



Standing timber values

Harry addresses an important question: How does your standing timber, when it is cut down, turn into money in your bank and therefore increase the value of forest properties?

If we work back from the finished product at the point of it leaving the sawmill, the highest value product produced from standing timber is construction timber.

Construction timber has, over the past few years, seen very strong price inflation, almost doubling in value. This has been driven both by internal UK factors and, more significantly, external issues. The differential between kiln dried graded and treated timber, for a long time similar in value, is now worth 20% to 25% more than fencing (posts, rails, feather-edge boarding) which in turn is worth 20% to 25% more than palletwood.

Swedish timber driving market for construction timber

The market for construction timber in the UK is largely driven by imported timber which accounts for two thirds of the market, with Sweden being the principal operator. Historically, Swedish construction timber has been the benchmark product in the market which all other sellers reference, and home grown tends to sit slightly lower with a differential that can be anywhere between -£10 to -£50 per cubic metre and can be even greater.

So, what has been happening with the Swedish market over the past 18 months or so?

As economies open up around the world, demand for fencing (at home in GB) and then construction (both home and worldwide) went off the scale with prices rapidly following. Notably, in the US a shortage sent the future price of sawn timber up threefold, drawing in boats from Sweden which in turn demanded a similar price within Europe.

Sawlog prices driving standing timber prices

In better quality clearfells, sawlogs can make up as much as 85% of the parcel though this is unusual with two thirds being the mark of a good quality parcel. Additionally, the buyer is looking for a parcel with a high proportion of longer length logs with a decent top diameter. Ideally, the parcel would be capable of making all 4.9m logs with a top diameter of 24 to 30cm. I can but dream!

In our mythical parcel, probably somewhere in south Scotland, the revenue from the sawlog is going to return over 90% of



Photo credit: Tilhill

the value to the grower. Even in a poorer quality parcel which is 50% log, 75% of the value comes from the sawlog element.

This differential between sawlog and small roundwood values has become much more apparent over the past five years. Small roundwood prices have been driven up strongly over the past decade or even longer by government subsidy of biofuel, to the point where, in some extreme cases, small roundwood users were able to pay more than sawmills. The past few years, however, have seen the biofuel market reach its high-water mark as almost all biofuel projects have now been fully commissioned and indeed some have failed and disappeared or been refinanced.

Consequently, we see a market that has returned to the historical norm where sawlog values drive standing timber prices, and this is very likely to continue.

Where is the construction market heading?

Having established that a parcel chock full of lots of lovely sawlogs is what we want, and that the value is closely correlated with the construction market, how do we see the construction market moving in the medium term and therefore the standing timber price?

The recent period has seen several commentaries on the market that predict a strong construction market for 2022 and 2023 with buoyant demand within the UK whilst, at the same time, the wider indicators in the advanced economies of the world suggest a similar position. Therefore, it is likely that we will continue to see a strong market for standing timber.

The question of will we continue to see the current high prices paid for sawn timber or will the market settle is unclear. My own view is that we will see the market settle, but that some of the higher prices are now baked in. Therefore, we will continue to see historically high standing prices paid, though perhaps not quite the very top of the market seen over the past six months.



WHERE IS OLIVER COMBE?

You might be wondering what happened to your usual Timber Market report by Oliver Combe in this issue? Olly sends his apologies. He is extremely busy with his Christmas Trees business and will be back in February!