

GOLDCREST
LAND & FORESTRY GROUP

 **Tilhill**
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THE UK FOREST MARKET REPORT

2023



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INTRODUCTION

Spruce, as vital as the potato

Planting on deep peat, incongruent geometric shapes, drains heading straight down the hill. It is a long time since the forestry industry undertook such practices yet a veil of 'unacceptability' still pervades public perception.

Ask many of the people who called for those changes, all that time ago, what they think of UK forestry in the 21st century and they'll probably focus on the actual tree species being planted, specifically the continued use of non-natives, especially Sitka spruce. Why is Sitka still used so extensively in the UK?

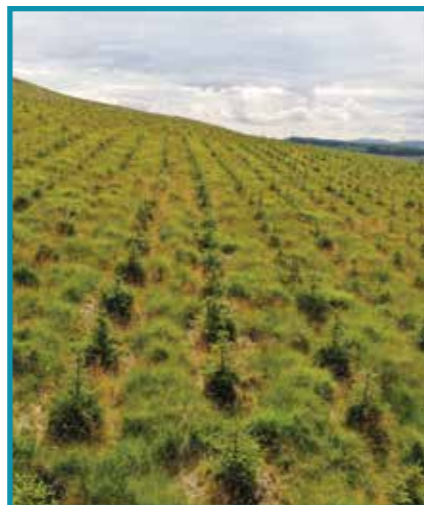
Sitka spruce grows the fastest in our climate, on otherwise unproductive land, produces desirable timber and is most resistant to disease. The next best alternatives are significantly less desirable and are also non-native. These benefits do not seem to be obvious to people outside of the forest industry where you could suggest that Sitka is viewed like oil - a valuable commodity with useful properties, but ultimately something we need to move away from because of external impacts.

The forestry professional's view is very different. Sitka is as vital as the potato in the diet of timber uses. Timber is the low carbon, bio-degradable material of the future, but currently mostly overlooked in favour of cheaper options such as disposable plastics, high carbon footprint concrete or heavily-polluting-to-produce steel.

Like the potato, Sitka is a non-native species imported from the Americas because of its desirable properties. They are both staple crops. Like the potato, we grow it in a monoculture to reduce costs and improve efficiency. However, unlike the potato, it creates angst amongst the public from conception to harvest.

Food is clearly an emotive subject, but the crops that produce it less so. Nobody mourns a potato, but as we know from Sycamore Gap we can absolutely mourn a tree. Trees have lifespans longer than our own and have an enduring sense of permanency. The area of Sitka spruce in the UK is multiples of the area of potatoes, but less than half that of wheat (also imported, though longer ago than sycamore). Trees also

‘Sitka spruce grows the fastest in our climate, on otherwise unproductive land, produces desirable timber and is most resistant to disease.’



provide important wellbeing benefits for us and our wider ecosystems. Sometimes it feels like the assumption is choosing between natives or non-natives when we actually need more of each.

As a sector, we need to work together to change public attitude to Sitka spruce. It is, after all, the industry's commercial crop and the workhorse of our timber industry. Spruce is as fundamental as potatoes - and arguably more versatile in the scope of what it delivers - but the latter is considerably more respected by the public.

We must balance the vital need to use home-grown timber to meet UK demand for construction timber, landscaping materials and the vast array of wood-related products with public acceptability. We must also strive to reduce the UK's heavy reliance on timber imports.

We have an outstanding manufacturing base for timber from seed to finished product, right here in the UK. It is one of our few remaining industries and one which we should be truly proud of. And the bonus is it could not be greener!

Given the urgent need to grow more UK timber - and meet climate mitigation obligations - we must address how the timber industry can make Sitka spruce more palatable.

The Market

After a couple of jubilant years, then an uncertain one, we are experiencing the first decline in forestry values for almost a decade.



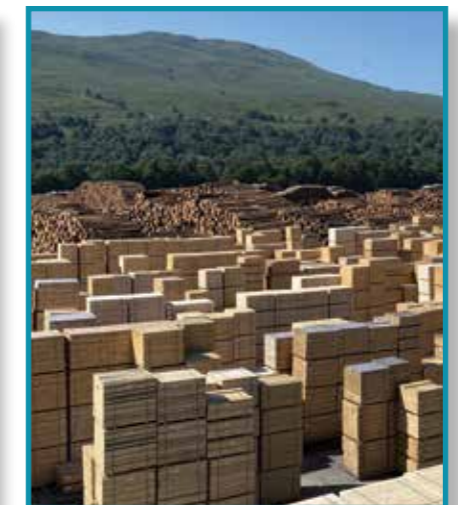
However, valuations are still up more than two-fold since the last peak in 2015, even adjusting for the effects of inflation. There are still new buyers entering the market, plus conviction among existing owners on medium term timber price growth given the clear supply/demand evolution. Many other sectors also got ahead of themselves in the pandemic years (e.g. online shopping), but the mistake appears to have been timing rather than direction.

Some aspects of this year's data will be more welcome - a normalisation in commercial planting land prices in Scotland can hopefully spur much needed woodland creation, both commercial and native. The increasing challenges in permissioning might have as much to do with subduing land prices, however, as interest rates, additionality and timber prices. Witness the sharp decline in area planted over the past twelve months.

Methodology

We have made numerous changes to our methodology this year, but the goal is to allow presentation of broad data in a timely fashion rather than to change the data we share. Overall, the data is comparable to previous years, except in a few well-signposted areas where previous data has been re-cast to allow analysis of trends.

Anyone who reads a newspaper in the UK will be aware of the various house price indices: data from Rightmove, Halifax and Nationwide is studied in such a way that could be printed



on the front pages or the back. Nobody talks about the Land Registry data because it's always months out of date. Sadly, for forestry, we were the equivalent of the Land Registry! Going forwards, instead of waiting for deals to close (an increasingly long process), we are working with fresh data on deals agreed during the year to understand the latest pricing trends. The market size data for completed deals has always come with a health warning that it fails to capture off market deals where we were not involved. Instead, we're moving to what has come newly to market, and adding in off-market transactions as we see them.

Beyond commercial forestry we are moving to a new listings model for Mixed Woodlands and Commercial Planting Land. In all the above cases we're augmenting with our own deal data. Finally, the approach for Natural Capital was already based on new listings given the huge scope of the data and is thus unchanged.

Publishing deadlines require data to be ready well ahead of time, so we have also moved our year end from September 30th to August 31st. Instead of having an 11-month year we have included September 2022 in both last year and this year's data. Given the quiet nature of both years, this has not had a significant impact on our results.



THE MARKET

Introduction

The main section of The UK Forest Market Report focuses on sales listings and agreed deals for commercial forestry properties which are over 20 hectares in size and predominantly planted with conifer. Other woodlands over 10 hectares in size are covered in the Mixed Woodlands section of the report.

This report is a market commentary based on the deals and listings we have observed over the past twelve months. Our combined experience and market position ensure strong insight into trends, but there are a number of off-market transactions not captured in our analysis. Further, there is variation in the specific assets from year-to-year so while the information provided captures the direction

of the market, care should be taken in comparisons of year-on-year results.

Where the report refers to individual years (2023 etc.) the actual period covered is the 1st September to 31st August.

The UK Forest Market Report has been produced since 1988 and our data series

now covers 26 years, incorporating 2,001 transactions which total some £2.07bn and 315,000 stocked hectares (ha).

As such we believe that it is the most comprehensive publicly available record of forestry transactions in the UK.



Overview

In the 2023 period we recorded:

- **£212m** of commercial forestry listings, up 9%.
- **£49.9m** of planting land listings, down 24%.
- **£15.8m** of mixed woodland listings, down 18%.
- **£276m** of natural capital listings, up 241%.



Xander Mahony
Head of Forestry Investment, Tilhill

We observed **£212m** of commercial forestry listings in 2023, which is **9%** up on 2022 levels. We understand the market to be in excess of this number when all off-market deals are included but this continues the £200m observed market size trend into a fourth year.

The headline number, however, is boosted by two huge assets and flatters a market that was otherwise unusually small. Griffin (excluding the wind farm) in Perthshire and Glen Shira in Argyll account for an extraordinary **70%** of the total value listed for sale. Glen Shira is of unusually large scale, but Griffin could be the most significant opportunity since the sale of the UPM portfolio almost a decade ago. Without

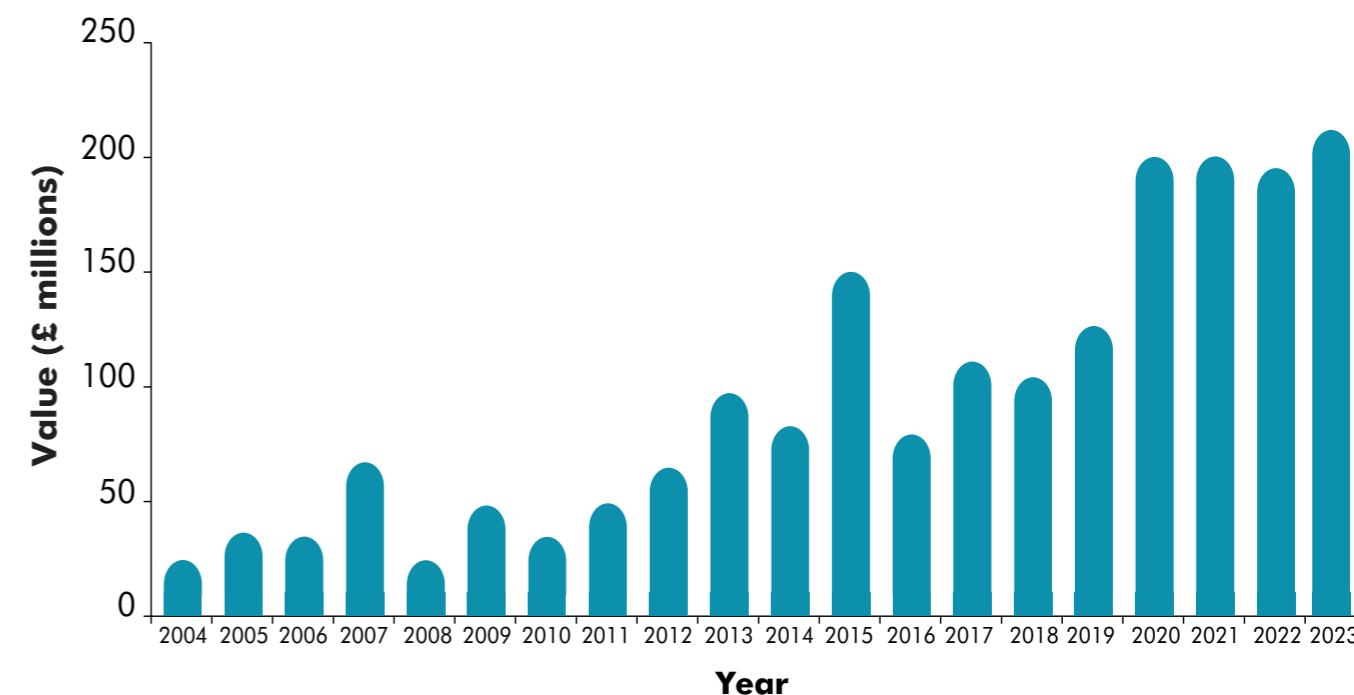
these properties we would have been talking about an unprecedented tightening of supply.

As a result, although total value has risen, the **number of transactions is down 39%** to just **35 properties**, well below the historical range and below even the low of 50 properties in 2008. The **volume of stocked hectares** has **increased 28%** from a post-2008 low last year to **8,860 hectares**. The **average size** of commercial forest listed this year was **up 108%** to **253 stocked hectares**, the **average price** for a commercial forest has **risen 77%** to **£6.1m**. However, both medians were down when adjusted to consider the two large deals.

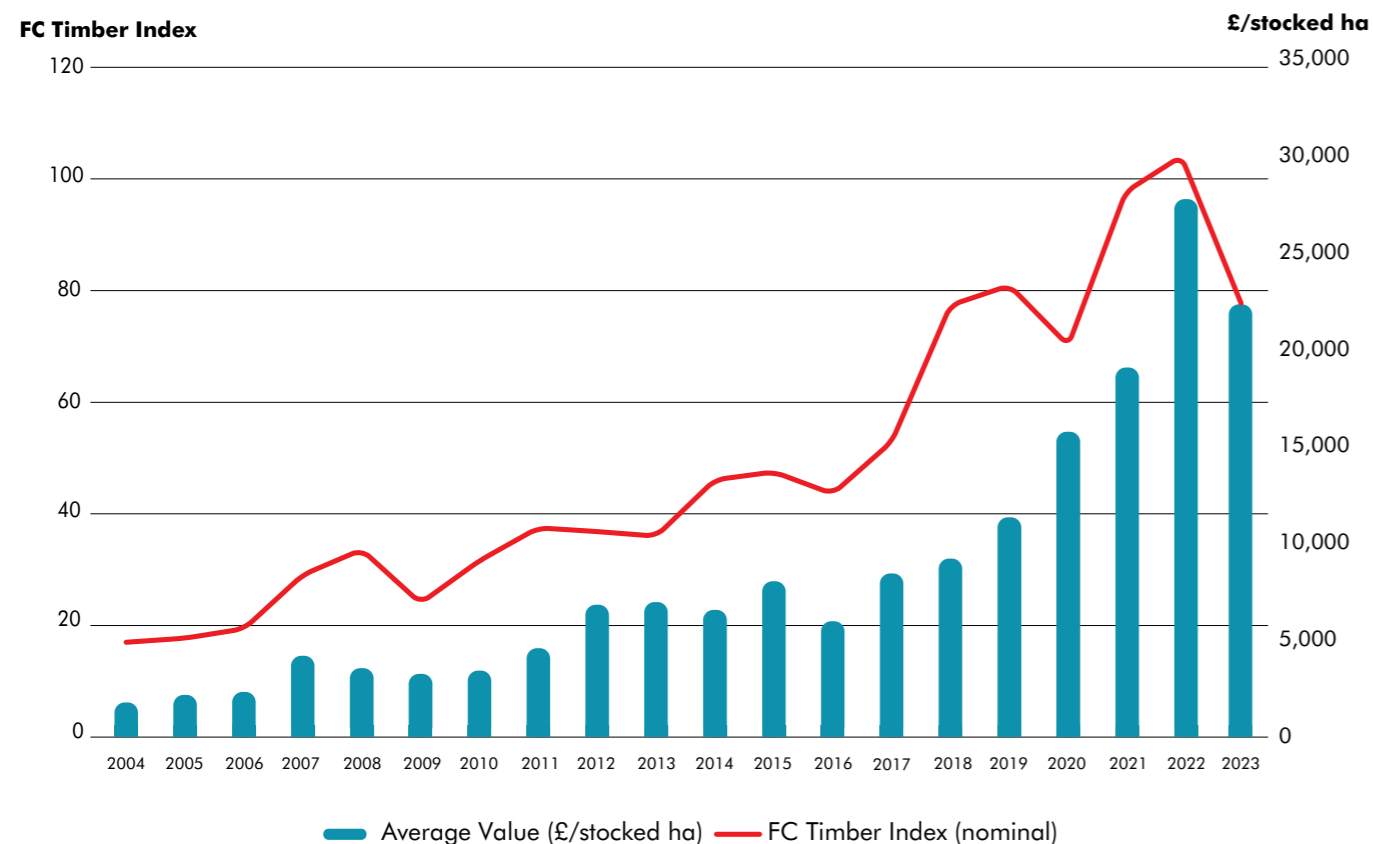
Scotland further increased its market share of commercial forestry transactions by value to almost the entire market at **91%**. **England** and **Wales** split the scraps **7%** and **3%**, respectively (101% total due to rounding).

The agreed deals we have observed up to August 31st (which excludes the two large properties) have been at a significantly lower **price per stocked hectare, down 20%** to **£22,500**. However, the collection of properties was particularly stellar last year so again we believe the like-for-like change in value was less. The price per stocked hectare is still up 17% from 2021.

Total Annual Value of Forestry Properties Listed



Average Listing Price per Hectare and the FC Coniferous Standing Sales Index



With parallels to the residential property market, the tightness of supply has not met huge demand. A year ago, we saw timber prices decline but then move sideways for 6 months, plus the spectacular fall-out and subsequent recovery from the mini-budget. It was unclear where we would go next. In the past twelve months, UK government bond yields have returned to the mini-budget levels and despite long-term positive drivers for the domestic timber market, forestry has not been immune from challenging economic forces.

A decade of low interest rates, a lockdown-induced appreciation of nature and the twin crises of climate and biodiversity spurred far broader interest in forestry through the pandemic period. Demand now comes from more experienced, traditional and specialist

sources. As a result the most valuable properties have a high Sitka proportion growing at strong (20+) yield classes, with good access a given. Guide prices shifted lower at the start of this calendar year and deals have been marked by caution and price discipline.

The medium-term case for UK forestry is unchanged. Our timber import dependence exceeds both food and energy in the face of an unsettled geopolitical situation. Forest product substitution for plastics, steel and concrete is expected to rise in the face of falling supply. In the short-term, timber is an economically sensitive commodity that will reflect the uncertainty of the broader economy. It is also a necessity, and before long that medium-term case will be now.

Recorded sales
91% Scotland
7% England
3% Wales



COMMERCIAL FOREST VALUES

Bull markets do not last forever. It appears the commercial forestry market peaked in the first half of 2022, after 19 years, in which the market has generally trended upwards since 2005, a staggering run. Global economic pressures in Q3 2022 and subsequent months set the scene for forestry activity in 2023.

Inflation, although falling, remains at a little under 7%; the 10-year UK bond market has hit a 25-year high at 4.6%; and investors are currently receiving over 5% interest from high street banks. Cash is an asset class again, something we haven't seen for over half a generation. During this year, timber prices have been stubbornly subdued. Some end users are still at least partly blaming Storm Arwen, but a reduction in the housing market and a drop in home improvements has definitely reduced timber demand. Muted positive feeling early in the year quickly waned and there are no indications we will see any timber price growth in the near-term.

So, what effect have these macro-economic pressures had on the forestry market?

While completed transactions are undoubtedly fewer than last year, the data suggests that pricing overall is down 10-20% depending on quality and location. Most forests brought to the market have sold but there has been a considerable reduction in properties available. Our experience shows a greater range of values: some sales look similarly priced to last year while some were significantly cheaper.

Purchasers are generally more cautious than 12 or 18 months ago, leading to longer due diligence periods, an increased demand to rectify 'blemishes' before completion and a desire for higher yields. It is clear there is money in the system and demand outstrips supply. Buyers are searching, watching, and waiting, ready to jump on an opportunity. However, they are more cautious and increasingly selective.

The market, both national and international, comprises high net worth individuals, institutional buyers including pension pots, charities and end users. They are satisfied with the long-term fundamentals of commercial conifers: the **UK imports 81%** of its **wood products**, third in volume only to China and the USA; there is an increasing world population; developing countries consume more timber as their affluence grows; concrete, steel and plastics are becoming increasingly unfashionable; and timber is in short supply across the globe. Undoubtedly, demand for timber-producing forests remains. In a global context, the strength of our legal system, political stability and robustness of our economy underlines the appeal of investing in the UK and confidence remains in long-term forestry investment at home.

Specifically, demand for good commercial planting ground continues. Desirable and/or appropriate sites are harder to find. Grade 4 ground, unfettered by populations of wading



Jon Lambert
Partner, GOLDCREST
Land & Forestry Group

‘What effect have these macro-economic pressures had on the forestry market?’

birds or black grouse, with a low landscape impact and sympathetic local communities, in desirable locations close to markets, and, of course, with suitable access, are top of the list and hard to come by.

Although sales of young plantations have been few and far between, demand remains strong. Conifers that have received validation for Pending Issuance Units (PIUs – Carbon Credits) are sought after but the jury is still out on young plantations where the PIUs have been sold off. Contracts for the sale of PIUs away from the land and trees have improved significantly in recent years, but elements of the market are jittery about owning a plantation where the PIUs have been sold to a large corporate with a hefty compliance department.

The market is confident in fully established plantations with predictable running costs. These mid-rotation properties cover a broad spectrum and numerous factors affect pricing: quality, location, workability of the site, wind hazard class and soil quality to name but a few. In 2023 we have seen average to good mid-rotation properties sell at a slight discount to the overall average. Over the life of the crop, timber will grow at 5-6% per annum (higher than the gilt yield) and, with medium term timber price inflation predicted, this age class is perhaps the most sought after by the discerning investor.

Lastly, let's consider the market for maturing and mature forests with an age profile of say 30 – 40 years and above. If the trees have reached their critical height and are ready for imminent felling, even with depressed timber prices, valuations become easier, provided volumes are accurately measured. Some investors are keen to purchase properties which produce instant income while others prefer to avoid the hassle of a felling and restocking program. Again, the relatively small number of transactions this year has underpinned prices, which have been significantly above the overall average.

The rise of the more cautious and selective buyer means an agent's advice in how to secure the maximum price is all the more important. Well presented, fully advertised opportunities are generating competitive interest but many properties have sold at sub-market levels where sellers have chosen to bypass open market campaigns in favour of private sales.

In summary, 2023 has seen changes in the commercial forestry market with decreased timber prices, a reduction in properties coming to the market and increasingly particular buyers but it remains resilient. Forestry is still sought after.



PLANTING LAND INSIGHTS



Kallan Martin
Forestry Investment Advisor, Tilhill

Perhaps the most significant development across all forest market data this year is the dramatic decline in commercial planting land prices in Scotland, down 22% from last year to **£9,900/gross hectare**. In contrast, pricing for land suitable for commercial forestry in both England and Wales has increased 42% to **£16,600/gross hectare** and **£13,400/gross hectare** respectively. The market is a different landscape to that of recent years, with global reverberations continuing to influence investor behaviour. **Although the net-zero compliance date looms, targets continually fail to be met.** Compared to last year, planting across the UK has decreased 7% to 13,000 ha, against a target of 30,000 ha.

Introduction

The true aftershock of the tremors produced from the previous year's economic turmoil has had a considerable effect on the forestry market between 2022-2023. Compared to the rampaging run of forestry as an asset class over the last 17 years, the lagging effect of economic turmoil from mini budgets, the war in Ukraine, and rising interest rates has softened market activity across the board in both afforestation and commercial/amenity

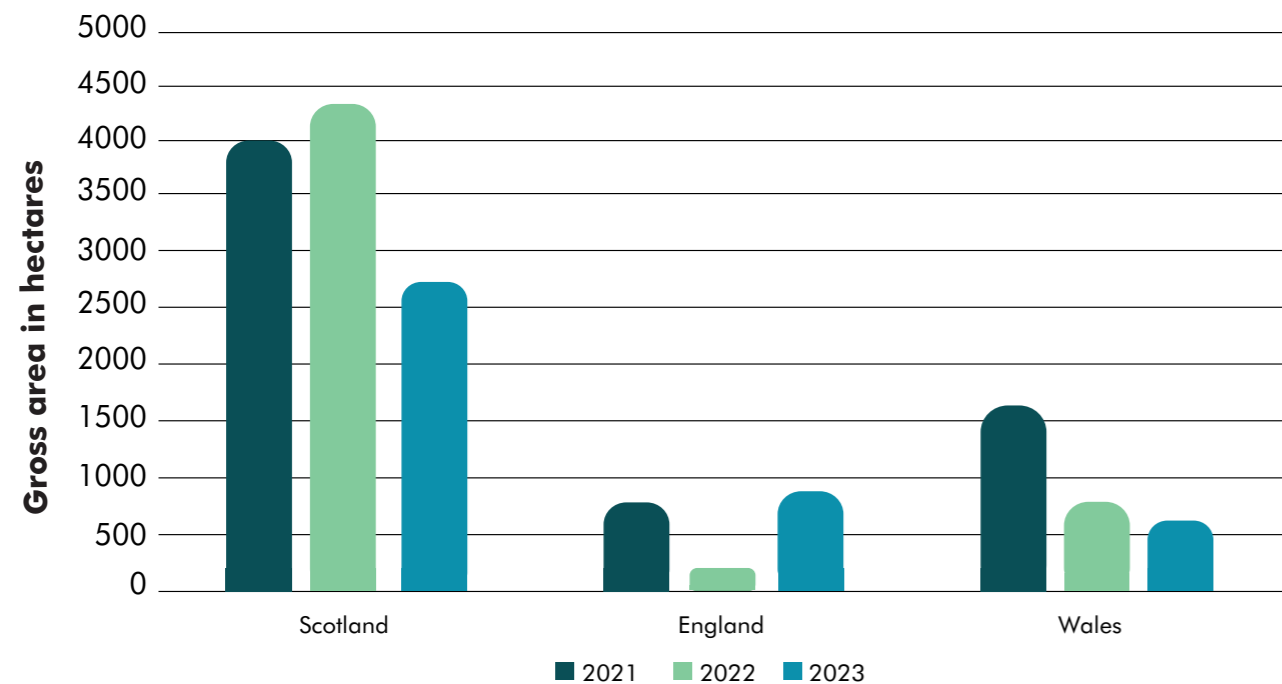
woodlands. Although more potential properties have come to market this year, we believe the number of afforestation purchases has decreased. Demand is still there, but price discipline has replaced an aggressive 'win at all costs' that previously characterised the market.

A slightly different methodology was used compared to previous years. We have switched to the lens of **£/gross hectare** instead of

£/plantable hectare. Justification for this methodology is that agricultural sellers are not necessarily considering the various constraints on planting trees compared to continued farming. Our previous headline price per plantable hectare thus inflated the assumed value for land.

Transactions from the previous year have been adjusted to reflect that of **£/gross hectare** for comparability.

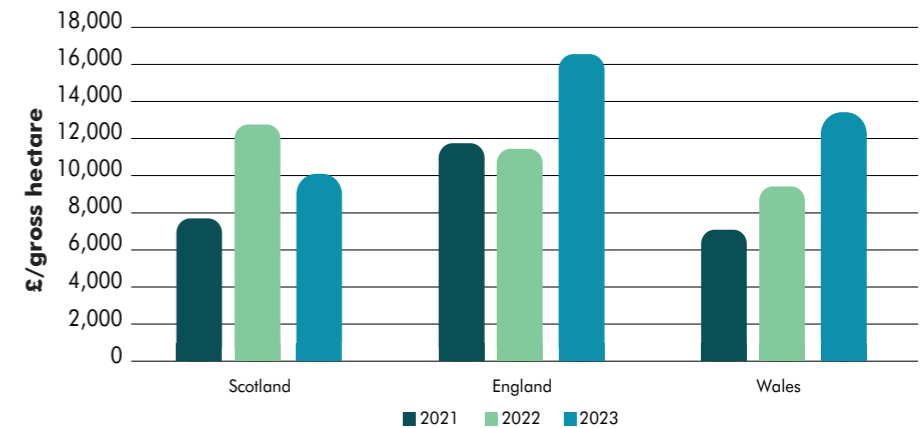
Total area of commercial planting land listed



Additionality

Additionality continues to be a large factor in the economics of planting trees for carbon, with the Woodland Carbon Code's (WCC) tightened rules coming into effect in Spring 2022. NRW's increasingly favourable grant scheme in Wales has reduced the allowable commercial area further. Across the UK decisions have to be made about greatly reducing the conifer area or electing to leave grant money on the table if carbon and commercial drivers are equal priorities. Perhaps partly as a result, for the second year in a row, **broadleaf planting** has surpassed that of productive conifer at **51%** of all **planting** across the **UK**.

Average price per hectare



Commercial Forestry Planting Land Market

Scotland

The previous upward trend of land prices has been broken with land prices having dropped **22%** from the previous year, with **£9,900/gross hectare** being achieved, down from **£12,800/gross hectare** from the previous year. We have observed far greater price discipline in the market, but there are also impacts from additionality and the de facto removal of grade 3.2 land from the afforestation menu. The Northeast of Scotland which has large areas of 3.2 land is likely to falter from a tree planting perspective, returning the focus, for better or worse, to South Scotland.

The total value of listings is down **52%** to **£27.0 million** and total area down **38%** to

2,700 gross hectares but these aggregate statistics exclude a significant portion of the off-market activity. More telling is perhaps the average area per property down **52%** to a relatively modest (for Scotland) **150 hectares**.

Wales

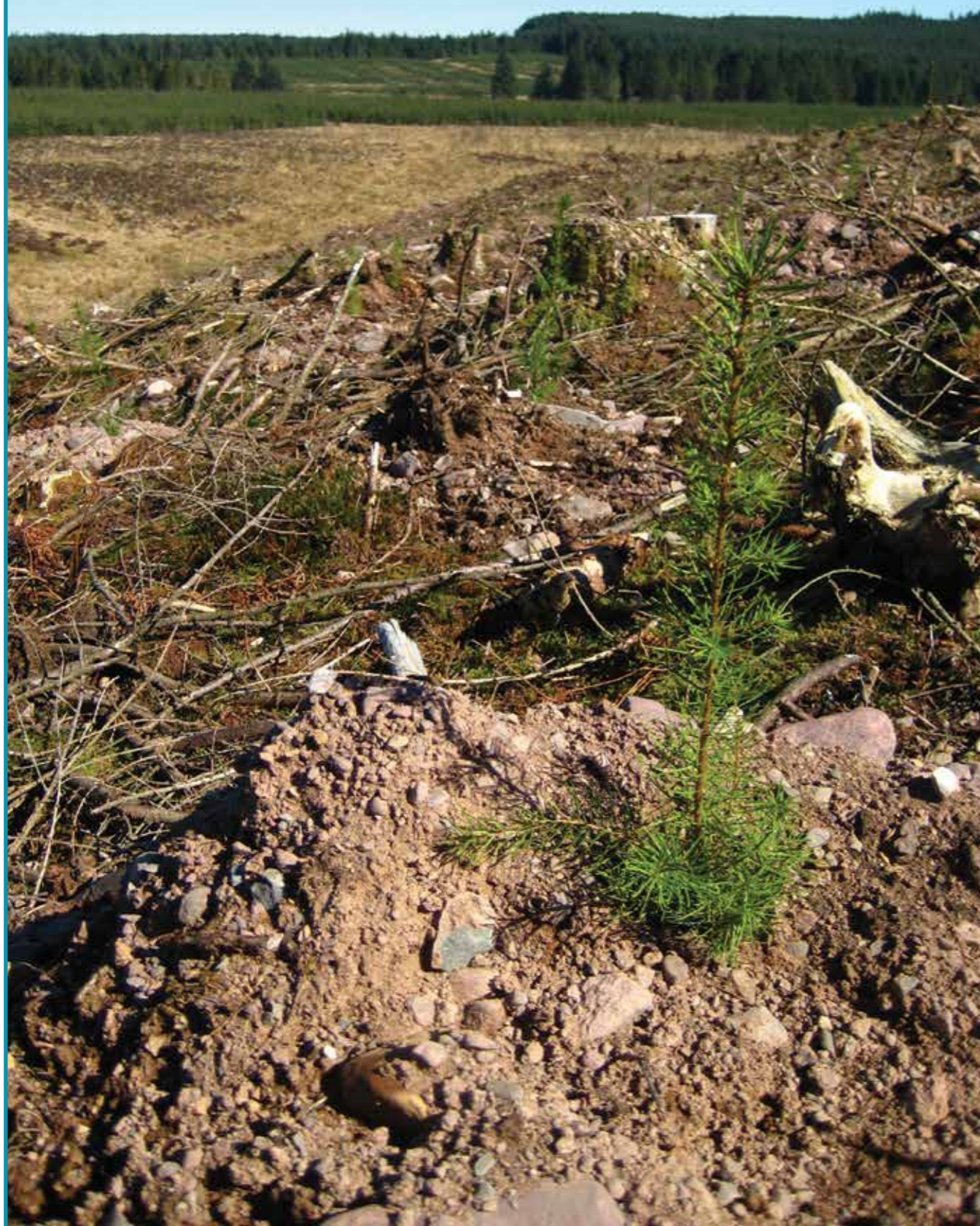
The Welsh land market is slightly muted with total value listed falling **8%** to **£9.2 million** and total area down **9%** to **690 gross hectares**. Pricing however, increased **42%** to **£13,400/gross hectare**. This country-wide average, which includes more expensive properties in North Wales and close to the English border, hides the reality that pricing for

land most likely to be purchased for forestry is down around **10%** to **£10,000-£11,000/gross hectare**.

As mentioned previously, the updated NRW grant payments in Wales are relatively generous with the majority of standard costs being covered for woodland establishment. Due to this, some projects, with substantial productive aspects and carbon, have required redesigning or risk failing the additionality test from the WCC.



‘Scotland remains the only country where commercial forestry dominates planting figures’



PLANTING LAND INSIGHTS – CONTINUED

England

Statistics for England are somewhat meaningless given that just 4% of UK conifer planting was in England last year, driven by land pricing and resistance to non-native species. However, the total value of potentially suitable land listed increased by a huge 450% to £13.8 million and area by 289% to 830 gross hectares. However, the average price per gross hectare also soared by 42% into unattainable-for-forestry territory of £16,600/gross hectare. Land prices in the south of England are higher still, north of £20,000/gross hectare. Economic planting of any sort is a challenge.

Achieved Planting Statistics

Tree planting is still regarded as a key aspect to achieving our net-zero emission goal by 2050. At numerous conferences I have attended, as well as conversations I have had and articles I have read, the crucial importance of tree planting continues to be stressed, for both the environment and the rural economy, yet planting figures continue to fail to meet the annual 30,000 hectares target set by the UK government. 13,000 hectares were planted

this year, just 43% of the national target. Of this, 51% consisted of broadleaf planting.

Scotland continues to lead the charge with 8,200 hectares planted over the last year, however this is down considerably from the year previous, falling 27% from 10,400 hectares. Regulation is comparatively friendly in Scotland, but the trend is towards a more challenging direction. This is coupled with great political focus on land use and ownership concentration in Scotland plus looming changes in the post-Brexit subsidy landscape all adding to uncertainty. A recent land-use event in Scottish Parliament was dominated by questions about forestry.

Scotland also remains the only country where commercial forestry dominates planting figures with 68% of the 8,200 hectares planted being attributed to conifer. Both Wales and England have a higher proportion of broadleaf planted with 92% of all afforestation in England and 61% in Wales. However, it is promising that both England and Wales have increased their planting figures considerably with England

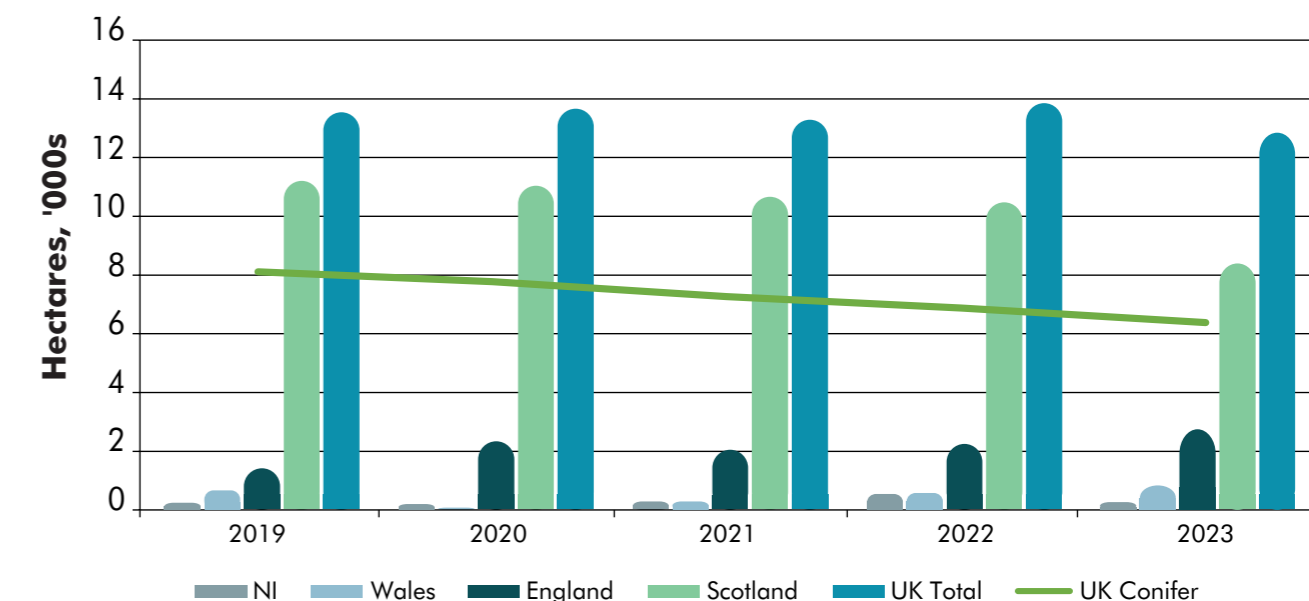
rising from 38% to 3,100 hectares, and Wales 105% to 1,200 hectares.

With just 13% woodland cover in the UK and a majority of our timber imported we need more native woodland for biodiversity and amenity and more commercial conifer to improve resilience to external supply shocks. The biodiversity crisis and geopolitical situation makes these twin goals more important every day.

Conclusion

Similar to last year, there is abundant market potential that isn't being fully realised. Forestry continues to exist in an ever-changing regulatory environment, which is colliding with the market forces. It could be just a matter of time before the likelihood of the UK reaching net-zero carbon becomes apparent and planting figures begin to match that of the targets set. Political change may yield fruit. The next few years will be telling as the market continues to flex to demand and regulator influence. Time only knows what is ahead.

Total New Planting in UK (including Conifer Planting)



MIXED WOODLANDS

On trend with previous years, in 2023 the size of the mixed woodland market has broadly followed the direction of its larger commercial counterpart (adjusting for the unusual large commercial assets) with the total listing value being **down almost 20%**. After several years of rising values buoyed by low interest rates, record breaking timber prices and a growing desire to own and enjoy a growing green asset, we may have reached the peak of the curve, for now.



Oliver Thompson
Forestry Agent, GOLDCREST
Land & Forestry Group

2023 has seen great change in the global and UK economy. Interest rates in the UK have risen from near zero to 5.25% and although they have remained stable, it is unlikely that a return to sub 1% is on the cards. During the past few years, when money in the bank was doing very little, investing in something tangible and green was an easy decision. While there are few loans on woodland, it's hard to ignore the impact on other categories of property. General economic activity is slowing; buyers in the woodland marketplace are a little more cautious. However, the right property in the right location can still generate strong interest.

As with the previous year, the number of listings was limited: **38 properties**, with a total value of **£15.8m** – a headline **fall of 18%** from 2022. The **average price** is also **down by 14%** at **£12,500 per hectare**. However, as usual, the individual countries in Great Britain exhibit significant variation with a return to trend pricing in Wales masking resilient pricing in England.

On trend, **England** has shown a greater number of listings at **16** and a total value of **£8.4m**, down a significant 45% from last year. This correlates with a **48% drop in total area**

at **490 hectares**. However, price per hectare has remained stable with a modest rise of **5%** to **£17,300 per hectare**. Four properties were guided in excess of £22,500 per hectare with Nethercott Wood in Devon taking the top spot. At just over £25,000 per hectare, this well-managed, mature conifer woodland had everything wanted by the small woodland purchaser including the opportunity for timber income, seclusion, good access, infrastructure, a building and full sporting rights.

Another notable property was Gosfield Wood in Essex. Although Essex is not usually noted for its woodland sales, Gosfield Wood was a very attractive mixed woodland in an affluent area and accessible to many. Sporting rights and an opportunity for small scale woodland management, including coppicing, gave this woodland the credentials to be marketed at over £22,500 per hectare.

At 114 hectares Via Gellia Woods was the largest property and, compared to the other two properties mentioned, was marketed at sub-£10,000 per hectare. An attractive and secluded wooded valley, this property was rich in wildlife and ecological value, but presented management challenges and limited potential income.

‘In the short-term, mixed woodlands may be a ‘buyer’s market’

Average value per hectare

England: £17,300

Wales: £9,600

Scotland: £9,500

This year the dataset for **Scotland** increased slightly from **9** to **12** listings. However, the total listing value has increased by **33%** to **£5.3m**. A **57% increase** in area put Scotland at the top spot with over 550 hectares. Pricing however remained almost static down just **1%** to **£9,500 per hectare**. Listing values ranged from in excess of £21,000 per hectare to £5,400 per hectare. At the top end of the listings, Callies Wood in Aberdeenshire was listed for £21,300 per hectare. A pretty, mixed woodland with some open ground and water features, everything which a pure amenity buyer could want. Interestingly, this is a doubling in value since it was sold in 2021.

An increase in **Welsh** listings from 3 to **10** and a total value of **£2.1m** has made for a much more representative sample in 2023. Whilst the total number of hectares listed was fewer than 250, the average price sold was on par with previous years (and Scotland) at **£9,600 per hectare**. This makes the 2022 figure of £15,300 per hectare seem a bit of an anomaly.

Properties ranged in size from multiple properties under 15 hectares up to Ffos Las Woodland, which is over 90 hectares on what was once Europe's largest open cast coal mine. Here the standout was Ty Isha in Dyfed priced in excess of twice the average at £19,500 per hectare.

We may well have seen the peak of the market, for now. Crystal ball gazing can be dangerous, but the general feeling is that we are not headed for a slump in values, merely a plateau. In the short-term, mixed woodlands may be a ‘buyer’s market’. Prices stabilising and investors showing more caution could well lead to some good value purchases. However, the marketplace is small and it will not take too much competition for values to start rising once again. Currently, a strong firewood market is providing owners with unusually good income. Looking further ahead, there is no reason to question continued consistent demand for these natural assets.



TIMBER

2023 Outlook

As an investor looking forward into 2024, what are the medium-term trends I would look for in the standing market for round timber, and the factors driving them?

The statistics for 2022 have recently been released and show a fall in harvested timber, which had been running at around 10 million tonnes per annum, to around 9 million.



Harry Stevens
Timber Buying and
Managing Director, Tilhill

Demand in 2022 started reasonably strongly as processors anticipated the usual spring uptick, and only began to realise that this was not going to happen by the middle of the year. Having built high stocks of finished goods, they then needed to adjust production levels.

The consequence of this was a sharp slowdown in demand as they reacted by reducing inventory of finished goods to match the new market realities. Processing volumes through Q3 and Q4 therefore were at a rate of around 65-75% of what we class as 'normal' levels.

Expectations for 2023 were then more pessimistic, which, as of October 2023, have been borne out with sawmills running at between 50% and 65% of capacity all year.

The panelboard sector tends to be affected later in the business cycle. Consequently, sawmills are now seeing a reduction in activity levels, with most operators attempting to protect margin through production shutdowns.

The paper and packaging market shows a similar trend, with plants also taking production shutdowns. The long-term decline in demand allied to shorter term market conditions have seen the closure of capacity in several locations, notably in Germany and Scandinavia where several large operations have now closed.

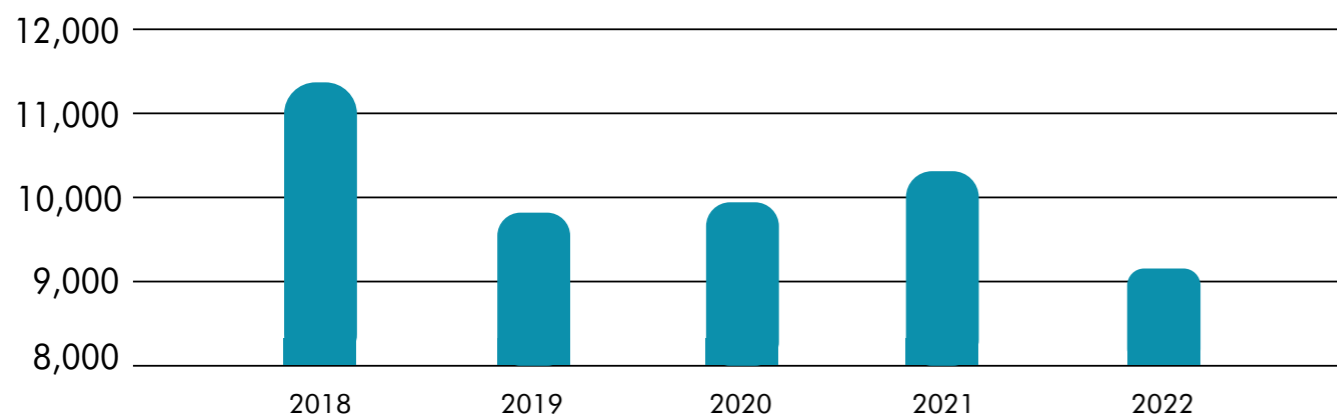
The British timber market is largely dominated by imports. Consequently, the import price is the major factor in setting prices. The

weaker pound makes imports less attractive, insulating us from the more challenging market across Central and Northern Europe. Typically, European sawmills operate in a 'three shift system', and we have been informed that at least one shift is being cancelled. As a direct result, many sawmills are understood to be making losses. On a more global scale, the demand from China and the United States is also in decline. These two nations have previously absorbed significant amounts of finished goods and so the market impact is noticeably adverse.

The last few decades have seen considerable consolidation as larger operators use their economies of scale to absorb smaller companies, and close smaller plants. Many



Softwood Harvest Green Tonnes



It is expected that the figure for 2023 is likely to be similar or even lower.

larger processors are also now undertaking their own timber harvesting rather than subcontracting operations.

This trend for vertical integration is perhaps best illustrated by the acquisition of Scott Pallet, the largest British manufacturer of pallets, by the largest sawmiller BSW Timber. At the same time BSW has rationalised its number of sawmills by closing two of its smaller operations.

Currently, my thoughts are that 2024 will not see any major changes from the current activity levels. However, it would not surprise me to see demand reduce further. In that scenario, prices in 2024 for finished goods are likely to be eroded further, which will inevitably impact standing timber prices.

As ever the longer-term outlook is hard to predict. However, the medium term can be more accurately forecasted. The loss of growing stock in central and northern Europe due to continued outbreaks of *Ips typographus* (European spruce bark beetle) will dramatically impact forest productivity. At the same time, any upticks from the United States and Chinese economies would mean a reduction in the amount of material available for importing to Britain. The knock-on effect is increased pricing for finished goods and thus increased standing prices.

‘The British timber market is largely dominated by imports.’

THE MARKET FOR WOODLAND CARBON

Consolidation and Clarification



David McCulloch
Head of CarbonStore

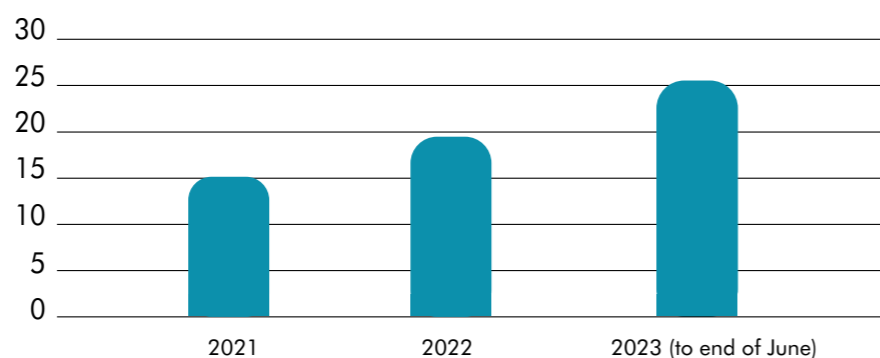
The past three years have witnessed intense activity across the woodland carbon market. In 2021, £3.5m of Pending Issuance Units (PIUs) were transacted, a figure which rose 17% year-on-year to £4.1m in 2022. Meantime, prices have also risen, from £14.93 per PIU in 2021 to **£25.36 per PIU in 2023** (see chart 1), according to recently released data from the Woodland Carbon Code.

The symptoms of optimism and opportunity are cropping up in other guises. The Groundswell Festival, the Glastonbury of natural capital, saw visitor numbers rise 20% year-on-year to 6,500 in 2023. The Soil Association launched its inaugural Agroforestry Show in September and the Nature Finance UK Conference 2023 drew a host of eminent speakers. People are keen to learn about and participate in this growing market.

These trends have been fed by the abundance of available capital. Of course, this has influenced the forestry investment market. It has also impacted the one for woodland carbon. New, privately-funded carbon standards have emerged, offering market participants the chance to exploit the benefits of emerging technology or to capitalise on certain specific characteristics of their woodlands.

We are aware of two trading platforms in development, each offering the owners of woodland carbon (and other nature-based) projects the opportunity to sell their carbon credits at market-based prices, on standardised legal terms and without the labour-intensive

Chart 1: Volume weighted average price per PIU (nominal, £)



support that's currently needed for these transactions.

No doubt, this sets an encouraging indication for the shape of things to come. However, some perspective is necessary. Interest rates are at their highest level in 15 years, GDP growth is anaemic and bank lending volumes are declining across the UK. The consequences of this are already apparent within the market for woodland carbon.

According to the Woodland Carbon Code's data, the volume of PIUs traded in the first half of 2023 was approximately one quarter of the volume traded throughout 2022. Although PIU prices have increased, greater price sensitivity has been apparent recently among the clients buying PIUs. After all, the purchase of PIUs and WCUs remains a voluntary undertaking and therefore susceptible to cutbacks if revenues and profits reflect faltering economic activity.

Amid the hype and displays at the trade shows, it is easy to forget that many companies across the natural capital and woodland carbon markets remain dependent on funding for their continued existence. This period of economic retrenchment may see some pruning across the market so it will be important to work with well-established and trusted counterparties to ensure continuity.

A period of consolidation, although painful, might be a healthy process for a market that is still finding its feet. As Warren Buffet said: "Only when the tide goes out do you learn who has been swimming naked." It will allow market participants to understand the enduring elements of a fermenting sector.

Efforts to quantify and evaluate the additional ecological, social, hydrological etc., benefits of woodland carbon projects are likely to be a defining feature of the market's future development. Under the 'UK Carbon Prices'

section on its website, the Woodland Carbon Code includes a revealing statistic: the 'spread price' i.e., the difference between the highest and lowest reported price.

This increased from £27.76 in 2021 to £37.50 in 2023 and its rise reflects efforts by certain brokers to emphasise the ancillary benefits of a specific woodland. For example, in addition to capturing carbon, it may also deliver significant improvements to the neighbouring ecology. For a company that has purchased the PIUs from this woodland (and implicitly supported its creation), the ecological benefits provide a valuable marketing opportunity which landowners need to leverage.

Moves are already afoot to embed this thinking within market prices. The Woodland Carbon Code is supporting the development of a Woodland Water Code which will 'help tackle important water pressures, such as diffuse pollution, flooding and rising water temperatures.' The Woodland and Peatland Carbon Codes are recruiting a 'Biodiversity Crediting Project Manager' who will 'advocate the multiple benefits of woodlands and peatland across the UK.'

This may be a response to the Wilder Carbon Standard which has been established by a cohort of wildlife trusts to ensure 'real biodiversity gains' and generate 'premium nature-based carbon units'. Hopefully, the development of independent and dispassionate analyses of woodlands' biodiversity metrics will, by establishing a level playing field for measuring the biodiversity gains on all woodland carbon projects, ensure companies pay a fair, rather than a premium, price for the associated PIUs.

We, in CarbonStore, have consistently emphasised the importance of transparency in all aspects of the woodland carbon market. The release of pricing data by the Woodland Carbon Code is an important step to ensuring companies pay, and landowners receive, market prices for their PIUs. Similarly, the adoption of a common set of impartial metrics on which



to evaluate the wider benefits of woodlands would ensure fair prices are agreed based on an impartial assessment of the same criteria.

When placed alongside the Woodland Carbon Code's efforts to ensure its close alignment to the Integrity Council for Voluntary Carbon Market's Core Carbon Principles, we draw real confidence that the woodland carbon market will be a powerful and valuable force for the future.

‘Only when the tide goes out do you learn who has been swimming naked.’

NATURAL CAPITAL

Market Insights

After a boom of interest in natural capital during the pandemic there has been a re-focus on fundamentals. The surge was driven by the twin crises of climate change and biodiversity loss, combined with the nature appreciation effect of lockdowns and near-zero interest rates. The obviousness of the crises has been thrust into our faces with record temperatures and wildfires but even this medium-term grind towards potential oblivion is understandably struggling for airtime against immediate concerns around rising bills and geo-political instability.

Changes to the Woodland Carbon Code (WCC) have added complexity and required changing strategies. Peatland carbon is categorised as emissions reduction, rather than offsettable sequestration. Biodiversity is being thrust into the spotlight.

We continue to track natural capital opportunities more closely. The available land dwarfs that suitable for commercial forestry. Our definition is deliberately broad and includes any land with a designation such as a national park or SSSI, that isn't predominately used for growing cereals or vegetables and isn't subject to long term tenancies. The resulting land is suitable for native afforestation, peatland or biodiversity restoration.

The result is **£275.5m** of opportunities totalling **27,353 hectares** that have been listed for sale across the UK in the past year. **England** is the largest market by value with **£144.5m** of listings across **10,639 hectares**, followed by **Scotland** with **£74.6m** across **13,394 hectares** and **Wales** with **£56.4m**

across **3,320 hectares**. The average Scottish property at 250 hectares is significantly larger than the average English property of 90 hectares, which is in turn multiples larger than the 40 hectare average in Wales. Prices in Scotland are again significantly lower than commercial forestry planting land at £5,600 per hectare. This shows the premium paid for forestry versus natural capital, but also reflects the typically lower agricultural quality. Prices are highest in Wales at £17,000 per hectare but this is due to a combination of agricultural and national park value, while the exclusion of higher quality land in England drags the average down to £13,600 per hectare.

Changes to the WCC that we were aware of last year have had implications for the overlap between commercial forestry and carbon. While it is still possible to gain carbon units on a commercial planting scheme, there is a need to significantly reduce the commercial area, species mix and/or take less planting grant support. There are situations where optimising for commercial and carbon exposes a project to changes in regulation beyond the WCC, for example, increases in grant funding. These changes build the case for focusing solely on native planting for carbon, and benefiting from simplicity on carbon regulations, permissioning and management plus a much broader menu of suitable land.

Biodiversity Net Gain

Biodiversity Net Gain (BNG) is an initiative which will soon become a **mandatory biodiversity improvement requirement** for commercial and residential developers in England. Developers must essentially improve



Jay Li Sanderson
Forestry Investment Analyst, Tilhill

the biodiversity value of a given plot of land by at least **10%** as an **offset** for developing a site residentially or commercially.

Currently, mandatory enforcement of BNG is due to begin in January 2024 for housing developers, April 2024 for small site developers and from 2025 for sites of nationally significant infrastructure. Once underway developers will be able to opt to improve the biodiversity value of the site on which the development will take place or opt to undertake the biodiversity improvement works on a relevant donor site.

In order to achieve the required biodiversity uplift for a given development, developers have several options. Firstly, they could opt to provide the BNG uplift on-site, secondly, they could look to purchase BNG units from forward-thinking landowners or lastly, they could purchase statutory biodiversity credits at a substantial premium. Sale of BNG units by landowners will be a one-off payment, similar to carbon, with the landowner also similarly agreeing to a multi-decade maintenance obligation.

In practice, initially sites are assessed and scored to provide an ecological baseline before various habitat improvement options are carried out. Once improved, sites can be audited to ascertain the level of biodiversity uplift achieved, with the uplift converted into BNG units which the government claim will likely be valued at around £8k - £15k each on the off-site private market.

Summary

The mandatory nature of BNG could see the market for BNG units exceed the WCC within the wider land management sector. Beyond

property development in England there is potential for a wider, voluntary biodiversity credit in the mould of the WCC. CreditNature was chosen earlier this year for a £0.5m investment from the Scottish government to develop their solution.

The continued enthusiasm for the natural capital market is demonstrated by the scale of commitments by large, forward-thinking companies. International organisations may look to vast schemes abroad, but now with far more direct oversight to ensure integrity. However, domestic-focused companies are leading the way here in the UK. NatureScot is working with Hampden & Co, Lombard Odier and Palladium to spend £2bn to restore native woodland and capture 28m tonnes of CO2. Aviva has made an almost £50m donation to the Woodland Trust and Wildlife Trusts to capture carbon and promote biodiversity.

Our country is in great need of natural restoration. We can lead the way and encourage larger countries, with greater impacts on a global scale, to do the same.

‘Initially sites are assessed and scored to provide an ecological baseline before various habitat improvement options are carried out.’



BREEDING RESILIENT TIMBER SUPPLIES



CONIFER BREEDING
CO-OPERATIVE

As the demand for home-grown timber becomes ever greater, and with forest planting failing to keep pace with this predicted growth in demand, the imperative to grow the best quality trees has never been greater.

Our future forests need to supply us with resilient trees that grow faster, with enhanced quality traits such as stem straightness and density.

Maelor Forest Nurseries is a commercial tree nursery at the cutting edge of genetic technology, striving to produce the most productive trees. Maelor is also a founder member of The Conifer Breeding Co-operative (CBC, previously the Sitka Spruce Breeding Co-

operative), an initiative dedicated to improving the quality of our home-grown timber.

The founding aims of the Conifer Breeding Co-operative were to maintain a supply of improved vegetatively propagated Sitka spruce resource for growers and to continue the valuable breeding programme undertaken by The Forestry Commission over many decades. Its programme of tree breeding activities is historically funded and delivered almost entirely through the core membership. The CBC currently has nine core members, comprising a mix of public and private sector organisations, and is, of course, always looking for new members. Their work seeks to improve



Ben Goh,
Commercial Manager
Maelor Forest Nurseries Ltd

yield and timber quality whilst also focussing on resilience by ensuring good genetic diversity is present in breeding populations.

CBC's plans to take forward breeding of productive conifer species gained a major boost under Defra's Tree Production Innovation Fund (TPIF); the Co-op was awarded a total of £1m for 3 projects running from July 2022 – March 2025 (detailed on the facing page). This has enabled the CBC to broaden its focus to encompass the selection and improvement of Norway spruce, Douglas fir, and Scots pine, three commercially important conifers with a key role in diversifying existing forests whilst improving timber supply.



TPIF 39: Injecting Diversity and Quality Assurance into Alternative Conifers

An ambitious project to assemble full breeding populations of Norway spruce and Douglas fir. This will be achieved by the selection and grafting of 'Plus Trees' from all regions of the UK. Four new Douglas fir and three new Norway spruce orchards are planned to increase both the quantity and quality of seed available to the industry. The orchards will also provide the base resource required to initiate a programme of testing to work towards improved genetic materials.

In addition to assembling the physical materials required for conventional seed production and breeding, CBC is harnessing the power of genomic science to undertake DNA analysis of all Plus Trees going into the orchards. Genomic profiling will allow us to evaluate the genetic diversity of UK Norway spruce and Douglas fir populations and will also ensure full traceability of all breeding stock.

Data will be collected on genetic variation in growth, form and timber properties from Douglas fir progeny tests and volume estimates from 'genetic gain' trials which compare crops from different European seed orchards. It is hoped that the data will identify promising families that can be infused into the new orchards, and useful information to guide future testing efforts.

TPIF 64: Reinvigorating the Scots pine breeding programme with a southern bias

To assemble the foundational breeding resources to create Scots pine Forest Reproductive Materials (FRM) specifically tailored to the needs of English forestry and to increase knowledge on breeding values and genetic diversity for the species as a whole. The project objectives will be achieved by:

- Creating new breeding resources - Selection and grafting of Plus Trees for addition to existing orchards and/or creation of new orchards targeted at the English market. Collection of seed from the new Plus Trees to add into a future progeny trial.

- Extracting knowledge from existing resources: Undertaking the collection and analysis of data from Forest Research 1987 full-sibling Scots pine progeny trials. The assessment will provide key information to guide the next generation of Scots pine breeding.
- Advancing genomic research into the species: To characterise genetic diversity within Scots pine in England, building on DNA fingerprinting work carried out in TPIF 39 to ensure traceability of breeding lineages and verify heritage of English Plus Trees. Running comparative tests with materials from the wider UK Scots pine population and continental Europe to understand genetic diversity within and geographic origin of existing UK breeding populations.

TPIF 65: Climate matching and resilience trial in Sitka spruce

To establish a large-scale field trial of 100 improved Sitka spruce families to:

- Directly identify responses to climate, pests and diseases.
- Allow resilient breeding lines to be identified for rapid diversification of Forest Reproductive Materials (FRM).
- Allow recommendations to be made on breeding lines for regional conditions, especially drier sites.

Sitka spruce is the highest yielding conifer in the UK and remains the core species for sawmills supplying material into the construction sector.

However, in some UK regions, its future viability is at risk due to climate change. The expectation is that, as rainfall patterns change, on some sites Sitka spruce will become vulnerable to pests and diseases as it is weakened by drought stress. The current breeding population has not been characterised in sufficient detail to allow Sitka spruce breeding lines to be identified for climate matching.

In order to evaluate new materials derived from the original Sitka spruce breeding population representing a genetic resource of high quality and diversity, and to verify the predicted genetic gains of this material, progeny trials will be carried out at six sites across Great Britain including drier sites to the South and the East. This project presents a rare opportunity to fill a crucial knowledge gap by gathering data on responses to climatic conditions, along with exposure to pests and diseases.

This could allow breeding lines with good drought tolerance/resistance to pathogens to be directly identified under present and future field conditions.



For more information, please get in touch info@coniferbreedingcoop.co.uk.

MARKET BACKGROUND

This research is a snapshot of the commercial forestry market in the year to September 2023. Woods discussed in previous years are different from those analysed here; therefore this is not a like-for-like comparison. While these results show useful trends, readers should not base investment decisions on these comparisons alone and should always seek professional advice before committing to an investment.



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