IPD UK Forestry index 2007

Released 19/06/2007

3 years annualised total return, %pa

Results to December 2006

%pa	2006	3 years (2003-06)	5 years (2001-06)	10 years (1996-06)	14 years (1992-06)
Forestry					
Total return	20.6	14.6	7.8	2.4	3.4
Timer price change	13.8	11.6	1.0	-7.3	-4.2
Other assets - total return					
Equities	16.8	17.2	8.5	7.9	9.9
Bonds	-0.1	4.6	5.1	6.9	7.8
Commercial property	18.1	18.5	15.1	13.6	12.9

Source for other assets: FTSE All Share Total Returns Index, FTSE 5-15 Gilts Total Return Index

Sponsored by:
Bidwells
Border Consultants
Close Brothers
Investment
ConFor
Forestry Commission
Forestry Investment Management
fountains
Scottish Woodlands Ltd
UPM Tilhill
Highfield Forestry

Acknowledgments
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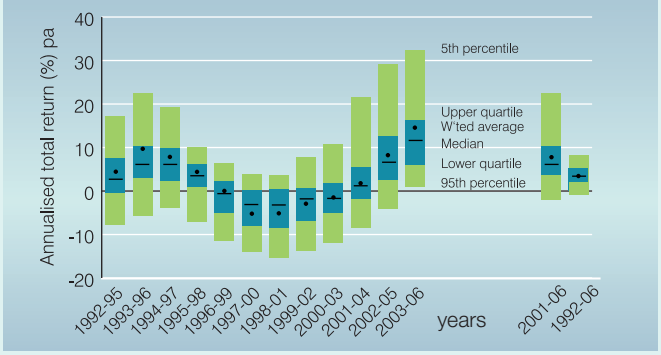
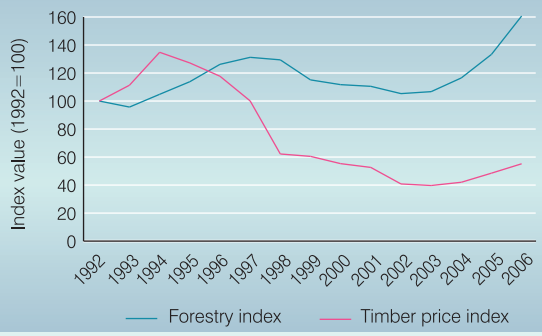
The IPD UK Forestry index is neither appropriate nor authorised for use as a benchmark for portfolio or manager performance. IPD have no liability for any losses, damages, costs or expenses suffered by any person as a result of any reliance on this information.

Summary of full results

Range of individual forest returns



IPD Forestry total return index vx timer price index



3 year rolling annualised returns

(%pa) 3 year	W'ted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
1996-99	-3.0	6.4	2.2	-0.5	-5.0	-11.3
1997-00	-5.2	3.9	0.2	-3.1	-8.0	-13.8
1998-01	-5.1	3.5	0.3	-3.3	-8.4	-15.4
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

5 year rolling and long term annualised

(%pa) 5 year	W'ted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
1996-01	-2.6	3.4	1.3	-1.0	-4.6	-10.5
1997-02	-4.3	3.3	0.1	-3.0	-6.9	-13.3
1998-03	-3.8	4.9	0.5	-2.6	-6.9	-13.1
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
Long term						
1992-06	3.4	8.2	5.2	3.4	1.9	-0.9

Summary

- 2006 was another exceptionally strong year of performance for forestry. The average total return on investments in forestry was 20.6%. This built significantly on the 2005 total return of 14.4% and was more than double the total return achieved in 2004, of 9.2%. Forestry total returns in 2006 were at the highest level since the start of the index in 1992. The annualised 3 year return was 14.6% per annum and the 5 year annualised return was 7.8%. The 14 year annualised return since the start of the index in 1992 was 3.4% per annum which compared with 2.2% per annum in 2005.
- The range of returns varied greatly with plantations in the bottom 5% achieving 3 year annualised returns of 1.1% per annum whilst forests in the top 5% achived 3 year annualised returns of 32.4%. Over the 14 year period since the start of the index, the range of returns narrows considerably with forests in the bottom 5% with total returns of -0.9% per annum and plantations in the top 5% with returns of 8.2% per annum.
- Wlth a total return of 20.6% in 2006, investments in forestry out-performed equity, gilts and commercial property. This is the first time since the start of the index that forestry has achieved an annual return greater than all three of the other asset classes, and it marks an extraordinary moment in the history of investment forestry performance. Over the 3 year and 5 year period to 2006 forestry has only out-performed gilts, and over the longer 14 year period, forestry remains the weakest performing asset class. However forestry also remains less volatile than equity and gilts and has a low correlation with these other asset classes. These characteristics makes forestry an attractive investment for any multi-asset portfolio attempting to reduce risk through diversification.
- Timber prices rose 13.8% from March 2006 to March 2007 and were 31.5% higher in March 2007 than in March 2005. There is little doubt that forestry investment has benefited greatly from this movement in timber prices.
- The index sample has a large number of forests that fall into the two oldest age brackets. Combined they contribute 80% of the total capital value of the index. The performance of forests in these two age brackets therefore have a much greater impact on overall forestry total returns. The younger forests have historically performed well but their smaller contribiution to the index has in the past meant that returns have been held back. This year, however, returns were high across all 4 of the age brackets.

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

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 2006 the 159 forests in the index had a total capital value of £102.1m.

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.

The 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 December 1992. The index reflects movements in valuations driven by changes in the underlying long-term trend in UK timber markets and investor demand.

The calculation of Forestry returns was modified for the 2005 index, to move in line with IPD's standard method of calculating investment performance and to conform to international standards of asset performance measurement. Annual returns are now calculated on a time-weighted basis, by compounding the 12 individual monthly returns. As a result of this change, the index history was restated.

Market commentary

(provided by the sponsors)

2006 was another buoyant year for UK commercial forestry. The freehold market saw further price rises as buyers out numbered sellers and there were also substantial increases in timber prices.

The freehold market was characterised by many offers received at closing dates, guide prices substantially exceeded and rapid transaction times - all the ingredients of a buoyant, rising market. The UPM Tilhill/Savills Spring 2007 Forest Market Report indicates like for like sales showing a 20% annual rise. There is strong demand for all woodland types throughout the UK from a range of purchasers dominated by private UK based individuals, but also including overseas money and collective funds. Most purchasers are using cash, but there is significant borrowing for some transactions.

Agricultural land prices are also rising, for example by 15% in Scotland during 2006. This is affecting forestry buyer's perception of underlying land value and probably explains the strong recent performance of young woodlands in the Index. All woodlands contain an element of value relating to both land and timber, but a higher proportion of value for younger woodlands relates to the land element and therefore rises in perceived value of land will disproportionately affect total value.

At the time of writing the freehold market remains very strong with demand outstripping supply, leading to further price rises. The buoyant timber market is helping to push this demand.

The Forestry Commission's Coniferous Standing Sales Index for Great Britain was 11% higher in real terms for the year to March 2007 (13.6% the previous year). Price rises have been particularly strong for logs, especially in England and Wales, but increases have been seen in all categories.

Sawmills generally have full order books and strong ongoing demand. This increase in activity has been driven by the continued dearth of imported sawn wood. As a result mills have been able to gain price increases for their products.

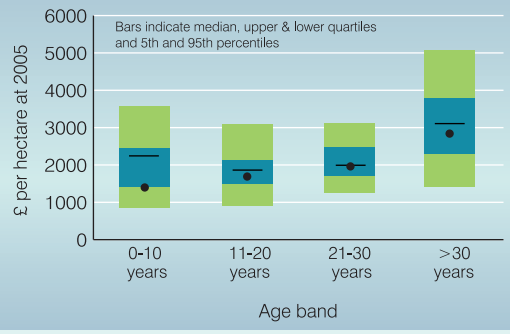
Major sawmilling capacity is increasing as a result of investment at a number of plants, for example at Howie in south west Scotland, putting more pressure on demand for logs.

Biomass began to find its place in 2006 and is set to make a material impression on the market in 2007. The announcement of investment in a CHP plant at the UPM Caledonian mill near Irvine, to be completed in the first quarter of 2009, adds a further 350,000 - 400,000 tonne demand to a rapidly expanding new market area for forest and co-product derived biomass. This brings to 5 the number of confirmed large industrial scale biomass based energy projects in the UK to be given the go ahead in the past three years, with a potential total consumption in the region of 1.7 million green tonnes by 2009. With other smaller, locally based, projects this is a significant new market that did not exist less than 12 months ago.

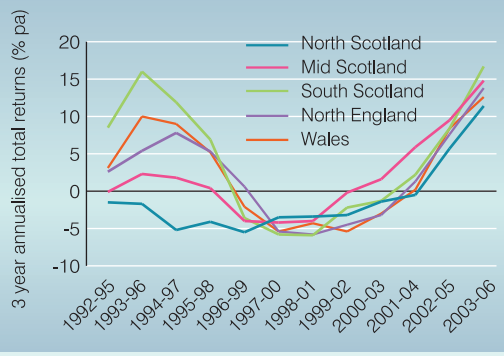
Small roundwood (srw) demand continues to be strong, largely driven by the European situation where there is a significant shortage of all classes of srw. This has caused European buyers to focus on the UK for both pulp and chip wood. It is estimated that the annual quantities of srw export are now in the region of 800,000t.

In summary further tightening of fibre availability appears likely leading to rising timber prices. The trends of increasing freehold values also looks set to continue. Risk factors including rising interest rates and any slow down in the residential housing market could affect buyers at the lower value end of the freehold market. 2005 was a good year for the industry and 2006 looks set to continue that trend.

Range of valuations (£ per hectare) by age band



3 year annualised returns by region, %pa



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

- Total returns in 2006 remained high across all four of the age bands. For the first time since 1997, the youngest forests were not the top performing group. The highest returns were achieved by the >30 years old forest, at 26.2% whilst the 0-10 years old forests returned 18.5%. The performance of older plantations is more responsive to the price of timber. The middle two age brackets, 11-20 years and 21-30 years, attained similar returns of 15.5% and 15.9% respectively.
- Returns were noticeably lower in the youngest age bracket in 2006 when compared to 2005. However, over the 3 years to 2006, the forests that fell within the 0-10 years old group were still the top performing group with total returns of 30.0% per annum. The same pattern was true over the 5 years and long term 14 year period to 2006.
- Weighted average capital values for each age band extend from £1,401 per hectare for the youngest plantations to £2,822 per hectare for the oldest forests. The median value for the youngest forests was significantly greater than the weighted average - half of the youngest forests were valued at over £2,214 per hectare. The older, mature forests have a wider range of valuations than the other plantations. The values in 2006 were diverse stretching from £1,441 per hectare for the 5th percentile and £5,082 per hectare for the 95th percentile.
- Analysis of performance by region is obscured by differences in the age composition of the sample in each area, which is not perfectly balanced. Some of the variation in performance will undoubtedly be due to the variation in age mix.
- For a second consecutive year South Scotland was the top performing region with a total return of 24.2%. The weakest performing region in 2006 was Wales achiveing a return 10% below South Scotland, at 14.2%. South Scotland also remains the top performing region over the 3 years and 14 years to 2006, with returns of 16.7% per annum and 5.1% per annum respectively.
- 3 year annualised returns in Mid-Scotland had the most skewed distribution. The weighted average of 14.8% per annum, was well above the median (10.6% per annum). In fact, only one quarter of these forests achieved returns above the weighted average. This indicates that a small number of the higher valued plantations in the Mid-Scotland region had strong total returns between 2003 and 2006.

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Index series

Year end 31st Dec	Total return %	No. of forests	Total return index	Timber price change	*Timber price index
1997	4.0	131	131.2	-14.9	100.1
1998	-1.4	156	129.4	-37.9	62.2
1999	-11.1	157	115.1	-2.7	60.5
2000	-2.9	155	111.7	-8.7	55.3
2001	-1.1	163	110.5	-4.9	52.6
2002	-4.7	169	105.3	-22.3	40.8
2003	1.3	165	106.7	-2.8	39.7
2004	9.2	161	116.5	5.8	42.0
2005	14.4	158	133.3	15.6	48.5
2006	20.6	159	160.7	13.8	55.2

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 (2006 = March 2007). 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 in 1996 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. If a forest is sold from the sample it is replaced by one of the same region and age band. Felled plantations are replaced by the youngest age band whenever possible.

Tax position as at December 2006

Income tax	All income from UK timber sales is free of Income and Corporation Tax
Capital gains tax	Growing timber is exempt from Capital Gains Tax
Inheritance tax	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	7	38	52	62	159
% Capital value	2.0	17.3	33.2	47.5	100.0

Sample composition by region

Region	North Scot	Mid Scot	South Scot	North England	Wales	Total
No. of forests	20	27	60	20	32	159
% Capital value	8.0	14.9	45.6	8.5	23.0	100.0

Valuation Range (£ per hectare) by age at 2006

Years	0-10	11-20	21-30	>30
5th percentile	3,568	3,101	3,113	5,082
Upper quartile	2,428	2,110	2,441	3,780
Median	2,214	1,835	1,972	3,158
Lower quartile	1,382	1,488	1,699	2,302
95th percentile	846	906	1,236	1,441
Weighted Average	1,401	1,682	1,963	2,822

Long term total return by age (% pa)

Year end 31st Dec Annualised	0-10	11-20	21-30	>30
1999-02	9.7	-1.7	-4.5	-2.5
2000-03	9.3	-1.7	-2.2	-1.8
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
1997-02	6.2	-2.6	-5.2	-5.1
1998-03	8.1	-2.4	-4.9	-4.1
1999-04	13.2	1.2	-1.1	0.3
2000-05	19.3	3.0	2.6	3.2
2001-06	21.1	6.5	6.0	8.3
1992-06	10.5	3.2	3.4	2.7

Range of return by age 2003-2006 (% pa)

Percentile	0-10	11-20	21-30	>30
5th percentile	24.5	43.3	23.5	35.9
Upper quartile	15.5	16.6	15.9	15.7
Median	10.1	12.9	11.7	11.3
Lower quartile	7.9	7.1	7.0	3.2
95th percentile	6.7	5.3	5.1	-3.3
Weighted average	30.0	12.2	12.1	16.0

Long term total return by region (% pa)

Year end 31 Dec Annualised	North Scot	Mid Scot	South Scot	North England	Wales
1997-00	-3.5	-4.2	-5.8	-5.4	-5.4
1998-01	-3.4	-4.0	-5.9	-5.8	-4.3
1999-02	-3.2	-0.2	-2.2	-4.5	-5.4
2000-03	-1.4	1.6	-1.3	-3.2	-3.0
2001-04	-0.5	5.9	2.2	1.3	0.2
2002-05	5.7	9.5	8.4	7.6	8.4
2003-06	11.4	14.8	16.7	13.8	12.6
1997-02	-3.6	-2.7	-4.2	-5.0	-5.4
1998-03	-2.8	-1.4	-4.2	-4.6	-4.0
1999-04	-0.8	3.5	0.5	-1.0	-1.4
2000-05	1.9	5.4	4.2	2.6	2.7
2001-06	5.9	9.7	9.0	6.9	5.8
1992-06	0.1	2.5	5.1	2.8	2.8

Range of return by region 2003-2006 (% pa)

Percentile	North Scot	Mid Scot	South Scot	North England	Wales
5th percentile	31.1	25.5	44.5	28.9	26.2
Upper quartile	13.4	14.4	16.6	16.7	16.1
Median	11.7	10.6	14.2	14.6	10.8
Lower quartile	6.4	5.5	6.7	6.8	5.4
95th percentile	4.2	3.4	2.1	0.3	-2.8
Weighted average	11.4	14.8	16.7	13.8	12.6

Note: A more detailed breakdown of the annual results, by region and age band, and including results on a smaller sample back to 1980, is available on the IPD website, www.ipdglobal.com

Contacts
Rebecca Graham tel: +44 (0)20 7336 9235 email: rebecca.graham@ipdglobal.com
Malcolm Frodsham tel: +44 (0)20 7336 9236 email: malcolm.frodsham@ipdglobal.com

IPD
1 St. John's Lane
London EC1M 4BL UK
T +44 (0)20 7336 9200
F +44 (0)20 7336 9399

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