First shoots of a resurgence in planting?

FOREST MARKET REPORT
Fenning Welstead,
John Clegg & Co

The market in 2016 was influenced by large, commercial plantations of mediocre quality often situated in the north of Scotland with the limitations on market access that this can imply. Since then we have seen a resurgence in the number of quality properties coming to the market, across a broad spectrum and interest from an equally broad range of investors. Given the wide variety of woodland and forestry properties available, it may be worth some effort to categorise; in broad terms there are four principle types:

• The large, extensive and industrial plantations dominated by spruce and often now held within a portfolio of similar properties by larger investors or forest funds.
• Substantial individual plantations often with specific characteristics but with a focus nevertheless on timber production.
• Smaller woodlands, often in traditional estate type landscapes, but with still enough scale to be operated commercially.
• The smaller amenity type woodlands, much more often of mixed species and with some constraints on economical operations.

Having been involved in the market for over 30 years, it is interesting to note the number of commercial blocks that now form part of substantial portfolios. The ownership of these includes individuals through to timber processing companies. Individuals might be relatively small-scale investors in a forestry fund or high net-worth individuals. The interesting point from a market situation is that these portfolios seldom come up for sale; but the fact that they exist generates interest from investors looking for much larger scale than is commonly available in the UK forest market.

For example, a pension fund with a long track record of forestry ownership recently sold its portfolio of five forests extending to almost 2000 Ha for £11m. The opportunity to make a single forestry investment in excess of £10m is not common in the UK. However, not unique - John Clegg & Co and Bidwells recently marketed Moness forest in Perthshire. Extending in total to 1320 Ha of which 889 Ha were stocked with commercial conifers planted in 1984, Moness had the added attraction, depending on your point of view, of planning approval for six, 3MW wind turbines. The property sold at a price equivalent to £10,750 per stocked Ha. That does not appear to put any significant value on the windfarm planning. Especially when one bears in mind that Whiteknowes forest sold for a stronger price. Situated in Galloway and extending to 219 Ha of which 178 Ha were stocked, has now sold at £13,500 per Ha. This stronger price, we believe, reflects the higher yield class and the competitive nature of the timber market in the south-west of Scotland. It does also highlight the difficulties in accurately predicting the price paid for properties in the market place. Buyers all have individual rationales for investing.

This was emphasised with the sale of Heathpool Forest. Located to the south of Edinburgh and extending to 234 Ha, there were 189 Ha of conifer crops dating from 1990. With over 80% of the crop being Sitka spruce, this forest should be in prime production post 2025.

The sale attracted strong interest and a very healthy clutch of offers at the closing date. The interesting feature of the offers was the spread. The median bid works out at about £10,500 per Ha, but the spread of the bids was up to 20% above and below the median.

As you can imagine this has significant implications when it comes to preparing formal valuations.

Holme & Sawmill Woodlands

It also exposes a severe risk if one negotiates the sale of a property based on valuations. In the current market, it is very difficult to predict the top price that somebody might pay for individual property on any given day. We would urge anyone considering a sale of their forest to look properly at open market sale.

Wales has seen a notable lack of substantial commercial offerings in the past few years. There is very strong demand for good productive coniferous plantations in Wales and competition for such offerings could be expected to be strong if any do come to the market.

Moving to the smaller woodland market, John Clegg & Co sold Greenslanding, 29 Ha of mixed conifer and broadleaved woodland located just to the north of Perth. In many ways, an ideal forest for a private owner. Good access from a reasonable public road, easy working conditions and a mixture of crops. This sold readily at a price of £6725 per Ha.

Of smaller woods in Wales 4.38ha of Sitka spruce and Western hemlock, near Lampeter, dating from 1961 and 1970 attracted interest and achieved close to £40,000. A number of small investors have noted the projected decline in timber production in the coming decades. Parcels of bare land for restocking with commercial conifers are becoming more sought after. A knowledgeable investor acquired Coed Pant du Uchaf near Caerphilly to restock with Sitka spruce via his pension scheme. The 11.15ha with road frontage was offered with a guide price of £3865 per hectare.

The market in England is very much in its usual quiet phase with little coming to the market. However, there will be a good selection of small and medium sized woods on offer from May onwards. There is nothing mysterious about the timing merely the need for leaf to appear to allow good photographs to be obtained for the sale particulars. Also, it helps if underfoot conditions are drier and the longer days allow more flexibility as to when woods can be viewed.

We firmly believe well managed mixed woods either side of 40ha will continue to attract strong interest. The recent sales of Oakwood West, 34ha near Chichester, West Sussex, and Lock Wood, 35.5ha adjoining the River Thames near Abingdon, Oxfordshire, demonstrated the demand for this type of woodland. Both had "that something extra" for woodland purchasers which reflected in prices around £21,000 per hectare.

Looking at woodlands currently on the market in this category one could include Holme and Sawmill Woods near Inverness (in photo), containing some lovely timber but also some considerable amenity value, hence these would be ideal for individual with a strong interest in ownership.

Two current sales illustrating the difference between apparently similar plantations would be Glentaggart South and Middle Hill in south Scotland. Both forests are in the 200 Ha category, but are situated very differently. Middle Hill forms part of an extensive forestry plantation linked in with the larger Eskdalemuir forestry complex. It is likely to be targeted by neighbouring proprietors and those wishing to gain access to such a vast forest resource. Glentaggart sits as an individual plantation and is likely to suit a more individual investor, potentially someone looking for a longer term investment and with an interest in sporting and active involvement in the ownership of the woodland. It will be interesting to see how the market responds.

As I draft this article, John Clegg & Co are preparing the sale of a portfolio of ten woodlands extending in total to approximately 1560 Ha. These are all commercial blocks of conifer with a geographic spread helping to reduce risks and open up opportunities to other markets. This will be an opportunity for somebody to make a substantial investment in UK forestry with a single purchase.

Land availability for new woodland establishment on any scale remains difficult to find, let alone get approval to plant. Demand seems to be strengthening in this sector and we detect an increased political will to see new planting projects commissioned. We could be on the verge of a period of forest expansion – perhaps interlinked with agricultural activity in a more integrated land use pattern.

Report authors bullish on five-year investment growth

More than 18,300ha of forestry were sold across Britain last year at a cumulative value of just under £83M in another strong transactional year for the forestry sector.

Although the average price per hectare across the whole market dropped slightly from 2015 levels, this was due to significant changes in the market share by region, with nearly 80% of all property sold north of the Forth-Clyde canal. Demand for UK grown timber improved over the year with the prospect of further rises as ambitious new build and low carbon targets filter through, which will give the domestic timber industry a boost. Meanwhile both UK and Scottish Governments have ambitious tree planting targets, supported by attractive grant packages providing clear opportunities for investors to create new productive forests.

These are among the findings of new research by Savills and Scottish Woodlands. Speaking at the launch of their joint report, Spotlight on the UK Forestry Market, James Adamson, Savills Head of Forestry Investment UK said: "Investors are increasingly seeking multi-purpose investments, ones that hedge against uncertainty and provide a long term home for capital. Although UK timber markets will fluctuate from 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. The UK forestry market has continued to demonstrate strong performance and remains a highly desirable alternative asset class.

"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. Looking towards a post-Brexit-world, a revision of EU timber trade regulations could enable UK forest products to be used more widely in construction. Our research suggests plantation values will rise over the medium term, albeit at a slightly slower pace and we forecast 32% growth in forest values over the next five years, with scope for further growth if timber prices rise above expectation".

David Robertson, Investment & Business Development Manager at Scottish Woodlands said: "Government policy is increasingly focussed on the benefit of woodland. The Scottish Parliament has increased its tree planting target from 22 million to 33 million trees per year by 2025, this equates to a rise from 10,000 to 15,000ha of forestry land, with grant funding bolstered from £36 to £40 million in 2017/18. In addition a £19 million Carbon Woodland Fund has been announced in England aimed at increasing planting of woodlands to contribute to the Westminster target of 11 million trees in the lifetime of the 2015-20 parliament. In summary, we are potentially witnessing the best period for forestry expansion since the 1970s and 80s, supported by Government policy on both sides of the border".

Other key findings include:

- 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 proportion of forestry sold in North Scotland during 2016 doubled compared to 2015. This increase relates to two large sales; The Barracks and Strathmore Forests which at a total of 7,246ha made up 40% of the wider UK market.
- In South Scotland the proportion of forestry sold during 2016 fell significantly, both on the year and against the medium term average of 33%.
- Investors are increasingly seeking multi-purpose investments, that hedge against uncertainty and provide a long term home for capital.

Download the full report: at
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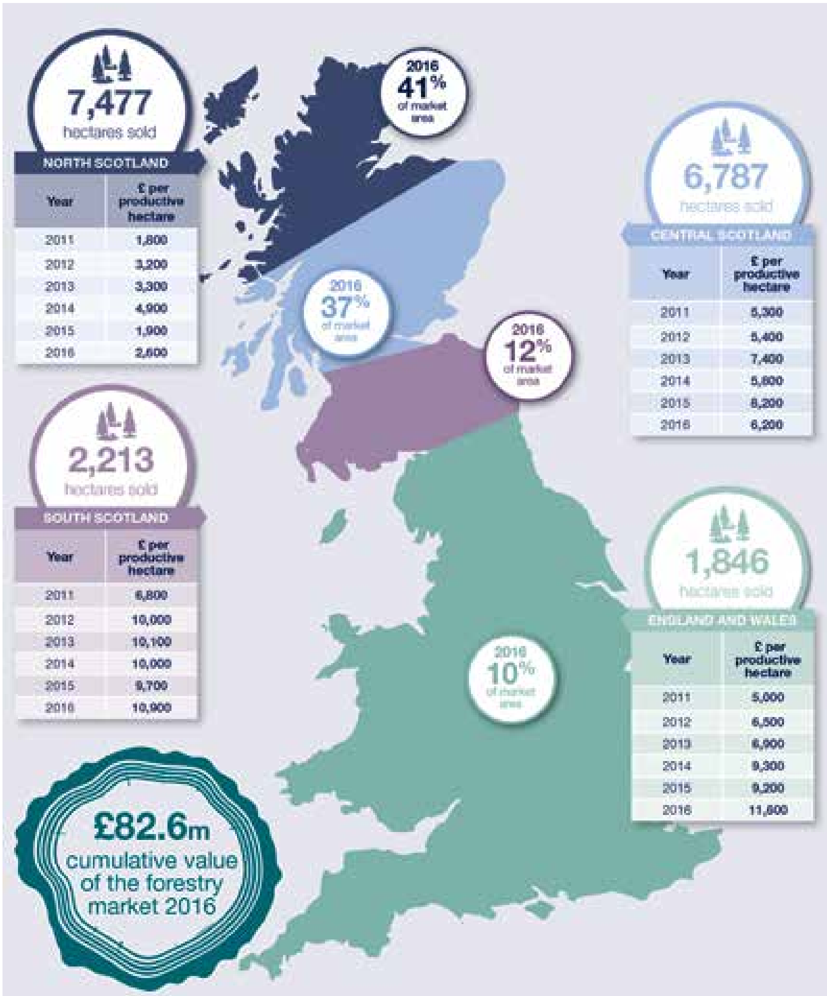

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Market situation calling for period of consolidation

TIMBER AUCTIONS MARKET REPORT
Oliver Combe

Global Trends

The UK is seeing increasing influence from developments in the global lumber markets. Volumes of timber traded continue to increase and whilst prices have been under downwards pressure, there are now signs of pressure on supply which should lead to price increases. It appears that the market in 2017 will be supply-influenced and underpinned by steady and increasing demand.

Whilst we are all familiar with the ever increasing demand from China, the US market has been steadily improving at a faster pace than China. The ongoing dispute between Canada and the USA over lumber trade tariffs looks to be heading to a swift conclusion.

However, the Canadian mills have substantially increased their global exports by developing markets in Asia and India and so are less dependent on the US market than in previous rounds of negotiations. With less Canadian timber heading to the US, there is now increased opportunity for other countries to increase volumes sold to the US.

The Nordic mills have been watching this opportunity for some time and the current rising prices and demand in the US looks likely to draw more volume across the Atlantic.

China continues to source increasing volumes from Russia and has recently expanded its purchasing further west into the Russian White sea ports cutting off volume that previously headed to Western Europe.

Sweden has seen further rationalisation of production capacity together with apparent shortages of whitewood in central and southern Sweden combining to reduce volumes committed to the UK market.

The Baltic states volumes shipped to the UK have been gradually decreasing over the last decade but the run of mild weather this winter has restricted logging in the wetter spruce stands (whitewood) and meant activity has been focused on the drier pine (redwood) sites. Mills now have low stock levels of logs and sawn timber which is dominated by redwood meaning that they cannot offer the same products that buyers have become used to. When combined with increasing difficulty in sourcing logs from Russia the Baltic mills have struggled to get sufficient volume to cut over the winter months leading to reduced production and delayed shipments.

The Central European mills (Germany & Austria) have reduced their shipments to the UK due to exchange rates and are focused on domestic markets and the northern Mediterranean countries.

Prices have begun to increase and volumes have only been committed to the most rewarding volumes.

UK buyers have been unwilling to accept price increases or to commit to forward volumes and so are facing potential disruption to supply from abroad.

Domestic Trends

The UK economy appears to be running along relatively unscathed by Brexit at the moment. Whilst current demand is quite reasonable, government spending is still under pressure and the market is uncertain as to what the true impact of triggering article 50 will be.

The domestic market has had a reasonable start to the year with January, February and March being decent months without setting any records. It appears that the merchant sector has maintained stock levels throughout the winter which when combined with mills continuing to run at normal levels

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Charles Ransford & Sons

LOG SUPPLY

Quarter 1 of 2017 has seen a very definite East / West split in terms of log supply and market conditions.

Wales and South England

The market remains very buoyant, however, the fundamental difference here is the greater diversity of small round wood markets which are often small-scale and local. As a result, until now there has been no great backlog of small round wood.

Whilst the sawlog market remains very brisk there are now problems moving large volumes of small round wood in England, Kronospan and Verdo have both had a negative impact which we have to an extent been shielded from by the local heat markets. As the winter peak in demand from the heat markets slows down then the problems in the small round wood market will become more apparent.

Buyers will have to focus on sawlog crops and will try to avoid those crops with a high small round wood content.

Supplies of sawlogs remain constrained and some mills remain concerned about their bought ahead situation and are having to target certain parcels to ensure they have enough logs to run their mills. Sawlog prices have remained static in Quarter 1 at around £58 to £62t delivered and there is little desire to increase them except to target certain exceptional parcels

North and West Scotland

The North and West of Scotland have seen plentiful supply of timber to the market both standing and felled with an apparent abundance of spruce. Most of the parcels have had a good sawlog content and have been mainly FSC certified.

March has seen demand from both the domestic sawmills and the Irish mills really pick up and has underpinned the market on the west coast. Despite the backlog of small round wood right across North and Central Scotland, harvesting activity remains very buoyant, merchants are trying hard to avoid crops with a high small round wood content and are focusing on sawlog crops.

South and East Scotland, North England

Supply of timber to the market has been more sporadic with a distinct shortage of timber offered from Fife down to Yorkshire. This has pushed the east coast mills further west and put pressure on sawlog prices and sawlog parcels in throughout the Borders.

Whilst standing sales prices in the last Forestry Commission tenders have appeared to be static the true picture is that small round wood parcels have seen reduced demand and reduced prices whilst sawlog parcels have seen some very strong prices with one exceptional parcel in Kielder achieving over £45t standing. Roadside sawlog prices also increased by around 4%, but this is driven by shortage of supply not exceptional demand or product prices.

As sawmills ramp up production in the spring, supplies of sawmill co-products (woodchip and sawdust) will increase and put pressure on market access for small round wood. Until Kronospan clear their feet of small round wood and resume full-scale production, the market will be held back by reducing prices for small round wood. This will lead to real disparities in the standing sales markets between 'sawlog' and 'small round wood' crops.

The mills are now in the difficult position of having sawlog prices increasing much faster than their sawn timber and co-products prices but whilst supplies are scarce they have to buy timber to keep their mills going. Sawlog prices have now caught up with those in the south and are hovering around the £58 to £62 tonne level but there are very strong and sound reasons to hold prices at these levels.

>> has avoided the normal seasonal slowdown and mad Easter rush!

Although order intake is described as reasonable there are not really any signs yet of extended lead times and queues at the treatment plant and secondary processing that emerge when the fencing season is in full flight.

UK mills have been trying hard to increase prices, however, customers are still resisting the demands and whilst mills have stock to sell the customers have been very savvy at spotting opportunities and sidestepping the impact of price increases.

When the domestic demand does increase and order lead times start to increase then the price increases will be more robust. If this should coincide with reduced availability of imported timber then we could see quite sudden movement in prices early in the next quarter.

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

Summary

These are very interesting times in the standing sales market; some recent prices are not sustainable and have been driven by the need to secure supplies and not by positive trends in the market.

The anticipated increases in sawn timber prices have on the whole not happened, most sawmills are seeing the increasing log prices and static sawn timber prices eroding their operation margins at the current time.

This is not a sustainable situation and it would be realistic to now expect a stabilisation of prices until an upturn in demand allows price increases in the sawn timber market.

There are positive signs that this may be achievable in the next quarter but until it has actually happened it is likely that there will be a period of market stabilisation and possibly decreases in the small round wood market.