

UK Rural - April 2022

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**SPOTLIGHT**  
*Savills Research*

# The Forestry Market



Planning for the future • Forestry investment • Tree planting • Funding

**£262.7m**

the value of the forestry investment market during the 2021 forest year

**30,000ha**

of woodland to be planted annually to meet new government targets

# Planning for long-term success

To ensure that existing and future forests and woodlands are fit for purpose, we need to understand and plan what tree species are planted, where and importantly, what for

The mantra of “right tree, right place” remains critical, but in this year’s *Spotlight* we argue that a better understanding of “right tree, right place for the right outcome” is required to ensure that our existing and future forests and woodlands are fit for purpose.

Historically, forestry’s appeal as an asset class mainly related to the income potential from timber harvesting and capital appreciation of the property, both in a tax efficient environment. More recently, a considerable amount of activity in the sector is tied into the important role trees play in combating climate change, along with their benefits to society and other environmental contributions. However, is this beginning to come at the expense of the long-term drivers and economic needs for timber supply? And what practical solutions are there to ensure that our short-term ambitions don’t hamper our long-term needs?

## MANAGING EXPECTATIONS

Much has been made of the devolved governments’ ambitious tree planting targets as part of the net zero challenge and the mounting interest from institutional investors for land for tree planting. This interest in afforestation is courting controversy partly because it focuses largely on sequestering carbon to combat climate change. Understandably, communities impacted by the government’s land use change ambitions are questioning whether this is setting an uneven playing field in the land use debate.

In order to mitigate the impact of potential land use change, compromises are being made to woodland design guidance that seek to be “all things to all people”. This is happening without much thought about the long-term productivity of the woodland being created. Our research shows that newer woodlands (0-20 years) have on average 15% less productive area than older woodlands (60-80 years), and not all of this loss of productivity is down to land quality. Schemes can almost resemble wooded parkland, rather than woodland with designed open space.

The UK has a very well-developed design framework delivered through the Woodland Assurance Standard (UKWAS). This gives minimum components for open space and diversity of species to promote biodiversity and the wider environmental benefits of woodland. Current policy states a minimum

area of designed open space, however physical and other constraints also dictate where trees can be planted. Other land – for example, deep peat or a scheduled monument – will reduce the planting area. However, increasingly, consultation with stakeholders over a wide range of issues is heavily impacting the proportion of a site that can be planted. While much of this is laudable in the short term, it does risk compromising the integrity of the woodland assets being created and delivering questionable long-term benefit, as the protected interests often change over time.



**-15%**  
**Our research shows that newer woodlands (0-20 years) have on average 15% less productive area than older woodlands (60-80 years)**

## CONSIDER THE LONG-TERM OUTCOMES

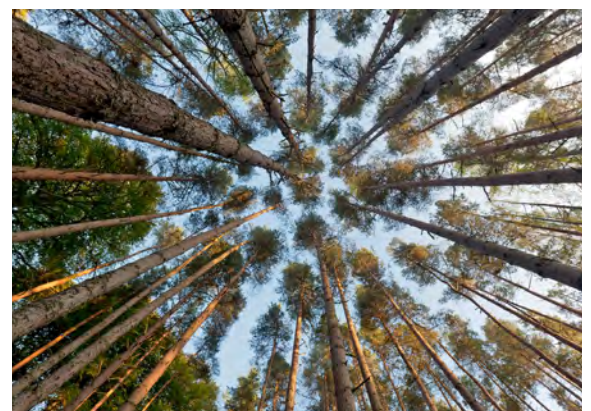
Land use decisions are complex, but the current focus on the environment risks the creation of a generation of woodlands that suffer from lost opportunity. Short-term decisions to preserve existing biodiversity fail to account for the lack of future income associated with it or its viability as woodland within the changed landscape. Our analysis shows that the non-productive parts of woodlands are now valued at around one fifth of the productive parts of the woodland. To give an example, a 100 hectare woodland could have 75 hectares of productive timber and 25 hectares unproductive trees and open land

for biodiversity to be UKWAS compliant, but the same area with 50 hectares of timber and 50 hectares of unproductive would see income fall by a third, with no significant additional environmental value created from the 100% larger unproductive area. It also means the actual land required to meet the government’s new planting targets (30,000 hectares to be planted annually) will far exceed the area planted with trees; for instance if 25% of the land required is unproductive, to plant 30,000 hectares requires an additional 7,500 hectares per annum taken out of alternative management systems, mainly for essential food.

## GOVERNMENT POLICY

The government could step in here to develop payments that recognised the long-term value to society of the ecosystem services that non-productive spaces provide (in water, air, access and biodiversity). They could also develop a clearer offset system to recognise the opportunities from woodland creation. The more that these values can be monetised and made to be enduring (*figure 1*), the more viable woodland creation will be.

In a country where land use change is under increasing scrutiny and land availability is finite, it is imperative that we make the most out of the land. In some instances that will require a decision in favour of one use, that may be at the detriment of another. A clearer woodland creation hierarchy that considers the full lifetime value of the forest would assist here. Ultimately, policy should be driving a balanced approach that leads to the right tree, in the right place, with the right outcome, enabling truly long-term sustainability.



“In a country where land use change is under increasing scrutiny and land availability is finite, it is imperative that we make the most out of the land”

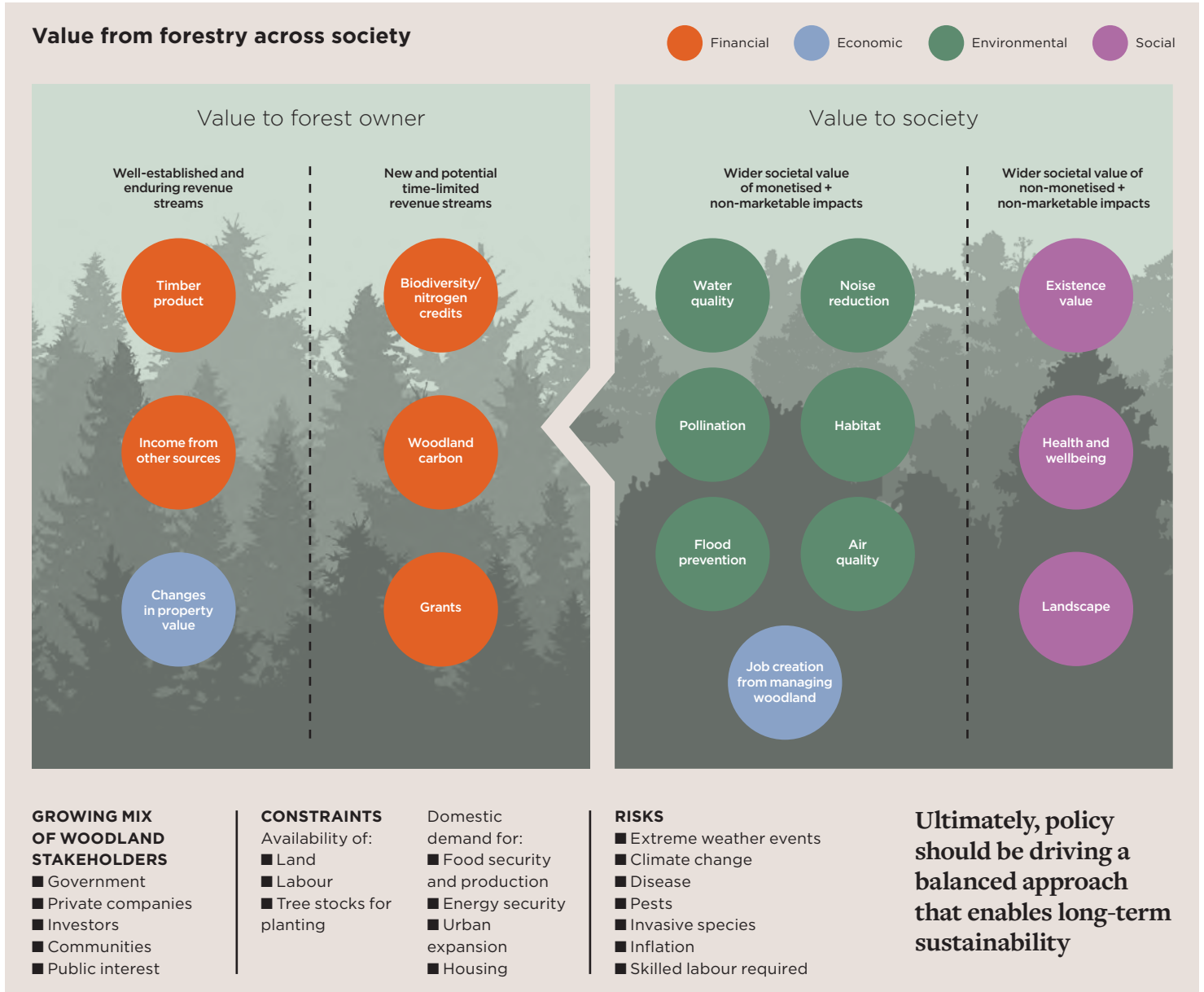
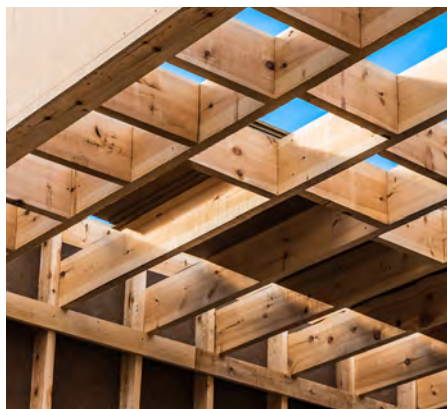


figure 1

## THE CARBON PROBLEM

Carbon payments are an increasingly interesting mechanism to provide income from new woodland, but they will only be available while the woodland is growing and not when it has reached maturity. Also the sale of units comes with conditionality to the seller, in terms of the requirement to maintain the woodland, etc. This limits the appeal of carbon, as it could inhibit future flexibility. To address this, carbon income could be made to be enduring by developing carbon-accredited timber markets, enabling further growth and sales of carbon from woodland.



## COULD HOMEOWNERS BE PAID TO STORE CARBON?

Timber used in construction provides a vital store of carbon and its technical readiness is unquestionable. Locking carbon away in buildings provides an easy and immediate carbon capture and storage solution, unlike biomass or air capture systems, which are a decade or more from deployment. Carbon investors could look to incentivise homeowners and developers to store carbon offsets, creating valuable markets for timber products in the process.

“ Since 2011, there has been strong growth in the total value of the forestry investment market ”

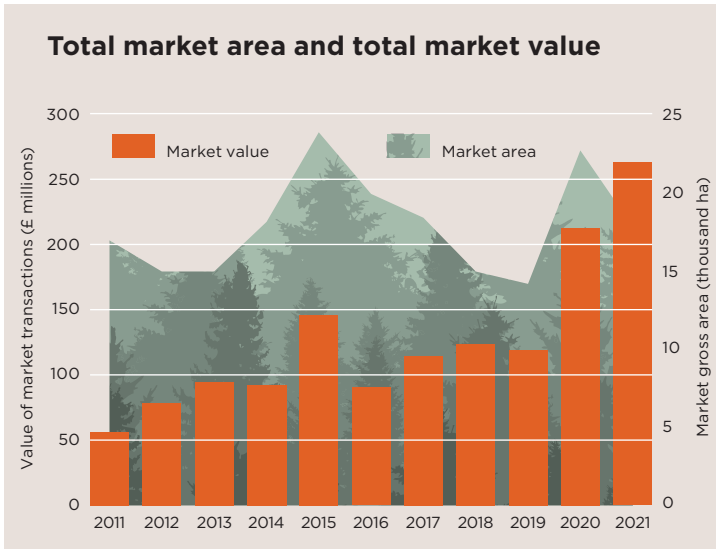


figure 2

Source Savills Research

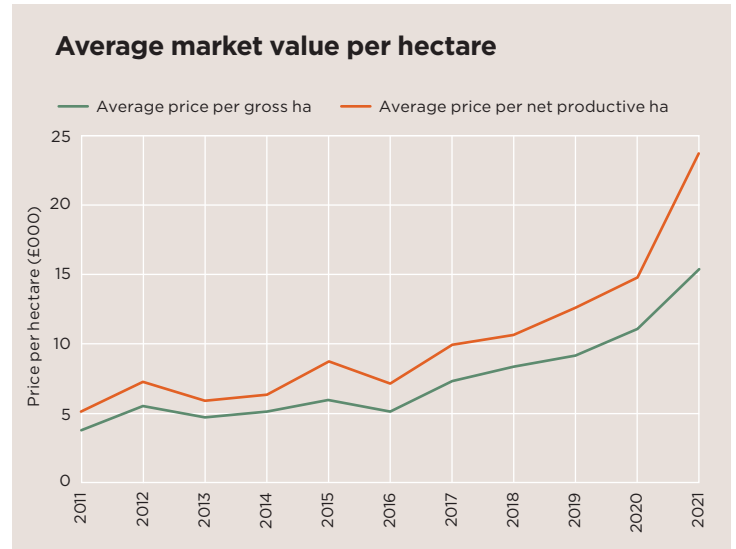


figure 3

Source Savills Research

# Forestry investment analysis – review of the 2021 market

The value of the UK market has increased with a significant jump in average values

Our research on the UK commercial forestry market is based on our database of all mainstream forest sales over 20 hectares in area and, where we are aware, off-market and private transactions.

## MARKET AREA AND VALUE

Figure 2 illustrates that since 2011, there has been strong growth in the total value of the forestry investment market. This correlates with society’s accelerated interest in sustainability over recent years and the knowledge that trees and managed forests play an important role in reducing carbon.

The value of the UK forestry investment market rose significantly to £262.7 million during the 2021 forest year (1 October to 30 September 2021). This represents a 23% rise in the overall sales value compared to 2020. Interestingly, the number of gross hectares sold fell -22% to around 17,700 hectares during the 2021 forest year (figure 2), but is in line with the medium term average of 18,000 hectares. Within this market, there was for the second year a high proportion of off-market activity, with deals based on verified valuations increasingly common. Our 2021 *Spotlight* on the UK Forestry market reported a rise in off-market sales compared to publicly marketed properties over the last few years. During the 2021 forest year at least 28% of sales were privately marketed. This

compares to 32% in 2020 and an average of 14% over the previous four years.

## AVERAGE FOREST VALUES

Our autumn 2021 *Market in Minutes* publication on commercial forestry reported record-breaking prices for the 2021 forest year. Further research, data validation and analysis of the sales data confirms this, with the average gross value increasing by 39% to just over £15,000 per hectare. Within the

properties sold during 2021, the average price per net productive (conifer) hectare rose by an astonishing 61% to £23,720. The relationship between the value of the total (gross) forest area and the productive tree stocked area, capable of producing a crop of timber is important. The unproductive area has historically received a relatively low and fairly constant value, with the investment performance driven by the value of the productive area.

Figure 3 illustrates a widening gap in the price of a net productive hectare compared to the price of a gross hectare. During the 2021 forest year the difference was 55%, which compares to an average of 34% difference in the previous 10 years. This is a result of very strong unit pricing for conifer stands, especially for mid-rotation timber, where there is a strong expectation of considerably better timber pricing as the demand for low carbon homes and timber utilisation in construction manifests over the next 20 years.

The size of the productive area influences forest values. Anecdotal evidence suggests current forest design guidance is compressing productive areas and this will impact future potential, both in terms of productive capacity and capital value. As highlighted on page 2, closer analysis of the data suggests, on average, the older the forest, the larger the productive area (figure 4).

**Closer analysis of the data suggests, on average, the older the forest, the larger the productive area**

Forest age	Average % of productive area
0-19 years	64%
20-39 years	76%
40-59 years	80%
60-80 years	79%

figure 4

Source Savills Research



**5,692ha**

of forestry sold in North Scotland during 2021, with average values rising 41% on the 2020 forest year

**90%**

increase on the 2020 forest year in the average price of commercial forestry traded in England and Wales

## Regional performance

The value of a forest property is dependent on a growing number of regional variables

Although every forest property is unique and average values do hide a growing number of local variations – location, access, species, age and timber volume – average values provide a useful basis for trend and comparable analysis.

### NORTH SCOTLAND

Average forestry values across North Scotland are historically lower than more southerly areas of Scotland, England and Wales. This is due to the location and physical characteristics of the region. North Scotland is typically viewed as returning a lower income from the timber produced. However, in more recent years, as the demand for forestry has accelerated, buyers are seeing the potential opportunity to improve the performance of traditionally less popular properties through new technology, improved species and management techniques. Following a year of strong market activity during 2020, the area reported the second largest market share (32%) across Scotland, England and Wales and average values rose by 41% to £10,261 per hectare during the 2021 forest year.

### CENTRAL SCOTLAND

In line with recent years, market activity here remained strong with average values rising by 29% to £23,476. Central Scotland returned the largest market share of 33%, with just over 5,800 hectares sold. Interestingly, according to our sales database, in

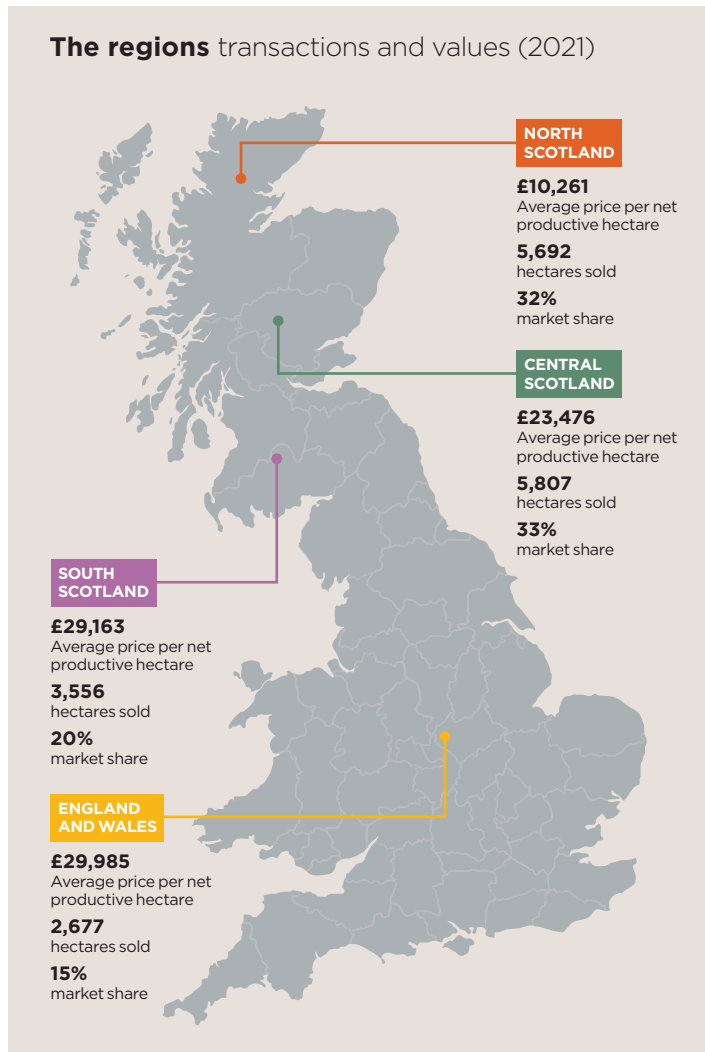


figure 5

Source Savills Research

terms of the most hectares sold across Scotland, England and Wales, Central Scotland has been positioned first or second every year throughout the past 10 years, a reflection of the large scale of some of the property in this region.

### SOUTH SCOTLAND

Our research indicates the number of hectares sold during the 2021 forest year across South Scotland fell by -8% to 3,556 hectares. Prior to 2016, the highest average price across Scotland, England and Wales was South Scotland. Since 2016 values in England and Wales have risen to the top spot, with the difference in price widening to £6,000 per hectare on average in 2018. However, during the 2021 forest year, the average price per productive hectare in South Scotland doubled on the back of some very strong sales of large scale, mixed age commercial forests, to £29,163 per hectare, narrowing the price gap between the two regions to just over £800.

### ENGLAND AND WALES

The average price of commercial forestry traded in England and Wales is just under £30,000 per hectare. This equates to a 90% increase on the 2020 forest year. The number of forest hectares transacted in England and Wales fell by around 1,000 hectares to 2,677 hectares during 2021, and capital prices were very strong, correlating to exceptional timber prices, especially in Wales.



## UPDATE ON TIMBER MARKET 2022

The conflict in Ukraine is having an impact on forestry and woodland, immediately through the rapid rise in the price of fuel, but also due to the importance of Russia as a timber exporter. On top of extensive winter storm damage and a continued lethargy in consenting to new planting projects, the current season is proving to be a tricky one. To put it into context, more timber was felled by storms in the UK this winter than we managed to plant last season. Russia is a major exporter of timber, including paper and wood pellets, worth over \$12bn in 2021 (Source: Wood Resources International LLC), so with western export markets shut off, timber prices are likely to remain high. It is unknown whether major economies in the east will absorb Russian supply. There is also a strong possibility that post-conflict rebuilding efforts will be in timber, fuelling long-term demand. The extent to which major economies in the west struggle economically will impact on the outlook, but commodity-based investments are likely to do well. We are for instance already seeing anecdotal evidence of increased demand for firewood for next winter to counter high energy prices in rural areas.

**3.2m ha**      **£19.94**

the area of woodland in the UK as at 31 March 2021

the average carbon price across the four Woodland Carbon Guarantee Auctions is £19.94/tonne of carbon

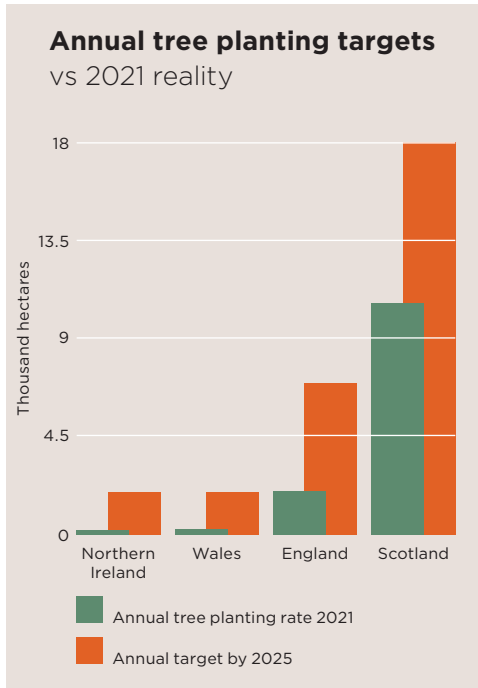
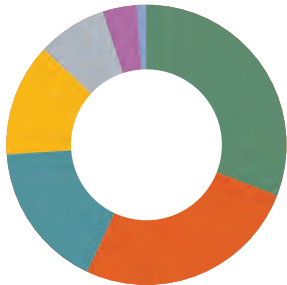


figure 6

Source Savills Research

**UK LAND USE 2020**

- Grassland **31%**
- Cropland **26%**
- Rough grass **17%**
- Forestry **13%**
- Urban development **8%**
- Other natural land **4%**
- Freshwater **1%**



# How many trees do we need?

If the UK is to meet its net zero target, over 30,000 hectares need to be planted with trees every year

Currently, 13% of the UK's total surface area is forested, which is almost three times more than in 1905, when the Forestry Commission began recording data. However, the Climate Change Committee (CCC) has said the UK needs to increase its forestry cover from 13% to at least 17% by 2050, if it is to reach its legally binding net zero emissions target of 2050. Trees sequester carbon as they grow – the CCC reports that increasing UK woodland cover by 4% would deliver annual sequestration by 2050 of 14 MtCO<sub>2</sub>e, with an additional 14 MtCO<sub>2</sub>e from harvested materials. To reach this tree cover requirement, over 30,000 new hectares of land need to be planted with trees every year.

trees per year, in order to achieve 12% woodland cover in England by 2050. This equates to 0.08% of farmland in England being converted to woodland each year. Across the home countries, performance against these targets varies greatly, with Scotland nearest its target at 59%.

**FINANCING TREE PLANTING**

In order to incentivise woodland creation, the government is increasing the public funding available to support land managers with the upfront costs of planting new trees. Government grants in England can provide up to £10,000 for every hectare of new woodland created. See the table opposite for the details of the grants available across the devolved nations. It is important to remember that although these grants contribute to the initial costs of woodland creation, they do not provide long-term finance for forestry. The value of commercial forestry is realised as timber income, which takes a minimum of 30 years to generate, and is dependent on timber values at that time. Less commercial woodlands are often reliant on a diversification such as a tourism or leisure enterprise to generate an ongoing income stream. Private markets such as carbon also offer potential income streams for woodland creation.

**TREE PLANTING TARGETS**

The UK government took the CCC's advice and has committed to upscaling tree planting to 30,000 hectares each year by 2025. Exactly how this target is split between devolved nations is less clear. However, each nation has put forward its own tree planting target (figure 6). Between 2020 and 2021, 13,300 hectares of new woodland were created in the UK, which is equivalent to 44% of the UK's overall target.

In England, the government wants to treble tree planting rates by the end of the current parliament to at least 7,000 hectares of new

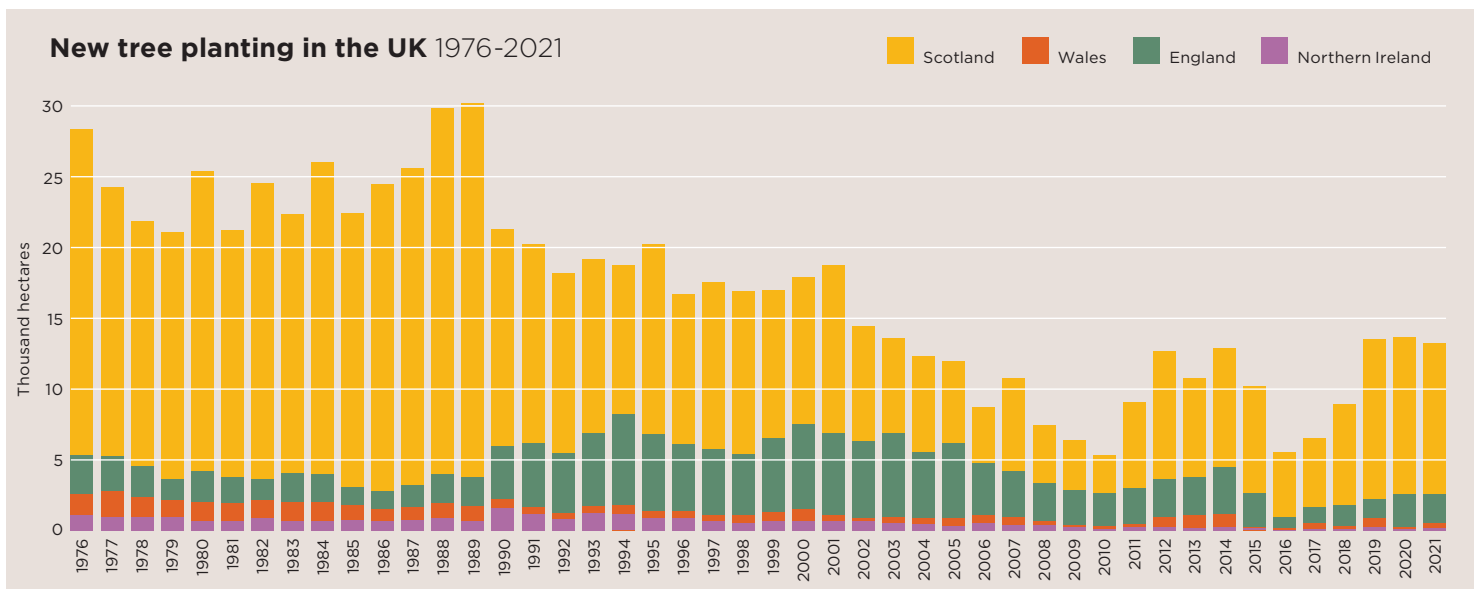


figure 7

Source Forestry Commission, Natural Resources Wales, Forest Service, grant schemes

“ In order to incentivise woodland creation, the government is increasing the public funding available to support land managers with the upfront costs of planting new trees ”

### Grant funding available for woodland creation

Grant	What does it fund?
Woodland Creation Planning Grant (England)	Provides funding to prepare a Woodland Creation Design plan that is UK Forestry Standard (UKFS) compliant.
England Woodland Creation Offer (England)	A flagship new grant scheme to encourage investment in woodland creation. It provides support for capital items and activities to establish new woodland.
Countryside Stewardship (England)	There is a range of funding available for woodland creation through CS options – grants for woodland management plans, as well as grants to improve the health of existing woodlands.
HS2 Woodland Fund (England)	Provides funding for woodland creation and restoration of plantations on ancient woodland sites. Land needs to be within a 25-mile zone of phase one of the HS2 route from London to the West Midlands.
Forestry Grant Scheme (Scotland)	An initial planting payment available and annual maintenance payments of up to five years alongside capital grants for fencing and tree protection.
Glastir Woodland Creation Grants (Wales)	Four different grant categories are available, each based on a generous capital grant paid on completion of the initial planting works, followed by 12 years of maintenance payments and woodland creation premium payments.

### BARRIERS TO PLANTING

Despite the drive to plant more trees, there are significant barriers to upscaling tree planting across the UK:



The slow timescales of the planning process (for planting approval)



Stakeholder and community engagement can take time



The lack of nursery stock



Disease



Labour



Extreme weather conditions



The practice among regulators that woodland design needs to meet all objectives, often diluting the amount of trees planted on any given site and therefore not optimising land-use change.

## Food vs trees

### How woodland can support existing rural businesses

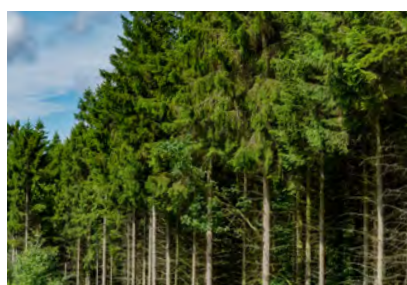
For many farmers and rural land managers, the decision to change land from producing food to growing trees is not an easy one to make and nor should it be. Ultimately, decisions will be based upon terrain, soil type, climatic conditions, location and each individual rural business model. However, alongside the environmental drivers of tree planting, there are additional benefits to woodland creation that can support existing rural businesses.

■ **Agroforestry** This has received growing interest over the past five years. It focuses on integrating trees with livestock, arable or horticultural systems. There is still investment needed to make agroforestry mainstream in the UK.

■ **Scale** Land managers don't have to plant the whole of their farm with trees. Establishing smaller pockets of woodland is good for increasing environmental connectivity. Planting copses in areas that are less productive can aid with creating more efficiently-shaped fields – for example, by planting trees in awkward corners. It is important to make sure tree planting is at an appropriate density if future timber production is an objective.

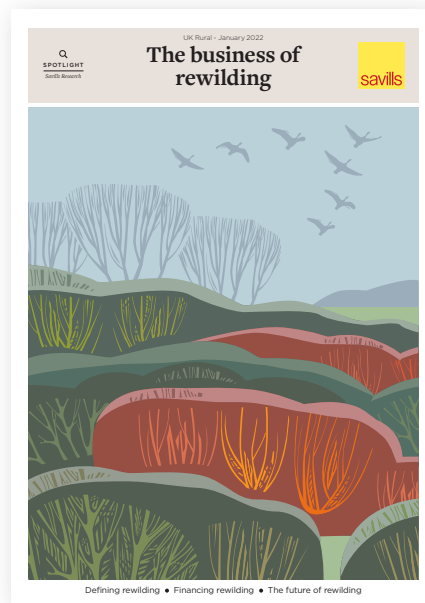
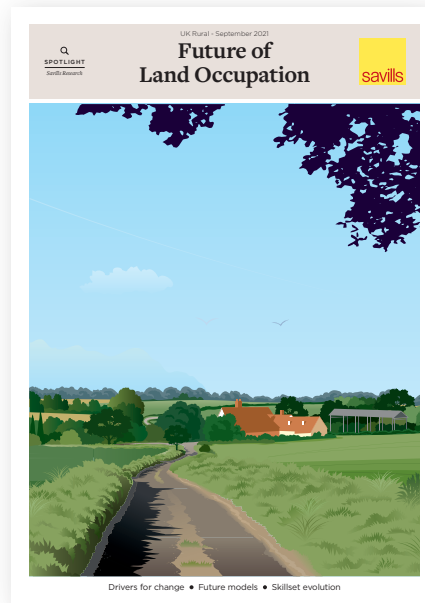
■ **Public access** Planting woods with the intention of creating new footpaths within them can help land managers meet community expectations of and requirements for public access, without having to compromise on more productive parts of the farm, where public access could carry a risk.

■ **Biodiversity** A diversity of tree species and habitat types supports farm wildlife, which strengthens the resilience of natural ecosystems.



### THE CARBON POUND

Selling sequestered carbon to the private offsetting market is seen as a key way to incentivise land managers to plant new trees. The most common accreditation in the UK is the Woodland Carbon Code (WCC). As of March 2021, there are 708 woodland creation projects under the WCC, which represents 31,000 hectares of new woodland that will over their lifetimes sequester 1.1 million tonnes of CO<sub>2</sub>e. The private market for carbon offsets is in its infancy and there is a need for clearer governance of the marketplace. Carbon prices vary too and so far there is no standardised register to track them within the offsetting market. However, across the four Woodland Carbon Guarantee Auctions in England since 2020, the average price for woodland carbon is £19.94 per tonne of carbon.



## Savills Research

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**Analysis methodology:** Our research analyses our transactional database of forest sales. This database collates data from all mainstream forestry transactions over 20 hectares in area and, where we are aware, off-market or private sales. While every effort is taken to ensure all transactions are included within the information presented within this publication, it is very likely that further sales are reported after our publishing. Therefore, this Spotlight on the UK Forestry Market takes into account all new available information.

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