Tustins
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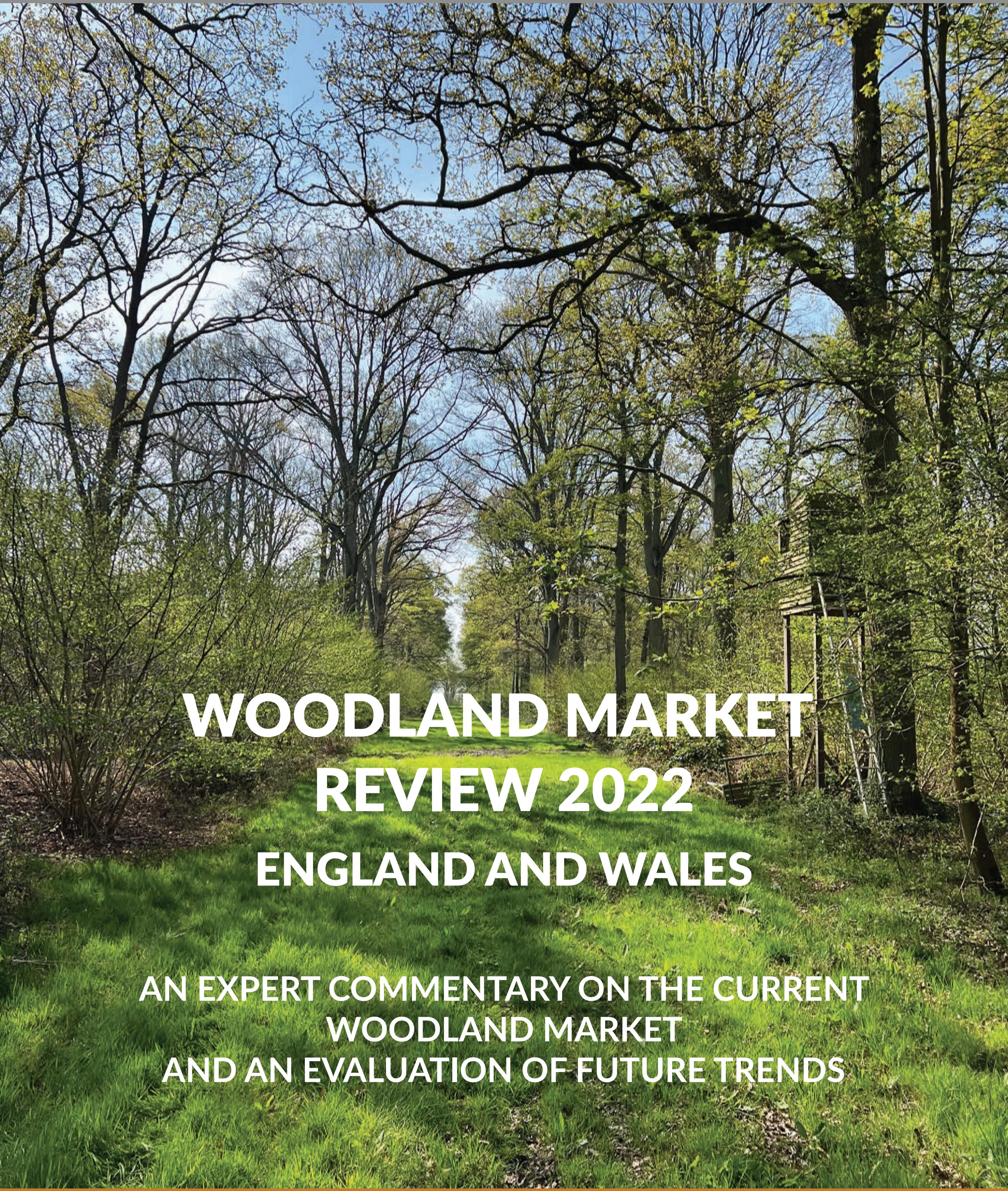


WOODLAND MARKET REVIEW 2022

ENGLAND AND WALES

AN EXPERT COMMENTARY ON THE CURRENT WOODLAND MARKET AND AN EVALUATION OF FUTURE TRENDS

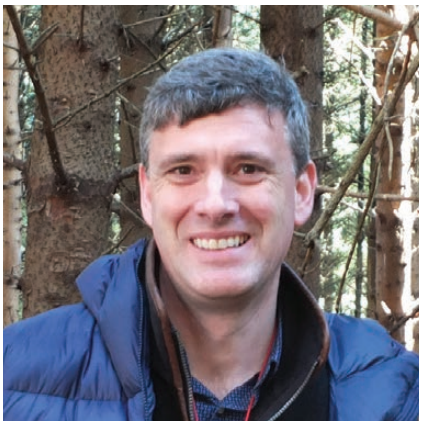
INTRODUCTION

Welcome to the first Tustins England and Wales Woodland Market Review which is designed to deliver an expert commentary on the current woodland market and an evaluation of future trends.

Since the formation of Tustins in early 2020 by Mike Tustin and John Clegg, we have sought to build on the positives taken from more than 50 years of selling, buying, valuing, and advising on woodlands. The core values of the company, client care and attention, are our driving forces. Our independence gives us flexibility and allows us to place our priorities on our clients and their wishes.

This report focuses on the woodland market in England and Wales where we have our greatest experience and most of our sales and acquisitions take place. In the spirit of constant improvement, we will, of course, welcome your feedback.

Mike Tustin, John Clegg and Marcus Winnall



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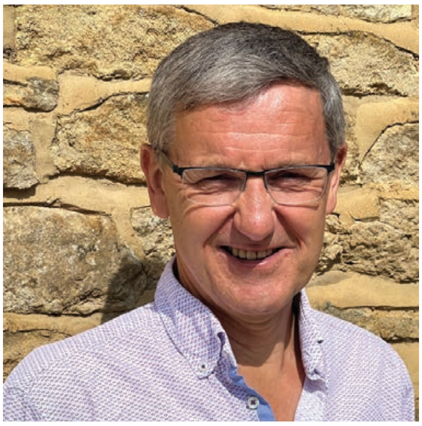

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WOODLAND MARKET REVIEW SUMMARY

- The last twelve months has recorded the strongest property trading conditions we have ever seen.
- As inflation becomes an increasing economic factor, buying a woodland property full of growing commodities should be seen as a good hedge against inflation that no other investment class can match.
- The forestry property market is being affected by a reduction in forestry skills available to advise clients.
- With timber price confidence at a three year low as a result of the Ukraine war and the cost of living crisis, we are now seeing a slowdown in the rate of growth in forestry values at the premium mainly commercial end of the market.
- The smaller commercial mixed end of the market is selling often for figures well ahead of guide, although it is taking longer from launch to sale agreed.
- Existing woodlands that are not and never can be Woodland Carbon Code (WCC) registered (under current rules) will probably increase in value at a more sensible pace as these assets only have the timber income stream.
- Uncertainty over tree planting rules and regulations caused by mis-directed bureaucracy on the part of Forestry Commission England and Natural Resource Wales means there is a real risk that potential land investors may look elsewhere to invest.
- Firewood prices have started to steadily increase with 25% increases being seen over the year and increasing competition to buy stock that comes available.
- Once the supply of windblown timber from Storm Arwen is worked through there could be a shortage of standing crops to work in spring 2023.

KEY MARKET AREAS

In the last five years the woodland market in England and Wales has evolved, creating significant differences with the conditions found in Scotland and the three key areas that have presented during the last 12 months are:-

Heavyweight Commercial Properties

These are defined in our view as assets of over £2,000,000 and interest is mainly from business led funds and large high net worth clients with the market clearly evolving in the past few years.

These properties nearly all wash their faces as stand-alone business and have offered double figure returns for the last 10 years. These woods tend to have the most competition when sold and occasionally exceed all expectations.

Smaller Mixed Woodlands

These can be relatively large woods, with a mixture of income generating possibilities but are rarely attractive to the larger corporate bidder. However, we have noted they appeal to the traditional buyers, wealthy individuals who are looking for an asset that might be closer to home and offers non-forestry benefits of ownership as well as the usual tax benefits that are most attractive to those looking to put away some cash for a long period with little danger of losing it.

Amenity Woodlands

These woodlands have seen fierce competition from all sorts of buyers, having become increasingly attractive to the environmental investor and the woodland "splitters". They normally feature broadleaved species or slow growing conifers, located closer to heavily populated regions of the country. This sector of the market has become particularly interesting during the last 10 years with woods that have previously been difficult to sell emerging as good sellers. This market will continue to become increasingly important to our clients.

THE STATE OF THE MARKET

The sale completions taking place during the last twelve months are the result of the strongest property trading conditions we have ever seen. We had some outstanding sales agreed in late 2021 with some off-the-charts results. However, many of these sales have only recently completed due to a number of factors, most notably, a shortage of experts able to advise potential buyers and assess property values.

A "Slightly Frothy Market"

Extreme property scarcity was the main driver for what we viewed as a "slightly frothy market" and those owners who had the benefit of crystal balls and long ownership certificates, could see it may be a good time to sell. The same trading conditions also persuaded many owners to sit tight and not sell when property inflation was running into double figures.

One sale of particular note was Nant yr Eira in Powys that completed as we began this year. Seen by many as a not particularly exciting large 750 acre Llanbrynmair complex outlier, this property had not been seen on the market for over 40 years after the Economic Forestry Group (now Tilhill Forestry) persuaded a canny investor to buy some open farmland suitable for planting. The six weeks following its launch to market showed just how well appreciated these established commercial timber producing forests are by the funds and larger private buyers. With good solid timber resource stability reasons this large property was sold for the largest £/acre figure we have seen in our careers.

Judging by the amount of interest shown and the number of closely spaced bids at the closing date, there was a significant amount of money destined for forestry that failed to find a home. Clearly this is part of the reason why properties continued to be agreed and completed at premium prices well into the New Year.

The interest being shown by the larger buyers has been part of the reason why bare land for planting has once again become a desirable item. This interest by businesses to invest in new planting sites for non-forestry benefits, including offsetting their carbon emissions, was proven by our LLP sale of two South Wales farms of 147 and 121.7 acres respectively with permission and planting grants in place at a premium price.

No One Is Losing Their Shirts

With timber price confidence at a three year low as a result of the Ukraine war and the cost of living crisis, we are now seeing a slowdown in the rate of growth in forestry values at the mainly premium commercial end of the market although no one is losing their shirts. As a result, the door seems to be opening once again to those longstanding traditional investors who are coming back into the market as they get used to valuing the properties in this raised market as competition subsides.

At the smaller commercial mixed end of the market, with some of these buyers also heading off to buy open land for planting, we are seeing similar market conditions to those premium large ticket properties.

Whilst properties are often selling for figures well ahead of guide, it is just taking longer from launch to sale agreed. This was highlighted by the sale of an 85 acre commercial property known as Cefn Pennant in Powys which took several weeks to get to the offer phase but eventually completed in the summer for substantially in excess of its guide price of £490,000 (£5760 per acre). The 71 acre Ulpha Park in Cumbria was almost exactly the same with slow initial interest which eventually gathered pace and produced a substantial improvement on the £7300/acre guide price. Nearly one and a half times more than it was purchased for at a hotly contested closing date just three and half years earlier.

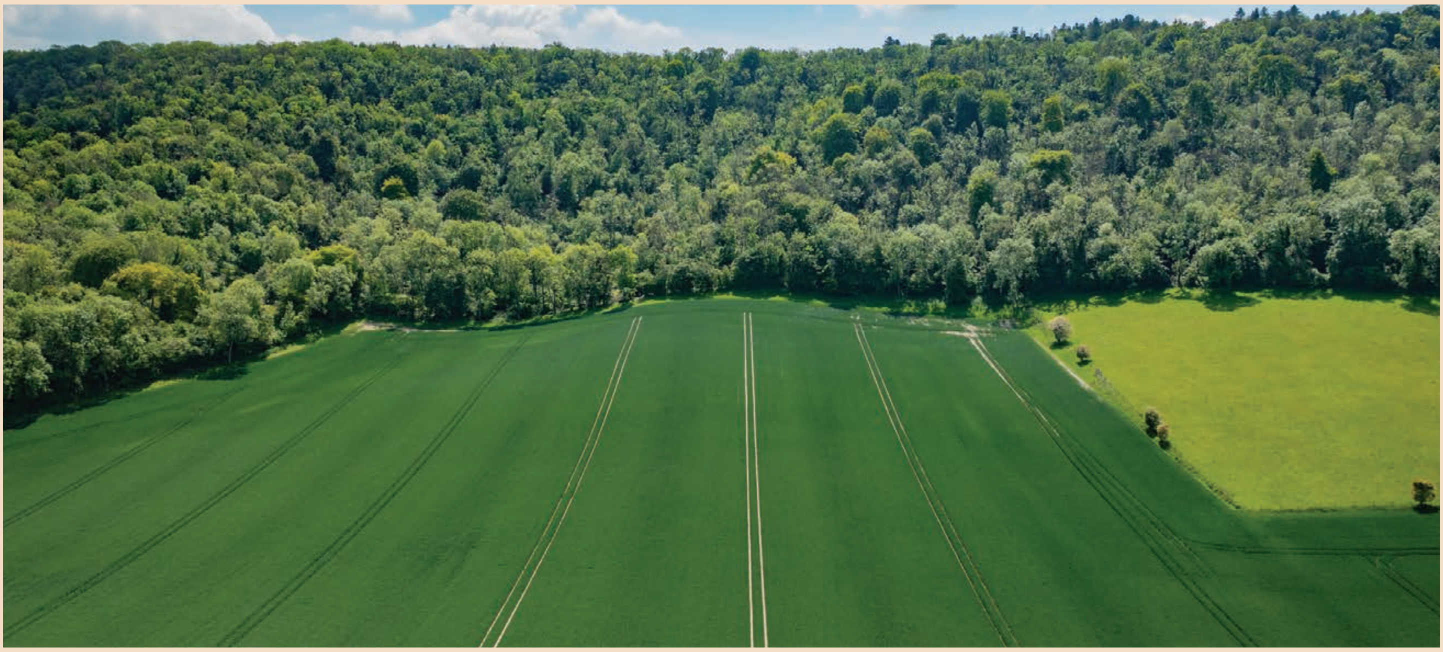
Lack of Forestry Skills

We have noted that one of the reasons for the delays is that several key people have moved jobs or reduced their hours as they get older. We would never have thought that the forestry property market would be affected by the lack of forestry skills available to clients.

However, the amenity market is less affected by the reduction in the number of forestry investment advisors. This sector is populated by parties who have the resources to purchase a woodland that has perhaps a personal interest or is more convenient to their home, often in the south of England or the Welsh borders.

While there has been a slowdown in some of the larger £1million plus properties, our sale of the 263 acre Grafham Wood in West Sussex - guided at £2,000,000- showed how well placed, high visibility offerings can result in substantial competition between local and national buyers alike. With this sale comfortably exceeding estimates and leaving plenty of unsatisfied bidders, the left-over cash overflowed into another property being sold not far away at another premium price.

The increasingly shaky nature of ash trees suffering from chalara, present in large quantities in these offerings, appears to make virtually no difference to the strength of bidding. Ultimately, this might be because we are in a small market with people seeing once in a lifetime opportunities to own land they might never again be able to buy.



WOODLAND CREATION

There is strong interest in creating new woodlands in England and Wales but sadly, the consultation process is slow and unwieldy as well as prohibitively expensive. Government woodland creation targets in England and Wales are 7,000 ha/pa and 5,000 ha/pa respectively. On the face of it this all sounds so simple and fabulous for the sector; however, despite the huge amount of energy moving in this direction, funds and individuals with little patience for extreme bureaucracy just vote with their feet and go elsewhere.

Procedures and Regulations

Forestry Commission England and Natural Resources Wales (NRW) need to take a very hard look at their procedures and regulations if we are to see the large acreages of new woodland planted as "ordered" by government and desperately needed to help offset carbon emissions for 2050 net zero and secure timber supplies for our nation's future security.

This point has been made many times by colleagues but we believe the tree planting and growing industry is currently at a halt and it is the sector's responsibility to find a way to change this frustrating state of affairs. Never has the basic "plant trees, absorb carbon, produce timber, enhance biodiversity" message been more relevant, but this is not reflected in the raft of government departments who seem to think they can say 'no' to nearly all planting.

THE MARKET OUTLOOK

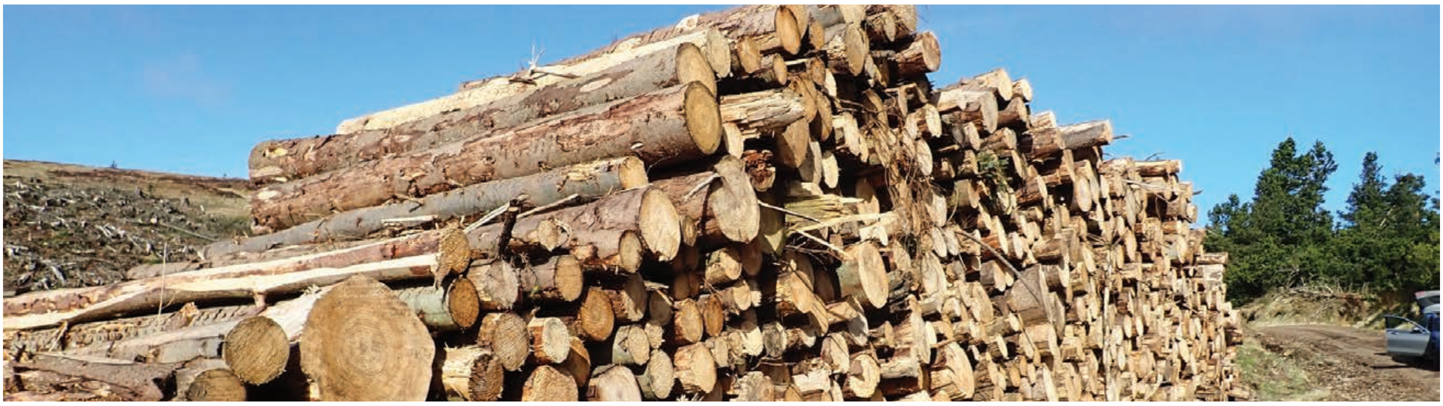
We are highly enthusiastic about the future of tree planting and the values of those planted areas assuming we can get over the current bump in the road created by the relevant Government departments. The potential for income streams that outstrip the bare timber values mean that these new properties are likely to have a really solid future. Well maintained and well thought out schemes with income generating potential early in their life will become the life blood of the forestry economy and hugely desirable on the open property market.

Those who plant and forget, as has so often been the case in the past, especially on broadleaf dominated schemes may live to regret that decision as future audits required by the Woodland Carbon Code (WCC) finish up with threats of de-registration.

Hesitation in Property Values

We believe existing woodlands that are not and never can be WCC registered (under current rules), will probably increase in value at a more sensible pace as these assets only have the timber income stream. However, with timber markets only likely to go one way as the world's population grows and increases the demand for natural resources, many can see a steady growth in the price of sawn timber against a reduction in the availability of round timber leading to further price rises. This should impact positively on the value of forestry properties and create an environment for all woodland classes to grow in value. In the shorter term, we expect to see a hesitation in property values as people ponder what is going to happen in the wider economy as this year draws to a close. Nevertheless, like the period just after the first lockdown in 2020, we believe values will stiffen as people get used to the idea that inflation might be a feature of the economy and buying a property full of growing commodities could be a good hedge against inflation that no other investment class can match.

THE TIMBER TRADES MARKET REVIEW 2022



This year has seen unprecedented global turmoil following Russia's invasion of Ukraine. Initial thoughts were the reduction in supply of timber from Ukraine and sanctions on timber from Russia and Belarus would lead to shortages, but this has not been the case as demand has fallen faster than supply and global stocks have built up leading to price reductions for sawn wood.

Dramatic Slowdown in Sawmill Production

This uncertainty has significantly reduced demand for timber in the UK and in particular sawn timber. Sawmill yards are full, and orders are scarce, coupled with rapid rises in operating costs this has brought log prices down from the highs of £120t delivered in spring 2021 to £70t delivered in autumn 2022.

The sudden and dramatic slowdown in sawmill production has reduced supplies of wood fibre to board mills and the renewable energy markets forcing them to increase intake of small roundwood. At the same time soaring energy costs have encouraged those with biomass plants to run them at full capacity. This has led to a run on small roundwood stocks and as we go into winter there is little or no roadside stock of small roundwood or energy wood, competition to buy is increasing and there are signs of price movement.

Increasing Competition

Firewood prices have also started to steadily increase with 25% increases being seen over the year and increasing competition to buy stock that comes available. As prices of standing timber have fallen, owners have withdrawn many parcels and reduced the supply to the market in the second half of the year. Once the supply of windblown timber from Storm Arwen is worked through there could be a shortage of standing crops to work in spring 2023. This will lead to stronger competition to buy but levels will be set by global timber prices which are largely driven by consumption in America and China which are in turn experiencing loss of confidence due to interest rates and Covid.

In the short term the future seems bright for energy wood and an upward trend for prices is getting stronger as seasonal demand increases. For other products the future is much more uncertain, but supply is now adjusting to new lower demand levels and spring 2023 will see whether it has under or over adjusted which will determine whether the roller coaster cycle restarts in 2023 or 2024.

TimberAuctions.co.uk

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