



Forestry Report

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UK Timber Markets Adversely Affected By National, Global Events



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Providing commentary on current timber markets never seems easy, but at the moment it feels almost impossible.

As a major importer of this global commodity, prices for home-grown timber are already influenced by numerous diverse factors. Add in

Brexit, Ukraine, storms Arwen through Franklin, and now soaring fuel prices and inflation rates, and I'm reaching for my crystal ball.

Take Ukraine for example. As a result of the invasion, Russian timber has effectively been outlawed in Europe and presumably, that must be good for UK-grown timber? Not quite so straightforward. Russia

continues to harvest timber but finds a market with China. China in turn has less of a call on its traditional suppliers—USA, Canada, Sweden, etc.—who then look to the UK to take some of their surplus, soaking up the shortage from Russia.

Conversely, one might reasonably assume the multiple winter storms through January and February must have created a glut of timber, pulling the prices down. Only partially true. Much of the woodlands affected by the storms are on landed estates or are small farm woodlands, most of which are non-certified. So there is a surplus of non-certified timber but demand for certified wood products remains strong and we are still getting reasonably good returns.

High fuel prices are certainly having an adverse effect on haulage and production

costs, and soaring inflation is causing nervousness in the home improvement market. Normally Easter and the good weather of late spring gets people out in their gardens building sheds and fences. But that hasn't happened this year and sawmill yards remain filled with stubbornly slow-to-move sawn timber, which has a knock-on effect on round logs coming in.

On average I estimate prices are around 10 to 15 percent down from a year ago but are still significantly better than they were four or five years ago. That said, we continue to market standing sales and have a busy harvesting programme this year, reflecting some very healthy prices. With so many influencing factors and variations in local markets, all we can advise is to test the market: if the price is right, sell, if not, another year's growth will do no harm. 🌲

Forest Property Values Hit New Record Highs In 2021

Demand for forestry properties in the UK remained strong in 2021, with financial investors and others looking to invest in natural capital driving the value of the forestry investment market to new record highs.

According to the 2021 *UK Forest Market Report*, commercial forestry values reached an average of £19,300 per stocked hectare for the year ending 30th September 2021, up from just below £16,000 per hectare in the previous 12 months. The total value of commercial forestry properties traded in 2021 was £200.4 million, up from £200.18 million in 2020, whilst the amount of commercial forestry land traded dropped from 12,500

hectares in 2020 to 10,400 hectares in 2021.

The report said that the average value of commercial forestry has more than doubled in three years, with the average price per hectare rising 21 percent in 2021 and 39 percent in 2020. Sale prices in 2021 exceeded guide prices by about 50 percent.

A significant finding of the report is that commercial forestry buyers and financial institutions are showing unprecedented levels of interest in the sector and include a mix of experienced forestry investors along with new market entrants. Both groups are driven to some extent by demands that investments feature

high environmental, social, and carbon credentials.

However, property agent Savills offered a cautionary note on unprecedented values achieved during 2021 for both established commercial forests and bare land suitable for afforestation.

'Per hectare valuations for early/mid-rotation timber in excess of £50,000 per hectare should not be seen as either normal nor necessarily sustainable, against an economic forestry model that would suggest they should be at around one third of this level based on current commodity prices. These values have a significant degree of speculation on future performance factored in that may or may

Forestry Commission Reports Higher Timber Prices In 2022

The Forestry Commission recently published the average prices received for coniferous standing, softwood sawlog, and small roundwood timber on sales handled by Forestry England, Forestry and Land Scotland, and Natural Resources Wales.

The average price for coniferous standing sales, where the purchaser is responsible for harvesting, was £42.55 per cubic metre overbark in the year to March 2022, an increase from £31.03 in March 2021, or 38.3 percent.

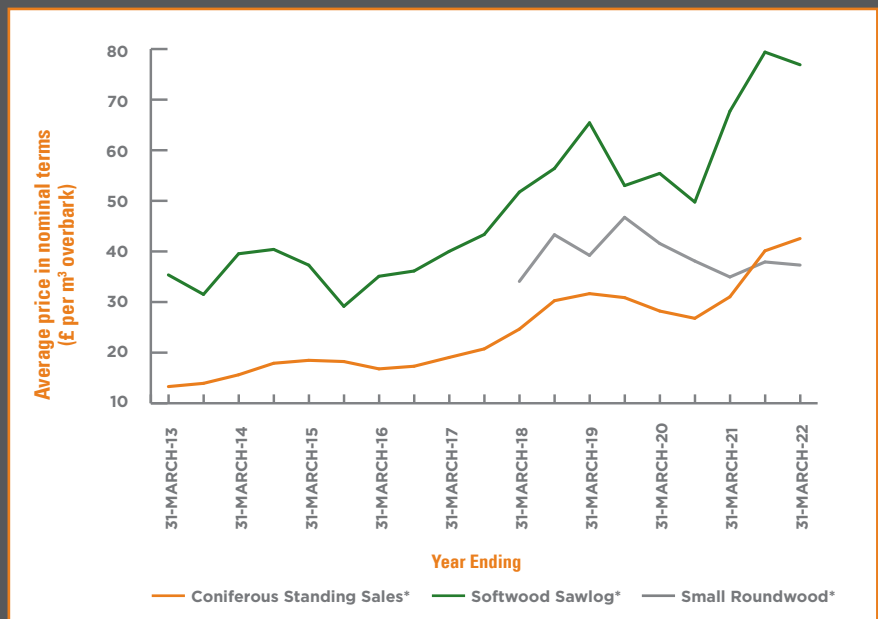
The average price for softwood sawlog (roundwood sold at roadside) sales was £76.89 per cubic metre overbark in the six-month period to March 2022, a decrease from £79.39 in the six months to September 2021 but an increase from £67.70 in the six months to March 2021. Two sub-indices, spruce and other conifer sawlogs, reported increases of 18.7 percent and 6.3 percent respectively compared to the corresponding six-month period of the previous year.

The average price for small roundwood sales was £37.30 per cubic metre overbark in the six-month period to March 2022, a decrease from £37.92 in the six months

to September 2021 but an increase from £34.95 in the six months to March 2021. Smaller in diameter than sawlogs,

roundwood includes chipwood, pulpwood, and woodfuel and prices are based on sales at roadside. 🌲

UK TIMBER PRICES 2013-2022



Source: <https://www.forestryresearch.gov.uk/tools-and-resources/statistics/statistics-by-topic/timber-statistics/timber-price-indices/>

* Excludes sales by Natural Resources Wales between April 2017 and March 2021

Confor Warns Of Timber Shortage Crisis If Not Addressed

The Confederation of Forest Industries (Confor) has issued a dire warning that the UK is facing a declining supply of home-grown wood due to its lack of productive tree planting. The UK currently grows 20 percent of its wood requirement, importing approximately 80 percent of its needs and making it the second largest importer of wood in the world.

Confor said global demand for wood is growing at the same time as demand in the UK is increasing, meaning the UK will be challenged to meet its construction and manufacturing needs. Furthermore, the UK's goal to become net zero by 2050 will require significantly more productive tree planting.

At a recent meeting of the All-Party Parliamentary Group on Forestry and Tree Planting, Forestry Minister Lord Goldsmith reiterated Confor's warning, stating that

the UK does not use enough home-grown timber in construction.

At the event, Confor CEO Stuart Goodall said, "Official forecasts show that we will have less wood available from the late 2030s than we have now—unless we act and act immediately."

Last year, the Government launched the England Trees Action Plan, committing to increase tree planting to help meet the UK target of 30,000 hectares annually by 2024. According to an update from the meeting, annual planting is currently at less than 14,000 hectares, with 80 percent of that in Scotland.

Around 75 percent of homes in Scotland are built utilizing Scottish timber, while only around 25 percent of English homes are built with home-grown timber. To assist with tree planting in England, the England Woodland Creation Offer was

established along with the England Trees Action Plan, whereby landowners, land managers, and public bodies can apply for support to create new woodlands on areas as small as one hectare.

Craig Dinwoodie, Fountains Forestry's senior manager for Scotland, notes that imported volumes of timber in 2021 were up 15 percent on the same period in 2020.

'This equates to some 11.7 million cubic metres of timber, one of the largest import figures since 2008. Clearly, we need to address this by planting more productive forests whilst balancing the need for agricultural production, biodiversity and impacts on people. It has been proven that this can be achieved through proactive and professional woodland creation design and implementation,' Craig added. 🌲

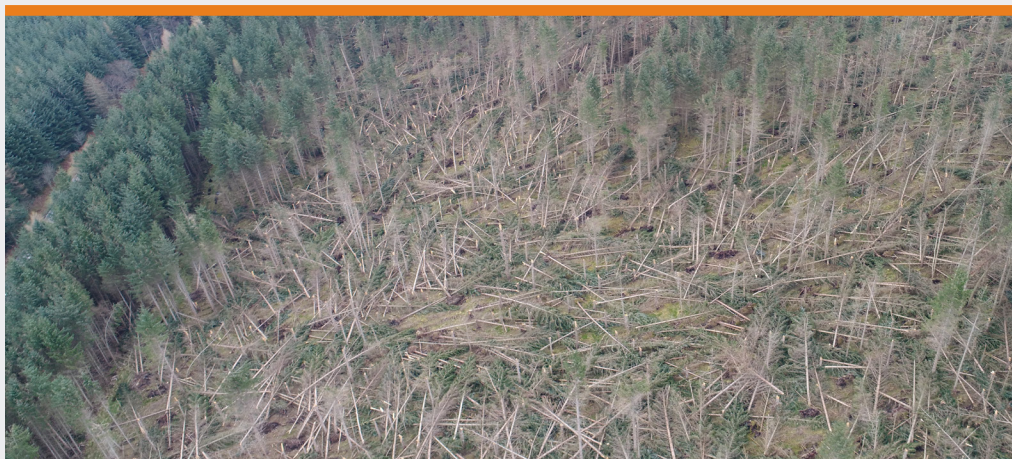
Devastation Following Winter Storms

In November, Storm Arwen was the first of a series of winter storms which had a devastating effect on forests across the UK. Severe winds gusting at ~70 mph, and up to 110 mph, brought down around 16 million trees, approximately 8,000 hectares of forest in Scotland, or one million cubic metres. This is around 20 percent of the annual Scottish harvest, according to forestry body Confor. Northern England suffered a loss of around half a million cubic metres of timber.

A little more than a week later, Storm Barra hit and then storms Corrie and Malik (with windspeeds up to 115 mph) arrived on successive days at the end of January, which felled further trees previously weakened by Arwen. Storms Dudley, Eunice, and Franklin then arrived together within a single week in February, impacting England further.

This massive amount of timber on the ground had implications for harvesting resources and infrastructure. The Forestry Commission bodies provided expedited felling license applications, but many forest managers encountered difficult situations on the ground with

multi-directional windthrow, snapped trees, trees hung up on others and on power lines, and across roads. With the added complications of limited harvesting machinery availability, and limited sawmill and market capacity, the result was increased costs and market saturation. 🌲



Multi-directional storm damage in one Fountains Forestry managed property

Forest Property Values *(continued from page 1)*

not materialise, and it is important that investors understand this,' the company wrote in its *Commercial Forestry Market in Minutes* publication.

Bill Griffiths, Fountains Forestry's acquisitions and business development manager, notes the imbalance between supply and demand continues into 2022, together with a noted reduction in availability of forests and anecdotally a greater number of off-market bare land transactions.

'Institutional demand continues but we did note a softening in values for established forests during the early part of 2022. Many private individuals and family investors remain cautious but welcome the apparent softening of values,' Bill said.

While timber prices have remained flat over the past year, values have risen by about 70 percent since 2016. Factors that have influenced UK timber markets in recent years include increased home building, a weakened sterling that makes imports more expensive, a building industry using more timber, and the

manufacturing sector using more wood fibre in products. Environmental, social, and governance (ESG) policies have also become a factor.

The *UK Market Report* also tracks transactions for mixed woodlands sales more than 10 hectares in size but notes that the broadleaved woodlands can vary greatly in value with 'location, look, and feel' being significant factors, making these properties more of a subjective market than commercial forestry. Values of mixed woodland properties also rose in 2021, with 2,528 acres across the UK selling for more than £10.7 million, up from 1,853 acres for £6.7 million in 2020. Most of the transactions were based in England, where the average price paid was £6,170 per acre, whilst the average sale price in Scotland was £2,510 per acre and £2,490 per acre in Wales.

Planting land suitable for afforestation was reported for the first time in the 2021 report. The report said there was a 45 percent increase in the total area of planting land sold, from 4,460 hectares

in 2020 to 6,480 hectares in 2021. The average price per plantable hectare (akin to stocked hectare in commercial woodlands) was £11,000 per hectare, up from £8,500 in 2020. The report said interpreting the price increase is complicated by the individual nature of each property.

'Uncertainties surrounding post-Brexit agricultural support continue and the embargo on Russian timber imports into Europe is predicted to have a profound effect on the UK home-grown timber market, particularly once the supply resulting from storms Arwen and Franklin is exhausted,' Bill said. 'Recessionary pressures loom and energy costs are a concern throughout the whole forestry industry; however, UK house building continues at pace. More certainty regarding new woodland creation and carbon sequestration suitability is welcomed.'

The *UK Forest Market Report* has been produced by Tilhill and John Clegg & Co. since 1988. 🌲

England's Biosecure Procurement Pilot

The spread of tree pests and disease has undoubtedly increased thanks to globalisation of trade over the past decades. Indeed, the 2019 International Union for Conservation of Nature Red List of Trees says 42 percent of European trees have a high risk of extinction with the primary threat being invasive pests.

To help strengthen UK biosecurity, the Plant Health Management Standard was created, setting out practical requirements for businesses to help protect the plant supply chain. Now a 12-month 'Plant Healthy Certification' pilot scheme based on the standard has been announced.

Starting June 2022, Defra and the

Forestry Commission have implemented a Biosecure Procurement Requirement in the England Woodland Creation Offer. This means that applicants for funding must commit to sourcing their trees from suppliers who are either accredited under the Plant Healthy Certification scheme or who have passed a 'Ready to Plant' assessment. Suppliers will need to demonstrate that they can meet the biosecurity requirements in the Plant Health Management Standard, and grant applicants will be asked to provide evidence of this when claiming their funding.

Additionally, the two agencies announced £8.8 million in new grant

funding to assist tree nurseries in England with investing in projects which improve, expand, or mechanise operations. The Tree Production Capital Grant is part of the Government's £750 million Nature for Climate Fund and supports efforts to improve the long-term supply of tree seed and saplings.

Planting schemes in other parts of the UK can also benefit from these initiatives, having increased confidence that trees sourced from UK suppliers are better protected against pests and disease as more suppliers meet the biosecurity requirements set out within the Plant Health Management Standard. 🌳

Woodland Carbon Guarantee 2022 Update

The UK Government's Woodland Carbon Guarantee scheme aims to encourage tree planting and the capture of carbon dioxide by offering long-term income for creating new carbon-capturing woodlands.

Through an auction process, successful bidders can sell their future woodland carbon in the form of Woodland Carbon Units, a financial value assigned to each tonne of carbon stored, to the Government every five or 10 years until 2055/56 at a guaranteed price protected against inflation. The average price at the auction in August 2021 was £18.62 per tonne.

So far the programme has resulted in the creation of 2,650 hectares of new woodland over four auction rounds, with a fifth auction completed in May. The recent auction's budget of £10

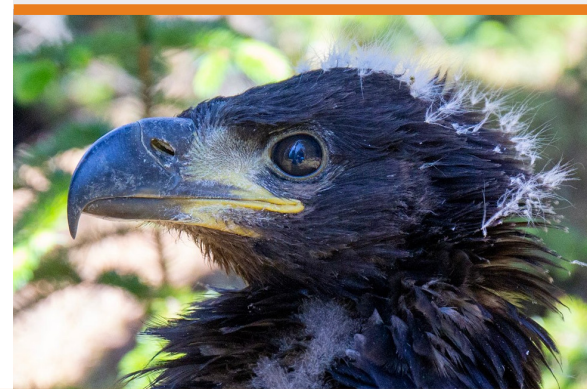
million will be split equally between 'predominantly native woodland' projects and all other project types.

To coincide with the auction, version 2.2 of the Woodland Carbon Code was recently released and features revised 'additionality' tests to encourage species diversity and discourage woodland creation schemes that would be financially viable without carbon credits. These new rules will come into effect on 1st October 2022.

Fountains Forestry is an approved project developer registered with the Woodland Carbon Code and can assist landowners with the sale of carbon units, which can be done concurrently with securing woodland creation funding. Contact us for further details. 🌳

Eagles Return: Meet Bertie

In a follow-up to the article in the winter newsletter, we are pleased to report that the white-tailed eagles mentioned have returned and successfully raised a new chick, which has been named 'Bertie.' Continuing our close collaboration with the RSPB and thanks to our experience and learning from last year, we have been able to maintain our forestry operations without any significant or adverse impact on our visitors. 🌳



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