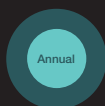




## IPD UK Forestry Index

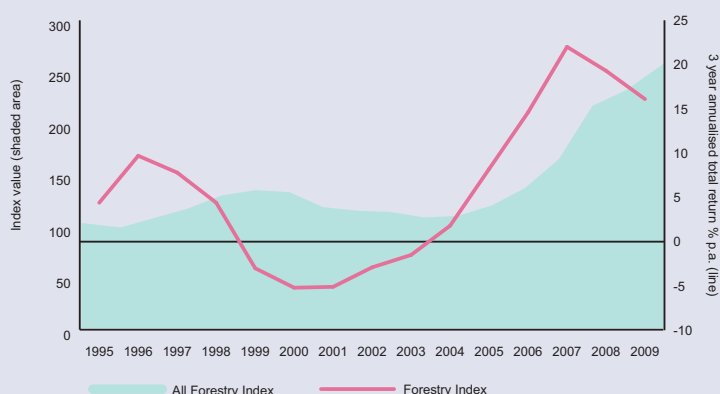


Results for the year to 31st December 2009

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### Historical performance



The IPD UK Forestry Index is calculated from a sample of private sector coniferous plantations of predominantly Sitka spruce in mainland Britain and in 2009 returned **11.1%**.

### IPD UK Forestry index returns

		Annualised total return %				
Forestry	Dec 1992=100	2009	3 yrs	5 yrs	10 yrs	17 yrs
Total return	251.4	11.1	16.1	16.6	8.1	5.6
Timber price change*	66.7	6.6	6.1	8.8	0.9	-2.4

\* On a year to March basis (2009 = March 2010)

### Comparative data - Total return

	Equities	Bonds	Commercial property
3 yrs	-1.3	6.9	-8.0
5 yrs	6.5	5.5	1.8
10 yrs	1.6	6.0	6.4
17 yrs	7.8	7.6	8.9

Data sources: Forestry Commission Nominal Price Index of Coniferous Standing Sales (for Great Britain), FTSE All-Share Index, FTSE UK Gilts Index 5-15 yrs, IPD UK Annual Property Index

### Sponsors of the IPD UK Forestry Index

Bidwells, Border Consultants, Close Asset Management, ConFor, Eamonn Wall & Co. Forestry Investment Management, Forestry Commission, Fountains Forestry, Highfield Forestry, Scottish Woodlands, UPM Tilhill

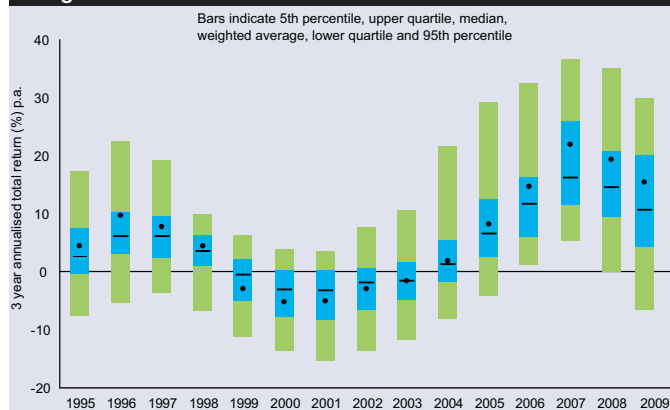
### Disclaimer

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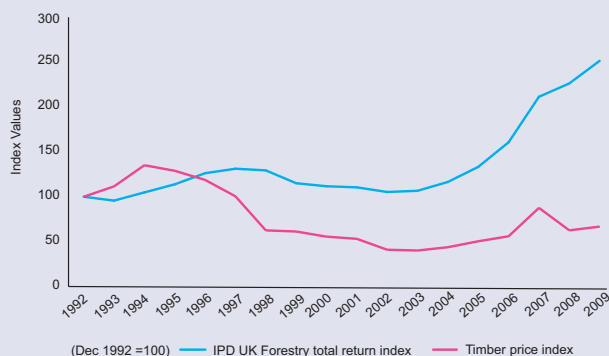
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# Summary of full results

## Range of individual forest returns



## IPD UK Forestry total return index vs timber price index



### 3 year rolling annualised returns

(% p.a.) 3 year	Weighted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
1999-02	-2.9	7.8	0.7	-1.8	-6.8	-13.7
2000-03	-1.5	10.7	1.7	-1.7	-5.0	-11.8
2001-04	1.8	21.6	5.4	1.2	-1.7	-8.3
2002-05	8.2	29.2	12.5	6.6	2.5	-4.1
2003-06	14.6	32.4	16.3	11.7	6.0	1.1
2004-07	22.0	36.7	26.0	16.2	11.5	5.2
2005-08	19.3	35.2	20.9	14.5	9.3	0.0
2006-09	16.1	29.8	19.3	11.4	5.9	-6.1

### 5 year rolling and long term annualised returns

(% p.a.) 5 year	Weighted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
1999-04	0.2	10.3	3.0	0.2	-3.1	-9.5
2000-05	3.6	12.7	5.5	2.2	0.1	-5.3
2001-06	7.8	22.4	10.3	6.1	3.5	-2.0
2002-07	15.0	26.0	16.7	12.8	7.6	-0.3
2003-08	16.2	28.5	17.9	11.7	7.7	0.3
2004-09	16.6	26.3	18.9	13.0	8.5	-0.1
<b>Long term (% p.a.)</b>						
1992-09	5.6	9.4	6.7	5.0	3.2	0.4

## Summary

- In 2009, the average total return on investments in forestry was a strongly positive 11.1%. This is an increase of over four percentage points on the 7.0% total return seen in 2008, reflecting the recovery that has been seen in the wider investment market. Whilst levels are still below the high returns of 20.6% and 31.6% seen in 2006 and 2007, the total return in 2009 was the fourth strongest since the index base in 1992; highlighting the resilience of forestry investment.

- The three year rolling total return to 2009, at 16.1% p.a., was at a slightly lower level than the five year rolling return to 2009 which stood at 16.6% p.a. This is a strong period of returns for forestry when it is taken into account that the long term average total return since the index inception in 1992 is 5.6% p.a.

- In the three years to 2009, the top 5% of plantations returned 29.8% p.a. whilst the bottom 5% entered negative territory with a total return of -6.1% p.a.

- Over the five year rolling period, the bottom 5% of plantations also returned negatively at -0.1% and the overall spread of returns narrowed slightly, with the top 5% returning 26.3%. However, the weighted average value of 16.6% is the highest five year rolling return witnessed in the index.

- Timber prices continued to fall and reached a low in September 2009, however the annual figure to March 2010 showed a rise of 6.6%, indicating a slight recovery in the timber market in the second half of the year.

- Relative to other asset classes the forestry index annual return of 11.1% p.a. usurped the revival in the commercial property market at 3.5% p.a. and also the beleaguered gilt market total return of -0.3% p.a. However, the strong recovery in the equities market meant that returns were once again very high at 30.1%, close to levels seen after the last property crash of the late 80s, and as such were the top

performer of the comparable investment markets.

- The majority of the forests in the index sample (91.6% of total capital value) fall into the two oldest age bands and the performance of these forests will have a greater impact on overall forestry total returns.

## The Index

The IPD Forestry Index is calculated from a sample of private sector coniferous plantations of predominantly Sitka spruce in mainland Britain. By the end of 2009 the 140 forests in the index had a total capital value of £126.6m.

The Index is derived from a series of annual valuations and cash flows, but in order to reflect the long-term nature of forestry investment the series is presented on a three-year annualised basis. The year-on-year returns and Index values are shown on the back of this publication, but analysis is based principally on the annualised results. These demonstrate more clearly the long-term returns available to investors.

## Tax Status

Tax is a very important consideration for investors in forestry, but the wide variation of tax status between investors makes it impossible to reflect these benefits in the results. The Index excludes these substantial fiscal advantages that are available to the investor.

Income from timber sales in the UK is free of Income and Corporation Tax and growing timber is exempt from Capital Gains Tax. After two years of ownership, commercial woodlands qualify for 100% Business Property Relief from Inheritance Tax.

The index series is based at 1992 after the expiry of tax relief on expenditure, which was withdrawn in March 1988 with a period of transitional relief until April 1993. The index reflects movements in valuations driven by changes in the underlying long-term trend in UK timber markets and investor demand.

# Market commentary (provided by the sponsors)

Demand for commercial forestry property remained robust throughout 2009. At the start of the year there was some slight caution in the market, but that vanished as demand for forestry outstripped supply and forestry property prices rose.

UK forestry property acquisitions were dominated by UK based private investors, seeking to capitalise on the favourable tax treatment of commercial forestry. The forestry asset class is seen by investors as a low return low risk allocation and because of its long investment term, it benefits from zero Income Tax and Inheritance Tax 100% Business Property Relief.

The turnover of commercial forestry property in 2009 was approximately £50 million. This was up significantly on 2008 and equated to some 14,000 hectares sold over 90 properties\*. Disposals from the public estate, managed by the Forestry Commission (FC) particularly in Scotland, rose significantly, allowing the FC to raise c£20 million. This approach is set to continue into 2010.

One large energy company seeking to secure wood supply for planned biomass energy acquired forests in 2009.

UK Timber prices received by private sector growers have been more volatile than property prices. A number of IPD Forestry Index Sponsors and timber merchants reported fluctuations in price in excess of 20%, with a significant net increase by the end of 2009.

In the public sector, the timber price recorded by the Forestry Commission's Coniferous Standing Sales Price Index increased more modestly by 6.6%, in the year to March 2010 and it is expected higher

prices will feed through to the public sector in 2010.

The UK imports approximately 80% of its wood requirements. Sterling remained weak against the Euro in 2009, making imported timber relatively expensive, improving the competitiveness of UK grown timber. The rising demand from the biomass energy sector has put a floor in prices, at a higher level than traditional markets could deliver for growers.

Private sector removals of timber fell and public sector removals increased in 2009\*\*. Private sector market share is expected to grow, in response to rising timber prices, in 2010 and is expected to dominate supply to the UK processing sector in the medium term.

Timber prices are difficult to predict but the promise of renewable energy incentives, backed by climate change commitments will increase demand for wood which will drive prices forward, but the role of currency exchange rates is also key. With uncertainty over the level of future economic activity in the Eurozone, bold predictions of further timber price rises are hard to justify.

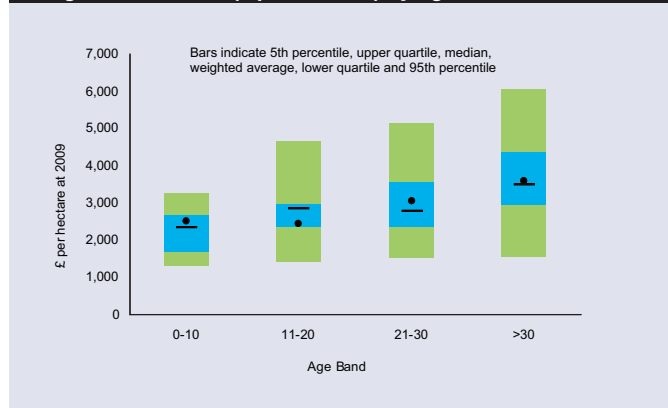
However, increased demand for plantations and land-backed assets in general, appears more certain. The agriculture sector remains strong and many predict rising land prices predicated on increased demand for food and bio-energy.

Investor confidence in forestry is currently strong and that looks set to continue despite a far from certain economic picture.

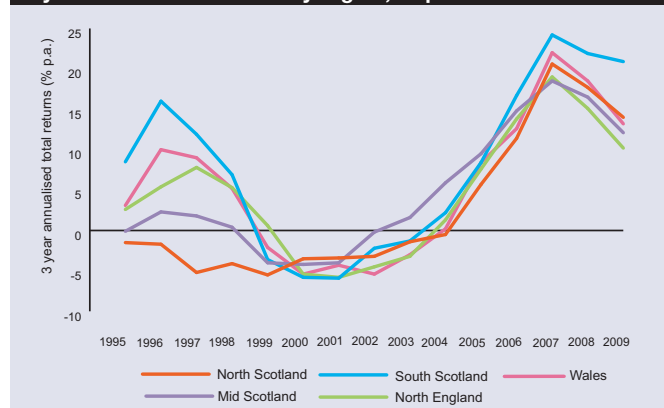
\* UPM Tilhill & Savills - Forest Market Report 2009

\*\* FC - UK Wood Production and Trade (provisional) 2009

**Range of valuations (£ per hectare) by age band**



**3 year annualised returns by region, % p.a.**



## Performance by age and region of plantation (see tables overleaf)

- Annual total returns were lower in all age bands except the oldest plantations in the over 30 year category, which returned strongly at 16.5% p.a. This was a reversal of their performance in 2008 where they provided investors with the lowest return by age bracket, at 1.2% p.a. As the older plantations are more responsive to timber prices, the slight recovery in the timber market may have boosted the returns in this category. In 2009 the lowest returns were to be found in the 11-20 year age bracket at 5.5%, the youngest plantations produced a similar return at 5.7% and those forests in the 21-30 year age bracket fared slightly better at 8.0%.

- Since 1999, it was the younger plantations in the 0-10 year age bracket that held the top spot over a three year rolling average, until last year; once again in 2009 it was the oldest forests that achieved the highest return on a three year rolling basis at 18.2% p.a. The narrowness of these two categories total returns can be seen more clearly over the mid to long term, with the plantations older than 30 years now the highest performer at 18.9% p.a. over the five year rolling basis, having overtaken the 0-10 year age bracket at 18.6% p.a.

- In 2009 the 11-20 years old category once again saw the lowest weighted average capital values. Weighted average capital values ranged from £2,446 up to £3,577 per hectare with the oldest forests having the widest range of valuations; from £1,520 per hectare for the 5th percentile to £6,055 per hectare for the 95th percentile.

- The age composition in each region is not perfectly balanced and does impact on the regional analysis, with some of the variation in performance being due to the variation in the age mix.

- Plantations in the South Scotland region once again produced the highest total return in 2009 at 21.0% p.a. This region was also the best performing over the three, five and seventeen years to 2009, returning 20.9% p.a., 20.6% p.a. and 7.7% p.a. respectively over each of these periods.



Index series					
Year-end 31st Dec	Total return %	No. of forests	Total return index	Timber price change	*Timber price index
1999	-11.1	157	115.1	-2.0	61.3
2000	-2.9	155	111.7	-9.4	55.5
2001	-1.1	163	110.5	-4.4	53.1
2002	-4.7	169	105.3	-22.9	41.0
2003	1.3	165	106.7	-2.1	40.1
2004	9.2	161	116.5	9.2	43.8
2005	14.4	158	133.3	15.1	50.4
2006	20.6	159	160.7	11.0	55.9
2007	31.6	145	211.4	56.6	87.6
2008	7.0	144	226.2	-28.5	62.6
2009	11.1	140	251.4	6.6	66.7

Total return and timber price indices based at 1992=100

\* Forestry Commission Nominal Price Index of Coniferous Standing Sales (for Great Britain) on a year to March basis (2009 = March 2010). It reflects the price in other years of the size and mix of timber sold in the base year. This is based on a size and mix of timber that is updated every 5 years (5-yearly chain linking) and the series has been re-based to 1992.

#### Index Design

The sample was originally structured to reflect market capitalisation across the regions and an approximately even number of plantations by age band in each region. This pattern has been distorted over the years by the ageing of plantations. For the purpose of the age band analysis plantations are artificially sold and re-purchased when they change bands. Properties are included in the three year rolling returns according to their age in the end-year of the period. Felled plantations are replaced by the youngest age band whenever possible.

Tax position as at December 2009	
<b>Income</b>	All income from UK timber sales is free of Income and Corporation Tax
<b>Capital gains tax</b>	Growing timber is exempt from Capital Gains Tax
<b>Inheritance tax</b>	After two years of ownership, commercial woodlands qualify for 100% Business Property Relief

Sample composition by age band					
Years	0-10	11-20	21-30	> 30	Total
No. of forests	10	19	66	45	140
% Capital Value	1.5	7.0	52.8	38.8	100.0

Sample composition by region						
Region	North Scot	Mid Scot	South Scot	North England	Wales	Total
No. of forests	20	24	50	16	30	140
% Capital Value	9.0	15.0	43.0	8.4	24.5	100

Valuation range (£ per hectare) by age as at 2009				
Years	0-10	11-20	21-30	>30
5th percentile	3,285	4,670	5,148	6,054
Upper quartile	2,685	2,974	3,537	4,357
Median	2,319	2,850	2,769	3,495
Lower quartile	1,646	2,319	2,348	2,923
95th percentile	1,289	1,375	1,473	1,520
Weighted average	2,516	2,446	3,039	3,577

#### Acknowledgements

IPD would like to thank all those forest owners, land agents and forest managers who have provided information for this analysis and the Forestry Commission who contributed to the cost of data collection and analysis. Forestry consultancy has been provided by the sponsors, who are responsible for the Market Commentary section of the text.

#### Special Notes

Every care has been taken to ensure the correctness and accuracy of this publication. IPD cannot accept responsibility for any errors or omissions.

Contacts			
<b>General enquiries:</b>	Emily Leader	emily.leader@ipd.com	+44 (0)20 7336 9296
<b>Research:</b>	James Scott	james.scott@ipd.com	+44 (0)20 7336 9658
<b>IPD Head Office</b>			
1 St. John's Lane			
London EC1M 4BL UK			
T: +44 (0)20 7336 9200			
F: +44 (0)20 7336 9399			
www.ipd.com			

3, 5 and long term total return by age (% p.a.)				
Years	0-10	11-20	21-30	> 30
2001-04	14.9	2.4	0.7	1.2
2002-05	27.0	7.2	7.1	7.6
2003-06	30.0	12.2	12.1	16.0
2004-07	27.0	13.2	19.8	26.3
2005-08	15.3	12.7	19.1	21.4
2006-09	11.0	9.3	16.3	18.2
2000-05	19.3	3.0	2.6	3.2
2001-06	21.1	6.5	6.0	8.3
2002-07	23.7	10.1	13.3	17.1
2003-08	23.2	11.8	15.5	17.2
2004-09	18.6	10.8	15.6	18.9
1992-09	10.6	4.2	5.6	5.3

Range of return by age 2004-2009 (% p.a.)				
Years	0-10	11-20	21-30	>30
5th percentile	24.0	27.2	29.8	29.5
Upper quartile	16.0	19.0	19.4	18.9
Median	12.7	12.5	11.7	9.9
Lower quartile	8.3	7.9	6.8	4.6
95th percentile	-20.7	1.2	-0.3	-5.7
Weighted average	11.0	9.3	16.3	18.2

3, 5 and long term total return by region (% p.a.)					
Region	North Scot	Mid Scot	South Scot	North England	Wales
2002-05	5.7	9.5	8.4	7.6	8.4
2003-06	11.4	14.8	16.7	13.8	12.6
2004-07	20.6	18.5	24.2	19.0	22.0
2005-08	17.7	16.5	21.9	15.1	18.5
2006-09	14.0	12.1	20.9	10.2	13.2
2000-05	1.9	5.4	4.2	2.6	2.7
2001-06	5.9	9.7	9.0	6.9	5.8
2002-07	13.1	14.7	16.0	13.0	14.9
2003-08	13.3	14.4	18.3	13.8	15.8
2004-09	14.9	13.5	20.6	12.4	13.9
1992-09	2.4	4.2	7.7	4.1	4.6

Range of return by region 2006-2009 (% p.a.)					
Region	North Scot	Mid Scot	South Scot	North England	Wales
5th percentile	22.2	23.5	38.8	24.4	29.8
Upper quartile	15.7	14.2	20.7	19.7	16.1
Median	10.0	10.6	12.4	15.7	10.0
Lower quartile	4.9	5.9	8.2	5.2	5.2
95th percentile	-7.0	-5.9	-4.2	-5.5	-2.6
Weighted average	14.0	12.1	20.9	10.2	13.2

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