Buyers look for best of both worlds

PROPERTY MARKET REPORT
Fenning Welstead
John Clegg & Co

What has been happening in the forestry market since we last reported? The main thing that comes to mind is the value of location and quality.

Scotland

Bidwells sold two properties; one in Angus, the other in coastal Argyll, both being commercial forests. Kynaballoch in Angus is a compact 128ha with crops dating from 1954 to 1983. With a guide price of £1.2m and the prospect of very immediate timber income, this appealed to the market; especially so because logs and small round wood have been in short supply. A competitive closing date saw the property sell for approaching 50% above the guide, representing a price per stocked hectare in excess of £16,000.

Acharossan, on the west coast of the Cowal Peninsula, is a much larger forest at 1023ha. The oldest crops were planted in 1966 and significant areas have been felled and restocked. Bidwells had set a guide price of £5.25m at which level it attracted good interest. It is now under offer at about one third over guide, equating to £8300 per stocked hectare. The difference in price per hectare with Kynaballoch relates partly to the age and the immediate ability to extract timber and partly due to location, cost of operations and distance to market.

Moving into south Scotland, Wallets Marts sold Bargatton Plantation. Extending to 117ha in total, it was planted in the early 1990s. In addition to the commercial forestry, this property offered attractive sporting with some loch fishing. With a guide price of £650,000, it sold at a premium of circa 25%; equivalent to about £8763 per stocked hectare.

A more complex property was John Clegg & Co's marketing of Newton Estate. Situated adjacent to the M74 and containing some very fast growing spruce crops, it extends in total to 202ha. The property includes commercial forestry, but also some useful agricultural fields capable of silage cropping, fishing on the River Clyde and two cottages. The most intriguing aspect, however, was an annual income of £116,000 arising from a mixture of radio masts, a wind turbine and access rights. The property was put on the market with a guide price of £2.95m and sold at a premium. Depending on how one analyses the figures, the price breaks down in different ways. A reasonable assumption might suggest that if the variable income was valued at a yield of around 10%, and, therefore, worth something over £1m, the forestry was worth in the region of £16,000 per hectare. For crops planted in the 1970s and very much like Kynaballoch, ie ready for harvesting into a market with strong demand, there is some comparable value evidence there.

Finally, from the Scottish perspective, I am going to mention a small amenity woodland with loch frontage. A small woodland near Loch Earn on the side of the water, extending in total to less than six hectares, sold for over £22,000 per hectare. With no realistic value in timber other than the odd bit of firewood, this is a useful guide to the value of real amenity and enjoyment in the countryside.

England and Wales

As ever, in England and Wales properties for sale have been few and far between. However, even without many opportunities, the market is obviously keenly observed by the investing public due to the fact that anything put to market usually sells quickly and nearly always at a price above expectations.

In the north of England, there has been a very strong market for a number of years with considerable investor interest in acquiring property and not very much by way of supply. John Clegg & Co and Savills marketed Dipton Forest, to the south of Hexham. Extending to 224ha of which 206ha were stocked with commercial crops of Scots pine and Sitka spruce, this property was put on the market with a guide price of £1.6m. It sold at an extremely competitive price equivalent to over £15,000 per hectare. On the face of it, this seems comparable to some of the evidence from north of the Border, but the substantial element of pine at Dipton suggests that this was a very strong bid. In part, this could be due to higher land values but also to the significant sense of place that Dipton offered. It is all too easy to ignore these less tangible aspects of property. As we see an increasing focus on Natural Capital, perhaps an >>

Newton Estate

>> agreed method of ascribing monetary value will develop, but for now it is very much in the eye of the beholder.

John Clegg & Co marketed Hollin Cleugh Forest near Newcastleton; 146ha in total, of which 110ha are carrying young, restocked crops. This was put on at a guide price of £550,000 but sold at double that; equivalent to £11,350 per hectare. This is almost a repeat of a forest sold in that part of the world a few years ago – Stonechest - which had secured very strong bidding also. Part of this, in our view, is a matter of land value aided by perceptions of stronger political stability being in England, the prospect of young crops requiring little in the way of maintenance and potentially strong capital growth. Ideal, in other words, for long term investment.

With plenty of heat in the north England market, it is inevitable that forestry investors start to look at other routes to investment. With this in mind, we are aware that C&D Rural in Carlisle has recently sold Snowden Close, a 263ha piece of good quality grazing land with house and buildings, for around £2.4m. It is understood it is hoped the majority of the farm will be planted with commercial tree species before the unplanted area, farmhouse and buildings will be sold on.

Ley Park Wood just outside Gloucester and marketed by John Clegg & Co was launched just before Christmas with a guide of £1275m for 93.48ha – a large and quite commercial offering for this part of the world. It is understood a sale was agreed at a figure well above guide and potentially rivalling the best prices in Scotland for wall to wall conifer of £16,000 per hectare.

Flakebridge Estate, with 152ha of forest and sporting rights over a further 938ha close to Appleby in Yorkshire, appeared from Davis Bowring late in 2017 after being withdrawn from the market for a few years after a failed sale. Clearly, with the guide price being set at a similar level to the previous marketing exercise at £1.75m and forestry land now being regularly fought over, this figure looked attractive. As such, we understand the agent managed to achieve in excess of £2m for this stunning and interesting property.

Further south, business has continued as usual with the normal quantity of smaller, more amenity focused properties coming to the market with a variety of agents. As ever, success is mixed with some generating competitive interest, while others sell after a bit of a struggle. Prices have been strong with many unsatisfied buyers being left to find alternative properties in which to invest.

The real value of amenity... a small woodland near Loch Earn, extending in total to less than six hectares, sold for over £22,000 per hectare

George F White marketed the 84ha Hyons Wood in Northumberland in the summer and achieved a figure rumoured to be well above its modest £315,000 guide price. This sale illustrates that correctly priced, the current market is well prepared to offer well in excess of guide on almost any woodland property, even if there is no prospect of immediate timber production.

Other significant sales include Pennal Forest in North Wales by John Clegg & Co, 77.5ha of high quality, young replanted woodland, sold for over £6,400 per hectare, nicely above the guide of £5,600.

Going forward, we are seeing a slightly larger crop of spring sales and it is hoped our next report will indicate a few more significant properties selling into what is clearly going to remain a buoyant market under-pinned with a strong timber market.

The Influence of forestry funds

Funds accumulate the investment wishes of many individuals and effectively bring ownership of forestry to a much wider market than direct purchase. The nature of large-scale commercial forestry is changing, with a high percentage now owned by funds with the consequent spread of risk and economies of scale. There is a knock-on effect to the timber market where there are now several portfolios able to supply substantial annual tonnages. Changed days from when only the Forestry Commission could fill this role!

www.johnclegg.co.uk

Pennal Forest

A 'golden opportunity' or the 'perfect storm'?

TIMBER AUCTIONS MARKET REPORT

Oliver Combe
Timber Auctions

Since Christmas the UK standing timber market has reached unprecedented levels and continues to defy expectations of a cooling-off period.

New record prices for standing timber are being posted on a monthly basis and whilst this is fantastic news for the grower there is increasing concern in the sector that the market is seriously overheating (no pun intended). Will there be crash or a soft landing? One sawmill has closed at Christmas, is there enough wood to keep everyone going?

Domestic trends

UK demand is reasonably good, the economy is better than most expected it would be and timber sales have been going well in volume terms although price has continued to be an issue.

The main timber importing countries have become focused on new, more lucrative and less demanding markets like the US and China and appear to have been landing less stock in the UK over the last six months. This has limited the amount of quayside stock at the same time as demand has picked up a little bit better than expected, with lower levels pre-ordered and better home elsewhere in the world there is not much sign that this will change until there are substantial improvements in the prices that merchants and end users are prepared to pay. In addition, the UK producers have had significantly less stock in their supply chain than in the previous year due to a number of factors. "25 to 33% less stock than last year" is the common message, whether by accident or design.

In an industry where the whole supply chain has been reducing stocks and increasingly living hand to mouth this has stretched stock availability to breaking point. At the beginning of March, customers were reporting two and three-week lead times on key products.

Winter of 2017/18 had seen significantly more extreme weather and disruption to harvesting activities than recent years so harvesting companies has been struggling to produce material for their customers. This was on the back of an apparent shortage of timber being offered to the market in the last six months of 2017. So not only did the harvesters have less material to cut they were also struggling to deliver it to the processors. Then came the 'Beast from the East' which brought widespread disruption to the supply chain at a time when stocks were at a bare minimum. Many harvesting sites have been completely shut down for several weeks which have caused processors log yards to empty at an alarming rate to the point where many have had to take production breaks.

Impact on the market

The lack of timber being brought to the market in the second half of 2017 had already put upward pressure on timber prices. Whilst it is difficult to quantify the extent of this shortages some sources have identified a shortfall of 600,000m³ obs below what had been offered in previous years. This shortfall has impacted across all market sectors and lead to a general shortage of timber for all the processors, whether sawmills, board mills or biomass plants.

Purchasers were competing hard to secure volume and prices of £40 to £50 per tonne standing were seen in the final quarter of 2017. These prices were determined by the need to secure wood now due to shortages and not by a surge in end product prices.

The first quarter of 2018 saw more timber coming onto the market but also further restrictions in supply due to the weather and as the restrictions have increased panic appears to have set into the standing timber market as buyers faced with empty log yards and the prospect of stopping plants for prolonged periods of time have "thrown the book" at key strategic log rich parcels to ensure they have wood to cut tomorrow. It is now a battle of those with the deepest pockets.

Recent reports have prime standing parcels in the North of England making over £60 per tonne standing, these are unprecedented and in the current market unsustainable prices. Hopefully the price increases on end products will be accepted by the market, the standing prices will stabilise and we will all be able to make hay!

Whilst the rapid escalation in standing timber prices is well documented this has not been followed by corresponding increases in finished product prices. There has been a steady stream of price increases for sawn timber in the second half of 2017 and into early 2018 the log price increases have wiped these out on a monthly basis. >>

£ per tonne delivered to customers in Wales, central and south England

Product	*Lower price*	*Upper price*	*Trend*
Log 18	£70.00	£85.00	=
Bar/pallet 14	£45.00	£55.00	=
SRW	£35.00	£4500	= ↑
Fencing	£50.00	£55.00	= ↑
H Wood firewood	£45.00	£5000	↑

£ per tonne delivered to customers in north England and Scotland

Product	*Lower price*	*Upper price*	*Trend*
Log 18	£65.00	£80.00	= ↑
Bar / pallet 14	£50.00	£60.00	=
SRW	£40.00	£45.00	= ↑
Fencing	£50.00	£60.00	= ↑
H Wood firewood	£50.00	£55.00	↑

These prices are for guidance purposes only and are based on historic market information.

>> Processors margins were under severe pressure prior to the shortages caused by the weather and the last few months will have been very tough trading conditions so there are good reasons to be very cautious about the current state of the market.

As log prices head towards £80 per tonne delivered and beyond, sawmills need to get the price of sawn timber increased by somewhere around £60 per m^3 just to stand still (£180m^3 delivered to £240m^3) and this has to be done pretty rapidly.

Will the market be able to absorb this level of price increases without a significant reduction in demand? If the processors can get the price increases to stick will this then lead to a flood of imports and a collapse in demand?

Summary

We are now in uncharted territories for standing timber prices and whilst it is a golden opportunity for the growers it is definitely not sustainable in the long-term. The ability of the consumer market to absorb price increases and the willingness of importers to return to the UK if the prices increase substantially this spring are key factors in determining demand levels. Supply to the market appears to be better this spring than for a number of years but will this increased supply continue into the second half of the year. It is uncertain times and there is significant risk but it also a huge opportunity for growers.

Whilst in the short-term prices may ease as more supply becomes available and competition eases there remains an ongoing question as to whether there is enough timber to sustain the current demand. This presents an excellent opportunity for growers to bring marginal crops back into production. Prices are excellent for all products across most species which is unusual and should allow growers a great opportunity to thin or fell almost any site.

2018 is the opportunity to revisit all those compartments and woods that you have worked around, ignored or forgotten about and see if they can be brought to market and become productive woodlands.

With current prices levels most woodlands can be harvested and return a cash positive sum, speak to your forest manager, walk through your woods and see what can be brought forward.

GLOBAL TRENDS

The global market for timber continues to be strong and the US market highlights the developing supply and demand imbalance. Globally, demand is rising faster than supply; in the US, this has lead to record breaking prices for sawn timber despite slower than anticipated new housing starts whilst the market is becoming increasingly dependent on imported timber. With the Asian and Chinese markets also performing well there are strong draws on available supplies which are putting consistent upwards pressure on timber prices.

For the main timber producing nations there is increasing demand and on the back of this an emerging trend of increasing prices. Producers are now focusing on increasing harvesting rates to ensure that there is enough round wood available to capitalise on this opportunity. This is not without its challenges as weather conditions become more erratic, environmental regulations and controls become more stringent and the expectations of the consumer increase. Through 2017 there were strong signs that the timber market would become supply rather than demand driven, 2018 has seen this become a reality.

Roadside hardwood prices (£ hft) March 2018

	Oak planking	Oak beam/ fencing	Oak cordwood	Export ash & beech	White ash sawlogs	Export sycamore	1st grade firewood
High price	9.00	8.00	1.40	3.25	5.00	5.00	2.00
Mid price	8.00	6.50	1.25	2.75	4.00	4.00	1.80
Low price	7.00	5.00	1.00	2.00	3.00	3.00	1.60

These prices are for guidance purposes only and are based on historic market information

Demand continues to outstrip supply

TIMBER MARKET REPORT
Tim Leavers, Euroforest

As I write, the last vestiges of the recent heavy falls of snow are disappearing, here in the south of England. Nothing unusual about that, but these cold easterly weather systems have had an impact on all business activity, not least for the forest and timber processing industries. As you go further north barely a week has passed this year without weather related disruption.

In contrast to the weather, the wood processing sector has seen an early season heating up reflected in record standing prices across all sectors.

Processers under pressure

Sawmillers are reporting significant demand for finished product from both construction and fencing customers. This demand is driven by a number of factors. Imported prices are remaining robustly strong due to the weak pound. The Swedes are reported to be holding back volume in anticipation of further price rises. Earlier, some weather-related production issues in the Baltics slowed extraction. Added to all these is the volume moving from other European producers, eastwards. These circumstances are keeping the roundwood delivered prices high, arguably not perhaps enough to justify the typical £70-75/tonne being paid regularly for spruce and pine logs, with reducing top diameters. Many mills across the UK started the New Year with depleted round stocks, only to have their wood intake further jeopardised due to adverse weather; at present any large volume cache of logs offered and immediately available, can attract even higher prices. Sawmills are forced to face the dilemma of either shorter time working or paying more. Drawing volumes to mitigate against the shortfall, from beyond typical catchment areas, is compounding the cost pressure on the purchasing mill and on their competitors from the area the purchase is made. Sawn prices are continuing to hold, demand is strong, order books are full but stock shortages mean customers are having to be patient.

A drying out supply

So, demand continues to outstrip supply. Many growers have reached or exceeded both their volume and income targets. Effort is being put into bringing felling coups forward in Scotland, a short-term solution; whilst others are looking hard at the inventory and forecast figures, seeking for justification there to increase the volume brought to the market. Further south, FC volume shortfalls in conifer are being offset by the promise of 100,000m^3 of infected ash. Standing volume seems to be elusive at present but the season has yet to see the normal influx of parcels from the private sector. The promise of higher rewards might well encourage the woodland owner and investor to open the forest gate.

> “Sawmills ... face the dilemma of either shorter time working or paying more

Some log supply volumes are being swallowed up in the biomass and energy markets. With falling production levels, reducing the quantity of sawmill chips, this too, is adding to the log shortfall. Susceptible to the grabbing of otherwise millable logs are the sawn pallet producers. This situation is more of a fundamental and long-term change rather than a seasonal one.

Small roundwood

Fencing has yet to get into gear as projects are waiting for more favourable weather, but demand is expected to be intense as stocks are equally low. Pallet wood is being chased but with no expectation of further improvement to prices for boards. The colder weather has kept the interest in combustible wood volumes alive with ever growing capacity in new large and small energy schemes coming on stream. Worldwide OSB production has already been sold and raw material is required to meet that, in addition, the chipwood producers are competing for the wood being burnt.

This febrile market place has already taken its toll, yet might not be soothed easily, and some might be in jeopardy because of the fever. The expectation of some is that late in Q2 into Q3 we could see demand ease. In conclusion, whilst the UK is never going to be anything other than a net importer of wood and wood products, we will face ever-growing competition for those products from across the world, making our home-grown product a valuable commodity. With good advice behind you, it is an excellent time to sell timber now; for those who can, why not consider planting some trees too!