

UK Rural - April 2024

Q
SPOTLIGHT
Savills Research

The Forestry Market



Forestry investment • Tree planting performance • Mitigating climate risks

£96m

UK forestry investment in the 2023 forest year

7,000

gross area of hectares traded in the 2023 forest year

-46%

less commercial forestry hectares traded in 2023 compared to 2022

In this Spotlight we report on the performance of the UK forestry investment market during the 2023 forest year (1.10.22-30.9.23). We review the targets and incentivisation for tree planting and focus on the impacts, mitigation and risk of climate change on the UK's forests and woodlands.

Forestry investment analysis for 2023

A quieter year for forestry investment, but the demands on trees continue

The demands on woodlands and forests are increasing due to the expectations by government and the public that they provide a solution to climate change, improve biodiversity, produce timber for new homes and contribute positively towards wellbeing.

Furthermore, COP26 (2021 United Nations Climate Change Conference) showed that the focus of future timber production should be on plantation forests. This is a clear justification for investment in productive timber, and in part, has resulted in strong demand leading to rising commercial forestry capital values in recent years. However, the commercial forestry market was less active in 2023 and as a result, for the forest year 2023 we report on fewer transactions. This reduction in activity led to a contraction by volume and value of the market for the first time since 2019 (figure 2). At the time of writing, our analysis suggests an increase in market activity for the 2024 forest year to date, so why the pause during 2023?

It became clear in 2021 that rising inflation would significantly influence investment, with a series of rapid rises not seen since 1990 – the first occurring in December 2021, followed by repeat rises to the peak of 5.25% in August 2023.

This period included the market shock from the mini-budget in September 2022 coinciding with the start of the 2023 forest year, leading to a marked drop in market activity. Q4 2023, which is out of the 2023 forestry reporting year, saw falling inflation and no interest rate rises, facilitating a return of confidence to forestry and other investment classes.

TOP THREE TAKEAWAYS

- 1** The commercial forestry market was less active during the 2023 forest year, however, provisional research suggests an increase in market activity for the 2024 forest year.
- 2** Urgent action is needed if the target of 17-19% forestry cover for the UK is to be met by 2050.
- 3** In a world facing more severe impacts from climate change, proactive woodland management to mitigate impacts can be taken from planting through to harvesting.

Forestry market update

TOTAL MARKET - AREA AND VALUE

Our research on the UK commercial forestry market is based on our database of all forest sales over 50 hectares including, where we are aware, off-market transactions.

2023 follows three years of exceptional growth in forestry transactions, culminating in a record-breaking year in 2022, when just over £300 million of UK forestry transacted. In contrast, the total value of the UK forestry investment market contracted by -68% to just under £96 million during 2023. According to our research, this is the lowest total value of commercial forestry sold since 2016, when the total value traded was £90.5 million.

In line with the lower value of the market, for the third year in a row, the total area of forestry traded fell by -46% to 7,000 hectares in 2023, which is significantly lower than the 10-year average of around 18,000 hectares.

TIME TAKEN TO SELL PUBLICLY MARKETED PROPERTIES

Further analysis of our transactional database illustrates how long it has taken for publicly marketed properties to sell. Figure 4 shows that during 2021 and 2022 when the forestry market was at its busiest, properties sold faster than other years. Although there were fewer properties sold in 2023 there was a higher proportion of properties that took six months or more to sell, compared to 2021 and 2022.

VALUES

Figure 5 illustrates the exceptional growth in average values recorded in the commercial forestry market over the past decade. Between 2014 and 2023 the average gross value increased by a significant 220% to £18,500 per hectare. In contrast, and in line with a quieter market, the average gross value decreased by -8% per hectare during 2023 from around £20,000 per hectare in 2022.

All forests have unproductive areas such as tracks, rivers and lochs, so it is important to consider the value of the net productive area as this influences future timber removals. The average price per net productive hectare dropped by -11% to £25,200 per hectare during 2023. This compares to just over £28,000 in 2022.

The limited sample size makes it hard to draw firm conclusions, however it is clear that those properties that did sell would have most likely achieved higher prices if sold in the preceding year, therefore we can be confident market values fell, rather than simply observing a distortion to average

Comparative asset performance



figure 1

Source Savills Research, MSCI, Macrobond

👉 2023 follows three years of exceptional growth in forestry transactions, culminating in a record-breaking year in 2022, when just over £300 million of UK forestry transacted 🏆

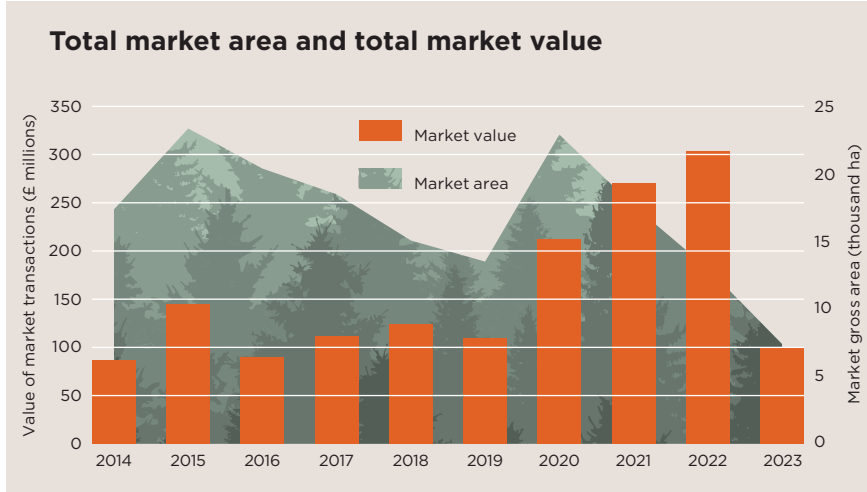


figure 2

Source Savills Research

values based on the actual properties traded. Among the attributes making forestry attractive is the defensive nature of timber as a store of value, so it is quite likely we have simply witnessed a pause rather than a change in the course of direction of the asset class, and we are confident that increased buyer activity and rising timber prices will lead to a reversion in value growth quite quickly. In addition, UK commercial forestry has consistently outperformed other asset classes over the medium to long term (figure 1).

REGIONALLY

In line with the national trend across all regions, fewer hectares sold but the pattern of market share and sales activity across them is broadly similar to recent years, with Central Scotland recording the most hectares sold, closely followed by South Scotland, England and Wales (figure 3).

■ In North Scotland, market activity for commercial forestry was so quiet it is

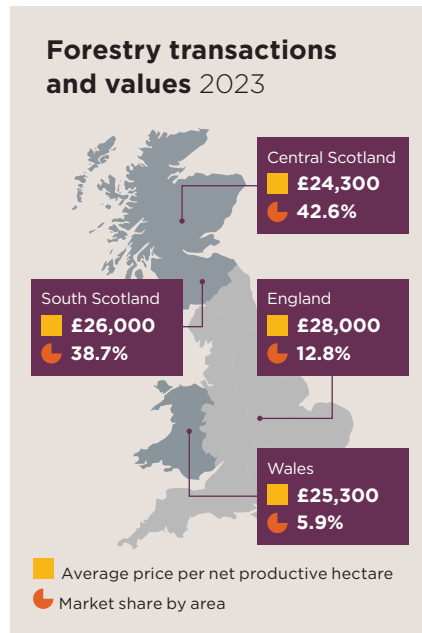


figure 3

Source Savills Research

impractical to analyse and report averages for 2023. However, although forestry values are generally lower in North Scotland, the average price achieved quadrupled between 2014 and 2022.

■ Central Scotland continues to see the strongest market activity and for the third year running recorded the highest number of forest hectares sold across all regions. For the first time since 2016, the annual average value fell to £24,300 per productive hectare.

■ South Scotland recorded -44% less commercial forestry hectares sold in 2023 compared to 2022. This is, in part due to the attractiveness of the region for forest ownership, with fewer properties trading because of the desire to hold assets here. Average productive values fell to around £26,000 per hectare.

■ The number of forest hectares sold across England increased by 84% compared to 2022. However, the market for commercial forestry is small and the average productive value of properties sold was slightly higher than 2022 at just under £28,000 per hectare.

■ There were very few sales of commercial forestry in Wales during 2023, which makes accurate reporting difficult. The area traded was -61% lower than in 2022 and the average price per productive hectare fell to £25,300.

A WORD OF CAUTION

This report principally focuses on average values of commercial forestry transactions, however it is important to note the market is diverse and average values hide regional and local variations. The average value per hectare is influenced by factors such as the location, size, species, age and purpose of the properties sold in each region during each year. As a result, due to the smaller number of properties sold during 2023, caution must be taken when interpreting and comparing this year's average values per hectare.

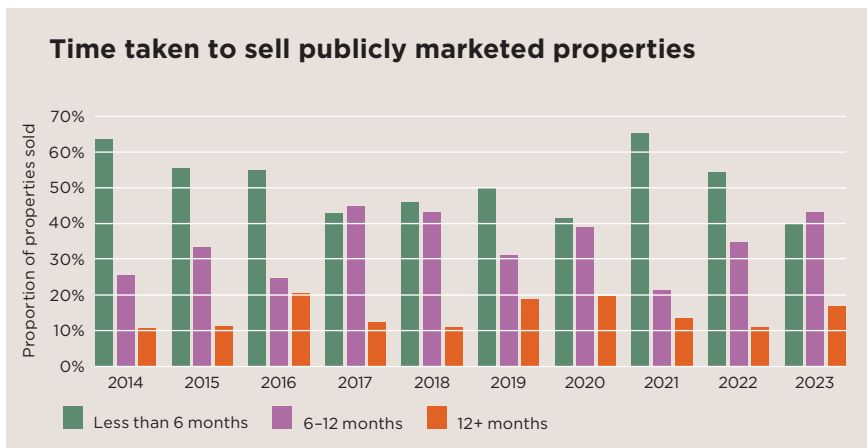


figure 4

Source Savills Research

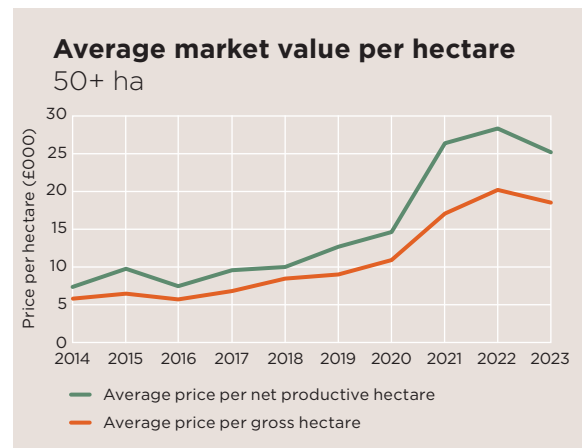


figure 5

Source Savills Research

“ If the target of increasing woodland cover from 13% (2020) to 17-19% by 2050 across all devolved governments is to be met, more needs to be done to increase delivery of new planting schemes ”

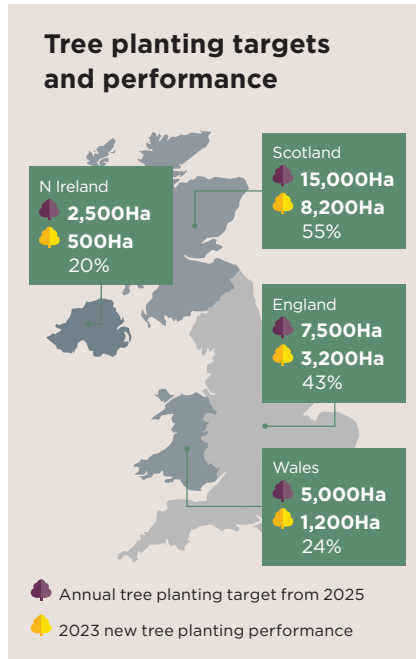


figure 6 Source Forest Research, Savills Research

Planting dynamics

While it is unlikely that UK tree planting targets will be met, there is a renewed appetite for woodland creation

While the achievement of 13,000 hectares of new woodland created in the UK during the 2023 planting year is positive, it is a long way from achieving the UK's ambitious target of planting 30,000 hectares of new woodland annually from 2025 onwards (figure 6).

If the target of increasing woodland cover from 13% (2020) to 17-19% by 2050 across all devolved governments is to be met, more needs to be done to increase delivery of new planting schemes. Indeed, since 2020 the area of the UK covered by woodland has increased by just 0.4%. At this rate of growth it is likely the UK will fall short of this target by 1-3%, only achieving 16% coverage (Forestry Commission Key Performance Indicators reports 2020 to 2023).

TREE PLANTING PERFORMANCE

During 2023, new planting across the UK reached only 43% of the overall target of 30,000 hectares, ranging from 55% in Scotland to 20% and 24% in Northern Ireland and Wales respectively and only 11% in England.

■ **England:** If tree planting for the 2024 planting year follows the same pattern as the previous planting year, provisional planting figures at 30 September 2023 indicate that England is in line to hit 67%

(5,000 hectares) of the 7,500 hectare annual target of new woodland.

However, on 18 March 2024 the Forestry Commission announced a streamlined process for the England Woodland Creation Offer (EWCO), which aims to reduce the processing

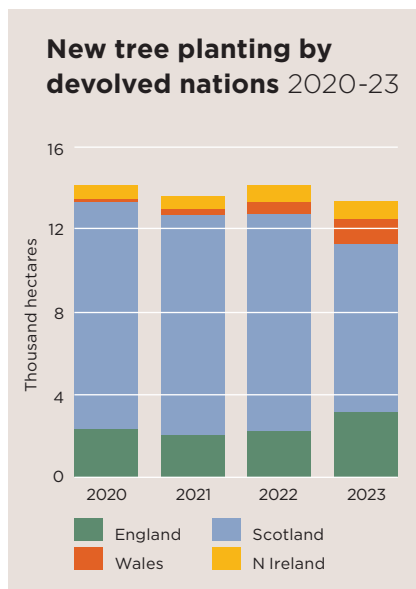


figure 7 Source Forest Research, Savills Research

time of less complex claims to a minimum of 12 weeks and drive planting performance to exceed that achieved in previous years.

The EWCO pays up to £10,200 per hectare for tree planting on land identified as having low sensitivity for tree planting (few or no constraints on land use change, excluding grade 1 and 2 agricultural land and excluding habitats likely to inhibit tree growth). This is in addition to rate uplifts for maintenance payments (from £350-£400 per hectare) and many of the additional contributions (totalling an increase up to £12,700 per hectare from £9,100).

It also introduces a low sensitivity land payment to encourage tree planting in these areas. Where proposed new woodland sites contain a mix of sensitivity for woodland creation, it may be advisable to split the area into multiple parcels for separate applications. This will allow planting to commence in simpler landscapes while more complex negotiations take place for other parcels.

■ **Scotland:** According to Nature Scot, the planting target is 15,000 hectares per annum, however, recent budget announcements by the Scottish government confirm significant budget cuts to the Forestry Grant Scheme, meaning it will only be able to support delivery of 9,000 hectares (60%) of new woodland in the 2024/25 financial year, further reducing to 4,000 hectares (27%) in 2025/26. This leaves the remaining 6,000 hectares per annum (40%, rising to 11,000 hectares, 73% for 2025/26) of planting to meet the net zero by 2045 target to be postponed pending further review, or be funded through private schemes such as the woodland carbon code, or third party investment.

■ **Wales:** The Welsh government's policy on tree planting is currently meeting a great deal of resistance from farmers and landowners. The policy of setting aside 10% of all agricultural land for tree cover, including, new planting where required, has been widely criticised as being unrealistic. There are concerns that it is in direct contrast to the recent announcements by the Forestry Commission as it does not target planting trees in areas most appropriate for land use and tree survival.

While most land in Wales is unsuitable for arable food production it is suitable for growing grass and raising high quality beef and lamb. There is a risk that a preference for planting large areas of new woodland, i.e. taking out whole fields for planting poses a risk to the viability of livestock operations, whereas a focus on planting shelterbelts, hedgerows and in-field trees would not only benefit wildlife but also livestock enterprises.

12,960

hectares of new woodland planted in 2023 (UK)

43%

of the 30,000 hectares new planting target from 2025, planted in 2023

£25.36

per tonne CO₂e (average, with spread of £37.50, 2023 part year)

Grant funding available for woodland creation

Funding Scheme	Payment rate per hectare (where known)	Funding source	England	Scotland	Wales
Woodland Creation Planning Grant	£150	Public	✓		
England Woodland Creation Offer	Up to £10,200 plus Maintenance payments £400 Additional payments up to £12,700	Public	✓		
Sustainable Farming Incentive (SFI)	£127 to £849	Public	✓		
HS2 Woodland Fund		Public	✓		
Forestry England Woodland Partnership		Public	✓		
Forestry Grant Scheme	Up to £6,210	Public		✓	
Small grants woodland creation scheme	£3,302 to £6,170	Public			✓
Woodland creation planning scheme	£1,000 to £5,000	Public			✓
Woodland creation grant scheme	£1,600 to £6,170	Public			✓
Tiny forests in Wales		Lottery			✓
Morewoods (Woodland Trust)		Private	✓	✓	✓
Woodland investment grant		Lottery			✓
Woodland Carbon Code		Private	✓	✓	✓
Network Rail Community Tree Planting Fund (The Tree Council)		Private	✓	✓	✓

figure 8

Source Savills Research and various data sources

CARBON UPDATE

THE WOODLAND CARBON CODE

The Woodland Carbon Code (WCC) provides a route to market for generating validated carbon units from new planting projects in the UK. These units can then be sold either through the open market, and in England via the Woodland Carbon Guarantee (WCG) – the government-backed purchase scheme that can help to plan cashflow and reduce volatility. The UK Land Carbon Registry, which holds details of all WCC projects, has over 2,000 projects registered on over 79,000 hectares of UK land that are projected to sequester 26 million tonnes of tCO₂e (tonnes of carbon dioxide equivalent, 31 December 2023). This is an increase of 121 projects covering 8,779 hectares and sequestering a further 3.05 million tCO₂e since 31 March 2023.

BARRIERS TO PLANTING

While the WCC provides a route for proving validated carbon units

from tree planting, the test for a scheme to qualify for registration with the code largely excludes commercial woodland, or any business model that would generate an income from the new woodland scheme that is greater than the income achievable from the defined alternative land use (agriculture). With increased market volatility and

rising prices across all sectors, developing projects with diverse income streams is becoming more attractive to protect financial viability.

Does this test, using financial performance to determine additionality, create a risk that tree-planting within higher income projects will either not be registered for carbon units at all, or not be

registered through a UK validation scheme, and therefore limit the ability of the UK to achieve its net zero targets? While this is not necessarily a barrier to planting in itself, it may be a contributing factor within woodland creation decision-making.

LAND: VALUE, CHANGE OF USE AND PLANNING

With increased interest in regenerative agriculture, rewilding and lifestyle farming, demand for land that is also suitable for tree planting has risen.

According to our research, this in turn has driven an increase in average farmland values across Great Britain (figure 9). Combined with the costs involved in creating new woodland such as surveying and consultations, woodland design, planting and management – some of which can be offset through funding – it provides an additional obstacle if you do not already own the land on which you plan to plant your trees.

Average values GB	December 2023 £/Ha	Change Dec 2022 to Dec 2023	Change Dec 2021 to Dec 2022	Change Dec 2013 to Dec 2023
Poorer pasture	£13,800	10.9%	12.4%	39.6%
Grade 3 pasture	£17,600	10.8%	8.3%	36.4%
Poorer arable	£18,000	2.7%	6.1%	19.5%
Grade 3 arable	£21,400	1.9%	8.7%	16.4%

figure 9

Source Savills Research

70

The number of named storms since 2015

11

The total number of storms in the 2023/24 season so far

122mph

Storm Eunice led to the fastest ever gust recorded in England

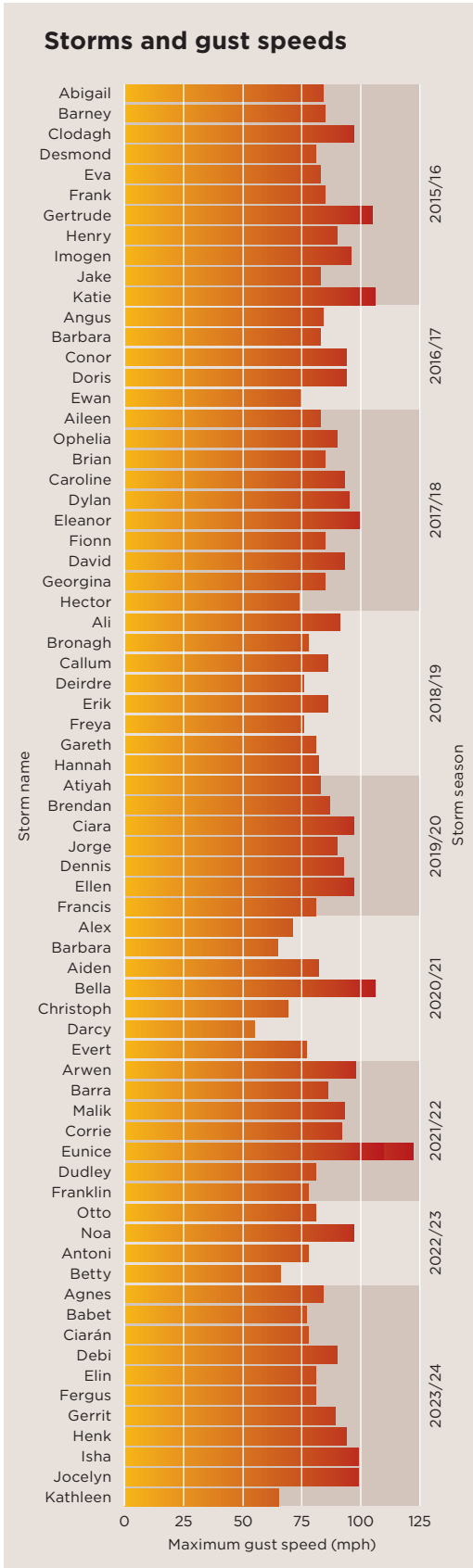


figure 10 Source Met Office

A storm is coming

The effects of climate change mean landowners need to start adapting to its inevitable consequences

At COP21 in 2015, world leaders agreed to substantially reduce global greenhouse gas emissions and pursue efforts to limit temperature increase to 1.5°C above pre-industrial levels. This accord came to be known as the Paris Agreement. February 2023 to January 2024 reached 1.52°C of warming; that's the first time global warming has exceeded 1.5°C across an entire year. This does not break the Paris Agreement, but it is a step closer to doing so in the long term.

With global emissions still growing, climate change and its effects seem inevitable. What does that mean for forestry? Summers will be drier, winters will be wetter, and both will be warmer with an increase in extreme events, including storms. While warmer weather means longer growing seasons and potentially greater yields, storms have already shown their capacity to cause extensive damage and wildfires have destroyed large swathes of woodland over the last five years, especially in North America, Australia and warmer parts of Europe. The seeming inevitability of climate change means landowners should be adapting to the equally inevitable consequences.

FREQUENCY

There have been 70 named storms in the UK since 2015. During this time, the joint highest annual number recorded was 11 in the 2015/16 storm season. Five storms followed during the 2016/17 season. The lowest number of named storms was four, recorded in 2022/23 and this was followed by 11 (the joint highest) during 2023/24. If there is another storm before the

end of August 2024, it will be a record-breaking year. This pattern clearly illustrates the volatility and is mapped out in figure 10.

POWER

Volatility and unpredictability continue when considering the maximum gust speed of storms across a season. Eunice stands out as the most powerful. A gust of wind registered 122 mph over the Isle of Wight, the fastest gust ever recorded in England. The following storm season, gust speeds did not exceed 100 mph except at mountain summit stations.

Some of the most costly storm events come in clusters. Dudley, Eunice and Franklin were all named within less than a week of each other and cost insurers an estimated half a billion pounds. In February 2020, storms Ciara and Dennis followed by Jorge hit the UK and brought widespread flooding. Before Storm Kathleen, there was never more than 27 days between the naming of storms in the 2023/24 season. As if to reinforce the message of unpredictability, Storm Babet caused a similar amount of cost, but stood weeks apart from other storms in the 2023/24 season.

Storm Arwen does not necessarily stand out in figure 10, but was nonetheless one of the most destructive storms in recent memory as it approached from the north east, rather than the south west as is usual. This meant trees were battered from a different angle and their pre-existing resistance to strong winds were rendered less effective. Climate change and its effect on the jet stream could well see unusual approaches become more common.

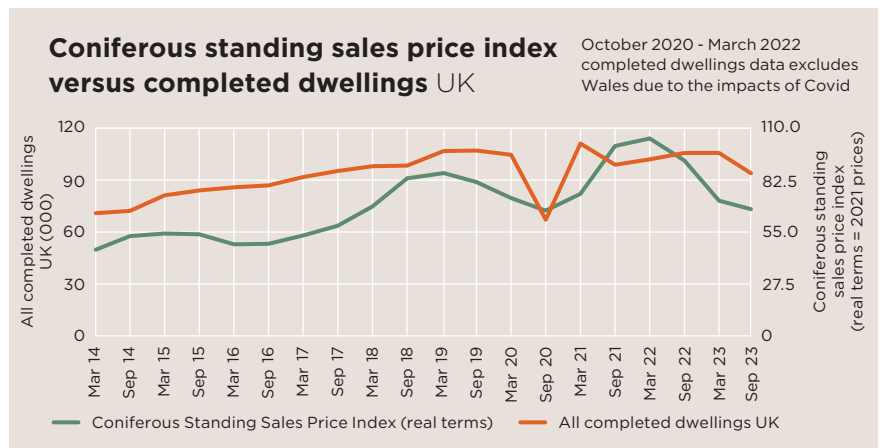


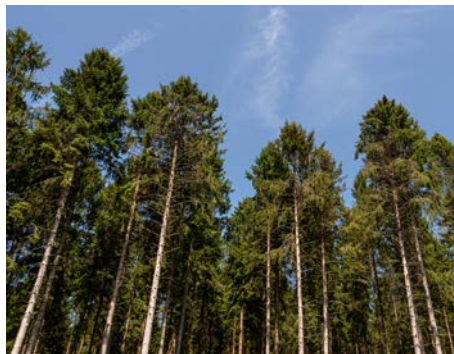
figure 11 Source Forest Research, ONS

“The priority after a storm must be safety, both of anyone working on the site and any potential visitors. Once a site has been made safe, work can begin to minimise financial losses from any felled timber”

ARE TREES WEAKER?

Climate change means growing seasons can be as much as three weeks longer, which means annual tree growth can be greater. However, it could also mean weaker, less resilient trees too. In North America and Europe, trees have grown between 32% and 77% faster since 1870, according to a 2014 study published in *Nature Communications*. At the same time, a study by the Technical University of Munich found as the growth rate increased, the density of the wood dropped by 8-12%.

This has a range of impacts. First, the reduced density of open grained wood reduces the volume of carbon absorbed and can reduce the strength and lifespan of the tree, though this is highly dependent on the species. Climate change seems to be compromising some of the most sought-after benefits of timber, from its inherent quality to its ability to absorb carbon dioxide and aid in combatting climate change. Second, the lighter wood is also less dense and has a lower calorific value, impacting its performance in applications such as construction and energy production. Third, the weaker wood, especially when coupled with rapid vertical growth, also increases the risk of damage due to weather events.



TIMBER MARKET UPDATE

The Coniferous Standing Sales Price Index for Great Britain was -28.1% lower in real terms in the year to September 2023, compared with the previous year (*figure 11*). The Index has fallen since peaking in March 2022, albeit this latest decrease demonstrates a slower rate of decline.

Inflation and consequent rises in interest rates have contributed to this downward pressure. According to NHDB Residential Construction Statistics, housing starts in England were down -19% from 2022-2023 and -22% in Scotland during the same period.

However, over the long term, demand for timber looks strong. The FAO forecasts it to triple by 2050, with increasing demand from a rising global population combined with increasing demand for sustainable building products.



Mitigating risk through woodland management

Facing a storm is inevitable, however, throughout the lifetime of a forest, measures can be taken to mitigate the risk of storm damage losses.

GROUND PREPARATION

Correct ground preparation aids tree establishment, which provides resilience during a storm. This can include dealing with harvesting residues, weed control and drainage promotion. The benefits of ground preparation should also be balanced with the amount of site disturbance. Cultivation is undertaken to aid establishment, but also improve rooting depth and therefore help promote stability. Benefits are not limited to risk mitigation however, cultivation can improve site discipline and so benefit future thinning. Ground preparation can improve soil temperature regulation, moisture availability and aeration.

PLANTING

Trees that form an abrupt edge of a forest will be subjected to severe wind. Though at risk, they also act as a solid body, channelling the wind upwards. As this airflow returns to the ground, there will be a further zone of increased risk and it is here where damage often appears to be initiated in storm events.

Graded edges can be made through tapering, where the height of trees increases from the forest edge. Even a narrow tapered strip, equivalent to half of the tree's height in width, can be effective. While tapered edges can be created later in the forest's life by topping edge trees, this increases the chances of tree mortality and is not recommended. Instead, the practice should be initiated early in the life of the forest.

Additionally, graduated density can further enhance wind protection at the edge of a wooded area and should be established early on. Graduated edges see the density of planting increase from the forest edge and can be achieved by planting or respacing the edge trees to wider spacing. However, avoid modifying spacing when the forest nears maturity as the respaced trees will not be adapted to increased wind exposure.

Combining graduated density with a tapered tree height more closely resembles natural forest growth and improves resilience to wind loading.

MANAGEMENT

A hazard assessment will determine which forest areas are most at risk of storm damage. Ongoing management of the forest

will be determined by the risks identified. In high-risk areas, for example, thinning should be avoided and rotations shortened. Wind risk increases immediately following stand thinning, as the wider spacing exposes trees to higher wind speeds, which the trees are not adapted to resist. Particular attention should be taken to stand height and to not over-extend rotations in exposed areas.

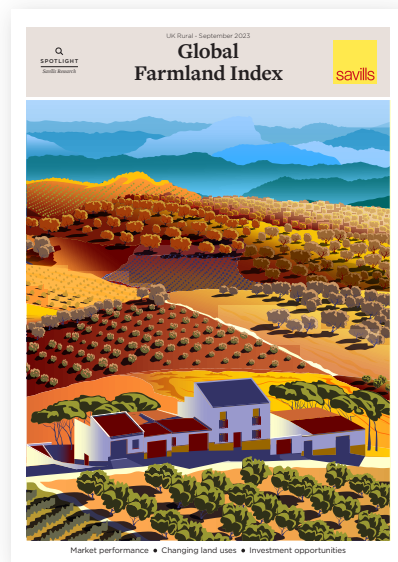
This is not to say that continuous cover forestry (CCF) is not an option. Following thinning, trees adjust to the new wind regime and within a few years can improve on their initial stability. Where wind risk is low, CCF can bring alternative benefits too, such as a more regular income from thinning and enhanced biodiversity. While wind is an increasing concern, management must maintain a broad, all-encompassing perspective.

AFTER A STORM

The priority after a storm must be safety, both of workers on the site and visitors. Once a site has been made safe, work can begin to minimise financial losses from any felled timber.

Maintaining robust inventory data allows the most at-risk trees to be addressed first. For example, timber from pine and snapped trees degrades quicker and should be prioritised over trees that are still attached to a root plate as these are unlikely to degrade for months.

Once cut, trees will degrade more quickly so it is essential to have a buyer in place. In the meantime, a Felling Licence or a Felling Permission in Scotland will need to be obtained. Also, ensure access to the woodland is safe and sufficient for loading and transporting timber. Once harvested, restocking can occur, taking good design into account to minimise the chances of further wind damage in the future.



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Analysis methodology: Forest sales database: Our research on forest sales analyses our transactional database of all mainstream forestry transactions over 50 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, it is very likely that further sales are reported after our publishing. Therefore, this Spotlight on the UK Forestry Market takes into account all new available information. Advertised forest property database: Our research on the supply of forest properties analyses data from our advertised forest property database. This database collates data from publicly marketed forest properties across the UK, and utilises asking prices in place of sold prices.

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