DIVERSE



2016 proved to be an average year for UK forestry, in terms of transactions and values

Words: James Adamson  
& Nicola Buckingham  
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“The proportion of forestry sold in North Scotland during 2016 doubled compared to 2015”  
Savills Rural Research  
.....

**J**ust over 18,300 hectares of forestry were sold across Great Britain during the 2016 forest year (1 October 2015 to 30 September 2016).

Although this is significantly lower than the volume sold in 2015 (23,000 hectares), 2016 was an exceptional year, and as reported in our 2016 UK Spotlight report, a third of all the sales during 2015 related to forestry portfolios, which are not regular features of the market.

In spite of this, our research shows the area sold in 2016 is still 2% higher than the average of the previous six years and 14% higher than in 2014.

Had there been ‘normal market conditions’ during 2015, the volumes transacted during 2016 would have been higher than 2015 (Figure 1).

The proportion of forestry sold in North Scotland during 2016

doubled compared to 2015 (see Figure 2). This increase relates to two large sales; The Barracks and Strathmore Forests, which at a total of 7,246 hectares made up 97% of the total area sold in North Scotland during 2016, or 40% of the wider UK market.

There was a slight increase in the proportion of sales in both Central Scotland and England and Wales. In South Scotland, the proportion of forestry sold during 2016 fell to 12% which is significantly lower than the medium term average of 33%.

## Total market value

The total value of the forestry investment market contracted in 2016 to just over £82.6 million, due to the smaller traded volume and the effect of regional variations.

If we overlook 2015 and compare 2014 and 2016 alone, the difference in the volume of forestry sold



increased by 14% between 2014 and the 2016 forestry years.

However, the total value of the forestry market was just half a percent higher than the value of 2014's forestry transactions.

This imbalance between volume and value reflects the large sales in North Scotland, which represented 40% of the market by area traded but only 16% by value.

### Average values

The relationship between the value of the total (gross) forest area and the productive area (land stocked with trees capable of producing an end crop of timber) is an important measure when appraising investment forests. The area of unplanted or unproductive land can vary considerably, from as little as 5% to as much as 50% of a property.

The unproductive area has a relatively low and fairly constant value, therefore the market price, and ultimately the investment performance, is driven by the value of the productive area.

In 2016, the overall average productive value showed a marginal fall of -3% to £8,100 per hectare. The productive value was 31% higher than the average gross value at £6,200 per hectare. Gross values recorded an -8% reduction per hectare.

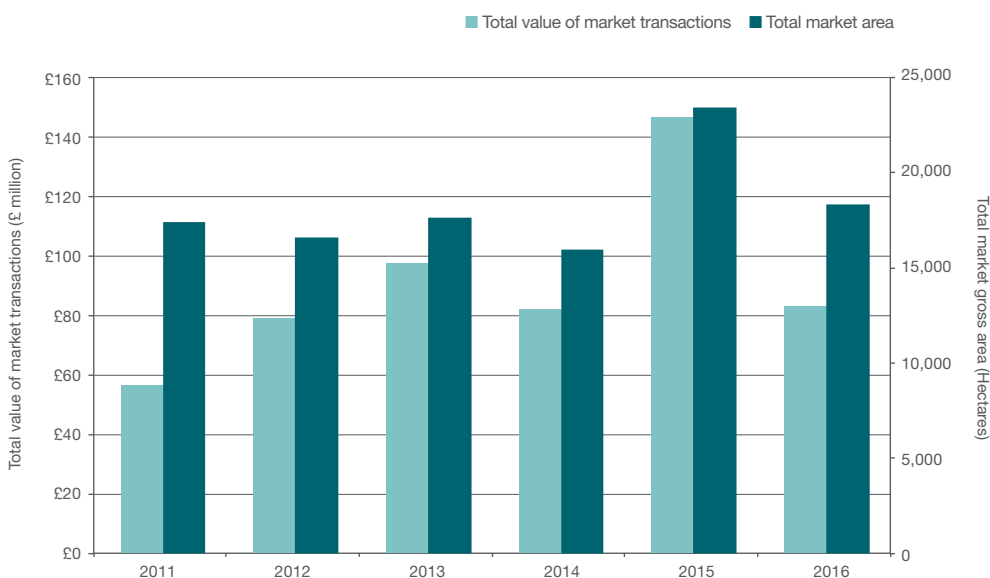
The recorded fall in average values is not a market indicator of reducing prices but simply due to the large proportion of lower value sales in North Scotland.

Analysis of the annualised rate of value growth over the past five years (2011–16) shows growth in values was stronger for productive values (11%) than for the gross forest area (10%). →

**Methodology:** Our research analyses our transactional database of forest sales. This database collates data from all mainstream forestry transactions, and where we are aware, off-market or private sales.

**Updated information:** While every effort is taken to ensure all transactions are included within the information presented in this publication, it is very likely that further sales are known about following the launch of publications. Therefore, historic data previously reported within our Spotlight on the UK Forestry Market 2015 & 2016 has been updated to take account of new available information within the marketplace.

FIGURE 1  
Total market area and value



Source: Scottish Woodlands and Savills Research





→ **Regional performance**

As reported in our 2016 'Spotlight on the Forestry Market' publication, average forestry values are diverse and the actual price paid is generally dictated by the location, quality, access, timber species and plantation age.

Our regional analysis focuses on four key regions; North, Central and South Scotland, and England & Wales. Figure 4 illustrates how the average productive price varies by region.

Over the past five years, South Scotland has always achieved the highest average capital values, reflecting the prime timber growing characteristics of this region.

During 2016 average values in England and Wales were higher than South Scotland with the average price rising by 26% to £11,600 per hectare.

Values in England and Wales were driven by a lack of investment property and therefore strong prices were paid for any opportunities that came to the market. South Scotland recorded a rise of 12% in average prices paid.

As previously highlighted, in North Scotland the area of forestry sold increased, but the average price per hectare fell.

Average prices in Central Scotland have shown the most variation over the last five years, but this reflects the wide range of land types and wide variability in forest quality across this area.

Although the average price here dipped in 2016, better quality spruce dominated properties rose in value, especially in parts of Argyll and Aberdeenshire, benefitting from improvements to regional timber marketing.

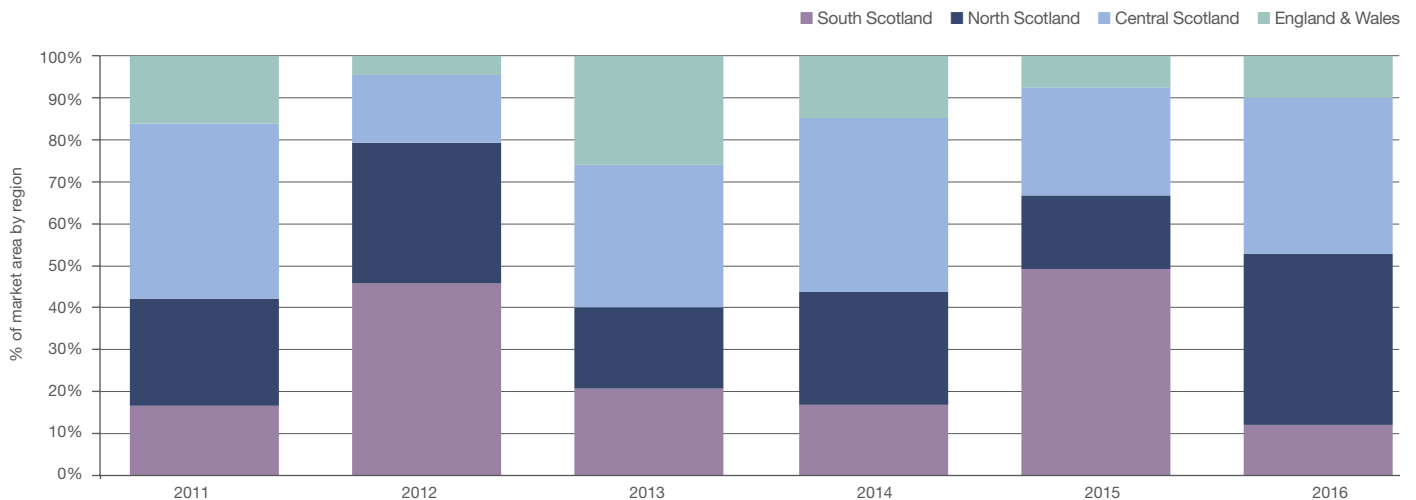
England and Wales enjoyed the highest (18%) regional annualised rate of value growth over the past five years (2011–16), followed by South Scotland at 10%. North (8%) and Central Scotland (3%) recorded the lowest growth rate (Figure 3).

**Age and value**

There is a direct correlation between forest age and value with clear regional profiles. Although all regions show growth in mature forest values, South Scotland continues to show the fastest rate of annual growth.

England and Wales have shown an increase in mature forest values. North Scotland remains the lowest value region where the valuation curve has flattened since 2015 indicating little inflation in plantation values. ■

FIGURE 2  
% market area by region



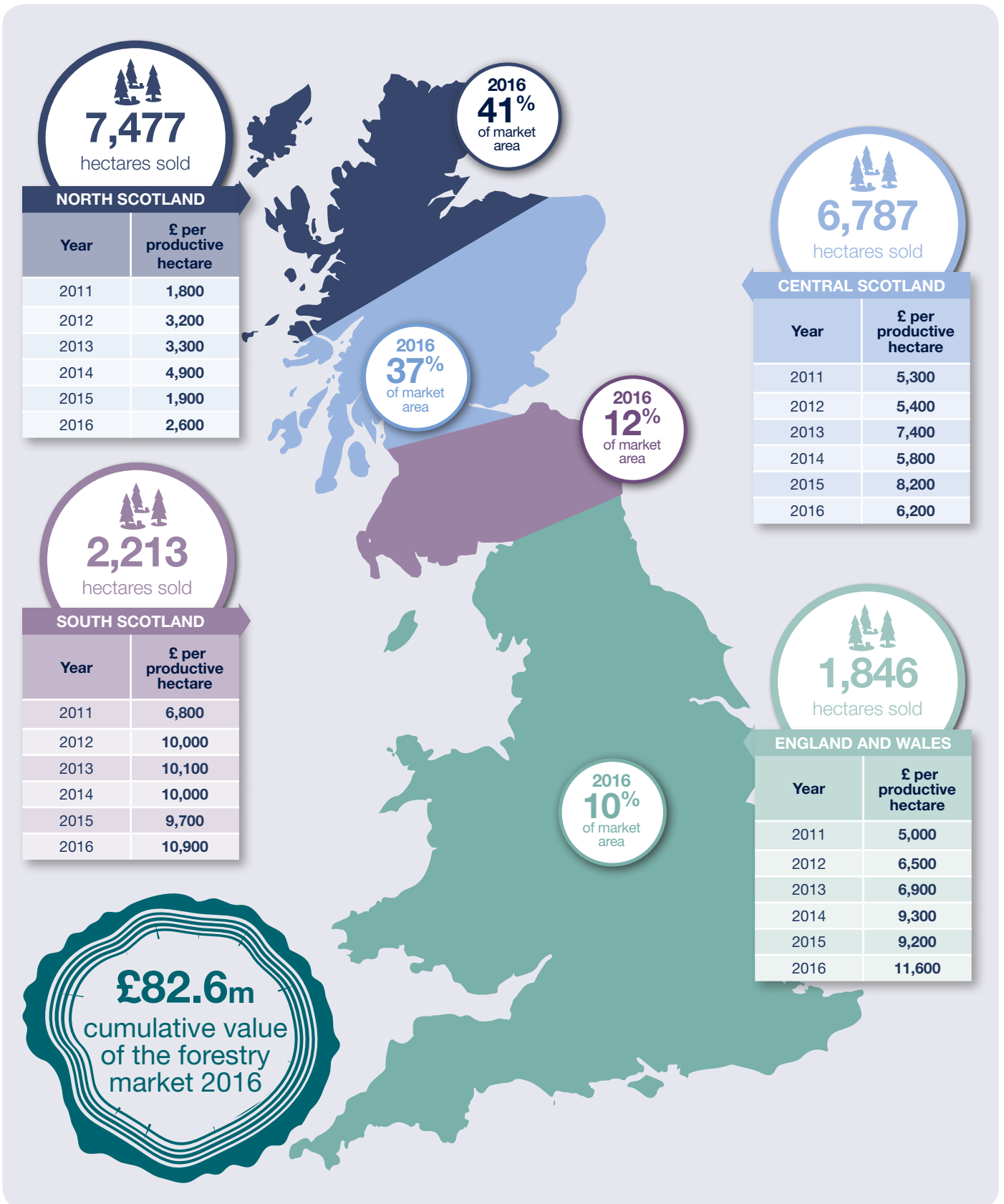
Source: Scottish Woodlands and Savills Research

FIGURE 3  
Five-year annualised rate of capital growth to 2016 by region



Source: Scottish Woodlands and Savills Research

FIGURE 4  
Regional forestry transactions and values



Source: Scottish Woodlands and Savills Research

# DEMAND FOR TIMBER PRIMED FOR GROWTH

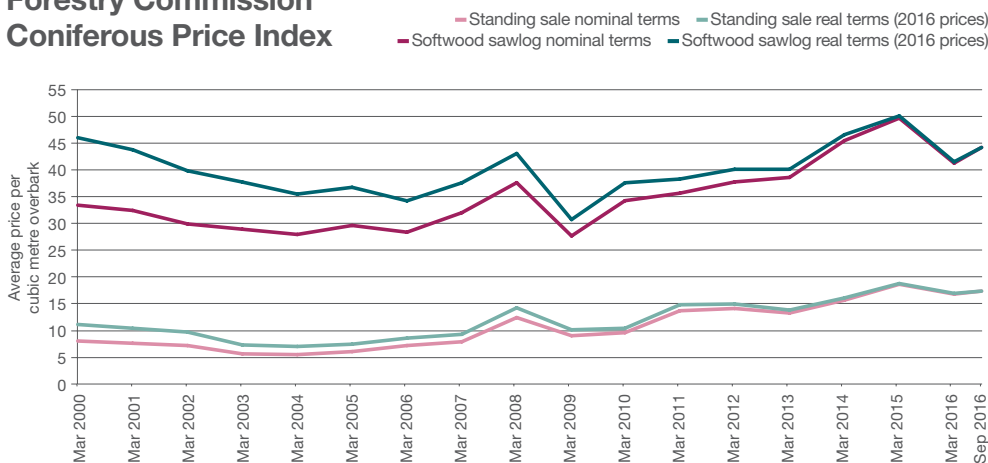


Innovation in the structural timber frame industry can lead to increased demand from housebuilders

**A**ll indications are that demand for UK grown timber will continue, as innovation, research and technology lead to an ever-expanding presence of timber in the construction sector.

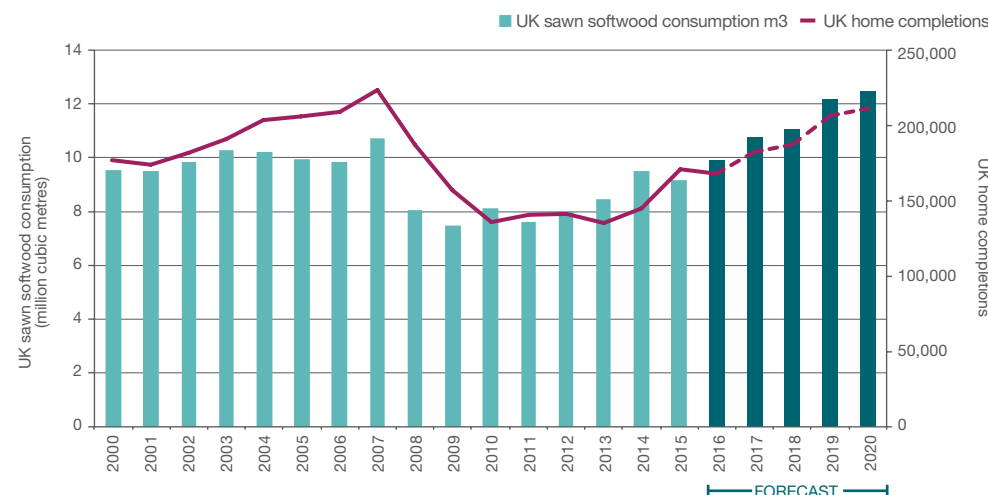
Words: Andrew Tuft  
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FIGURE 5  
**Forestry Commission  
Coniferous Price Index**



Source: Forestry Commission

FIGURE 6  
**UK sawn softwood consumption and new home completions**



Source: UK Government Statistics, FAO of the United Nations, Savills Research

However, to look forward, we must also look back and positive trends since 2012 are clear when we consider that the UK consumption of sawn softwood (Figure 6) is increasing year-on-year (2015 at 9.2 million cubic metres).

With a clear correlation between new home completions in the UK and timber consumption, all indications lead towards a predicted annual increase in UK timber consumption (Figure 6).

The UK Government New Build Dwelling Statistics (Nov 2016) show new home completions at 167,000 for 2015, but set against the UK Government Housing White Paper acknowledging that to meet demand 225,000–275,000 new homes are required, housebuilding can only have a positive impact on UK timber demand.

## UK timber prices

As the Forestry Commission Standing Sale Price Indices 2016 (Figure 5) demonstrate, prices show an upwards trend following the dip that occurred in 2009 due to the global financial crisis.

2017 activity in the sawmilling and wood based panel sectors is increasing and this is positively reflected in the standing sale markets, especially for certified timber, as processors are keen to secure volumes brought forward to meet the increased demand.

The second half of 2016 witnessed a softening in the small roundwood market, due to increased sawmill activity and hence the increased availability of sawmill co-products.

This softening is likely to continue through 2017, although the effects may be short lived as the woodfuel sector for the biomass energy market continues to expand much faster, in comparison to other UK wood processing industries (Figure 8).

As Figure 8 demonstrates, the processing sectors are either



maintaining or increasing year-on-year consumption, with the exception of pulpmills where a notable decline (around 50% between 1997 and 2015) has taken place due to the increase in the use of recycled paper.

The woodfuel sector has increased its presence dramatically since 2007, from 0.2 million tonnes to 1.6 million tonnes in 2015. This strong upward trend is set to continue as the biomass energy markets grow.

### Building blocks

Timber frame housing has the lowest embodied CO2 of any commercially available building material, while delivering up to 33% reduction in energy consumption for a large detached house.

When this is considered alongside the UK commitment to reduce greenhouse gases by 80% by 2050 (Climate Change Act), it seems logical that building low-carbon homes will help achieve this ambitious goal.

The structural timber frame industry holds the greatest potential with all indications suggesting that this will become the building method of choice, due to speed of build, environmental impact and life-time energy and cost performance.

This, coupled with the Government's commitment in the Housing White Paper to support offsite factory built homes in an attempt to overcome the shortfall in housing stock and produce energy efficient buildings, will see such manufacturing techniques and technologies in the timber industry' progress even further in the years to come.

Timber frame housing share of all new buildings in the UK rose to 27.6% in 2015 and is predicted to rise to around 32% by 2018. With the number of timber framed units of all types growing by 17% in 2015, compared with non-timber frame housing numbers increasing by 3.8%, and 2016 is predicted to be another year of double digit growth for timber framed houses. ■



**32%**

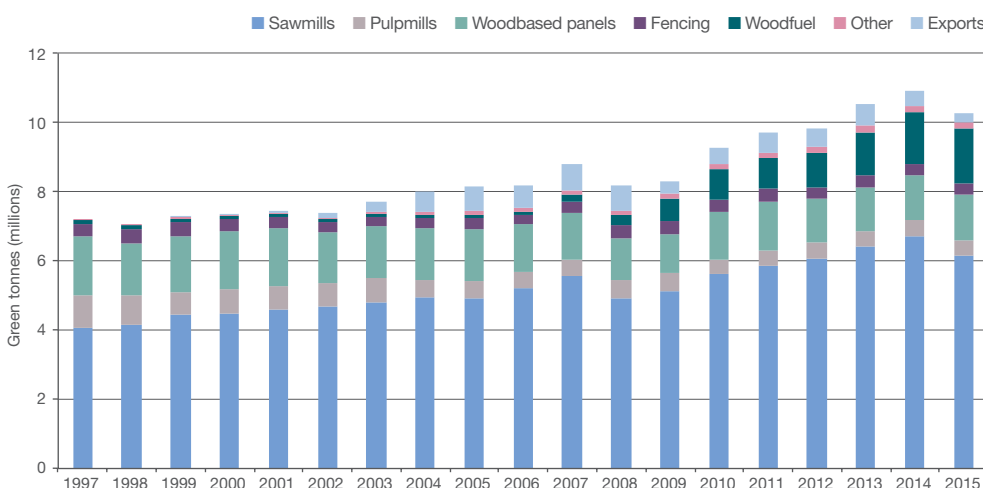
Timber frame housing share in 2018

FIGURE 7 **Investing in the future** Focus on the processing sector



Source: Savills Research

FIGURE 8 **UK softwood deliveries to processor sector**



Source: Forestry Commission

# A STEP CHANGE IN NEW PLANTING AMBITION



We are potentially witnessing the best period for forestry expansion since the 1970s and 1980s

Words: David Robertson

In what was considered one of his finest novels, *The Heart of Midlothian* (1818), Sir Walter Scott's character Dumbiedykes, a Highland Laird, extended the following advice to his son and heir "Jock, when ye hae naething else to do, ye may be ay sticking in a tree; it will be growing, Jock, when ye're sleeping".

It feels that this sound advice from nearly 200 years ago is coming round again as Government policy is increasingly focused on the benefit of woodland. The Scottish Government is currently reviewing the grant application process to streamline and create efficiencies and has just announced increases in its tree planting target from 10,000 hectares per year to 15,000 hectares per year by 2025. This is a rise from 22 million to 33 million trees per year.

Funding has been bolstered to help achieve these targets with an increase in Scotland from £36 million to £40 million in 2017/18. In addition, over the same period, the funding for co-financed infrastructure improvements through the Strategic Timber Transport Scheme will rise by £5 million to £7.15 million per annum.

With the ambitious plans for forestry expansion being announced in a "post-EU referendum" environment, there is confidence the funding streams to support these developments will continue.

Scotland is not alone in providing additional funding for tree planting and England has recently seen the announcement of the £19 million Carbon Woodland Fund. This fund aims to stimulate increased planting of woodlands over 30 hectares in size and to contribute to the Westminster Government's

target of 11 million trees planted in the lifetime of the 2015–20 UK parliament.

So where does this lead us? Arguably to the best potential period for forestry expansion since the 1970s and 1980s, which of course gave us the crops which are now the mainstay of our highly competitive modern sawmilling industry.


With modern forestry plantations being designed and highly regulated to take account of local sensitivities, we have the recipe for creation of a world class forestry resource.

Importantly, due to the long-term nature of forestry, the stimulus of tax free capital grants remains, along with beneficial Inheritance and Capital Gains Tax treatment, allowing forests to be established often in a cash neutral or perhaps even a cash surplus position.

This gives landowners and forestry investors an opportunity to help meet the targets in a way that often provides a more economically productive use of their land resource.

The simplified cashflow (Figure 9) for a 100 hectares productive forest gives an indication of the potential through the Forestry Grant Scheme. ■

FIGURE 9  
New planting example cashflow  
100ha productive conifer in target area, deer and rabbit fenced



Year	Grants Income	Expenditure	Cashflow	Cumulative
1	£299,000	-£223,000	£76,000	£76,000
2	£24,480	-£27,000	-£2,520	£73,480
3	£24,480	-£18,100	£6,380	£79,860
4	£24,480	-£21,750	£2,730	£82,590
5	£24,480	-£14,300	£10,180	£92,770

Source: Scottish Woodlands





## OUTLOOK

Words: James Adamson

### Forest values will continue to rise

2016 proved to be an average year for the forest investment market when measured against the total volume and value traded, but rather masked by the data was the lack of quality timber forests coming to the market. Values remain regional but on the whole continue to show some appreciation. In England and Wales, higher prices were paid and there is no doubt appetite for considerably more volume to come forward to this market. Whilst we all wish to see more large, spruce dominated plantations come up for sale, even in the absence of this resource, areas of value can be identified.

Firstly, increasing investment in regional wood processing mills (see Figure 7 on page 9) and localised biomass demand is pulling timber values upwards in what were, until recently, considered lower value areas. This improves cashflows, which feed through to better revenue returns and higher capital values, and widens the geographical scope for investors looking for stocked forests.

Secondly, there is a real buzz around planting new trees providing clear opportunities for investors to create new productive forests, which will undoubtedly benefit from constrained wood supply in years to come. Grants are favourable and

the process of delivery is under scrutiny with a genuine appetite from regulators to meet targets that have otherwise been seen as rather arbitrary. With increasing uncertainty in the sheep meat sector due to Brexit, we can perhaps look forward to a period of woodland expansion again should destocking of grassland occur.

The forestry investment market continues to attract new interest from private and institutional sources. Investors remain drawn to the security of forest assets, which provide a great alternative to traditional offerings and help to balance already diverse investment portfolios. It is the long-term nature of forestry that is attracting investors' attention, with many seeing a strong upside beyond the next 15 to 20 years. Timber price is the core value driver of forests and any gains in price are reflected by both improved capital values and better income returns. This means investors are encouraged by long-term forecasts that show demand for timber is likely to fall out of line with supply as wood becomes a popular construction material and as woodfuel markets continue to increase.

Although UK timber markets will fluctuate from season-to-season and year-to-year, the prospect of a longer term upward

trend in timber pricing structures is very real, making us confident in the future of forestry as an asset. High yield class, well managed commercial spruce forests with good access to timber markets will remain in strong demand and offer an excellent long term investment option. Our research suggests plantation values will rise by 32% over the next five years (see Figure 10) with scope for further growth if timber prices rise above expectation.

#### A post-Brexit world

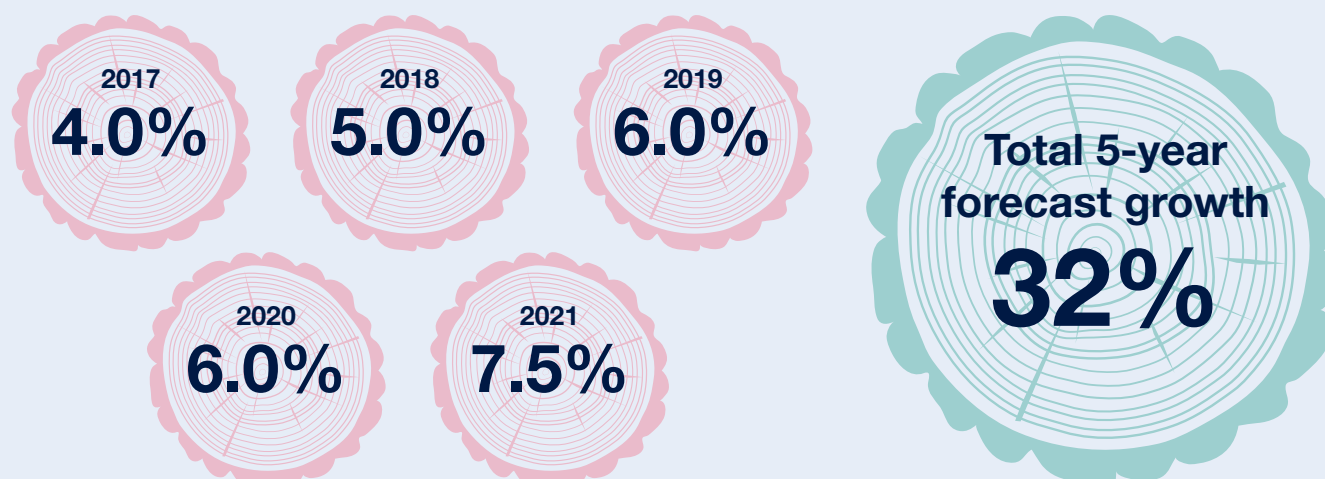
As the UK negotiates its way to a 'post-Brexit world', the UK timber industry will no doubt rise to challenges ahead and more importantly seize opportunities where they arise.

With the UK being the world's third largest importer of wood, revision of EU timber standards and trade regulations could lead to the breaking down of technical barriers to trade, allowing UK forest products to be used more widely in construction.

Adoption of 'timber-first' policy in procurement contracts, with a preference for domestic production would also promote the use of wood in construction, from glulam and cross laminated timber replacing steel beams, to greater use of timber frame in off-site construction.

FIGURE 10

#### Average forestry capital value forecasts



Source: Savills Research

## Rural Research

[www.savills.co.uk/research/uk/rural-research](http://www.savills.co.uk/research/uk/rural-research)

Market Survey: GB Agricultural Land 2017  
Scottish Estate Benchmarking Survey 2016  
Estate Benchmarking Survey (England) 2016  
Key Themes in UK Real Estate 2016/17



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## About Scottish Woodlands

[www.scottishwoodlands.co.uk](http://www.scottishwoodlands.co.uk)

Scottish Woodlands Ltd is a leading forest services provider with a long tradition of serving forest owners and investors in Scotland and the rest of the UK. Founded 75 years ago, we are client and customer focused and operate to the highest standards of safety and environmental awareness. We actively manage around 200,000 hectares of forestry and in 2016 harvested and marketed over 1 million tonnes of timber. The Company operates from a network of 14 offices around the UK. This year we celebrated 50 years of incorporation by publishing a commemorative book "The Wood and the Trees" charting the history of modern forestry.



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