MARKET IN MINUTES
Savills Research

UK Rural – Autumn 2022

Commercial Forestry

Quality is key to investment

Commercial forestry has been a star performing rural asset class for some time. In 2021 the market showed exceptional growth, with market highs in most regions of the UK. The catalysts in 2021 were strong timber prices alongside an increased sense of urgency surrounding climate change and biodiversity loss. Competition in the market resulted in investors acting bullishly, purchasing land and forestry as it came onto the market with sentiment occasionally leading investment decisions, buoyed by a strong optimism over future asset performance.

According to analysis of Savills database of forest sales, 2022 shows a different picture, but still a positive one. This includes data from public and, where we are aware, private sales. Early indications show a slowdown in the extraordinary rate of average value growth recorded for the 2021 forest year, and indeed single figure percentage growth for the first time in six years.

Some of this relates to buyers taking a more cautious approach to investment in the knowledge valuations are currently high, but also a large amount of capital has been deployed in the past year. Moreover, concerns around the economy and war in Europe have influenced sentiment for much of 2022. The good news for investors is prices continued to rise, albeit more modestly, in times of uncertainty, showing the long-term defensive nature of forestry is still prevalent.

VALUES

Analysis of our 2022 results shows the average net productive value increased by 7.5% across England, Wales and Scotland to around £26,400 per hectare. This compares to a rise of just over 60% over the 2021 forest year.

It's important to note there can be huge variances in price dependent on region, quality and size of the forest. Additionally, the forest market is a small sample, perhaps only 60 to 80 properties trading a year, therefore these factors can influence the overall average price considerably.

REGIONALLY

The last year saw significant value growth in North Scotland. While the values remain comparatively low at an average of £16,419 per hectare, these have increased by 51% compared to the previous year, mirroring the increase other regions experienced in the 2021 or earlier forest years.

Across England and Wales provisional figures show reduced supply with around half the number of hectares marketed compared to the same period in 2021. More property has come to the market recently and will sell in the next forest year, but overall 2022 looks like flat or slightly negative value growth across the region. That being said, the few large commercial sales this year have been at good prices. Elsewhere Central and South Scotland continue to show strong growth, and the values in these regions continue to converge. Interestingly, a lack of purchasing opportunities and the larger scale of many Central Scotland properties have led to stronger interest in Argyll, Stirlingshire and Perthshire forests.

Value growth by region

* Provisional net productive value per ha and percentage increase

figure 1

Scale/value comparison

Plots size	2021-2022 change in value
50-100ha	-26%
100-250ha	+13%
250ha+	+32%

figure 3 **Source** Savills Research

Region and quality 2022 averages (provisional £/net productive ha)

Region	Poor	Average	Good
Central Scotland	£22,207	£25,828	£34,609
England & Wales	N/A	£24,762	£52,500
North Scotland	£11,245	£19,869	N/A
South Scotland	£11,922	£19,731	£48,257
Total	**£18,340**	**£23,382**	**£42,257**

figure 2 **Source** Savills Research

QUALITY

Closer analysis of the forests sold illustrates that higher quality parcels continue to receive intense competition with a willingness from investors to be driven by the sentiment that quality assets will always hold value. The premium for quality is clear, with good quality forestry achieving considerably more.

PLOT SIZE

Analysis indicates a widening gap in value dependent on size, with scale pushing values up. Smaller commercial forests have been slower to sell and achieved lower prices during 2022, as they are not typically purchased by institutional investors other than where there is a specific investment reason.

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HISTORIC DRIVERS

The recurring question from many investors is how sustainable the value rises in commercial forestry will be. In order to predict future movements, it is useful to look back on past drivers in value and review subsequent years' performance to understand how the market reacted. Over the past 20 years there have been several external events that have altered the way investors have viewed and behaved towards the forestry market, with individual and cumulative impacts on the market (*figure 4*).

1 2000s inheritance tax relief

During the early 2000s the growth in value in forestry plantations was primarily driven by wealth preservation. Timber prices were, in real terms, just over one quarter of what they are today, meaning investments were less driven by profit and more by the taxation advantages such as 100% relief from inheritance tax. Once it became clear that commercial woodland classified as a "relevant business property", investors rushed to utilise woodland for its tax benefits.

2 2008 financial crisis

Values accelerated during the global financial crisis. The impact of the crisis and economic recession saw interest rates being cut to 0.5% in March 2009, the lowest they had been in the Bank of England's 300-year history.

While timber prices dropped, forestry as an alternative investment became more attractive, as a way of supplementing and diversifying portfolios and a good substitute for cash, the value of which was eroding when not invested. This created a competitive market and prices peaked in 2012 at 100% of 2008 levels.

3 2016–2019 timber prices

Timber price inflation is a key driver for movements in the value of forestry, and between 2016 and 2019 it was particularly influential when coniferous standing sale prices rose by 88%.

The timber market is influenced by supply and demand, and with factors such as Brexit throwing uncertainty on imports, and an increased demand for biomass and sustainable housebuilding, timber prices rose significantly up to 2019, which in turn fed through to plantation forestry values.

While data for mid-2022 timber prices is not available yet, there has been some softening across UK markets in response to storm damage, rising costs and uncertainty over the economy, and especially how this may impact new housing in 2023. This has contributed to the softer forest value market growth in 2022, with timber prices having less of an impact this year.

4 2019–2022 climate change, biodiversity and price correction

The most recent drivers stem from social consciousness and the stark acceptance of a global climate crisis. 2020 and 2021 saw increased pressure on biodiversity outcomes as well as climate change, which compounded the previous forest market drivers by allowing investors to consider the impact sustainable investing could have on their businesses. With Environmental Social and Governance and natural capital objectives attracting new classes of investors, the value of forestry increased further.

WHAT IS NEXT?

Previous influences have led to a peak in values and generally the market then corrects itself and values drop slightly to return to their long-term trend. The average value has increased this year, therefore if the trends of the past are to be taken into account we could see a flattening or slight fall in value next year.

It seems likely that the nature of the forestry market is changing, reaching a price equilibrium more typical of mature commercial markets. Forestry has been seen as an alternative asset class throughout all of the past influences, driving value as new investors were attracted to a limited pool of available property. If the market is now reaching maturity, we could begin to see it responding to supply and demand more readily. Investors would therefore buy on value based on a required yield expectation and should be prepared to accept less speculative performance.

UK commercial forestry values with historic driver indicators

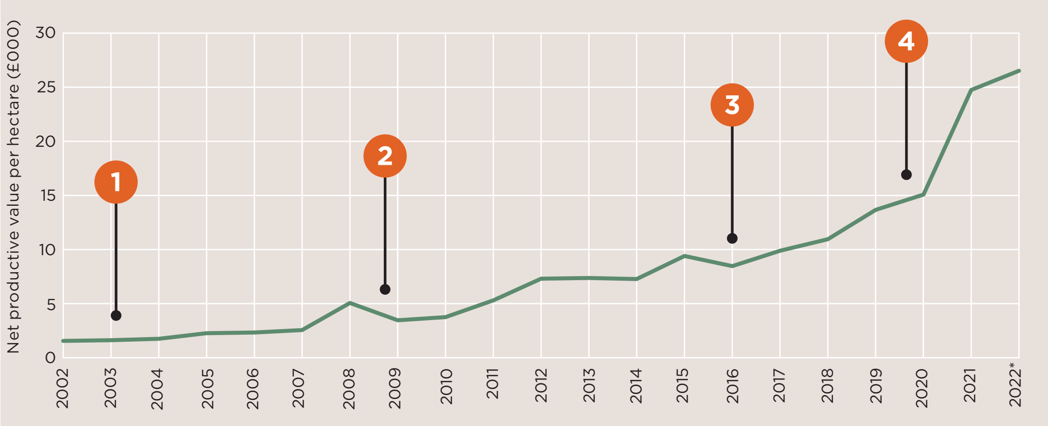

figure 4 *provisional

Source Savills Research

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Analysis methodology:
Our research analyses our transactional database of forest sales. This database collates data from all mainstream forestry transactions over 20 hectares in area, and where we are aware, off-market or private sales. While every effort is taken to ensure all transactions are included within the information presented within this publication, at the time of writing it is very likely that further sales are reported after our publishing.