

A tale of two halves



TIMBER AUCTIONS MARKET REPORT

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Timber Auctions

While quarters three and four of 2018 have not quite seen the frenzied activity of the first six months of the year, the market remains very strong and prices remain at record levels at the end of 2018.

Whilst the high prices have brought large volumes of timber to the market in the Central Belt and northern Scotland the supply situation remains much more challenging in the Borders, England and Wales with processors still fighting to secure volume.

Strong domestic demand

Demand for all products remains very strong and whilst supplies of sawlogs have improved as we approach Christmas there remains a shortage of small roundwood and palletwood.

All market sectors have increased their demand and whilst there has been more timber brought to the market in 2018 than recent years this has barely kept up with the increased demand from traditional users. When these high levels of demand are combined with new entrants to the market such as the energy plants at Cramlington and Sandwich it is easy to see why there is such intense competition for standing parcels from a wide range of buyers.

The delays in felling licence approvals in the first six months of 2018 now seem to be resolved although there does not appear to be a huge uplift in the volume of timber being offered to the market.

GLOBAL TRENDS



Global demand for timber continues to increase and 2018 looks like being a record year in terms of volumes and values traded with current estimates looking towards 126 -130 million m3 being traded. The major global producers continue to increase their market share with Russian, Germany, Ukraine and Austria posting significant increases in their volumes.

Canada continues to struggle with declining volumes to both the US and China when compared to 2017.

Whilst the US lumber market has been on a bull run for 18 months the summer of 2018 has seen a roller coaster ride with record high prices in early 2018 followed by a crash in prices over the summer. US sawmills are now taking production capacity out to try and balance supply and demand and hopefully stabilise prices.

The Scandinavian producer volumes have remained largely unchanged as they seek efficiency gains to counter high log prices and continued supply challenges due to storm and fire damage. Volumes to Europe and America have increased whilst the volumes to the middle east,

China and the UK have decreased.

The Chinese market continues to increase and is now the largest importer and consumer of timber in the world, volumes have doubled over the last 10 years.

Emerging markets

Whilst the Russian Far East and Siberian mills are steadily increasing their market share, Europe still supplies around 3m m³ per year. Although China remains an attractive market, other emerging markets in the Far East such as South Korea, India, Malaysia and Vietnam are steadily increasing the volumes taken from European and Scandinavian producers.

The strong global demand has meant that volumes offered to the UK market from overseas producers have remained low and that the prices have remained high. There are reports of imported pallet and packaging being 20 to 25% higher than UK material and availability being limited.

All the signs are that the pattern of sales this year will be the same as the last three years where the majority of the volume is offered in the spring and the volumes then dwindle away in the second six months.

This can make for very strong prices in December and January as buyers seek to fill their yards and inventories for the spring peak of demand.

Impact on the market

Intense competition to buy standing trees remains the key feature of the market with increasing numbers of offers on all parcels of timber. What has been striking in 2018 is the spread of prices being offered. A recent standing sale parcel attracted bids from £8t standing to over £60, this spread of prices has been seen in other parcels where new

£ per tonne delivered to customers in Wales, central and south England (November 2018)

Product	Lower price	Upper price	Trend
Log 18	£80.00	£95.00	= ↑
Bar 14	£60.00	£75.00	=
SRW	£50.00	£60.00	= ↑
Fencing	£55.00	£60.00	= ↑
H Wood firewood	£60.00	£70.00	↑

£ per tonne delivered to customers in north England and Scotland (November 2018)

Product	Lower price	Upper price	Trend
Log 18	£75.00	£90.00	=
Bar / pallet 14	£50.00	£70.00	=
SRW	£40.00	£55.00	= ↑
Fencing	£50.00	£55.00	= ↑
H Wood firewood	£50.00	£60.00	↑

HARDWOODS

Oak, oak and more oak, the demand for oak remains insatiable throughout the world and prices continue to increase across the globe whilst supply remains constrained.

UK oak prices have reached unprecedented levels in 2018 with roadside parcels of high quality material now reaching £10 per hoppus foot, large beam oak, 15 quarter girth and above is now worth as much as planking oak.

On a purely economic basis it is difficult to see why anyone would plant anything else other than oak on suitable sites and there would be a strong case for using the French improved timber provenances.

The felling season for the white hardwoods has started and whilst there is increased demand for ash and beech sawlogs the recent surge in firewood prices has wiped out these increases and made it only worth cutting sawlogs in the very best stands.

Growers are becoming much more aware of the huge risk from Chalara and there is a steady increase in the number of ash parcels being offered to the market.

The shortage of small roundwood has



increased interest in poplar and prices of £40 per tonne at roadside have recently been achieved for poplar small roundwood.

The firewood market has rocketed over the last six months as the shortage of material offered to the market has driven intense

competition to buy what is available, this combined with new biomass plants also looking to buy hardwood small roundwood has resulted in the supply chain being hand to mouth. Roadside prices £65 per tonne are now common for processor sized material and over £70 has been achieved for really good quality parcels. This translates back to standing prices to £40 to £55 per tonne.

With prices at these levels and no stock at roadside anywhere it will be exciting times for growers who have material to offer to the market over the next six months.

Again there are now large ranges in prices being offered for material at roadside with a recent tender seeing prices ranging from £45 to £85 per tonne at roadside.

Roadside hardwood prices (£ hft) November 2018

	Oak planking	Oak beam	Oak fencing	Oak cordwood	Export ash & beech	White ash sawlogs	Export sycamore	1st grade firewood
High price	£10.50	£10.00	£6.00	£1.40	£3.25	£4.50	£5.00	£2.60
Mid price	£9.00	£8.00	£5.00	£1.25	£2.75	£4.00	£4.00	£2.25
Low price	£8.00	£7.00	£4.00	£1.00	£2.00	£3.00	£3.00	£2.00

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

entrants and established players try to come to terms with the complexities of the standing sales market.

It is more critical than ever that growers should offer timber to the open market and have an effective and transparent method of selling their timber as there are significant differences in prices being achieved.

The large processors remain the dominant force in the market, the sawmills have successfully increased their sawn timber prices over the last nine months and whilst this has not happened as quickly as they wished they do now have a margin between costs and revenues.

Whilst there is a concerted effort by the processors to keep prices under control the



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'elephant in the room' remains availability of timber.

As Forestry Commission volumes continue to decline the market becomes ever more dependent on the private sector. In 2018 it is estimated that 66% of the timber sold will come from privately owned forests. The Forestry Commission is reporting a 28% year on year increase in timber prices, however, the private sectors motives for marketing are much more complex than the Forestry Commission and high prices do not always mean more wood for sale. Adjacency, access, licensing and other interests all influence the decision to sell.

Whilst high prices have brought more timber to the market in north Scotland, as one moves south into the Borders the supply situation seems to have tightened up noticeably this quarter and standing prices of over £60 per tonne are being reported again.

As one moves into England and Wales the supply situation becomes more critical and there is genuine concern that there is just not enough timber to cover demand. Good quality standing clearfell parcels are topping £70 per tonne which means sawlog prices on prime parcels are between £90 and £100t delivered. Even small roundwood is fetching £50 per tonne at roadside yet

there is still not enough timber to go around and processors are having to look to import volume by boat from north Scotland and Europe.

Summary

There is intense competition to buy timber from a diverse range of markets and prices have reached unprecedented levels, timber sales can now produce substantial sums of money.

It has never been more important to have an effective timber marketing strategy and to offer timber to the "open" market.

TIMBER AUCTIONS



Timber Auctions can now offer an online "private auction" facility; this will allow us to present parcels of timber for sale by auction to a selected list of registered buyers. We believe this is a unique facility and will allow timber sellers to have all the benefits of a traditional auction sale through and online sale. If you wish to discuss parcels of timber you would like to market, please contact Oliver Combe on 07771 958975, oliver.combe@timberauctions.co.uk for free independent marketing advice.



Mission 'timber'



**TIMBER MARKET
REPORT**
Tim Leavers,
Euroforest

The chancellor's autumn budget has just been delivered and the wind has turned to the south-east and winter feels as if it could happen. So, with winter soon upon us, the market is responding.

The demand for timber is sweeping the market. There is no sector that is untouched by the current situation. The volumes being asked for are driving the volumes coming up for offer. Every price impacted and warmed by the unrelenting appetite for fibre from biomass projects. Driven by conscientious log buyers a traditional hardening on price has crept into the sawlog market. Endeavouring to cap the summer seasonal highs with 10% reductions is a challenge, in a market where there are few logs to be had. Demand reflects the lively order books. Sawmills are still under pressure to secure material. There are buyers approaching growers to source extra timber by finding and capturing significant off-market volumes. It is apparent that there

are wood processors who are well bought, yet are wanting to keep faith with suppliers, so where volume exists, are not wanting to turn off the wood stream. The lower volume production units have, historically, always been able to pay a little more for their timber supplies, but in the face of fierce competition, they are concerned at the prices being paid and yet are unable to step out of the supply chain. They do not have the capacity to mitigate the material costs by scaling up their production.

Small roundwood is being sought across every sector, with processors aggressively chasing down sources of timber. The particle board market is considerably stressed working under, what they consider, an inflated pricing structure driven by biomass being bought for prices in excess of £60/tonne. Prices on roundwood are again making the utilisation of high-input, low-volume yield, fibre streams economically feasible. So, interested owners are drawing additional revenue from the chipping of brash and whole trees, primarily because it helps offset costs.

There is also a strong demand for **sawn palletwood**. The pallet board producers are squeezed by biomass and traditional small roundwood markets on one side, and sawlog top diameters regularly being chased down to 14 centimetres on the other. Round fencing will continue to be in short supply as the existing growing stock predicates a minimal available volume, especially across the south, where there are few young plantations. Nothing new, but it is worth reminding ourselves of the demographics of the National forest resource and the resulting softwood timber volumes. This is borne out by the 25-Year Forecast of Softwood Availability (2016) published by the Forestry Commission's National Forest Inventory (NFI). This suggests between the years 2017/21 to 2032/37 a 19.14% drop in volume of small roundwood under 16cm top diameter, across Great Britain, including both private and public timber sources. The most marked decline is in England. However, the NFI figures show an uplift in the last five years of the period (37/41) when there is predicted to be a small increase.



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The **sawlog** figures for 16-34cm top diameter material make happier reading. Although future technologies will surely improve recovery percentages in sawing processes, some of the shortfall in biomass and particle board raw materials, will come from increased sawmill production.



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There appears to be a mixed response to wood supply. From September, some of the private sector estates have their attention taken up by their shooting commitments, understandably making it impractical to entertain harvesting companies. Volumes offered through the state forestry organisations and institutional investors is tailing off as the year runs to a close. It has been a good year for growers across all regions, so they have no need to empty the basket of next year's offerings. For those who want one last visit to the market there are still plenty of interested buyers to talk to.

We sit here with the Brexit negotiations looming on the horizon, no-one is clear, the compass is unsteady, so we cannot be sure whether we are seeing the sun rising on a promising new day or setting on a profitable one. There is very little idea what the outcome might finally be. No deal might mean higher prices. The City will decide once they know what they are deciding about. Vital to making sound business decisions, is the necessity of having a clear framework to operate in. The Brexit negotiations are everything, as yet, we do not have that. The current economic cycle is good, so demand nationally and worldwide remains high. One importer talking on the post-Brexit scenario said, 'They have it, we need it, they want to sell, business will find a way whatever the initial difficulties are, imports will come in'. If Theresa May does a deal the pound will rise by 10% and the pressure will be back onto sawn prices.

So maybe, sit back, keep alert and chuck a few more logs on the fire, against the cold winds! We are a resilient industry and we play a longer game than most. Brexit will be a distant memory by the time we are cutting down the trees paid for by the modest £60m this government is dedicated on spending to plant them.

www.euroforest.co.uk

Looking north



FOREST MARKET REPORT
Fenning Welstead,
 John Clegg & Co

I don't know about you, but the years seem to be passing more quickly. This quarterly report comes round more rapidly every time and another Christmas is almost upon us. With a focus in this issue on the north, what's been happening since the APF show?

Ardteatle Forest on the north-eastern edge of Loch Awe has been sold by John Clegg & Co. Extending to 144ha in total and with 48ha of mature spruce alongside 20-year old crops and young restock this is a very attractive and compact commercial property. A competitive closing date led to a successful sale at over £15,000 per stocked hectare; this price reflecting the value of the mature timber in a market that has seen an uplift of 30% in the price of standing timber over the last year.

At the time of writing another forest of mixed mature/young restock has gone under offer at similar value. While the young crops still needed work to achieve establishment the mature timber is an immediately available return of cash income. Factor in location and supply/demand imbalance and one can see why the values keep rising.

Newmore wood near Invergordon is a different forest being more of a Scots pine and mixed conifer crop. At 218ha it's a good size and with easy terrain where a range of management techniques could be considered including shelterwood. Of the several offers received the highest at just over £8000 per stocked hectare won the day. Although the high percentage of pine is a factor, this land could be converted to a faster growing spruce crop or retained as a most attractive mixed woodland with diversity and wildlife values.

Bidwells marketed another woodland with a high percentage of mixed conifers at Gartlove in Clackmannanshire. Only 38ha in size, this mostly comprises crops dating from the 1950s and thus with scope for immediate income. Much of the larch, pine and spruce has been thinned making for a delightful forestry atmosphere. At the

time of writing it is reportedly under offer at around £10,000 per hectare.

The rise of natural capital is a growing phenomenon. Difficult to quantify but certainly a factor in some sales. Bell Rural Solutions are marketing Acregate Forest (previously known as Lochlyoch). This is 743ha of woodland and 115ha of pasture and hill grazing on offer at £3.95m. The most interesting aspect of this sale is that the largest forestry lot, extending to 591ha and with a guide of £2.72m, was planted in 1993 with a high percentage of mixed broadleaved species. While the conifer elements, and the spruce especially, is performing very well the broadleaves are more habitat than workable crop. The prospect of good hardwood timber seems low but the habitat and natural capital value is undoubtedly there. With a guide price equivalent to £4600 per hectare it will be of great interest to see how the market reacts at the closing date set for 07 December.

Knight Frank & Bidwells jointly marketed Blackhouse Forest Estate in the Yarrow valley of the Scottish Borders. In total 640ha and containing 312ha of conifer forestry the USP was the off-grid house. Entirely self-sufficient with solar panels, hydro and biomass energy systems with enough energy to power the house and the estate's ATV and a Tesla for shopping expeditions. If the planning system began to accept building in forestry situations we could see a lot more of this.

Looking again at commercial timber, the continued demand is for raw material. Virgin plantations, by which I mean those planted under schedule D and generally wall-to-wall spruce, are in short supply as most of these have now entered production. The few that remain untouched and with substantial reserves of timber now standing within them have gone up in value most strongly. Kirk Hill is a 120ha plantation planted in 1981 with solid spruce crops and now close to production. There was an extraordinary experience at the closing date when the top two offers came in at exactly



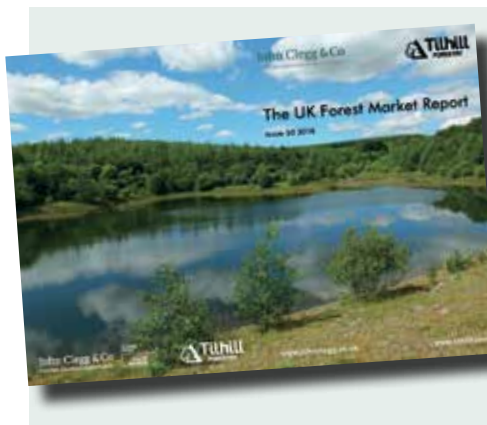
Kirk Hill

the same price. It required a shootout between them to establish a clear result. The sale is not yet complete but clearly the availability of a predictable volume of timber in the medium term was a significant factor in the result and the competitive bidding.

Another factor which is increasingly apparent is the effect of Forest Plans on market value. We have had a couple of instances this year where the Forest Plan designed by the present owner has not met with the favour of the new owner. In two cases this has resulted in adjusting the forest plan, in order to get the sale over the line. This is something to bear in mind when managing your forest asset - your personal perception of what is valuable may not suit the market when it comes time to sell. Careful asset management with a view to the longer term is a valuable part of forest ownership.

The next forest market report will focus on southern regions of the country.

www.johnclegg.co.uk



Annual UK forest market report

The UK Forest market report 2018 was launched on 21 November. In its 20th edition, Report is produced by industry leaders Tilhill Forestry and John Clegg & Co and provides analysis of this growth and further commentary about forestry as an investment choice. The report also features a study on the lowland woodland sector.

Read the full report at www.tilhill.com/forestry-investment