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.

Between March 2017 and March 2018, the standing sale price of timber increased by 28% and sawlog prices by 19%, according to the Forestry Commission.

From an investment point of view, the sector driven by 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. This trend is likely to drive further increases in timber prices.

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

Total returns for UK forestry investment in 2017, the latest available data, were 13.9%, according to the IPD UK Forestry Index, an increase from the 9.9% return seen in 2016. The three-year annualised total return for 2017 was 11.6%.

Returns to investors in forestry are made up of sales of timber (standing or felled), sales of other goods and services, increases in the value of the woodland, and the net income from subsidies. Investor costs are made up of employment costs and other purchases.

Strong investment performance has been driven by increasing timber prices, but also by rising land values over the longer-term. Knight Frank’s farmland index for England shows a 45% rise in farmland values over the last decade, while in Scotland, values climbed 54% over the same period.

A growing 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.
“CURRENTLY THE UK IS THE SECOND BIGGEST NET IMPORTER OF TIMBER IN THE WORLD, AFTER CHINA.”

SCOTLAND FOCUS
Scotland accounts for 45% of total woodland cover in the UK, according to data from the Forestry Commission, as well as the majority of transactional market activity.

As part of the new fully devolved arrangements for forestry in Scotland, the Scottish government has launched a long-term draft strategy for the “sustainable management of Scotland’s forest estate”.

The strategy gives greater prominence to the need to improve rural infrastructure, and commits to increasing investment in timber transport projects across Scotland, which will see over 200km of forest roads built to improve access to timber.

A more detailed implementation, monitoring and reporting framework is due to be published within the next 12 months.

There are also 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 support the market.

FOR MORE INFORMATION REGARDING INVESTING IN FORESTRY PLEASE CONTACT

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