

THE FOREST MARKET REVIEW 2022

GREAT BRITAIN

PUBLISHED MARCH 2023

SOLD:
Monachlye Wood
Offers Over £6,250,000

MARKET AT A GLANCE

Supply



59 forests were sold in Great Britain during the 2022 calendar year, which is more than during 2021 but slightly below the five-year average.



Just over 10,000 hectares were traded, which is 40% higher than in 2021 but just below the five-year average.



More than 95% of the commercial forest land sold during 2022 was in Scotland.

Demand



Activity levels remain high. 56% of forests sold within six months of being marketed, slightly below the five-year average, but still a sign of the continuing strong demand for forestry as an asset class.



The majority of forests sold for above their asking price. The cumulative asking price of all the forests sold was £190 million (m), but they sold for £219m.



The average selling price was 118% of the asking price, which is below 2021's 138% and the five-year average of 127%. However, this may be a reflection of asking prices being at record levels in 2022 (see pricing).

Pricing



Due to the small number of sales each year, average prices can be affected by changes in the type of forests that were available. This means caution needs to be applied when comparing figures year-on-year.

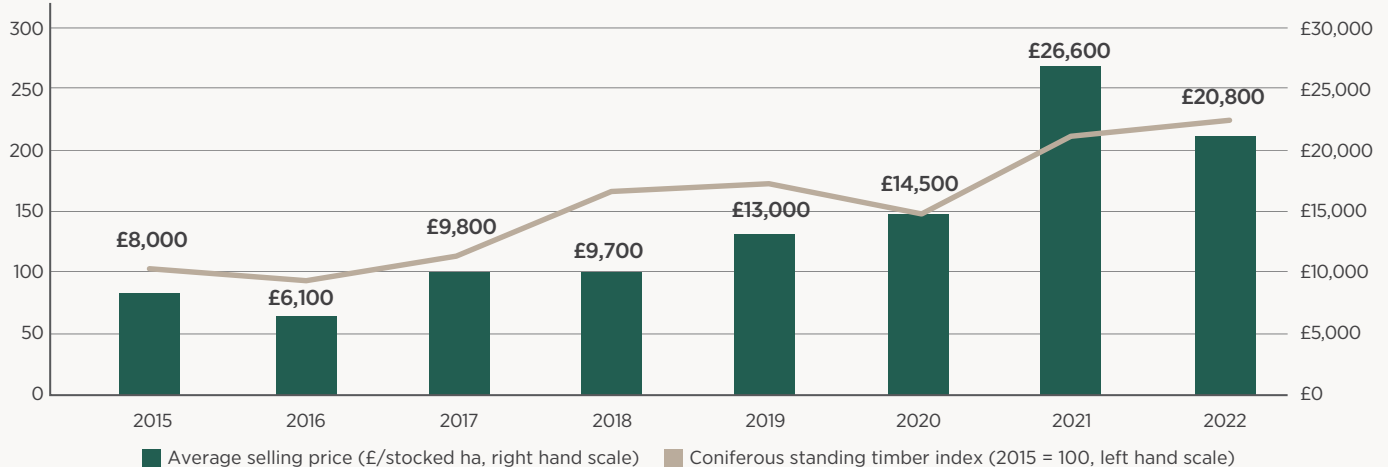


The average asking price/hectare was over £15,000 for the first time on record, and over £18,500/stocked hectare.



Forests sold for an average of £20,800/stocked hectare in Great Britain in 2022. This is 22% lower than in 2021. There is some evidence that fewer forests are selling for over £20,000/stocked hectare and more selling for below £15,000/stocked hectare.

Figure 1 Average selling price of commercial forests per stocked hectare in Great Britain and Forestry Commission coniferous standing timber index



MARKET OVERVIEW

Forestry investment market hits record high, but global factors begin to bite.

The total value of the forestry investment market in Great Britain hit a new record in 2022, although the average price per stocked hectare fell back on 2021 levels with more cautious pricing becoming prevalent as the year progressed.

Our analysis of commercial forestry shows that £219 million worth of plantations traded in the 2022 calendar year, compared with £199 million in 2021. Scotland took its normal place as the principal area of activity with well over 90% of all sales taking place north of Hadrian's Wall.

However, there are signs that significant global events have started to introduce a little more caution into the marketplace than in recent years. Average prices were down on the previous year, although it is important to note that 2021 was a particularly extraordinary year for the sector when supply was tight and a small number of exceptional properties sold for very high values pushing average prices up by 83%. This means that while a 22% drop in average prices in 2022 sounds dramatic, it will to some extent be a quirk of the data.

Our feeling is that overall the forestry market remains strong – against the backdrop of the long-term trend of rising values – although investors are becoming more circumspect.

There are a range of factors behind this shift in market sentiment and their impacts are still to be fully understood. The world became a very different place a little over a year ago following the Russian invasion of Ukraine. Energy prices rose sharply, impacting on the cost of felling and transporting bulky timber, but also increasing demand for wood for energy. Timber supply has also been impacted by sanctions following the Russian invasion and the effects of COVID are still rippling through the global economy.

For the first time in nearly a generation, interest rates have shot up (although not to historically high levels) and we are faced with significant inflation. There is an interesting tension between these two features. When interest rates were low, those with capital were happy to invest in forestry with very low forecasted internal rates of

return. Logically, as interest rates rise, so should investors' test rates, leading to an associated fall in capital values. However, many see forestry as a long-term hedge against inflation and, while interest rates have risen, they are still negative in real terms. Therefore, an asset that might beat inflation becomes relatively more attractive.

The 2022 market continued to see examples of very high prices being paid for large, young, second rotation woodlands. Such sales were characterised by very high growth rates, good infrastructure and easy access to markets. In contrast, falling timber prices resulted in a drop in prices for less attractive, more mature woods where timber sales were imminent. There are plenty of investors with money to spend on woodland, but it has to be on the right product.

Interest in carbon sequestration and biodiversity gain continues to drive wider interest in the forestry sector, but very few of the commercial woodlands traded in 2022 had a carbon angle, and wider biodiversity is yet to be monetised.

There is some evidence that commercial planting land prices have fallen quite significantly in the past six months. However, the data is limited and so it is not yet clear as where the market has settled. This probably reflects changes to the rules on eligibility for carbon credits for commercial forestry schemes, higher interest rates and the challenges of securing permission to plant. Commercial conifer schemes are now effectively excluded from eligibility for the Woodland Carbon Code and if investors were assuming say 200 tonnes CO₂/ha at £15/t, that alone knocks values back by £3,000/ha from a high typically in the region of £15,000/ha.

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SOLD:
West Tullyfergus Wood & Land
Offers Over £1,750,000

MARKET OUTLOOK

2022 showed us how quickly market confidence, economic drivers such as interest rates and consequently asset prices can all change, but our outlook is one of cautious optimism.

We continue to see an intrinsic link between timber prices and plantation values, and demand for good quality existing plantations remains as strong as ever.

It is anticipated that timber prices will rise slightly in 2023, supporting the returns that plantations can generate from timber sales and bolstering confidence in plantations as an asset class.

There is an abundance of buyers looking for commercial plantations, in a market lacking supply. Our experience with buyers and sellers makes us believe that this trend will continue and we expect this will lead to competitive prices being paid.

Meanwhile, the natural capital/carbon market remains strong with a variety of buyers looking at native woodland and peat restoration

as a means of delivering carbon credits. A number of extensive sporting estates have been bought by charities looking at a range of environmental activities, but underpinned by carbon sequestration as the key metric. These projects alone will lead to many thousands of hectares of new native woodland creation.

In summary, there is more caution in the market than for many years. Lower timber prices, higher interest rates and inflation all mean buyers are being more selective. However, there is still a lot of capital interested in forestry investment and activity levels remain high. Wider market and political uncertainty persist and, as ever, landowners and investors would be prudent to take advice in order to capitalise on the opportunities that undoubtedly exist in the current market.

If you are contemplating either a sale or a purchase of forestry in 2023, please contact us for a confidential discussion.



ABOUT THIS REPORT

Please see the back page for the methodology used to compile this report.

Every year a different population of forests are sold and, given the wide range of forest types and relatively small number of sales, caution should be taken in comparing data from year-to-year and it should be considered as indicative only.

The 2022 population of forests sold were of a similar age to those in 2021 (33 v 31 average age), had a similar yield class (18.1 v 18.3) and were of a similar average size (179 v 156 stocked hectares, although there were fewer large forests for sale in 2022).

One of the main differences between the two years is that 2021 had a larger number of sales at very high prices, of over £30,000/stocked hectare and with some well over £40,000/stocked hectare. In 2022 there were fewer of these ‘exceptional’ forests that sold for exceptional prices, which in part explains the reduction in the average price for the year. Our valuers’ view is that if the forests that were sold in 2021 were resold now, they would not sell for less.

SUPPLY

Amount of stocked or plantable commercial forest land sold

Just over 10,000 hectares were sold in 2022, 40% more than in 2021 but just below the five-year average. The vast majority was in Scotland. This includes private or off-market sales that we are aware of.

Figure 2 Amount of commercial forest land sold (hectares)

	Scotland	England	Wales	Great Britain
2018	9,300	2,000	400	11,700
2019	9,400	500	1,300	11,200
2020	10,400	700	2,500	13,600
2021	5,900	200	1,500	7,500
2022	10,100	300	100	10,500
Five-year ave	9,020	740	1,160	10,900
2022 % diff from ave	12%	-59%	-91%	-4%

Figure 3 Amount of commercial forest land sold in Great Britain (hectares)

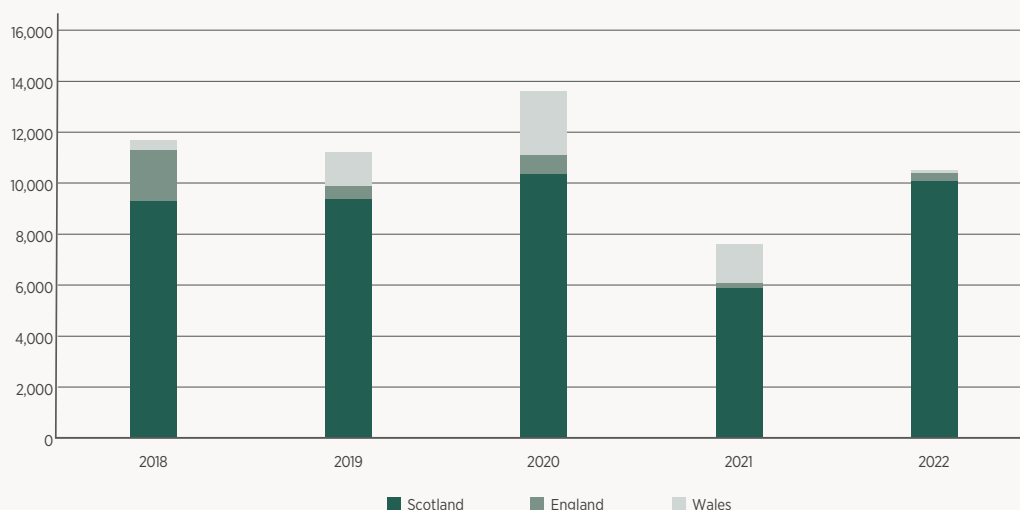


Figure 4 Number of commercial forests sold

	Scotland	England	Wales	Great Britain
2018	50	18	6	74
2019	49	9	17	75
2020	42	8	16	66
2021	34	5	9	48
2022	50	6	3	59
Five-year ave	45	9	10	64
2022 % diff from ave	11%	-35%	-71%	-8%

Number of commercial forests sold

59 forests sold in 2022. This is more than in 2021 but below recent levels.

Figure 5 Number of commercial forests sold in Great Britain

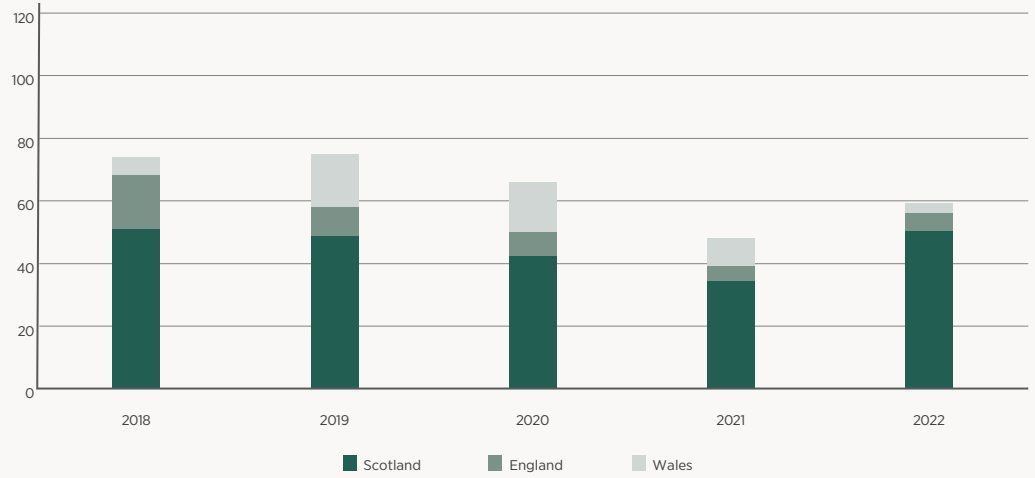
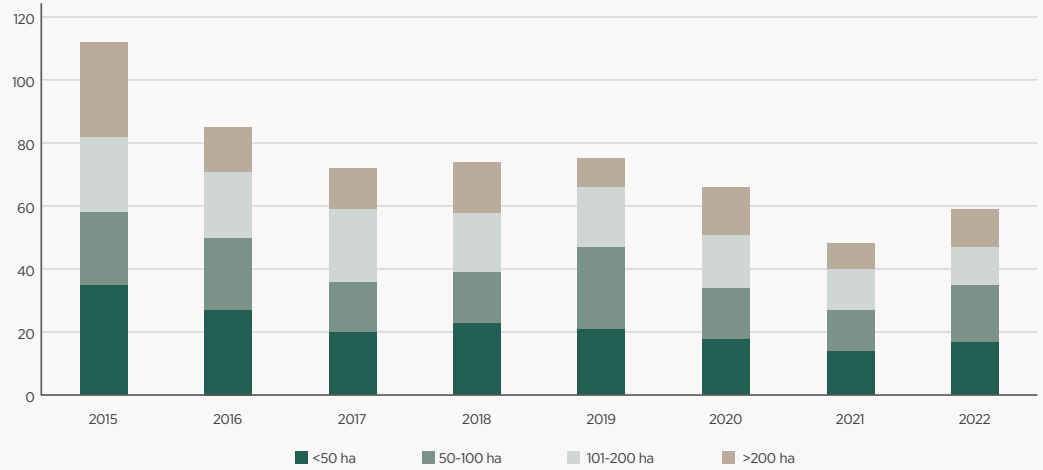


Figure 6 Number of commercial forests sold in Great Britain by size band



Total price of commercial forests sold

The asking price of the forests sold in 2022 totalled £190m, the most in our database, with the majority in Scotland. In England and Wales, there were few forests for sale and they tended to be smaller.

The forests sold for £219m, again the highest amount in our database, and a reflection of the high(er) prices per hectare being paid. There was at least the same amount of capital available to invest in forestry that could not buy/be placed during the year.

Figure 7 Total selling price of commercial forests sold

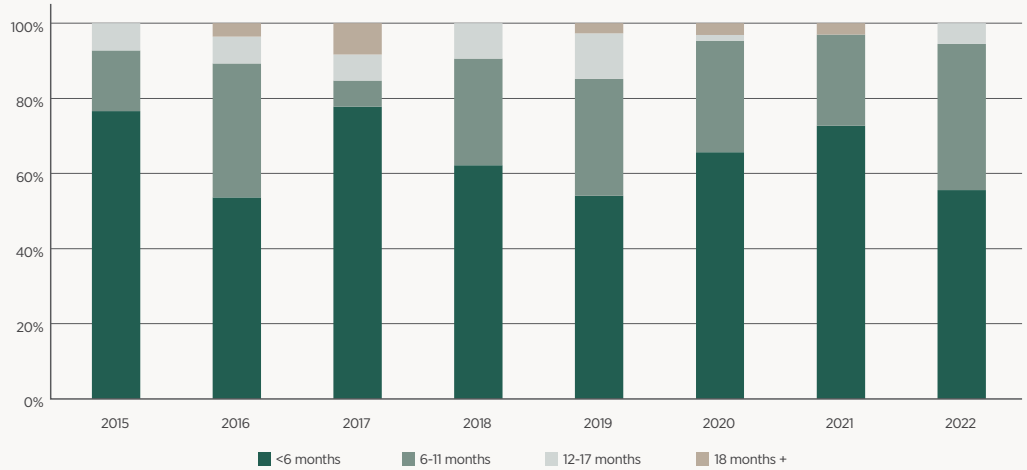
	Scotland	England	Wales	Great Britain
2018	£79m	£31m	£4m	£113m
2019	£121m	£6m	£18m	£146m
2020	£136m	£13m	£49m	£198m
2021	£153m	£4m	£42m	£199m
2022	£213m	£5m	£1m	£219m
Five-year ave	£140m	£12m	£23m	£175m
2022 % diff from ave	51%	-55%	-95%	25%

DEMAND

Speed of transactions

56% of the forests sold within six months of being marketed, slightly below the five-year average, but still a sign of the continuing strong demand for forestry as an asset class.

Figure 8 % of commercial forests sold in Great Britain, by time from date on market to date of sale



Sold price as a % of asking price

Most forests (77%) sold for above their asking price, slightly above the five-year average of 72%, and another indication of strong demand.

However, there was some evidence of a potential weakening in demand as the average selling price was 118% of the asking price, which is below 2021's 138% and the five-year average of 127%. We will monitor this as it may be a reflection of asking prices being at record levels in 2022 (see pricing section).

Figure 9 % of forests sold below, at or over asking price in Great Britain

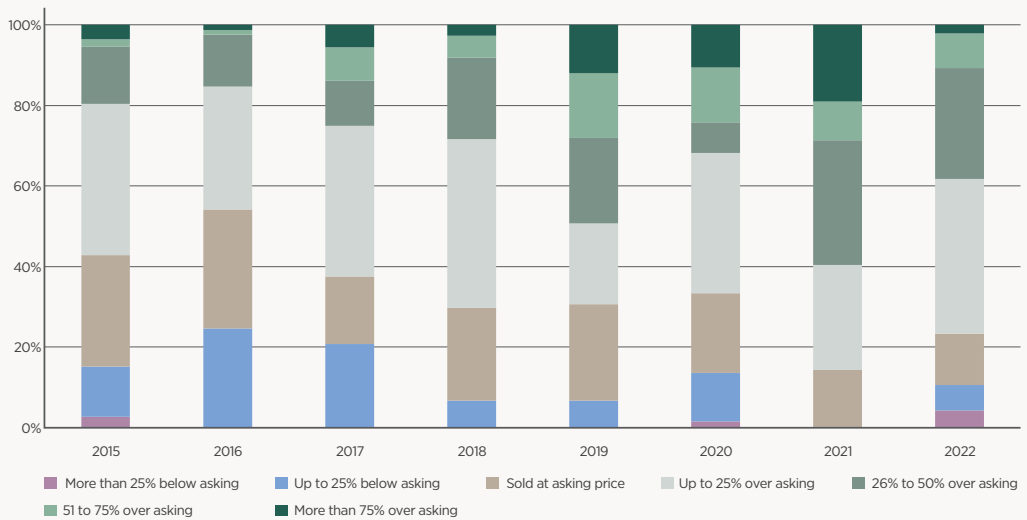


Figure 10 Selling price as % of asking price

	Scotland	England	Wales	Great Britain
2018	120%	117%	111%	118%
2019	142%	120%	109%	132%
2020	138%	114%	104%	127%
2021	138%	110%	153%	138%
2022	119%	112%	116%	118%

PRICING

Average prices can be affected by changes in the age, size and type of trees/forests between years due to the small number of sales. We therefore suggest that they are considered along with the data on the proportion of forests sold in each price band (see Figure 12).

The average asking price broke the £15,000/hectare level for the first time on record and was over £18,500/stocked hectare.

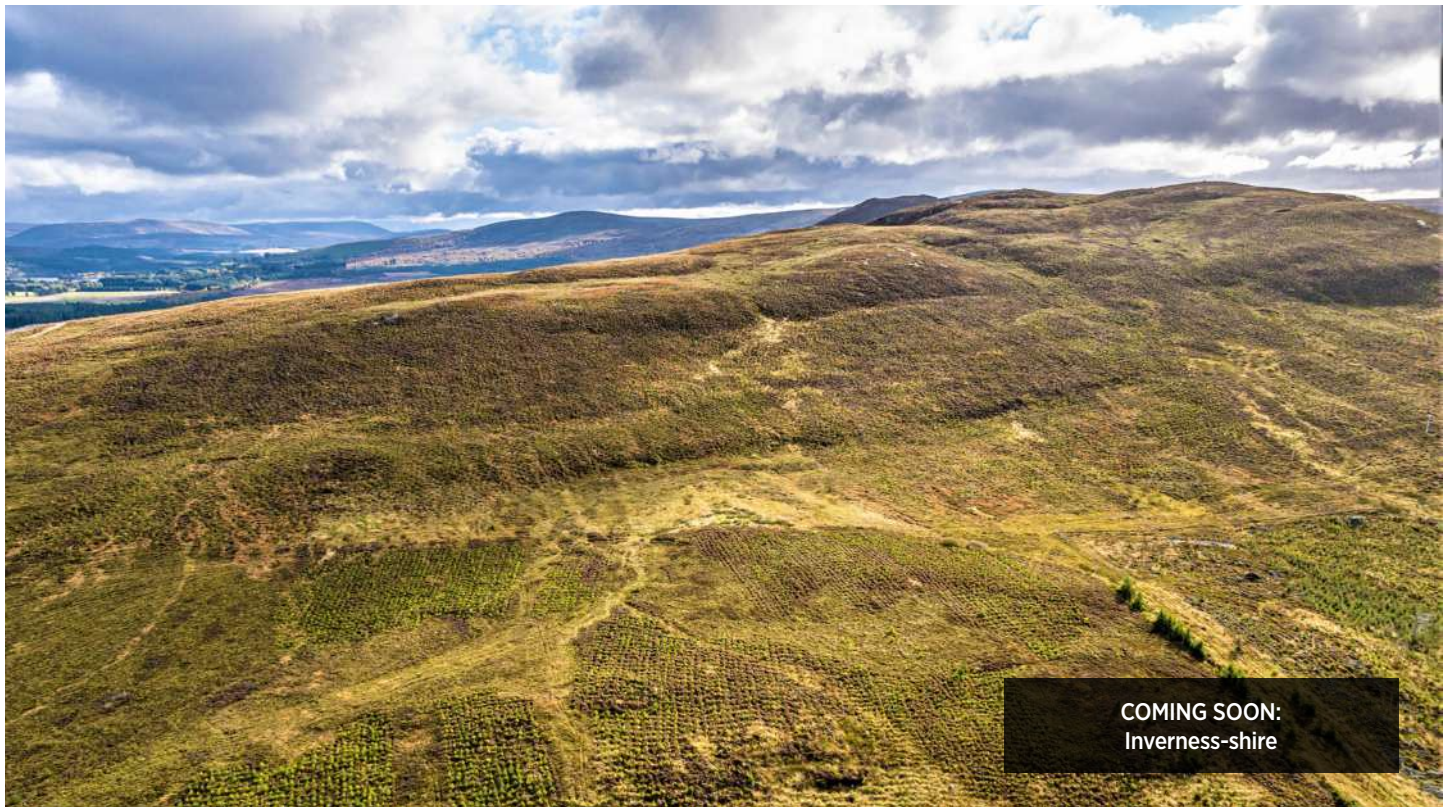
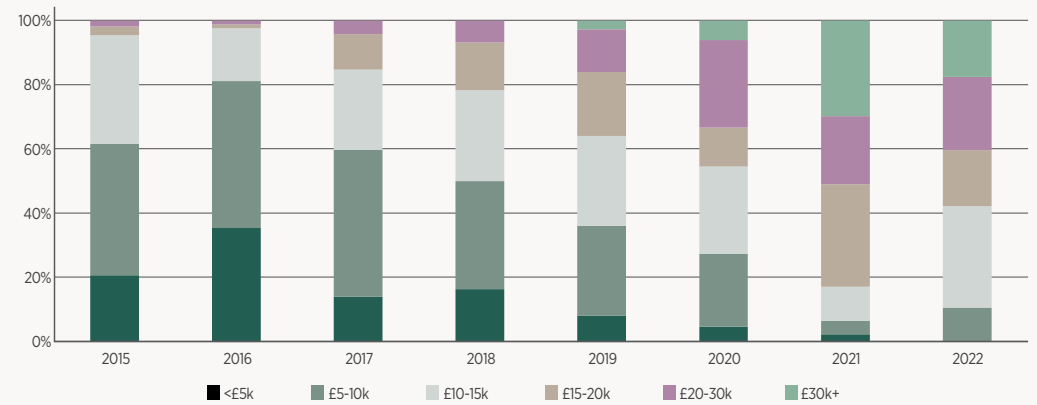
As previously stated, the majority of forests sold for above their asking price and the average selling price was £20,800/stocked hectare in Great Britain. This is 22% lower than the average for 2021.

Fewer forests sold for over £20,000/stocked hectare (40% in 2022 compared with 51% in 2021) and more sold for below £15,000/stocked hectare (42% compared with 17%).

Figure 11 Average selling price of commercial forests per stocked hectare

	Scotland		England		Wales		Great Britain	
	Average	Annual % change	Average	Annual % change	Average	Annual % change	Average	Annual % change
2018	£8,500	-2%	£15,100	-2%	£10,000	2%	£9,700	-2%
2019	£12,900	51%	£12,100	-20%	£13,800	39%	£13,000	34%
2020	£13,100	2%	£17,700	46%	£19,400	40%	£14,500	12%
2021	£26,100	100%	£22,600	28%	£28,700	48%	£26,600	83%
2022	£21,000	-20%	£19,800	-13%	n/a	n/a	£20,800	-22%

Figure 12 Selling price of commercial forests per stocked hectare by price band in Great Britain



**COMING SOON:
Inverness-shire**

The fall in the average price is at least in part due to the difference in population of forests for sale.

In 2021, the young (21-30 years old) second rotation forests for sale sold for an average of £35,200/stocked hectare, much more than similarly aged forests in 2022. However, our valuers' view is that if the forests sold in 2021 were resold now, they would not sell for less. The difference in average selling prices between 2021 and 2022 is due to quality and location, not a fundamental change in price.

Figure 13 Average selling price of commercial forests per stocked hectare by age band in Great Britain

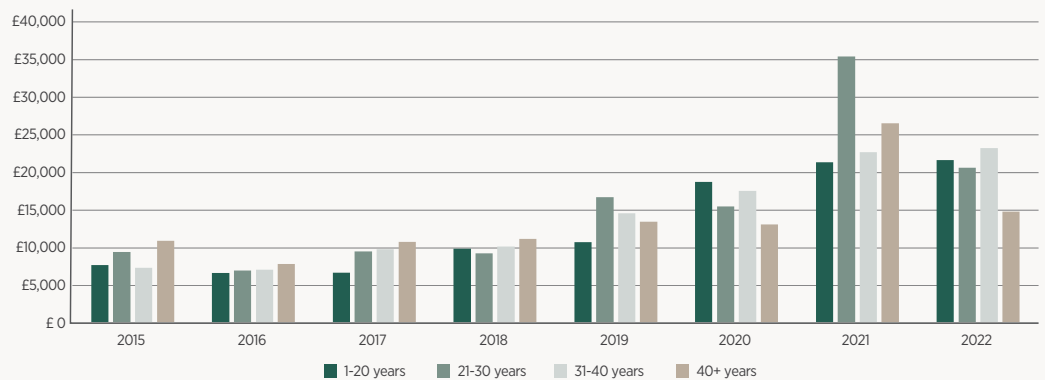
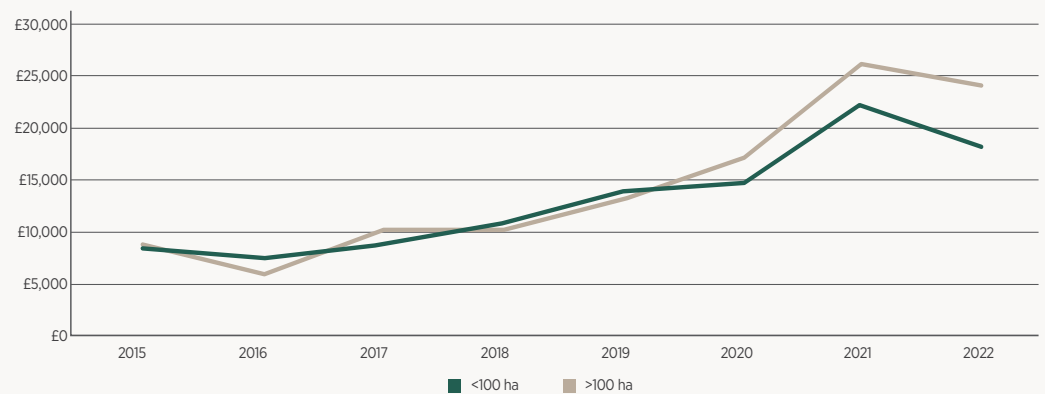


Figure 14 Average selling price of commercial forests per stocked hectare by forest size in Great Britain



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Methodology

All data in this market report is from John Clegg & Co and Strutt & Parker's Forestry Database of privately and publicly marketed forests in Great Britain. It records selling prices (i.e. what the forest exchanged contracts for) as well as asking prices, and so is a more accurate reflection of actual market conditions as asking prices can overstate or understate the prices that buyers are willing to pay. Once a forest is exchanged, we have assumed it is sold, following HMRC custom.

This report is based on data on completed sales of commercial forestry properties, so predominantly conifer, of 20 hectares or more in Great Britain. The data includes forests that were publicly marketed and also the privately marketed ones we are aware of. Stocked area includes all land carrying a tree crop and felled areas capable of growing trees. Year refers to the calendar year in which the forests sold. The area of forests sold is rounded to the nearest 100 hectares. Total asking and sold prices are rounded to the nearest £1m. Data on selling price as % of asking price is calculated by number of sales, not area. Average selling price per stocked hectare is based on simple averages of the total selling price of all forests divided by total stocked hectares sold and rounded to the nearest £100.

Every year a different population of forests are sold and, given the wide range of forest types and relatively small number of sales, caution should be taken in comparing data from year-to-year and it should be considered as indicative only.

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