



**Fountains
Forestry**
AN F&W COMPANY

Forestry Report

A PUBLICATION OF FOUNTAINS FORESTRY UK LTD // UNITED KINGDOM

Winter 2022-23 // NO. 7

Timber Markets Down But Long-Term Outlook Remains Positive



By Douglas
Murray, Director,
Fountains
Forestry UK Ltd

The past year has been difficult for timber sales and the reasons are multi-faceted and complex.

With the significant proportion of home-produced sawn timber being focused on the DIY market, construction timber for new builds is traditionally sourced as import, and the

ripples of COVID-19 continue to bear influence. This was positive during the pandemic when everyone was trapped at home, able to focus time and spare cash on home improvements, and demand far outstripped availability, with timber growers enjoying probably the best timber returns we have ever seen. However, as we came out of the constraints of lockdown, focus switched to either holidays in the sun or watching pennies

in the face of a spiralling cost of living escalation.

Last December's Storm Arwen and the subsequent storms through February created a significant glut of non-certified timber in some regions, mainly Aberdeenshire, Scottish Borders, and Northumberland. Fortunately, any of the losses in our clients' woodlands were on certified properties, allowing buyers to offer reasonable prices.

This slowdown in the sawlog market resulted in several mills cutting staff, removing shifts, or even closing, and throughout the country we are seeing significant stockpiles of sawn timber in mill yards awaiting market opportunities. The knock-on effect for the grower is a significant reduction in prices offered or, where prices are acceptable and sales go ahead, the products are frustratingly slow to leave the forest.

Surprisingly this downturn in sawlog processing does have a positive effect on other sectors of the timber market. With fewer logs being converted, the volume of co-products, off-cuts, sawdust, etc., is significantly reduced. These products feed into biomass, pellet, chip, and firewood processing, which are experiencing significant increases in demand due to soaring energy prices and closure of European borders to Russian timber exports as a result of the Ukrainian conflict.

Whilst this may appear to be a depressing picture, we should not lose sight of the fact that prices have only fallen back to the levels we enjoyed several years ago, and we were delighted with them then. Growers can rest assured that long-term demand for timber remains strong and, as a renewable, carbon-positive resource adaptable to many applications, demand can only increase. 🌲

High Values Stifle Forest Property Market

By Bill Griffiths, Acquisitions and Business Development Manager

From a buyer's representative's perspective, 2022 continued to be another difficult year to acquire both established forests and bare land suitable for commercial afforestation at acceptable values. Values for the latter in many cases far exceed the perceived solum value of fully developed forests, not being entirely explained by the financial support available via new afforestation establishment grants.

Fountains Forestry achieved considerable success on behalf of clients in the first half of 2022, but the availability of suitable prospects severely restricted the second half of the year.

There is some anecdotal evidence though of a softening of values, perhaps heralding the return of the private/family scale investor, with several respected sources expecting a market adjustment resulting from the recent reduction in round timber values and the effect of considerably higher inflation together with recessionary fears.

Forests carrying over-ambitious guide prices now fail to attract interest, with one recent forest amounting to 145 hectares of second rotation 19-year-old spruce, guided at offers over £5,500,000 (£37,9310/ha), only eventually receiving one offer at some 18 percent

below guide price, and this offer was subsequently withdrawn.

Within the same locality, a 35-year-old spruce forest sold close to the guide price at £23,456/ha prior to the announcement of a closing date.

There is an obvious increase in the period between a property sale launch and the setting of a closing date. Properties are remaining on the selling agent's books in many cases for some time in comparison to 2021 and early 2022.

See more about UK commercial forestry transactions in 2022 on page 2. 🌲

Prices For Standing Timber/Sawlogs Down While Small Roundwood Is Up

The Forestry Commission's latest Timber Price Indices report was a mixed bag, with average prices (in nominal terms) received for coniferous standing and softwood sawlog sales lower compared with the previous year, while prices increased for small roundwood timber. The price data is based on sales through September 2022 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 £38.81 per cubic metre overbark in the year to September 2022, a decrease of 3.5 percent from £40.12 in September 2021.

The average price for softwood sawlog sales (roundwood sold at roadside) was £67.25 per cubic metre overbark in the six-month period to September 2022, a 15.3 percent decrease from the average price of £79.39 in September 2021. Two sub-indices, spruce and other conifer sawlog price indices, reported decreases of 13.5 percent and 19.7 percent respectively compared to the corresponding six-month period of the previous year.

The average price for small roundwood sales was £44.51 per cubic metre overbark in the six-month period to September 2022, an increase of 17.4 percent from £37.92 in the six months to

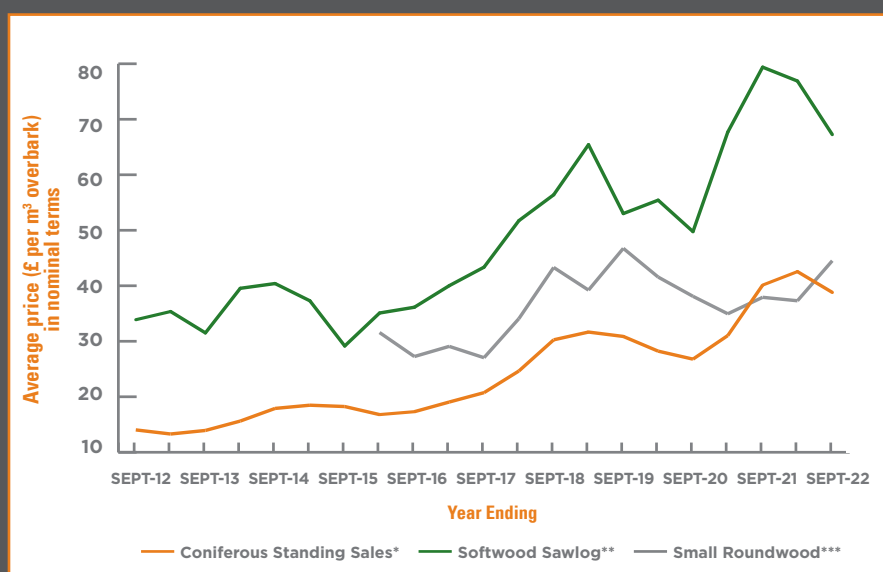
September 2021. Smaller in diameter than sawlogs, roundwood includes chipwood, pulpwood, and woodfuel and prices are based on sales at roadside.

The softwood sawlog and small roundwood price indices are calculated for separate (i.e., non-overlapping) six-month periods. This differs from the coniferous standing sales price index, which is for

overlapping one-year periods, so the percentage changes are calculated over different periods.

While the average prices for coniferous standing and softwood sawlogs fell, it comes after previously steep price inflation and values, and the long-term demand for timber remains healthy, despite current challenges. 🌲

UK TIMBER PRICES 2012-2022



Source: Timber Price Indices produced by Forest Research, Forestry Commission

<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

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

*** Excludes sales by Natural Resources Wales up to Sept. 2021

Forest Property Values Continue Upward Trajectory In 2022

Increasing demand for timber assets, driven by net zero carbon ambitions, contributed to rising prices in a market characterized by fewer, smaller, but higher value sales in 2022, according to the latest *UK Forest Market Report* released in November.

The report estimates the total value of commercial forestry transactions in 2022 was more than £200 million, after taking into account a considerable number of off-market sales on top of the £195 million covered in the report. This marks the third consecutive year that forest land transactions have totalled around £200 million. For comparison, the total value of forestry properties sold annually between

2000 and 2004 averaged less than £20 million and was £126.5 million in 2019.

The report covers completed sales of commercial forestry properties which are more than 20 hectares in size and predominantly planted with conifer. It also reports on mixed woodlands, comprising both broadleaves and conifers, of more than 10 hectares in size. The report was produced by Tihill and Goldcrest Land & Forestry Group.

While the total value of commercial forestry sales held fairly steady, the number of transactions in 2022 dropped 15 percent, from 67 to 57.

'Combined, the similar value traded, but far fewer hectares suggests a tight

market, and for the transactions we have observed the average value of a stocked hectare has soared 46 percent to £28,100 (from £19,300 in 2021),' wrote Xander Mahony, head of forestry investment at Tihill. 'However, the mix changed significantly with very few inexpensive properties and a small number of expensive outliers. We believe the like-for-like change in value was lower.'

Most of the commercial forestry sold in 2022 occurred in Scotland, comprising 84 percent of all transactions, with sales in Wales accounting for 13 percent, and England at 3 percent, unchanged from the prior year.

The volume of stocked hectares

(continued on next page)

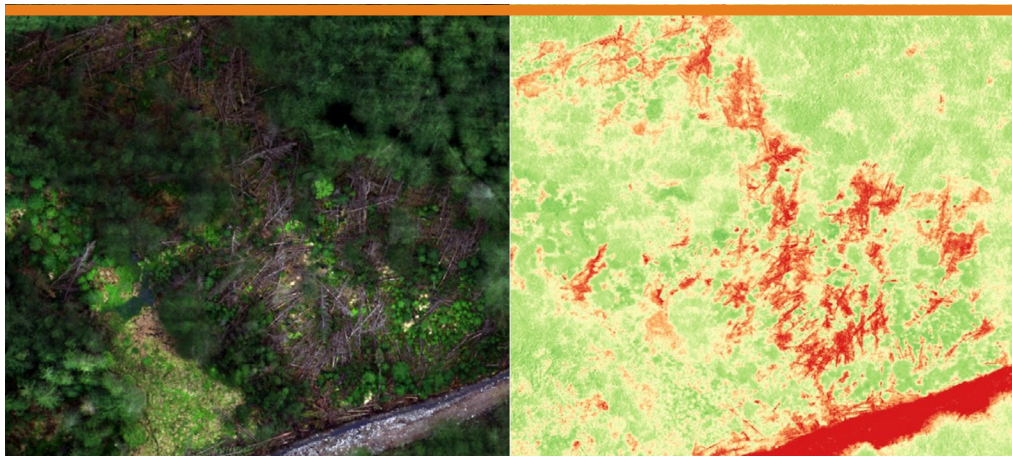
New Technology Boosts Imaging Capabilities

Fountains Forestry has been awarded a Scottish government DigitalBoost Development Grant to provide assistance in purchasing new technology equipment in order to better serve our clients.

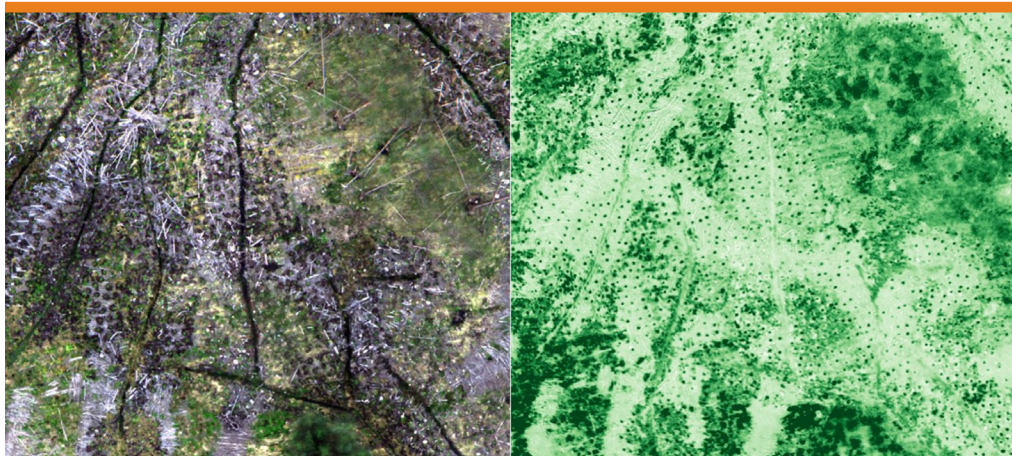
The grant enabled the purchase of three new unmanned aerial vehicles (drones), including one with a specialist multispectral camera. We were also able to update our range of tablets for use on site, making it easier for managers to work with digital maps and data collection tools in the forest.

The multispectral drone features six cameras recording at different wavelengths: red, green, blue, visible light (RGB), red edge, and near-infrared. These wavelengths allow a quantitative assessment of chlorophyll and various images to be calculated to highlight tree health problems, allowing us to spot potential issues before they can be seen on the ground.

Fountains Forestry is committed to expanding current imaging capabilities in order to provide clients with a comprehensive and potentially automated range of new services. 🌳



Wind damage shown in standard imaging (left) and using a vegetation index calculated from multispectral data (fallen trees in red).



Two-year-old restock planting among long-term retention areas, shown in standard imaging (left) and using a vegetation index calculated from multispectral data. This makes it easier to see where 'beat-up' replacement planting is required (dark green dots are new planting).

Forest Property Values *(continued)*

decreased 33 percent in 2022, from 10,400 hectares to 6,900 hectares, the lowest level since the financial crisis of 2008. The average size of commercial forests sold this year was also down, from 155 to 122 stocked hectares, a decline of 21 percent. The average price paid for a commercial forest rose 10 percent in 2022 to £3.4m from £3.0m in 2021.

The mixed woodland market—driven by amenity and desirability over economics—grew by 81 percent in value from £10.7 million in 2021 to £19.4 million in 2022, and in size by 760 acres, with increasing demand outstripping supply.

The bulk of these transactions was in England, covering 26 properties with a

total value of £15.3 million and with an average sale price of £6,646 per acre. Nine properties were sold in Scotland for a total sale value of £3.37 million, averaging £3,900 per acre. Only three transactions were reported for Wales, which caused the average per acre value to jump from £2,490 per acre to £6,195 per acre, which the report noted 'must be taken with a pinch of salt.'

The value of planting land suitable for afforestation rose by almost a quarter, from £53.1 million to £65.3 million, with an average cost of £16,475 per plantable hectare, up 50 percent from last year's £11,000. Scotland led the way with 85 percent of the value of plantable land

sold north of the border as well as a 73 percent increase in the average price to £17,200 per hectare. However, the report noted that a few unique outliers skewed the numbers higher compared to previous years, but the trajectory was still upwards.

The total land planted in the UK in 2022 rose by 4 percent to 13,850 hectares, with broadleaves overtaking conifers for the first time since 2016. Almost all new planting (76 percent) took place in Scotland, although at 10,480 hectares, it was still below annual planting targets of 12,000 hectares. 🌳

Bees & Trees

By Karen Batten, Assistant Forest Manager

A remnant of native British honeybees thought to be extinct in the UK has been found in broadleaf woodlands of an estate managed by Fountains Forestry in the south of England. The bees could be a new ecotype, adapted to their specific environment, with the surrounding landscape and lack of nearby commercial beehives effectively making an 'island' for them.

A bee conservationist visited the woodlands and identified nests 10 to 20 metres off the ground in tree cavities which he suspected housed these rare native bees. The openings to these nests are usually less than 5 cm in diameter, making them difficult to spot. Having only been discovered in the past year and in one other location, the discovery is very exciting for the estate.

In addition to site surveys with binoculars, measures are now in place to protect these bees during harvesting operations. If a tree is felled with a previously unidentified nest, the nest is quickly set upright and the top sealed with the help of a local beekeeper. This hopefully allows the colony to survive until they swarm in the spring, when the queen bee leaves the nest to find a new home, followed closely by her worker bees.

The estate will be making homemade beehives from hollow logs cut during ash harvesting to be installed in the woods in February to March, before the bees swarm. These will be monitored to estimate the population of bees in the woods, aiding future work to protect them. 🌿



An inadvertently felled hive repositioned to house the bees until they can swarm.

Woodland Audits Ensure Compliance

By Andrew Clark, Compliance Manager



Fountains Forestry carries out a regular program of internal audits of its services to woodland clients. These are carried out independently of our operational team to ensure an objective assessment and identification of any opportunities for improvement. Periodic audits are also conducted on entry and renewal of Resource Management Group membership to unlock the market benefits of forest certification.

Certified forests are also subject to external audits carried out by the Soil Association, the accredited certification body. These audits look holistically at the quality of the service, legal compliance, and check conformance with the UK Woodland Assurance Standard for sustainable

forest management. During a five-year certification period, there are four surveillance audits and a reassessment audit prior to the expiry of the certificate, to ensure continuous certification.

In addition, Fountains Forestry's accreditation body, the British Standards Institute, carries out external audits in respect of ISO 9001:2015, 14001:2015 and 45001:2018 standards to ensure a consistent approach that results in legal compliance and best practice in the delivery of quality, environmental, and health and safety management.

During 2022, we completed 29 man-days of independent audit covering internal, forest certification, client, and insurance audits. 🌿

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