



Seeing the Wood and the Trees

Commercial forestry is booming as architects turn to sustainable wood – and the UK is at the forefront of investment returns.

– By David Robertson

While investment in commercial forestry may sound dated in today's fast-paced and high-tech world, those who are "in the know" will tell you the UK forestry scene is booming, and providing financial returns for investors that for over two decades have outstripped commercial property, gilts and equities.

Global Commodity

Timber is a truly global commodity and with the UK being the third largest importer of sawn softwood lumber in the world after China and the USA, the supply chains in the UK are starting to feel the pinch in the fight for the global timber resource. In 2016, 24% of world sawn wood was used in Europe, 27% in North and Central America, and a massive 38% consumed in Asia with China dominating that figure.

The ongoing growth of demand for sawn timber in China is proving to be a major disruptor for the "normal" trade routes for raw material, especially from North America and Pacific Rim nations. With China's ambitious Belt and Road Initiative (BRI) having potential to link regular UK supply lines in Europe to demand farther east, this puts significant pressure on UK timber supplies.

Greater Innovation

This pressure on supply comes at a time when architects and designers are turning to wood more and more to allow them to design buildings utilising timber's unmatched sustainability credentials and enhanced technical qualities. High-quality timber frame housing, which dominates over 70% of the new build market in Scotland, has significant potential to infiltrate south of the border to provide the ability to meet the ambitious UK housing targets for the years ahead. Off-site manufacturing in highly efficient factory environments not only allows for an extremely high quality of finish but also considerably lower wastage of material. The further use of technological advancements such as I Joists and Cross Laminated Timber (CLT) allow wood to be used in place of traditional steel loadbearing members and over greater spans.

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Home Grown

The world-leading processing sector in the UK has a hunger for raw material grown in the traditional commercial forestry areas of the nation and politicians have to consider their approach to providing a homegrown resource to meet this demand.



These figures outperform UK equities, gilts and commercial property returns over all periods.

It is worth noting that these forestry returns are entirely free of income tax, provide 100% IHT shelter and have limited exposure to Capital Gains Tax.

Each country within the UK has a strong commitment to expanding forestry cover, but none more than in Scotland where the aim of the Scottish Government is to grow forest cover from the current 18% to 25% by 2050. This is being achieved by setting new planting targets of 10,000 hectares per annum up to 2020, rising to 15,000 per annum by 2025. To stimulate this there are extremely attractive, tax-free, capital grants available to assist with funding the establishment process.

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For those domiciled in the UK, or with UK tax considerations, forestry provides a real asset-based investment with excellent tax and wealth preservation advantages. For both domiciled and non-domiciled investors, the strong performance in UK plantation capital values also provides excellent opportunities for real asset-based investments. With the drivers of global demand and limited supply this is a position likely to persist over a long period. 

Returns

What does all this mean for the investor in UK commercial forestry? The current MSCI IPD Annual UK Forestry Index shows total returns for 2017 at 13.9%. Annualised figures for three, five, 10 and 25 years were 11.6%, 13.6%, 15.7% and 9.2% respectively.



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Scottish Woodlands Ltd was established in 1967 and is an all services forest management company based in Edinburgh, UK. They specialise in acquisition and management of UK based forestry assets for private and corporate investors from the UK and overseas. For more information visit www.scottishwoodlands.co.uk or email david.robertson@scottishwoodlands.co.uk

