

FORESTRY MARKET UPDATE 2018

FORESTRY, ALONG WITH FARMLAND, HAS OUTPERFORMED MANY OTHER ASSET CLASSES DURING THE PAST DECADE.

UK forestry investment returns have been impressive in recent years, underpinned by rising demand for domestic timber. The weaker pound has made imports more expensive while the use of wood in biomass and construction continues to rise.

Indeed, since March 2012, the mean standing sale price for UK timber has increased by 31% and sawlog prices by 19%, according to the Forestry Commission.

Currently, the UK imports 80% of the wood it consumes, according to Confor, the forestry trade association.

From an investment point of view, the sector is primarily about increasing timber production and responding to the demand for materials.

There are also concerns over the future availability of timber. The Forestry Commission forecasts a 30% decline in timber availability after 2030 in the UK, with not enough trees being planted to meet the expected demand for wood in the long term (figure 1), a trend which is likely to underpin a further increase in timber prices.

“THERE ARE CONCERNS OVER THE FUTURE AVAILABILITY OF TIMBER WITH THE FORESTRY COMMISSION FORECASTING A 30% DECLINE IN AVAILABILITY AFTER 2030”.

INVESTMENT PERFORMANCE

Total returns for UK forestry investment in 2016, the latest available data, were 10.7%, according to the IPD UK Forestry Index. On a slightly longer three year basis, average annualised returns were 13.3%. Over 10 years annualised returns stood at 17.4%, which compares favourably with UK commercial property and other major asset classes.

Such strong performance was driven by impressive capital growth, partly underpinned by timber sales, but also by rising land values. Knight Frank's farmland index for England shows a 74% rise in farmland values over the last 10 years, while in Scotland, growth of 85% has been seen.

A desire among investors for tangible assets which offer positive real rates of return, as well as a favourable tax status has helped underpin demand for forestry investment. Currently, 73% of the 3.2 thousand hectares of woodland in the UK is privately owned, Forestry Commission data shows.

After two years commercial forests are entitled to 100% business property relief and sales incur no capital gains tax. In addition, standing timber carries relief from inheritance tax.

Given the long-term nature of forestry investment, and that the supply of forestry for sale in the UK is limited, the likelihood is that a relatively small transactional market will continue to support and enhance capital values over the medium to longer term.

FIGURE 1
TIMBER AVAILABILITY SET TO DECLINE

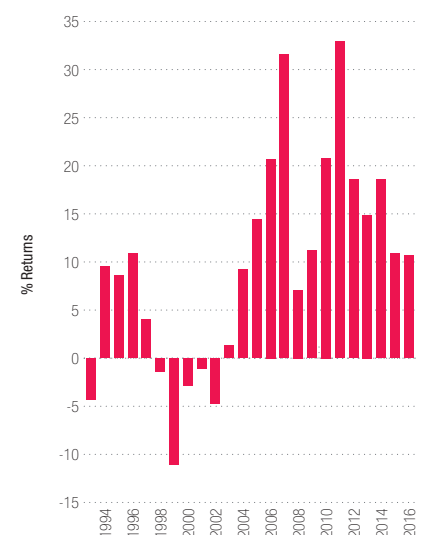
Softwood availability forecasts



Source: Forestry Commission

FIGURE 2
ANNUAL FORESTRY RETURNS

IPD UK Forestry Index



Source: MSCI

“SCOTLAND’S FORESTS AND WOODLANDS ARE AMONG OUR MOST VALUABLE RURAL ASSETS AND OUR AMBITION IS FOR THEM TO EXPAND AND FLOURISH”.

FERGUS EWING

Rural Economy Secretary, Scotland

SCOTLAND FOCUS

The UK has internationally low levels of forest cover, at 13% barely a third of the European average. Of this, Scotland is home to 45% of total woodland cover, according to the Forestry Commission, and the majority of market activity.

As part of the Scottish government’s draft climate change plan, tree planting targets in Scotland have been increased 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, though it’s still likely to fall short of demand.

Such ambitious targets have been welcomed by the industry, with Confor noting that as well as helping the Scottish government meet climate change targets, planting more trees will help “sustain a healthy supply of timber over the coming decades”.

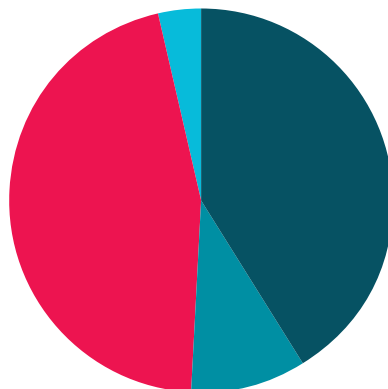
Alongside the political impetus for greater planting come efforts to increase demand for home-grown timber – currently the UK is the second biggest net importer of timber in the world, after China – with plans to increase the use of Scottish wood products in construction. Such efforts are likely to help underpin the market moving forwards.

FIGURE 3

LOCATION OF WOODLAND IN THE UK

Thousands of hectares

England Scotland
Wales Northern Ireland

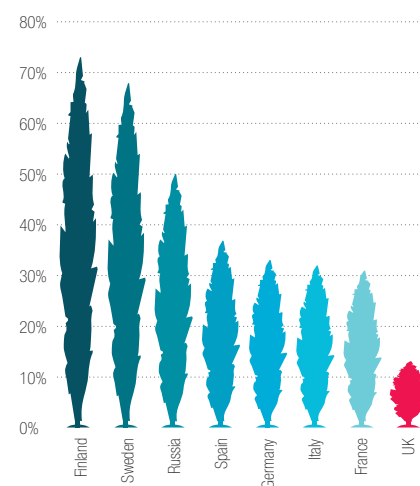


Source: Forestry Commission

FIGURE 4

FOREST AS % OF LAND AREA

European comparisons, 2015



Source: Forest Stewardship Council, Forestry Commission, Natural Resources Wales, Forest Service, National Forest Inventory

RAN MORGAN, FORESTRY, FARM AND ESTATE SALES

The underlying fundamentals that have underpinned the UK forestry market over the last year remain unchanged. Domestic demand for timber is expected to continue to grow, supported by a weaker sterling and the increasing demand for wood in biomass and construction.

Indeed, at the end of 2017 the UK Government upped its targets for housing supply from 250,000 to 300,000 per year

by the mid 2020s. A significant step-up in delivery should provide a boon to timber prices, with many new homes built with timber-framed techniques. Elsewhere, biomass uptake continues to grow.

This supports our view that demand for timber will continue to outstrip supply in the coming years, and decades. In turn, this will continue to underpin the investment case for forestry as part of a

balanced and diversified portfolio.

New planting remains an area of focus, especially as forecasts suggest there is likely to be a significant drop off in timber availability in the coming decades. In Scotland, a real desire to meet climate change targets, and a recognition of the positive impact forestry makes to the economy, means it has crept up the government agenda.



FOR MORE INFORMATION REGARDING INVESTING IN FORESTRY PLEASE CONTACT

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The Wealth Report 2018

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