



**Fountains
Forestry**
AN F&W COMPANY

Forestry Report

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Wood Demand Pushes Up UK Timber Markets

For several years, UK forest owners have enjoyed a generally buoyant market for their timber sales. Demand for wood to feed the increasing capacity of wood energy plants has underpinned timber prices. A dip in prices in 2015 was largely connected to a strengthening of Sterling against the euro and Swedish krona. Last year saw a recovery, which continues, driven by a strong fencing market and a weakening of Sterling against those currencies.

Fountains Forestry only sells its clients' timber when markets are reasonably strong. Over the past 11 years we have seen a continuous rise in the value of standing sales of spruce timber from our clients' forests in Scotland and Wales, with nominal values increasing by an average of more than 4% per annum between 2005 and 2016. The Forestry Commission publishes the Coniferous Standing Sales Price Index for Great Britain every six months and the 12-month period to March 2017 saw a real terms increase of 9.7%.

In 2014, the Forestry Commission published a 50-year forecast of softwood



timber availability which predicted the volume of locally grown timber available would peak around 2030, and then decline by about 30% over the following 20 years. This supports a widespread assumption of strong demand for UK grown timber well into the medium term. With a Brexit vote to leave the EU, the UK forest industry is facing a period of uncertainty. In the short term, the decrease in the value of Sterling is making imports of sawn timber far less competitive and is providing a boost for UK sawmilling. However, there are both risks and opportunities for the industry from Brexit, in the medium-to-long term, as discussed in the article on the right. 🌲

Forestry Opportunities Arise From Brexit

The UK forestry sector, which provides almost £2 billion in economic value annually and employs more than 43,000 people (Confor 2017), is a key part of the rural economy, particularly in Scotland.

It is too early to gauge the likely economic impact of Brexit on the forestry sector. One key factor will be whether the economy continues to grow and supports increased home construction. The sawmilling sector is particularly exposed to the wider economy and to construction activity and exchange rates.

Another key factor will be any impact, direct or indirect, upon the exchange value of Sterling, owing to its impact on the price of imported timber.

Meanwhile, it is widely recognised that membership in the EU has resulted in a 'one size fits all' system of economic support for rural development, including forestry, regardless of national and regional circumstances.

"As the UK leaves the Common Agricultural Policy, there will be a once-in-a-generation opportunity to design rural policy and funding support that meets local needs," according to Stuart Goodall, the chief executive of Confor. "Forestry and wood processing's enormous contribution to the rural areas of the UK means that it must play a central role in future Government thinking about how policy and funding structures will look after Brexit."

The Department of Environment, Food and Rural Affairs recently established a separate working group on forestry to help navigate the implications of Brexit on this sector.

Confor has identified the following five areas for policy makers to consider as the Brexit process moves towards formal negotiations: new planting and restocking; rural policy and funding; environmental legislation; timber standards, trade regulations and migrant labour; and plant health. 🌲

CONIFEROUS STANDING SALES PRICE INDEX FOR GREAT BRITAIN
(FISHER INDEX YEAR ENDING SEPTEMBER 2016 = 100, REAL TERMS)



Source: Forestry Commission, Timber Price Indices, Data to March 2017

UK Forests Offer Strong Returns

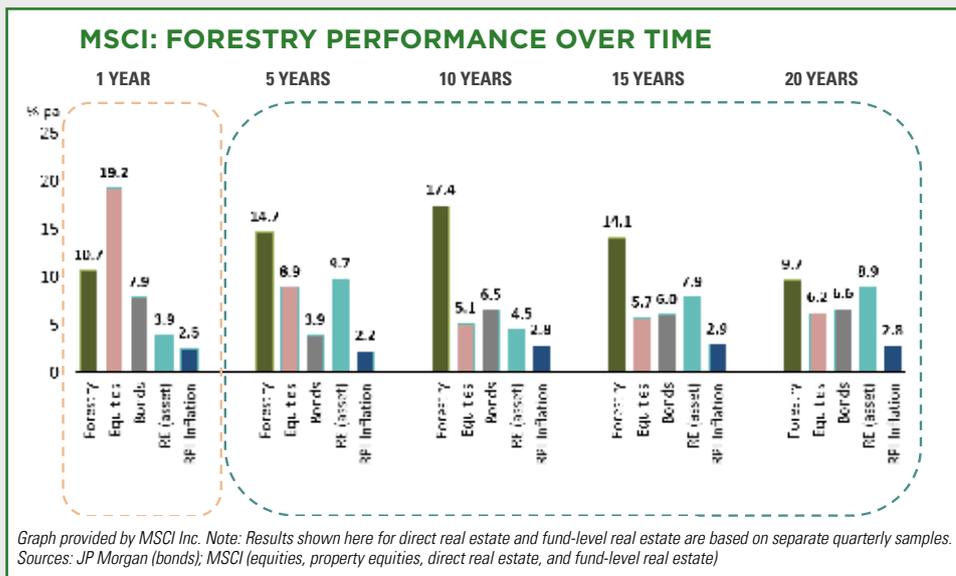
UK forestry investment returns have been impressive in recent years. MSCI Inc.'s recently released IPD UK Annual Forestry Index for 2016 recorded an unleveraged return to UK forestry real estate investments of 10.7%, which included a timber sales element of 4.7%. Prior annualised returns reported by the Index were 13.3%, 14.7%, and 17.4% over three, five, and ten years respectively, which MSCI said compares very favourably with commercial property and other asset classes.

However, there remains a relative shortage of forestry properties on the market, with the UK Forest Market Report (Savills) reporting transactions of just £79m covering 17,444 hectares in 2016. This is a reduction from the previous year and is attributed to an absence of large scale private sector portfolios and the conclusion of the current phase of the Forestry Commission (FC) Scottish disposals programme.

Demand for UK softwood timber remains

buoyant, as the timber report on page one explains. In the processing sector, Norbord plans a £95m modernisation and expansion of its oriented strand board (OSB) mill at Inverness. This follows announcements of major investments by BSW, James Jones, Iggesund, Egger and other processors and demonstrates the attractiveness of the UK for new timber processing investments. Meanwhile, Estover Energy opened its Speyside plant in June 2016 and has two further medium scale biomass heat and power plants in development in Cramlington (N Yorkshire) and Kent, improving regional demand and competition for forest biomass.

Differences exist in the scale and depth of the commercial forestry sector across the various nations of the UK. While Scottish forestry continues to be the largest player, there remain significant commercial opportunities for forestry in England and Wales, particularly with demand for wood energy being added to existing timber markets. Meanwhile, across the UK, Brexit may bring new opportunities for forestry, as discussed earlier in the newsletter. 🌲



Establishing New Forests

On a 200-hectare redundant hill farm near Cottartown in Invernesshire, close to the Cairngorms, Fountains Forestry planted a new 112-hectare forest, comprising just under 50 hectares of conifers (Norway spruce and Scots pine) and 62 hectares of native broadleaves. The planting scheme was negotiated with both the National Park Authority and the Forestry Commission to satisfy environmental, planning and biodiversity requirements. An aerial view (right) taken with our drone shows the extent of the newly planted area.

The capital investment in the management, planting, deer fencing and



maintenance of the new trees will amount to approximately half a million pounds. These costs will be fully recovered from planting and other grants.

There is currently an excess demand

for planting land over the available supply in Scotland. Nevertheless, planting land becomes available from time to time. If you would be interested in such an investment, please contact us. 🌲



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