GOLDCREST
LAND & FORESTRY GROUP

Tilhill
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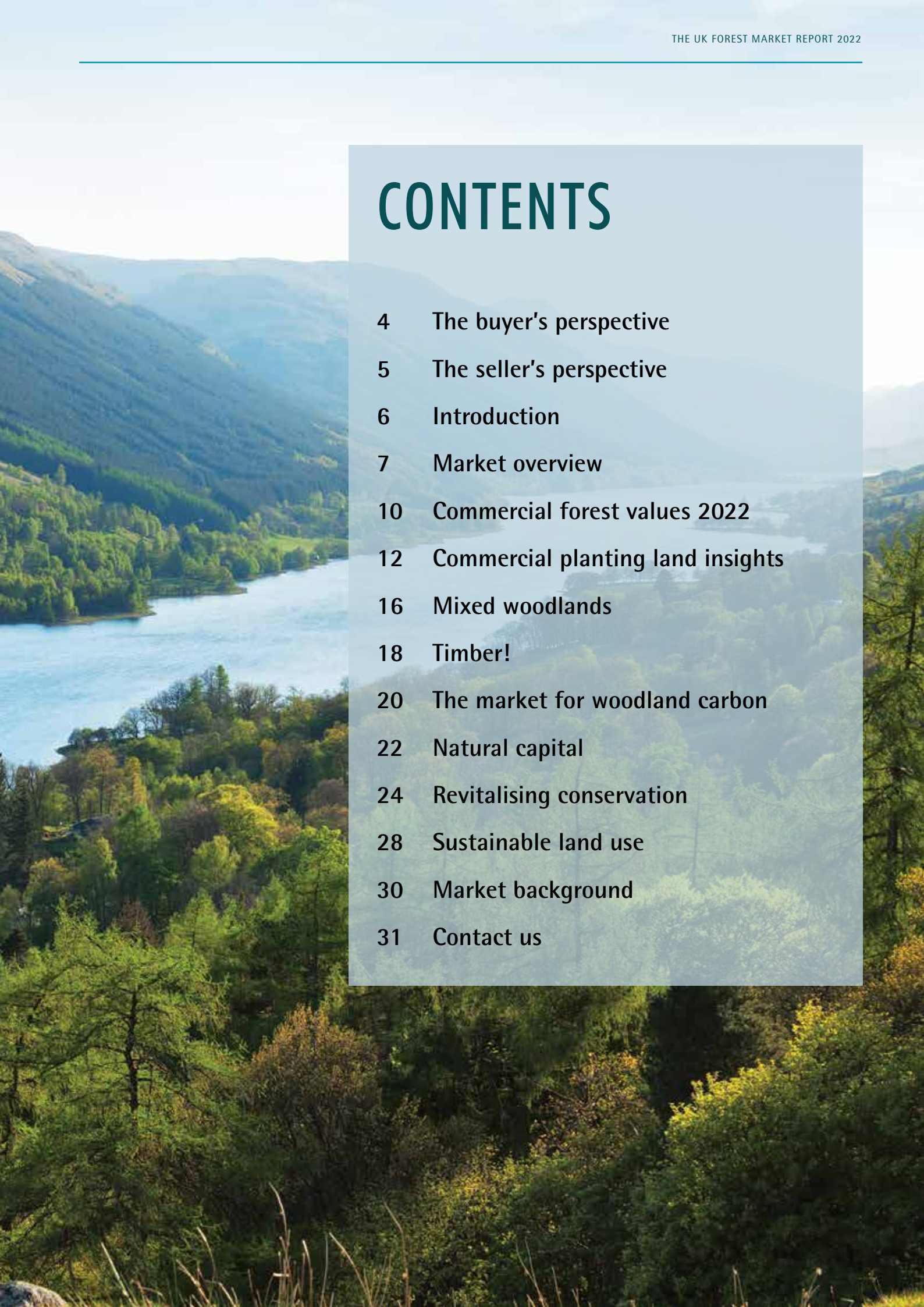
THE UK FOREST MARKET REPORT

2022



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WHAT'S NEXT FOR WOODLANDS?

The buyer's perspective

2022 is the third year running where we have observed a previously unprecedented £200m of UK forestry assets change hands. Strong demand for assets that sequester carbon and hedge against inflation continues to meet tight supply. Rising demand for timber to reach net zero targets is giving investors confidence to pay higher valuations for assets.

The year has brought challenges for the industry. Carbon additionality rules have been tightened for commercial plantations and Storm Arwen brought large volumes of timber to market in the face of slowing renovation demand as the lockdowns ended. However, none of these have dampened the medium-term expectation that timber is growing in importance, and domestic timber is best placed to benefit.

Timber pricing during the year has been product dependent. Log prices have been impacted by end-user demand but, at the same time, energy demand has been insatiable. Tilhill's parent company BSW, now owned by global sawmiller binderholz, is investing heavily in increasing capacity at their market-leading UK mills. Binderholz is channelling their expertise in value-added timber products to meet forecasted rising demand in the UK through technological improvements.

The lack of a coherent land use policy in the UK makes it difficult to achieve positive land use change, although Tilhill's involvement in the UK's first new reservoir in 40 years is cause for optimism. New plantations are rightly constrained by biodiversity up the hill, and farming down the hill. Sadly, the gap in between is contested from both sides and although there are good grant schemes and ambitious government targets for tree planting, there is insufficient support for actually getting it done.

The fact that the UK is far more dependent on imports for timber than either food or energy may surprise the public, and recent events have demonstrated just how precarious this situation is. The falling pound makes import reliance even less attractive. Local communities rightly question their stake in the natural wealth that is appreciating around them, and it is clear that the most biodiverse regions must be protected, and food supply be prioritised.

The UK overall has returned to the long term trend of planting more broadleaves than conifer overall, although this is not true for Scotland. Indeed, the availability of large scale land holdings in Scotland, coupled with a small domestic timber supply, is attracting exceptional prices for commercial planting land in Scotland.

We believe it is possible to find space for trees to improve the UK's timber security. The government's ambitious annual afforestation target is just 0.1% of the UK's land area, so it does not have to be at the expense of communities or biodiversity. Achieving this target will require greater collaboration between stakeholders to find the best use of our land. Until this happens we expect prices for forestry assets and opportunities to remain elevated, but when it does happen the market will be able to attract far more capital and maintain growth. The outlook for investors is exceptional either way.

Gavin Adkins
Managing Director, Tilhill

> 'We expect prices for forestry assets and opportunities to remain elevated'

The seller's perspective

2021 felt a very busy – even hectic – year, while 2022 has felt quieter. Is that supported by the evidence?

This report suggests that a smaller area of commercial forestry has been sold in 2022 compared to 2021. However, over these two years the structure of the marketplace has changed, with more agencies handling sales and an increase in off-market transactions. We can only report on what we know about. Anecdotal information indicates that the total market is now much larger than we can collect data for. The statistics are therefore not as comprehensive as we would like, but we hope that the trends and characteristics of the market are captured by our report.

There were a handful of sales in the heart of the most productive part of the country for commercial timber – south Scotland. These secured very strong prices, reflecting their underlying quality, location and scale. They stand out from the wider market because of these qualities. It is all too easy to extrapolate these results and create a false comparison. Looking at the overall results for the year, an annual increment in the region of 15% would be a reasonable conclusion. This is still a very strong performance. The capital values of commercial forestry have been rising continuously since about 2004 – a period of eighteen years.

Initially, it was thought that the rises were due to a long awaited appreciation in the value of timber. However, the financial crash of 2008 brought about a real change with investors seeking real assets. Backed by underlying land ownership, forestry was seen as an essential part of a portfolio.

With base rates at effectively zero for well over a decade, investment in forestry made even more sense. The last few years have seen the rise of the green economy and the effects of Covid-19 on the value of built assets has further driven interest in forestry. Smaller investors have been successfully drawn into funds adding to the capital seeking a forestry home.

What we have seen in 2022 has been a degree of caution re-appearing, with greater attention being paid to the fundamentals of the individual forest. The location relevant to timber markets; the local road network; the underlying soil quality and the level of capex required to bring the forest into production. Second rotation forests in the best growing areas have already been furnished with good internal roads and the young restock is of improved Yield Class. This is reflected in the sales results.

A new feature in the market is the potential value of carbon credits. Our experience is that young crops, a few years old and well established, have sold equally well either with or without carbon registration. Where there has been a clear effect is on properties where a carbon contract has been sold. This has created a liability on the landowner and purchasers can be reluctant to take this on. The lesson here is to fully think through how you handle this newly created asset. The market and the rules under which it operates are still developing.

Natural capital is not yet monetised to such an obvious degree, but we believe that it underlies some fascinating sales. Smaller parcels of land offering wetland, islands and other diversity have been of great interest. It could be a smaller private individual or a larger investor seeking to secure such variety. This has implications for larger forests where non-productive land is likely to assume greater value. Management towards diversity may be a valuable route to follow.

Fenning Welstead
Partner, GOLDCREST
Land & Forestry Group

As always, properties that are well presented stand the best chance of gaining market interest. As the market becomes more selective it will be essential to pay attention to guide prices. Our experience is that the right guide price is key to generating the competitive interest that leads to a successful sale.

> 'The last few years have seen the rise of the green economy'

THE MARKET

Introduction

The main section of The UK Forest Market Report focuses on completed sales of 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 transactions we have observed over the past twelve months. Our combined experience and market position ensure strong insight into trends, but there are a significant number of off-market transactions not captured in our analysis. Further, there is significant 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 (2022 etc.) the actual period covered is the 1st October to 30th September.

The UK Forest Market Report has been produced since 1988 and our data series now covers 24 years, incorporating 1,966 transactions which total some £1.86b and 306,000 stocked hectares (ha).

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

More detail on the data analysis is available on request from Tilhill or Goldcrest LFG. See contact details at the back.

Overview

In the 2022 period we recorded:

- **£195m** of commercial forestry transactions, down 3% from **£200m** in 2021
- **£65.3m** of planting land transactions, up 23% from **£53.1m** in 2021.
- **£80.7m** of potential natural capital transactions, up 206% from **£26.4m** in 2021.
- **£19.4m** of mixed woodland transactions, up 81% from **£10.7m** in 2021.

Xander Mahony
Head of Forestry Investment, Tilhill

We observed **£195m** of commercial forestry transactions in 2022, which is **3%** down on 2021 levels. However, this is the third year in a row where transactions have totalled around £200m, a level unprecedented before this period. Consider the period from 2000-2004 where the annual average was less than £20m.

Scotland increased its market share of commercial forestry transactions by value to a dominant **84%**. **Wales** has continued to be the second largest contributor to the market value at **13%**, and **England's** share was similar year-on-year at **3%**.

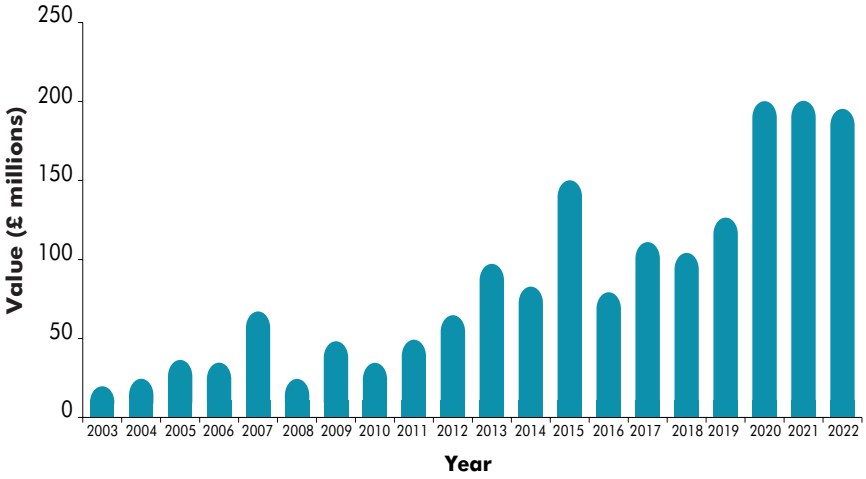
Although the total value of commercial forestry has only reduced marginally, the **number of transactions** is down 15% to **57** (from 67 in 2021), which is at the lower end of the historical range. The **volume of stocked hectares** has decreased 33% at **6,900 hectares** (from 10,400), which is the lowest since the financial crisis of 2008. The **average size of commercial forest sold** this year was down 21% to **122 stocked hectares** (from 155). The **average price** paid for a commercial forest has risen 10% to **£3.4m** (from £3.0m).

Combined, the similar value traded, but far fewer hectares suggests a tight market, and for the transactions we have observed the **average value of a stocked hectare** has soared 46% to **£28,100** (from £19,300 in 2021). However, the mix changed significantly with very few inexpensive properties and a small number of expensive outliers. We believe the like-for-like change in value was lower.

Commercial forestry values continue to be driven by increasing demand from institutional investors facing constrained supply. This year in particular has seen supply at the bottom end of the historical range. The quality most strongly correlated with per hectare values this year was yield class, followed by area. This demonstrates a market that is willing to pay a premium for the best assets.

The trend towards higher valuations for younger forests has receded towards indifference this year, perhaps as the cost of capital works as a proportion of the total value of a property diminishes, or as investors see the opportunity to retain the uplift in value from infrastructure investment and improved yield classes themselves.

Total Annual Value of Forestry Properties Sold



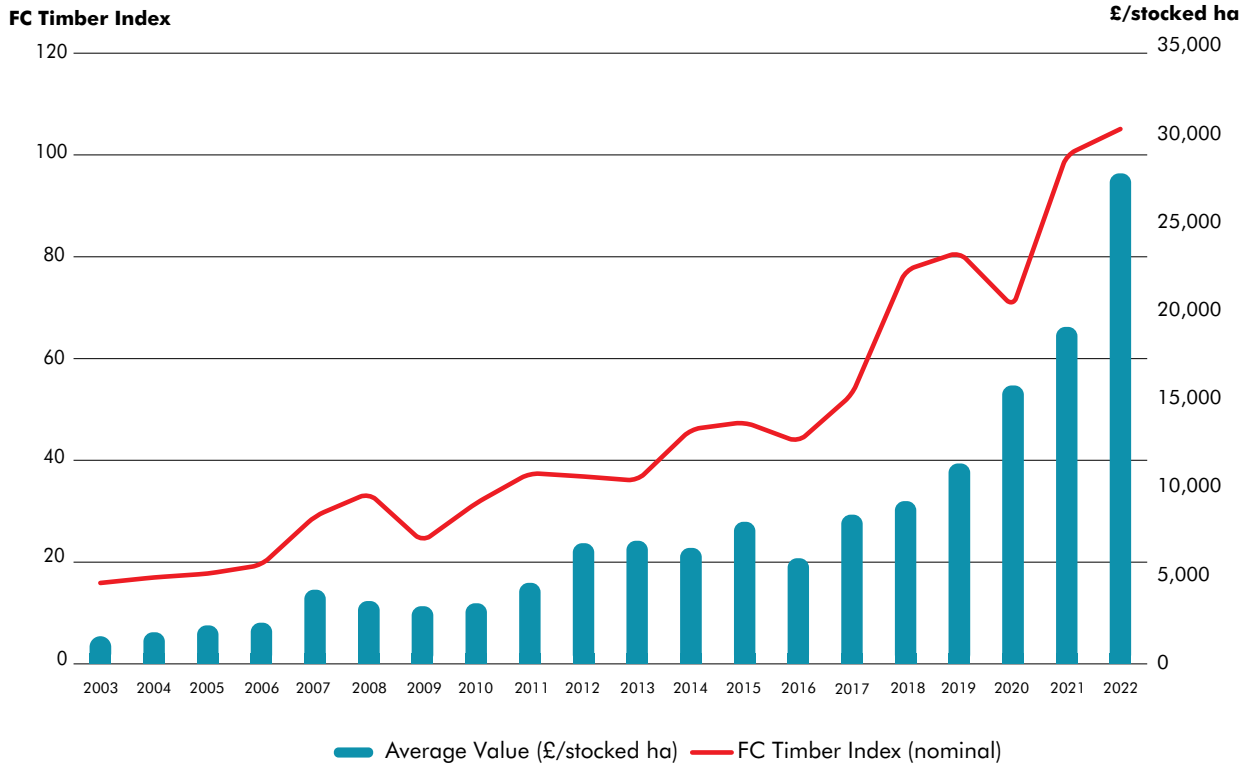
Recorded sales

84% Scotland

13% Wales

3% England

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

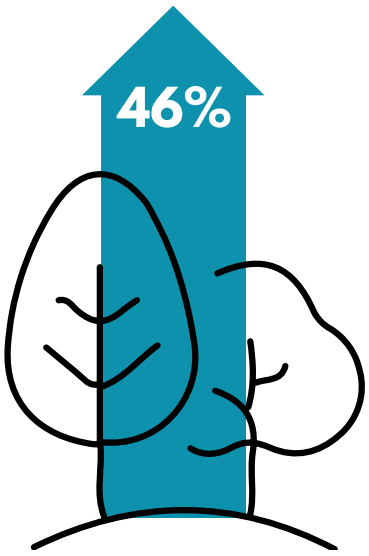


Interest in forestry assets from institutional investors remains strong in spite of the geopolitical situation and economic malaise. Commodity prices have been a large part of both stories in the past year, and although log prices have suffered from oversupply due to Storm Arwen forcing harvests, and the end of lockdown stifling demand, pricing for other products has been supported by energy demand and lower overall sawmill output.

The medium-term outlook for domestic timber remains strong. Commodities and property (in this context driving the demand for construction timber, but also consider the value of the timberland itself) are expected to adjust upwards in price due to inflation. Expectations continue for increased use of timber as a low carbon building material. The supply is expected to contract as older forests are restructured to be more diverse, or are returned to peatland. The weakness in the pound reduces the appeal of imports.

Where timber remains unmatched is in having a proven business model that sequesters carbon. Planting for carbon credits is gaining momentum and as the climate changes has the potential to provide outsized returns. Other natural capital models such as peatland restoration with a credit to provide a clear return potential remain a step ahead of biodiversity, where the return mechanism for investors remains unclear. However, given the importance of nature in land management, this cannot be far away.

The largest investors take a portfolio approach, noting the role timber can play as a backbone of a natural capital strategy, but wanting to gain exposure to new markets that will be a requirement of net zero and solving the biodiversity crisis. The entrance of more of these investors is likely to continue to support valuations in forestry and beyond.



Average value of a stocked hectare

2021: £19,300

2022: £28,100

COMMERCIAL FOREST VALUES 2022

Fenning Welstead
Partner, GOLDCREST
Land & Forestry Group

The market in 2021 was extremely bullish. In retrospect that was driven by a post-Covid desire to get on with things and a demand for investments in assets other than office buildings, shopping centres etc. The effect was to direct a much greater volume of money at the small UK forestry market with the consequent boost to capital values. It seemed that almost any forestry property could be sold easily and at prices ahead of expectation. With interest rates still low yield compression further boosted capital values.

Throughout 2022 it became clear that the ground was shifting. The timber markets first felt the effects of the winter storms. These not only re-directed harvesting resources but altered the type of timber coming into the market – a lot of the damage was to pine and larch crops on the eastern side of the country. For a period, log prices strengthened but through Q2/Q3 of 2022 prices cooled and remain depressed. In contrast the inflation in energy costs has boosted the value of biomass. Political pressure to improve fuel security and low carbon products will only increase demand for this material. Pallet wood has risen in value as a result of restricted supplies from eastern Europe. Belarus was a major supplier of pallet and packing timber to western Europe.

Operational costs in forestry have also risen – harvesting, haulage and processing all consume energy. This emphasises the importance of location. Forests within a short to medium range of their markets will see an increase in their relative value. Conversely, remote forests become less attractive unless acquired at the right price.

Timber prices tend to be cyclical. UK home-grown timber fell steadily in price from the 1950s through to the early 2000s. The long term trend hid peaks and troughs. We are now seeing rising timber values which are likely to behave in similar fashion. We are currently in a trough, but the expectation is for prices to recover again and move ahead. The simple laws of supply and demand will apply. The market for renewable fibre is increasing with new technologies and markets developing in the post-fossil fuel world. As the UK continues to import 80% of its timber requirements, the fall in sterling makes imports more expensive.

Developments in timber technologies will see new markets for wood appear. Historically, timber as logs was sawn into planks. Today we have chipboard, MDF, strand board and biomass. Tomorrow's markets may be increasingly fibre and nano-fibre based.

It seems that the forestry property market is in a period of reflection. The longer term trends are still very positive, but attention to fundamentals of location, access, yield class and species, and clear objectives have assumed greater importance. Overlying this analysis is the climate of rising interest rates and inflation. Timber has historically been a useful hedge against inflation. There is reason to expect this to continue. The effect of rising base rates should be yield dilation and a consequent reduction in capital values. The question will be how these two factors interact.

> ‘Developments in timber technologies will see new markets for wood appear’

Underlying the trees is the land. Values have been rising for several years. Within forestry there are two markets - one for existing forests and one of land suitable for afforestation. This second market has become prominent following government policy to increase the level of forest cover in the UK. Arguably only in Scotland has this been markedly successful, as a result of confidence in the application and approval process for new planting schemes.

Afforestation does bring the potential to create carbon units, although this is now much more difficult for commercial plantations. Despite

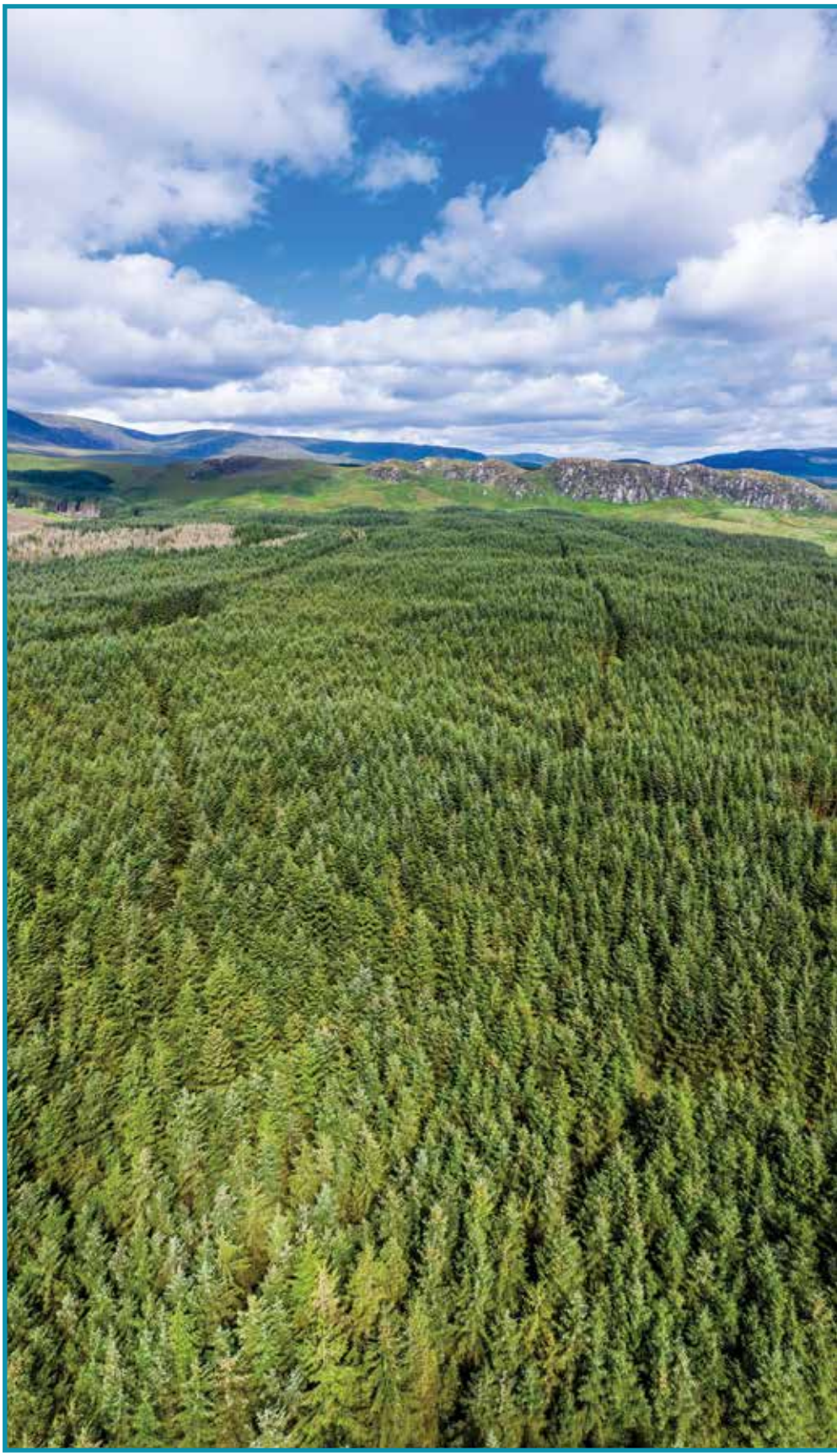
this we have seen strong prices continuing to be paid for good forestry land in south Scotland. On the basis that we are going to need renewable fibre on a global basis what is an appropriate value for the land on which to grow it? We have a history in the UK of undervaluing fundamental assets and suitable land may continue to rise in value. Certainly, ownership of such a basic resource is one of the drivers in the market – especially in locations close to markets and with economies of scale.

The carbon markets seem to be having less of an influence on new commercial planting. The simple growing of a timber resource is sufficient incentive for some. If the investment case is based on discounted cashflows then the assumed future values become critical as does the discount rate. With rising bank interest there should be a consequent arithmetic reduction in the calculated values – but if the psychology is to secure land ownership that may not be the case.

One also has to consider the apparent disparity in land values as assessed under existing forests and that achieved by bare land for afforestation. In one there is approved use for commercial forestry, a developed access infrastructure and predictable timber yields. In the other there is the risk of not securing planting permissions and no developed access. The higher land values do not necessarily follow logic.

As evidence points towards climate change being largely the result of human activity – primarily how we use energy - there will need to be some major changes in how we generate this energy and how much of it we use. And of how and where we source our raw materials. To date we have been tinkering around the edges. A future with much greater emphasis on renewable energy and raw materials will surely have to rely more on trees. Whatever the vicissitudes along the way the future of human activity will need more timber.

The best time to plant a tree was years ago the second best time is now. We must keep planting.



COMMERCIAL PLANTING LAND INSIGHTS

Kallan Martin
Forestry Investment Analyst, Tilhill

The trend of the commercial planting land market continues on an upward trajectory from previous years. We have widened our market monitoring function but also tightened our definition of planting land this year. Still, the result was **31 land transactions** with a **total value of £65.3m** up 23% from £53.1m in 2021.

The average cost has risen to **£16,475 per plantable hectare** across the UK, an increase of **50%** from the previous year's figure of £11,000, near doubling from **2020's** figure of **£8,500**. Scotland continues to be the dominant force in planting land sales with **85%** by value sold being north of the border, but also the highest increase in price, soaring 73%.

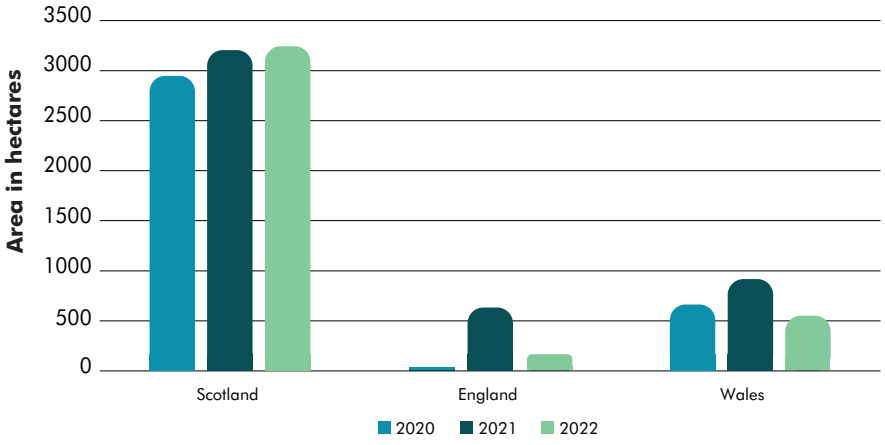
It has proved a turbulent year from an economic perspective, with one geopolitical crisis after another causing global reverberations that have affected each and every one of us. Investors have lamented with the performance of classic asset classes, with the **FTSE 100 falling 10%**[1] from its highest point in **2022**, and the **S&P 500 falling 24%** from the beginning of the year[2] *(all figures are correct as of close of market 11/10/2022).*

In tumultuous times, real assets have offered a stable pillar to any investor's portfolio, with forestry providing an oasis in a barren economic landscape. Although the UK timber market has endured considerable torment with timber demand falling considerably, land acquisitions and planting have continued the upward trend from last year. This would indicate that investors put trust in the future timber and carbon markets, with demand for timber set to quadruple due to increased urbanisation and the cardinal requirement of decarbonising economies.[3]

Forest Research's Statistics have shown an increase of **4%** of the total amount of land planted in the UK **(13,290 ha to 13,850 ha)**, having previously fallen **3%** the previous year. However, 2021-22 has been the first year since 2016 where total broadleaves planted has surpassed the amount of conifer planted overall in the UK,[4] with **conifer species** contributing just **16%** of the total amount planted in Wales and England. Scotland retains its role as the productive forestry powerhouse within the UK, with **76%** of all new planting and **93%** of total conifer planting in the UK.[5]

Market dynamics have played a contributing factor to the afforestation landscape, with new additionality rules from the Woodland Carbon Code, new Forestry Commission guidance on wading birds, and updated priority habitat remapping from NRW all impacting the market. This article will focus on broad macro elements that have affected the market, then focus on each of the nations individually, concluding with an outlook for the year ahead.

Total area of commercial planting land sold



1 London Stock Exchange, FTSE 100 Performance, 2022, https://www.londonstockexchange.com/indices/ftse-100
2 S&P Dow Jones Indices, S&P 500, 2022, https://www.spglobal.com/spdji/en/indices/equity/sp-500/#overview
3 UK Parliament Committee, What impact will increased timber use in the future have on global deforestation?, 2022, https://committees.parliament.uk/committee/62/environmental-audit-committee/news/172336/what-impact-will-increased-timber-use-in-the-future-have-on-global-deforestation/
4 Forest Research: Forestry Statistics 2022, Table 1.13a New planting by forest type, UK, 2017/18 to 2021/22 2022, https://cdn.forestresearch.gov.uk/2022/09/Ch1_Woodland_2022.pdf
5 Forest Research: Forestry Statistics 2022, Table 1.13a New planting by forest type, UK, 2017/18 to 2021/22 2022, https://cdn.forestresearch.gov.uk/2022/09/Ch1_Woodland_2022.pdf

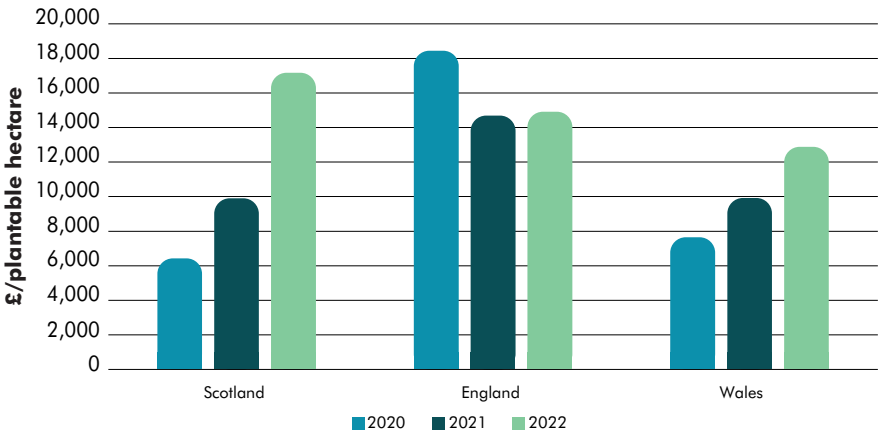
Additionality

The carbon market has increased exponentially, with a fourfold increase of registered projects in the past two years.[6] As the market develops and the demand for carbon offsetting increases, new measures have been introduced to the Woodland Carbon Code which has seen a transilience in the afforestation landscape. The changes have brought with them an overhaul to the additionality calculator, which now compares the economics of the forestry project to that of the previous land use (typically grazing). This means that predominantly commercial plantations with higher returns than grazing are assumed to not need extra income from carbon to be attractive to investors, though this varies depending on region due to farm subsidies and grant schemes. The net result is that commercial conifer plus carbon only makes sense in certain regions, and if an investor is primarily interested in maximising carbon income, then broadleaves may be a better option. This could be why broadleaves have surpassed conifer planting in the UK for the first time, with 84% of all planting in England and Wales consisting of mixed broadleaves, taking preference over productive conifer crops. An assumption can be made that the changes to additionality will reinforce the trend towards planting more broadleaves in England and Wales in future.

Forestry Commission guidance on wading birds

Further regulator guidance developments have affected afforestation in England. "Forestry Commission England have worked with the British Trust for Ornithology (BTO), Natural England and others to develop new wader zonal maps which help identify important areas for the recovery of breeding waders."[7] This comes as a result of the ambitious afforestation targets set for England, along with the declining populations of section 41 species Lapwing, Curlew, and Redshanks, with the new guidance supporting and encouraging their protection and conservation. The consequence of the new guidance has resulted in marginal rough pasture, which would have previously fallen within scope as having good potential for afforestation, becoming slightly less favourable for buyers due to limitations posed on planting an area with wader presence. Similarities can be drawn in parallel with other updated regulator guidance being realised in Wales.

Average sale price per hectare



Scotland

Scotland continues to be the dominant force in planting land, accounting for 85% of the market by value, and also experiencing the highest increase in price, soaring **73%** from **£9,900** to **£17,200**, well above the previously exceptional 54% rise observed last year, driven again by increasing demand meeting tight supply. The area transacted rose **1%** to **3,250 hectares** from **3,200 hectares** last year. All observed planting land deals over 100ha were in Scotland, at an average of **£18,100 per plantable hectare**, compared to smaller deals at £10,700 per plantable hectare. However, these larger deals are often of unusually high quality with marriage value to existing plantations and potential for wind turbines on higher ground.

It is interesting to note that although Scotland spearheads the charge for economic forestry and ultimately the objective of net zero carbon, it still fails to meet its ambitious afforestation targets of **12,000 hectares** annually. Afforestation consisted of **10,480 hectares** planted this year and will require further extensive planting to meet the increasing targets of **14,000 hectares** in **2023**, and **15,000** from **2024** onwards.[8] The failure to meet the required target has largely been accredited to the series of beastly storms that struck in late 2021 and early 2022, with labour being reassigned from planting operations to attending clear-up operations and emergency work.[9] Natural disasters and pandemics aside, only time will tell if Scotland can meet its ever-increasing afforestation targets for the next **8 years.**

Wales

The planting land market in Wales has fallen dramatically from **920 hectares** to **550 hectares** of plantable area transacting, a decrease of **40%**. We have seen the average price per plantable hectare figure increase from **£10,000** to **£12,900**, a **29%** increase from the previous year.[10] This can be attributed to the general direction of the land market, with prices increasing across the board in each of the devolved nations due to supply and demand. However, recent regulator changes have also had considerable influence on the Welsh market. The recent reconciliation of Natural Resource Wales (NRW) mapping has seen the expansion of areas considered priority habitat. NRW's stance is that new woodland creation on priority habitat will "generally destroy the priority habitat and species which depend on them."[11] The consequence realised is that the amount of marginal land available for afforestation has vastly decreased,

6 Forestry Scotland, Rules strengthened around woodland carbon schemes, 2022 https://forestry.gov.scot/news-releases/rules-strengthened-around-woodland-carbon-schemes

7 GOV.UK, New wader zonal maps - helping to ensure new trees are put in the right place, 2022, https://forestrycommission.blog.gov.uk/2022/02/04/new-wader-zonal-maps-helping-to-ensure-new-trees-are-put-in-the-right-place/

8 Government of Scotland, Draft Climate Change Plan: The draft third report on policies and proposals 2017-2032, 2017, https://www.gov.scot/binaries/content/documents/govscot/publications/progress-report/2017/01/draft-climate-change-plan-draft-third-report-policies-proposals-2017/documents/00513102-pdf/00513102-pdf/govscot%3Adocument/00513102.pdf

9 The Scotsman, Scotland misses' tree-planting target due to impact of destructive storms on forests, 2022. https://www.scotsman.com/news/environment/scotland-misses-tree-planting-target-due-to-impact-of-destructive-storms-on-forests-3734488

10 Forest Research: Forestry Statistics 2022, Table 1.13a New planting by forest type, UK, 2017/18 to 2021/22 2022, https://cdn.forestresearch.gov.uk/2022/09/Ch1_Woodland_2022.pdf

11 Data Map Wales, WOM21 Priority Habitat - High Sensitivity 2022, https://datamap.gov.wales/layers/geonode:gwc21_priority_habitat_high_sensitivity


‘Scotland spearheads
the charge for
economic forestry’

COMMERCIAL PLANTING LAND INSIGHTS – CONTINUED

causing a paradigm shift from the status quo of rough marginal land falling within scope for afforestation to higher value, lower risk pastureland now becoming the preferred choice for potential investors.

England

Due to the vast variation in the English land market reflecting similarities with the English property market, it is important to recognise that land prices across England vary greatly. For that reason, analysis can be partitioned between Southern England and the Midlands, and the North of England.

Following on from the previous year's theme of increased demand for afforestation, amalgamated with revised regulator guidance on protected species, the available market has shrunk further from **630 hectares** to **170 hectares**, a reduction of **74%** of plantable area traded. However, last year is now looking unusually high in our short data series. The price of the average plantable hectare has increased marginally from **£14,700** to **£14,900**, a **1%** increase from **2021**. The majority of sales have occurred in Northern England, meaning the figures can be directly comparable.

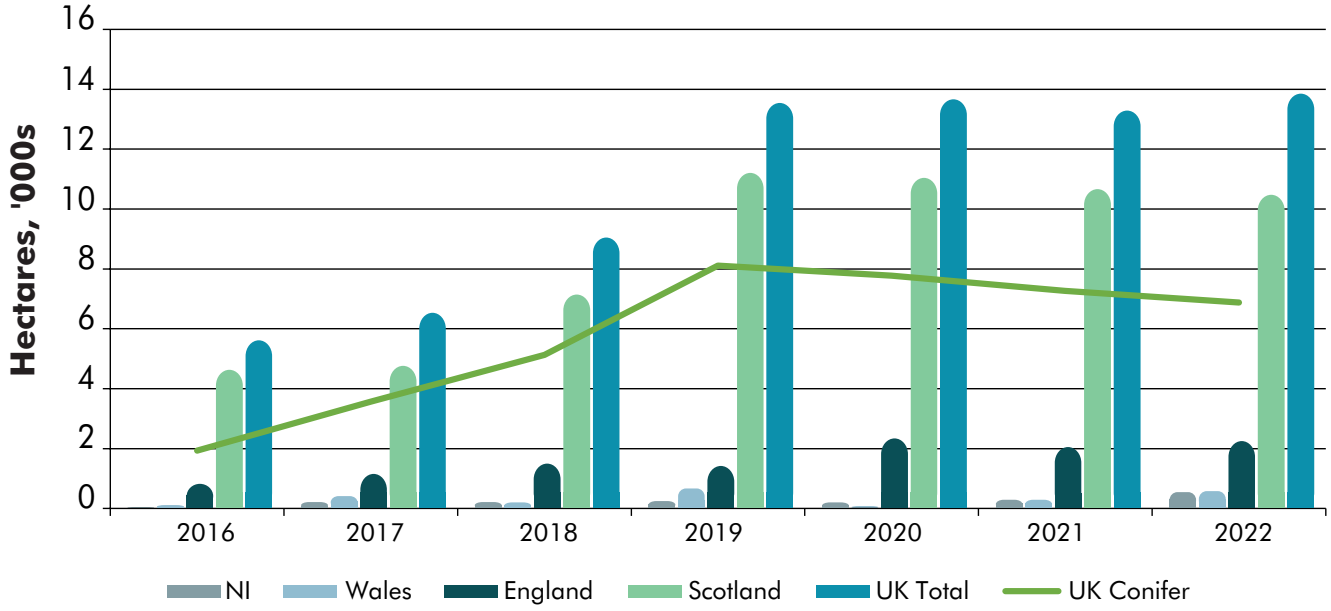
The land market in Southern England and the Midlands proves to be a red herring amongst the different nations and dissimilar to the North of England, with data showing smaller parcels of land, and land prices beginning to push above the **£20,000** per plantable hectare mark. However, new productive forestry schemes have taken second preference due to less favourable economics, paving the way for a focus on natural capital. This has not deterred buyers' interest, with buyer behaviour shifting towards purchasing land for geographical preference with an amenity/carbon lens. This will be discussed in further detail in the **Natural Capital section**.

Conclusion

If the current planting landscape were to be compared to a piece of art, it would be Claude Monet's Stone Pine. The piece presents a tranquil scene of a solitary pine against the backdrop of a commanding landscape of sweeping mountains.[12] As an industry we appreciate the beauty of nature, however we must respect and reap its true potential, with investors, regulators, and nature aficionados coexisting to meet the objectives from a biodiversity and economic perspective.

Regulator guidance continues to shape the dynamics within the market, shrinking the available planting land market in England and Wales, with more emphasis being placed on broadleaf planting schemes that deliver more amenity and carbon focused objectives. The abundance of lower risk land in Scotland continues to captivate investors, with its lucrative economic appeal enticing buyers to invest in the future of our timber supply.

Total New Planting in UK (including Conifer Planting)



12 https://www.google.com/search?q=claude+monet+stone+pines

MIXED WOODLANDS

The mixed woodland market continues to go from strength to strength. At 38 transactions, this year saw a similar number of properties coming to the market to 2021 but the total value is vastly up from £10.7m to **£19.4m** and almost three times that seen in 2020. The total area sold is up by 760 acres. Overall, average values are up but this varies between the individual countries in the UK and, with relatively few examples, one cannot make statistical comparisons.

Oliver Thompson
Forestry Agent, GOLDCREST
Land & Forestry Group

Mixed woodlands are comparatively small when viewed against their commercial counterparts. Composition can be broadleaved and conifer. Quite often there is an element of commerciality. However, the main objective is enjoyment. Recent trends have shown a greater desire to own these mixed woodlands and with such a great demand pulling on a finite supply, prices per acre have continued to rise. 2020 saw a shift of mindset and more demand for mixed woodlands, often attributed to a lifestyle change or to new ways of investing. The pandemic certainly encouraged a wish for space and fresh air and that may be partly responsible for the increased upward trend in sale prices achieved. For the seller, properties tidied up and presented to the market well can gather significant interest and do very well at a closing date.

Woodland ownership is a very personal and individual decision, none more so than with mixed woodlands. Personal connection with the woodland or area, having a desire for sporting or recreational purposes, wanting to work the woodland on a small scale out-with the norm of purpose-built harvester/forwarders or just simply having a passion for woodlands and trees is enough for ownership.

On-trend, the bulk of the 2022 transactions have been in **England** with the total transaction value of **£15.3m** on twenty six properties. Slightly up on last year, the **average sale price** was **£6,646 per acre** with an **average size** of **88 acres**. The standout property is Old Park Wood. Set on the edge of Chichester Harbour, this 85 acre ancient woodland sold for in excess of £21,000 per acre. Picturesque and incredibly private with no footpaths or bridleways, this property marketed for its location, stunning views and environmental credentials helped achieve an exceptional sale price.

Another notable performer was Wrington Warren, achieving £7,700 per acre in spite of being outside of the core South East England market area being situated near Bristol. Mixed woodlands are much more geographically sensitive to price. The majority of lower valued properties were in the east and north-east of England. Workman's Wood in Leicestershire, a mixture of maturing poplar and mixed broadleaves and quite attractive in its own right, especially in autumn, looks well discounted at £3,200 per acre. Maddie's Wood in County Durham, a 57 acre young broadleaved woodland sold for under £3,550 per acre. Most likely due to location and heavy public access.

> ‘Properties tidied up and presented to the market well can gather significant interest’

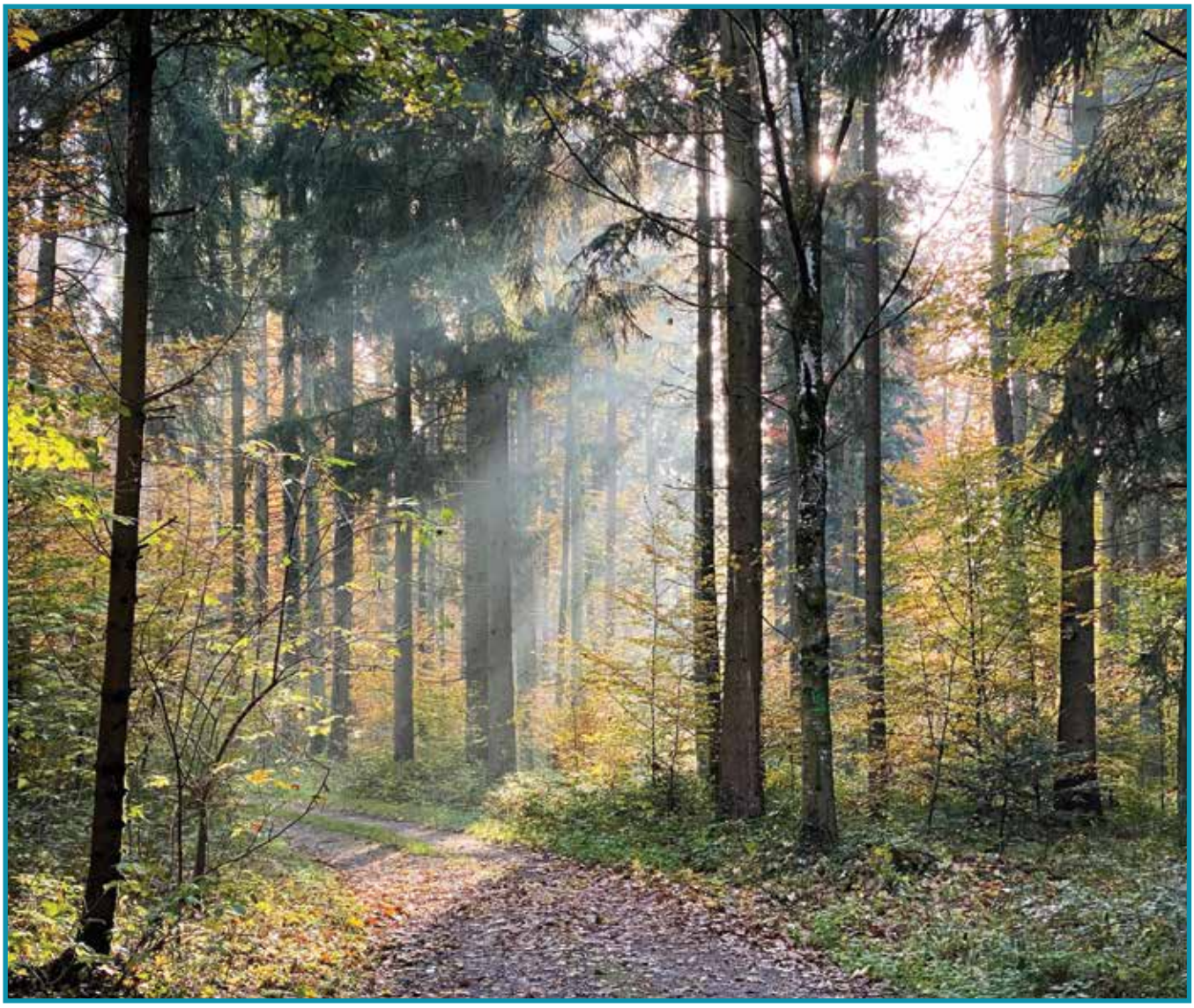
Average value per acre

England: £6,646
Wales: £6,195
Scotland: £3,900

Of the nine properties sold in **Scotland**, the **total sale value** was **£3.37m** averaging **£3,900/acre**, well below that of England but a significant increase from the modest £2,510 last year. Top performers such as Gartmore and Brae of Airlie Wood selling for £5,780 and £6,780 respectively compare to the mid-range English properties. However, similarities end there. At 147 acres Gartmore, was predominantly conifer but so mixed in species that it was not classed as commercial. Even access difficulties did not stop this going for a reasonable sale value.

With a limited dataset of three transactions in **Wales**, a trend jump from an average £2,490 per acre to **£6,195 per acre** must be taken with a pinch of salt. However, ranging from £4,500 to £7,780 per acre, the sale prices are not too dissimilar to those properties in England and Scotland. At 45 acres, Langedley Rhos was the highest transaction at £7,780 per acre. Comprising nearly 85% Sitka spruce it was just too small to be considered in the commercial category. However, being second rotation and with access which is passable but not excellent, this sold well.

In all, mixed woodlands are exactly that. A wildly ranging blend of size, species and character which have all shown an upward trend in price. However, economics are not the main driving force here. Location and individual desirability are key factors. Often, they may be relatively under-managed. While this may be part of their charm it is always helpful if there is a clean access. Being able to get into the woodland makes it so much more enjoyable for prospective purchasers. They can park their car and immediately be surrounded by the ambience they seek.



TIMBER!

As I write this report on the market for standing timber, we are in the middle of a major economic slowdown with the war in Ukraine but, hopefully, seeing the end of Covid-19. Both events have put major brakes on both the domestic and world market demand.

Harry Stevens
Timber Buying Director, Tilhill

If we look back over the last few years, the start of the Covid-19 pandemic saw a significant downturn in orders for timber products and therefore standing timber. However, this was almost immediately followed by a strong increase for materials as DIY activity took off, fuelling demand for products associated with home improvement and garden fencing.

The supply chain could not keep up with this demand and for almost a year the wood processing sector was constrained by raw material availability. One of the results of this was strong price inflation in standing timber prices with increases by as much as 100% recorded.

Much of this was driven by the inelasticity of supply inherent within the sector. There were not enough parcels of timber – with felling permissions – available to come to the market, and there was not enough capacity in the harvesting and haulage sector to convert standing timber into logs and small roundwood going over the weighbridge at processors.

But as we know, nothing lasts for ever and with the benefit of hindsight, we can see that the market started to slow down from the third and fourth quarters of 2021. However, anticipating a very strong spring of 2022, processors had the confidence to build up their finished goods stock. It was perhaps not until the middle of 2022 that a major slowdown in demand was acknowledged together with the conclusion that 2022 was going to be a 'different' year.

At the same time there had been extensive importing of construction timber and by spring of this year, 2022, importers were under pressure to unload this stock with the market starting to see major weakening in price. In some cases, the differences between what had been the frothy top of the market and the absolute bottom represented a fall of over 50%. Most British producers did their best to protect margin and did not engage in this panicky selling but ultimately have had to reduce their prices in line to maintain some sort of market share.

The situation as of October saw the wider sector that produces building products very depressed with much of the sector running at 50% throughput and at that point no end in sight.

Energy price has become a major issue and whilst some businesses are hedged to some extent, the only positive news is that costs are not as high as in in other parts of Europe, where there are reports of plants only running when the price of electricity and gas allows. Indeed, this may present opportunities for British processors as gaps in availability may develop as plants go offline in mainland Europe.

The energy market and the resultant demand is the one bright light in an otherwise dark forest. In central and northern Europe, the complete closure of the border between Russia and Finland for industrial roundwood has resulted in a massive shortfall in feedstock for paper and energy markets are giving rise to unprecedented demand in the market elsewhere. This has rippled out across much of northern Europe and pushed the prices up to the point where they are approaching sawlog prices. The slowing sawn market has exacerbated this through the side-effect of reducing co-product volumes, creating a major tightening of supply for industrial roundwood and fibre users. This is all lapping at the shores of Britain with increased levels of exports of small roundwood and co-product. This is providing a ready market for the continuing clear up of Storm Arwen.

The last few years have continued the trend for consolidation within the sawmill sector with now three larger operators controlling a significant part of the capacity, amounting to well over 50% of the sector. At the same time these operators continue to heavily invest in capacity at their existing sites.

We have perhaps seen the high water mark for investment in biofuel generation unless the recent turmoil in energy markets drives a change in government policy. Many of the existing users are considering how they fuel their plants when their existing government subsidies start to run out over the medium term.

To end on a positive note, we should not miss the point that whilst we have seen major falls in the value of standing timber we are perhaps near the bottom of the market, and yet, we still see values that, over the medium term, are high and equivalent to those seen only three or four years ago with many cashflow models for forest owners built upon these assumptions.

Long term demand for timber remains healthy as the processing sector continues to invest and modernise their existing assets and, as we start to decarbonise the economy, many existing possibilities for other applications for wood are being explored.


‘Long term demand for timber remains healthy’

THE MARKET FOR WOODLAND CARBON

Expansion, Evolution and Improvement

David McCulloch
Head of CarbonStore

It has been interesting to watch the free hand of the market work its creative magic across the one for woodland carbon over the past 12 months. Step by ingenious step, growth is creating opportunity which, in turn, is attracting new entrants offering better services and improved products.

For forestry investors, these are encouraging developments. The sale of a Pending Issuance Unit (PIU) which is, in effect, a promise to capture a tonne of carbon, entails various risks which the growth of demand, the rise in prices, and the launch of new products are all helping to mitigate.

No doubt, awareness of, and anxiety about, the consequences of climate change continues to grow. In October 2021, the Office for National Statistics reported that 76% of the UK population were either "very worried" (32%) or "somewhat worried" (44%) about the impact of rising global temperatures.

Corporate Demand Expands

These concerns, along with government legislation, are the impetus driving companies' environmental efforts forward and they are combining to generate growing demand for PIUs. Interest levels over the last 12 months have been characterised by strong levels of small-scale demand i.e., orders below 1,500 PIUs.

That seems likely to expand over the next 2 years as more companies become engaged. Large companies take time to design, coordinate and implement their net zero strategies and, with the market for woodland carbon relatively immature, understanding the feasibility and practicality of the various options takes time.

However, their commitment to their Net Zero targets is resolute and their interest in UK woodland carbon projects is genuine, so large chunks of corporate demand for PIUs seem likely to materialise over the next 12-18 months.

Indeed, a recent survey by Microsoft and Goldsmiths University found that just 41% of UK companies were *"credibly prepared to transition to net zero by or before 2050."* That figure is likely to rise next year with the government requiring large companies to publish their net zero transition plans from 2023 onwards.

Prices have Increased through 2022

This could offer further support for PIU prices which have continued their ascent over the last 12 months. In January 2022 we were reporting that productive conifer woodlands in southern Scotland were achieving £15 per PIU and their native, broadleaved counterparts in Northumberland were achieving £18 per PIU. Meantime, their southern kindred, being both more visible and more visited, were realising around £22 per PIU.

Since then, prices have increased another 30%. The owners of PIUs generated by conifer woodlands in southern and central Scotland could now secure £18 per PIU. A native woodland in Northumberland should be looking for £22 per PIU. Finally, PIUs from a broadleaf woodland in Essex that is situated on the edge of a village are being marketed for £28 or better.

New and Improved Services Emerge

Other ways to minimise or mitigate risks are also emerging for the owners of woodland carbon projects. Insurance policies, which offer both buyers and sellers of PIUs protection from the financial consequences of fallen or damaged trees (and their impact on carbon capture volumes) are now becoming available. Until recently, carbon-related insurance was only available if it was purchased in conjunction with timber insurance. From January 2023 onwards, it will be available to the *'buyers of forward-purchased carbon removal credits (i.e., PIUs) against under-delivery'* with a *'broader vision to create a portfolio of insurance products across the carbon markets ecosystem'* (i.e., to offer insurance to the sellers of PIUs as well).

In addition, we are working closely with a company developing an online platform through which Project Developers (i.e., companies, like CarbonStore, who undertake the registration, validation, and verification of woodland carbon projects) can market PIUs and Woodland Carbon Units (WCUs) which are available for sale.

This is likely to benefit the market for woodland carbon in three ways:

a) It will simplify and standardise the process for selling PIUs and WCUs which is likely to reduce transaction costs,

b) It will improve the information availability of projects from which PIUs and WCUs are available for sale and therefore make it easier for companies to buy PIUs and WCUs,

c) Finally, it will channel corporate demand through one single portal, as opposed to company representatives having to speak to various different Project Developers.

The combined impact of these three factors is likely to increase the flow of funds into the woodland carbon market and provide the necessary financial grease to expand the area of carbon-related woodland creation.

In time, this approach will be rolled out for other Nature-based Solutions, such as soil carbon or hedgerow carbon. For now, with the market for woodland carbon being the most advanced, it provides the best test bed for these new approaches.

Conclusion

The market for natural capital, in general, and for woodland carbon in particular, continues to evolve rapidly. Over the next 12 months, the interplay between the UK's intensifying economic headwinds and the rising interest in UK-based woodland carbon projects will be a key influence on prices for PIUs and WCUs. However, irrespective of any short-term price fluctuations, owners of woodland carbon projects can be confident that the various steps for monetising their assets, for mitigating their risks, and for realising their value will continue to be standardised, simplified and streamlined over the next year.

> 'Large chunks of corporate demand for PIUs seem likely to materialise over the next 12-18 months'

NATURAL CAPITAL

Stepping into the Light

Mike Caughlin
Forestry Investment Advisor, Tilhill

The natural capital market has continued to develop in 2022, with a number of large estates coming to market during the year, particularly in Scotland. These properties typically offer scope for substantial native woodland planting often combined with large-scale peatland restoration. In some cases, there is also potential for tree planting for timber production. Properties which afford the opportunity to benefit from all three of these activities in a single project can be very attractive to investors and may mean that a higher proportion of the asset can become revenue-generating as compared to some more traditional forestry investments relying solely on timber income. The carbon markets, built on carbon sequestration in native trees and carbon emissions reduction through peatland restoration, have added value to these properties and persuaded their owners now is a good time to sell. With many analysts predicting much higher future prices for carbon credits, this trend of increasing land supply to the market may continue for some time yet.

We have tracked natural capital opportunities closely this year. The market is sizeable and includes land that is suitable for only native tree planting due to access restrictions or designations such as national parks. It further includes peat, though not necessarily eligible for restoration. Finally, it includes farmland that is not arable and is also unsuitable for tree planting or peatland restoration, but may be suitable for nature restoration, biodiversity net gain or rewilding.

The market has a broader specification than that of commercial planting land, and hence is larger. **£80.7m of opportunities totalling 6,900 hectares** have been listed for sale across the UK in the past year. This excludes 3,000 hectares of crofted grazing that otherwise skews figures. **England** is the largest market with **£32.4m** of listings across **2,500 hectares**, followed by **Wales** with **£28.9m** across **2,100 hectares** and **Scotland** with **£19.5m** across **2,300 hectares**. The total areas are similar across the countries, but Scottish properties are around double the size of those in England and Wales. **Prices per gross hectare** are similar in **England** and **Wales** at **£13,200** and **£13,600**, respectively. Neither number is far from the commercial planting land values, showing that in some cases, land for planting native species for carbon isn't necessarily cheaper than for planting commercial. In **Scotland** the price is just **£8,500 per hectare**, showing how much the suitability for commercial forestry raises land prices north of the border.

The Woodland Carbon Code (WCC) has been with us for just over 10 years now and over the past few years there has been a noticeable rise in new plantings being registered under the code. This rise is illustrated by figures provided by WCC. As of June 2022, there were 387 validated projects amounting to 20,800 hectares, compared with 1253 projects and 40,900 hectares under development.

The Peatland Code (PC), which launched in 2015, is following a similar trend, albeit from a lower base. We are seeing interest in peatland restoration ramping up and new project registrations are rapidly increasing. By February of 2022, IUCN UK Committee, which oversees the PC, reported a total of 79 registered projects and 10,300 hectares of expected peatland restoration. Of these, only 11 projects or 1,600 hectares have progressed as far as validation.

It is probably fair to say that restoring peatlands can involve more complex operations than tree-planting and to some extent is still experimental. However, early projects have served to improve understanding of all aspects of these operations. A great deal has been learned and over time the resource base will build to increase capacity. With this will come greater market confidence and we can expect

the upward trends to continue. Scotland alone has set aside £250m for peatland restoration over 10 years. Assuming an average restoration cost of around £5,000 per hectare and a contribution of at least 15% from carbon finance (the additionality hurdle rate), there are sufficient funds to restore a little under 60,000 hectares. Given that 25,000 hectares are already in development under the grant scheme and there is a total of 1.5m hectares of peat in Scotland, there is likely to be a funding gap as more projects come forward.

The funding gap for peatland restoration applies equally to other areas of nature recovery and in October 2021, the Green Finance Institute (GFI) published a report titled *'The Finance Gap for UK Nature'*. The headline figure in the report is an estimated UK-wide funding gap of somewhere between £44bn and £97bn required for nature-related outcomes in the 10 years from 2022-2032. Expected outcomes are based on existing public policy and include clean water, protection/restoration of biodiversity, flood risk reduction, enhanced biosecurity and climate mitigation through bio-carbon. Taking the example of peat restoration, the report estimates a required spend of £920m to meet stated government targets, with a committed spend of £360m, leaving a shortfall of £560m.

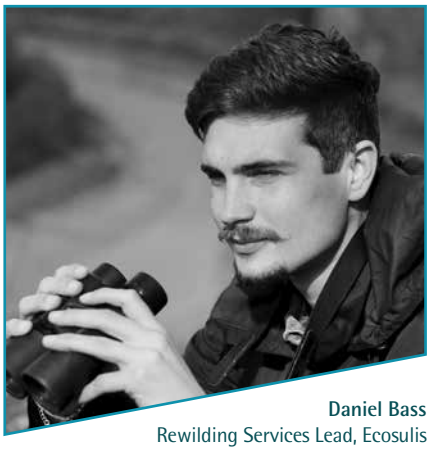
While the lack of necessary funding is very evident, equally there are many in the investment sector looking for opportunities to invest in nature-based solutions at scale. This has been recognised by an important follow-up to the GFI report, '*Financing Nature Recovery UK – Scaling up High-Integrity Environmental Markets across the UK*', published by the GFI in collaboration with Finance Earth and Broadway Initiative. This report acknowledges that public funding and philanthropy cannot be relied upon to deliver our environmental commitments and recommends a set of reforms to 'catalyse private investment to fill the annual £5.6bn financing gap for UK nature'.

Meanwhile, Tilhill has been increasingly involved in a wide array of natural capital projects, at scales of 20-30 hectares and upwards. These are primarily focused on native tree planting and/or peatland restoration but clients are now often asking us about the potential for other types of nature recovery projects.

Despite the tangible opportunities now offered by carbon income, one feature of many of the properties coming to market over the past year is that while they tend to offer carbon finance opportunities for planting and peatland restoration, there are frequently substantial areas of ground that offer no obvious avenues for improved returns over traditional activities such a grazing or sporting. In some cases, it appears as though there are signs of investor speculation that nature finance will offer new revenue opportunities for landowners in the coming years, as the necessary pipeline is built which connects large-scale private finance with nature-related benefits on the ground. Land-banking may become a more prominent feature of the market over the next few years as new markets for ecosystem services are established.

REVITALISING CONSERVATION

How rewilding is changing land management and rural business



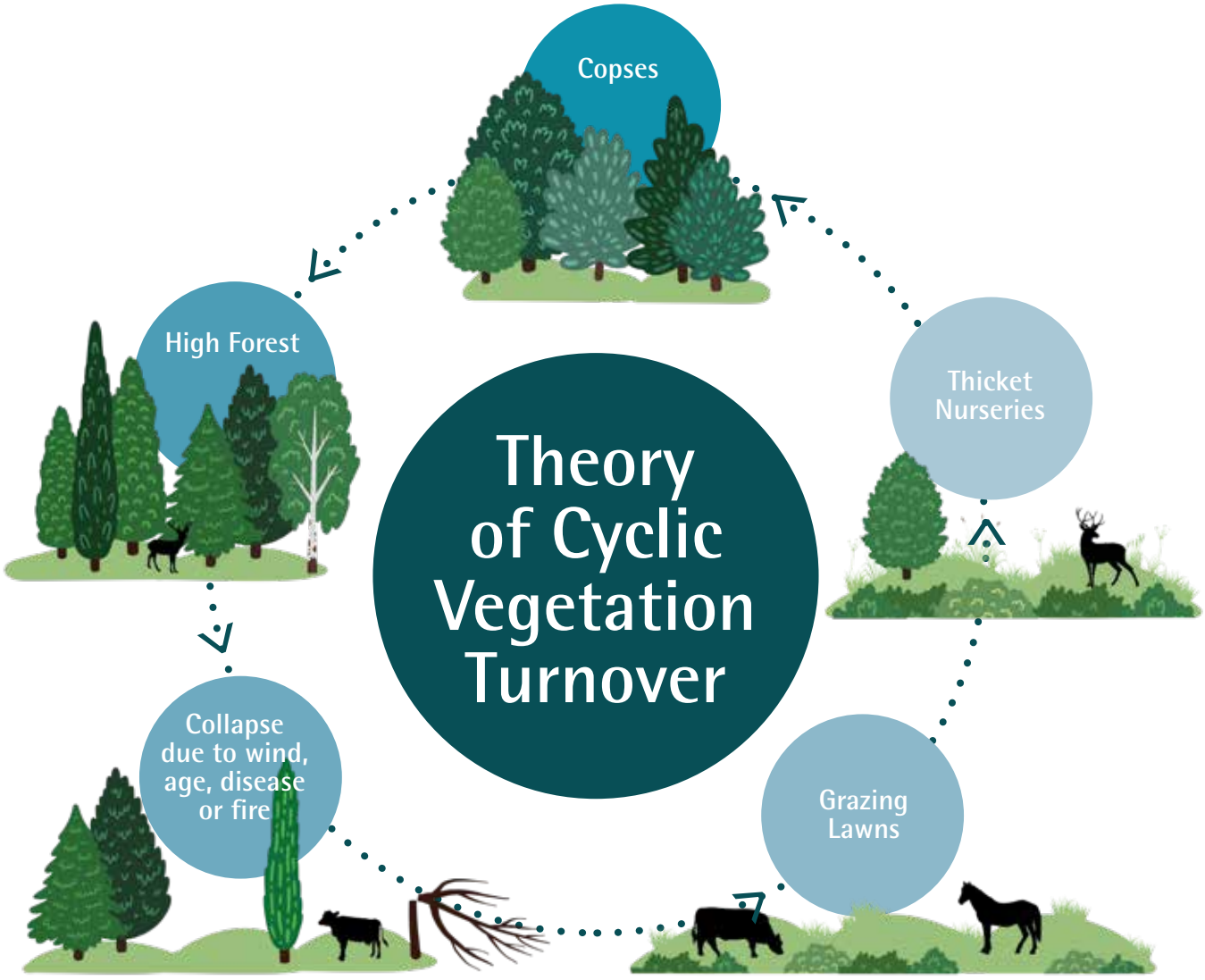
Daniel Bass
Rewilding Services Lead, Ecosulis

Underpinned by a hopeful narrative, rewilding has set a new ambition for conservation in 21st century Britain. It appears to have captured the zeitgeist and, in doing so, prompted a rethink on how our landscapes are constructed, who and what for, and why. But where has rewilding come from?

A leading post-1970s campaigning narrative focuses on apocalyptic climate collapse, biodiversity crisis and fixed time limits. This has been a powerful tool in shaping targets and awareness but, despite its truth, this confrontational messaging has not delivered the level of change needed to reverse nature's decline. Looking back at the 20th century, the conservation movement came to be led by a small number of large NGOs such as WWF and the RSPB. These organisations helped to raise the profile of nature conservation enormously. They carried out a huge amount of valuable practical and policy work, but their growing institutionalisation has also seen them sacrifice agility and adaptability. This feeds into conservation's 'innovation deficit' - the blend of managerialism, policy lock-in, caution, risk of membership losses, and limited resources that constrain experimentation.

Rewilding has swept in and connected a fresh scientific footing and bold aspirations with a concerned society searching for new ideas. Conventional conservation has often been concerned with managing nature to achieve target states and species, whereas rewilding is about reenergising ecosystem processes. There are three mainsprings to a rewilding approach; food web complexity, the ability of organisms to disperse, and natural disturbances such as tree fall and foraging. Rewilding projects are spaces of innovation, both physical and intellectual, applying and reassessing landscape-scale thinking on self-willed and self-regulating ecosystems. This represents a shift from a more defensive focus on nature protection to a proactive and positive agenda for nature recovery.

At one time it was taught a squirrel could get from one UK shore to another with a closed canopy 'wildwood' stretching across landscapes as far as the eye could see. However, a key insight of rewilding science is the role of large herbivores in creating ever-changing landscapes – patchworks of groves, thickets and grasslands. Dutch ecologists formalised this as a cycle where thickets develop in grasslands and provide protective thorny nurseries for new trees. Over time these trees shade out the thickets to create groves, which eventually collapse and die, allowing grassland to re-establish. People can help to steer this process by planting in a way that mimics different phases.



REVITALISING CONSERVATION – CONTINUED

Restoring free roaming herbivores in natural densities is now considered to be the most effective way to restore species-rich, disturbed, and varied landscapes. Their grazing and trampling diversify vegetation, their scuffing disturbs the soil, their dung creates nutrient patches, and seeds are dispersed in their coats. A guild of primitive cows, horses and pigs can act as functional substitutes for the lost aurochs, tarpan and wild boar. Native breeds may have old legacies of thousands of years and are usually best placed to mimic these valuable natural behaviours and add a wild character to landscapes. This can lead to connections with neighbours in cross-boundary mob grazing, livestock rearing and husbandry, with new ways to conserve rare-breeds and instil hardiness in animals.

For many considering rewilding, leaving the land alone to regenerate passively may not be financially feasible, nor would it capitalise on early-stage opportunities for nature. For example, left unmanaged a heavily improved pasture could take decades to recover. A matted sward could develop over compacted soil, choking new diversity that might otherwise take root. Similarly, with monoculture forestry, a helping hand may be required to guide the land system towards a dynamic habitat mosaic, moving from a neat asset with a limited range of 'ecospaces' for wildlife to rest, feed, breed and hide in, to embracing messiness with high structural diversity and an abundance of niches.

A common criticism of rewilding is that it removes the livelihoods and communities that are woven into traditional land management. In reality, a pragmatic rewilding approach sees humans as fundamental in the process - hyper-keystone species who have structured nature to produce commodities such as timber and crops but can also kick-start and steer ecosystems to generate different forms of value. Rewilding won't be right for all lands and people, but for some it could present an opportunity to integrate nature-based management and link to new funding from natural capital markets.

But what are the options?

Well, solving the linked climate and nature emergency is now a high-level ambition. The rise of Environmental, Social, and Governance, or ESG, is accelerating investor and corporate desire to become climate neutral (do no harm) and nature positive (contribute to environmental and social values). There are new regulations requiring net positive in areas of commerce, and there is a growing landowner desire to move into nature-based value generation. COP26 and the UN decade of Ecosystem Restoration has driven these agendas forward and there is a demand for multidisciplinary solutions and a renewed focus on biodiversity.

To meet these opportunities, tools are required, namely nature positive 'goods' that can be produced, traded and invested in. This needs metrics that convert ecosystem function and services into units of enhancement akin to, for example, a ton of carbon, with data feeds that are trustworthy, scalable, and verifiable. A new framework developed by Ecosulis, 'NARIA' (Natural Asset Recovery Investment Analytics), translates key dimensions of ecosystem integrity such as food-webs, ecological connectivity and vegetation niches, into metrics based on robust and cost-effective indicators. The impact of rewilding is then forecasted to model the expected 'uplift'. The framework measures rewilding progress to tell and predict the story of change, enabling investment into projects via natural capital investment products.

Ecosulis' 'Nature Impact Tokens' are one such product, enabling corporate buyers to own a stake in verified nature recovery, providing a vehicle to report ESG, TNFD, and net positive commitments in a quantified and evidenced way. This is significant in de-risking greenwashing allegations and enhancing brand, reputation and PR.

The Green Finance Institute estimate that there is a gap of £56 billion over the next 10 years to meet the UK's intended nature-related outcomes. This will require multiple solutions across public payment schemes and private markets. The purpose of the Nature Impact Token is to scale rewilding by making it investable, providing new revenues to landowners and supporting a transition to mixed nature enterprises. Unless rewilding can pay, it is not going to be a scalable alternative or addition to existing land systems. Nature Impact Tokens therefore contribute to an expanding pool of financing options that we hope can together accelerate rewilding.

SUSTAINABLE LAND USE

Natural capital alpha?

Robert Guest
Managing Director, Co-Lead
Foresight Sustainable Forestry
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With the war in Ukraine, inflation running high and exceptional economic turbulence including rocketing UK GILT yields, the basis of all UK asset valuations has recently been called into question.

But what does all this mean for UK forestry and woodland?

Some observations:

- A weak GBP makes imports relatively less attractive and increases demand for local supply.
- UK forest owners are typically unleveraged, insulating the market from rises in base rates.
- Russian timber (20% of global timber trade) is classified as conflict timber, so the supply of certified timber is tight.
- On the demand side, while there are stagnating levels of global growth and a Chinese housing crisis, governments are looking to 'build back better' to fend off recessionary pressures.
- Within the context of the European energy crisis, bioenergy is competing fiercely for small roundwood.
- The impact of Storm Arwen is working its way through the system and the inventory levels of wood processors are re-balancing after historic Covid highs.
- Many forest owners have chosen to leave value biologically growing 'on the stump' in anticipation of hungry supply order books in the not-too-distant future.

> 'Forestry and afforestation are the ideal entry points for investors looking to enter the land-based sustainable investment space'

Historically, UK forest assets have shown strong resilience to financial shocks and inflation. And overall, despite the ups and downs, there are several compelling reasons to feel positive. The question on everyone's mind, however, is whether the apparent increase in the risk-free rate must translate into a higher cost of capital for UK land and forestry investment.

The theory is clear, but participants may have an ace up their sleeves, natural capital alpha.

At a time when risk-free, risk premium and risk beta are under review for every asset class, this may present an opportunity to start properly valuing natural capital. Land, soil, ecosystems and nature are the basic building blocks of global health, wealth and wellbeing. It is widely accepted that a consistent failure to look after our natural capital assets will result in climate catastrophe, food shortages and trophic collapse in natural ecosystems. Basic logic tells us that there can be no financial returns if we destroy the fabric of our existence!

So, looked at from a risk management perspective, there's a massive financial incentive to protect and replenish natural capital stocks. But where there is risk there is also opportunity. What about massively increasing and enhancing natural capital, rather than just slowing its demise?

With excellent, risk-adjusted return profiles, forestry and afforestation are the ideal entry points for investors looking to enter the land-based sustainable investment space. Freehold ownership and revenues from the sale of sustainable home-grown timber, as well as tourism, sport, sustainable farming and renewable energy, all provide a strong underpinning.

On top of this, with exponentially increasing levels of demand for the provision of natural services such as carbon removal (e.g., woodland creation), emissions abatement (e.g., peatland restoration), flood mitigation, water quality/attenuation, soil improvement, positive social/education/health impacts, biodiversity net gain and nature positive units, it's becoming apparent that the land within, beneath and adjacent to forest and woodland has even more to offer than was previously thought.

The systems and controls for validating, monitoring and allocating credit are complex. There are challenges to solve, and integrity will be critical for mass scale-up and investment to successfully deliver material outward flows of natural capital services to society.

The best way to successfully achieve positive change from land-based projects is to deliver financial returns and natural capital services in combination, not in competition, with each other.

Risk-free rates might be under review. But if you believe that there is an embedded global supply shortage of sustainable timber and in the concept of natural capital alpha, then this should be a green light moment for the sector.

MARKET BACKGROUND

This research is a snapshot of the commercial forestry market in the year to September 2022. Woods sold 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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