

# Forestry as a Property Asset

Presentation to  
Society of Chartered Surveyors Ireland  
By  
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ITGA Technical Director

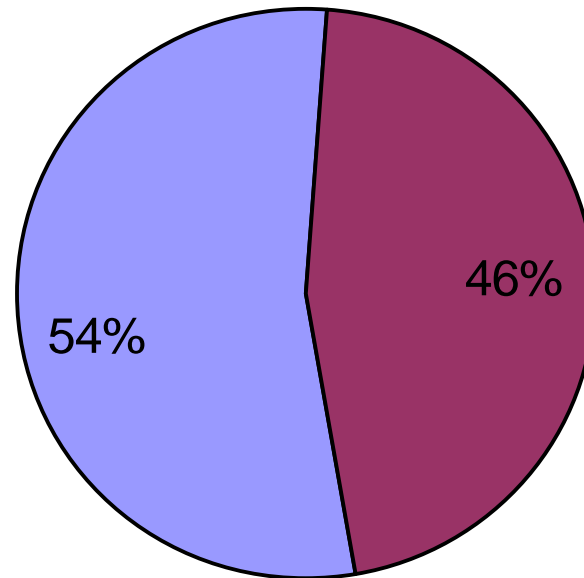
# Presentation Overview

- Overview of Irish Forestry Sector
- Forestry as a property asset
- Basis of forestry valuations
- Tax treatment of Irish forestry
- Outlook for sector
- Where to find information and assistance

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# Total Forest Area (Rep. of Ireland)

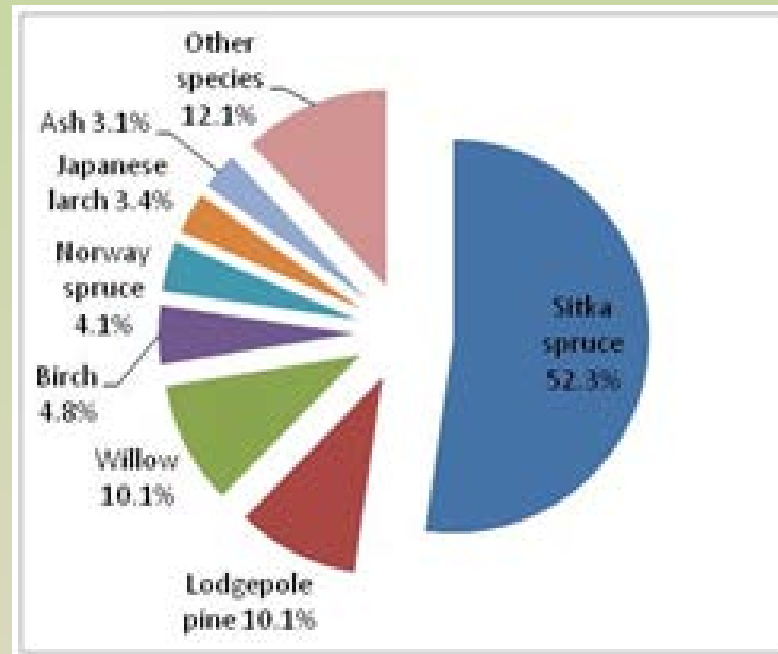
Almost 11% of land area under forest – 750k Ha



■ Public/Coillte Ownership ■ Private Ownership

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# Species Composition



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# Characteristics of Farm Forestry Plantations

- Approx. 19,500 private forest owners, 84% classed as farmers
- 220,000 ha planted by private growers since 1990
- Small average size
- Fragmented nature
- Predominantly planted in the past 20 years
- Diversity of species
- Often poor access to plantations



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# Forests and the Economy

- Forest & Timber industry - total 2010 output c. €2.87 bn.

- carbon dioxide – c. 6% of total greenhouse gas emissions
- Harvest from Irish forests in 2010 was 2.68 million cubic metres
- Direct & indirect employment in the forest and wood

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- Export-oriented forest products sector - over 80% of wood based panels exported.
- Contribution to climate change by Irish forests absorbing carbon dioxide – c. 6% of total greenhouse gas emissions.
- Harvest from Irish forests in 2010 was 2.68 million cubic metres; 2.22 million from Coillte, balance (0.46 million) from private forests.
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- Harvest from Irish forests in 2010 was 2.68 million cubic metres; 2.22 million from Coillte, balance (0.46 million) from private forests.
- Direct & indirect employment in the forest and wood product sector totals c.12,000 persons.

# Forests and the Economy

- Forests & recreational use. Valued at €97 million, generates €268 million in economic activities.
- Annual visits to Irish forests - over 18 million.
- Significant potential for wood fuel to displace fossil fuel.



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- Significant potential for wood fuel to displace fossil fuel.
- Investment in national forest research c €14 million per annum.



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# Estimated roundwood demand Ireland in 2011 and 2020 (Coford)

Demand type	2011	2020
	000 m <sup>3</sup> overbark (OB)	
Conventional demand <sup>1</sup>	3,456	3,830
Demand for forest-based biomass for energy production	1,589	3,084
Residues from conventional demand which are used to meet energy demand <sup>2,3</sup>	-750	-876
<b>TOTAL</b>	<b>4,295</b>	<b>6,038</b>

## Footnotes

1 Conventional demand is roundwood used (for processing) by the sawmilling and by the boardmill sectors.

2 The use of post consumer recovered wood (PCRW) is excluded

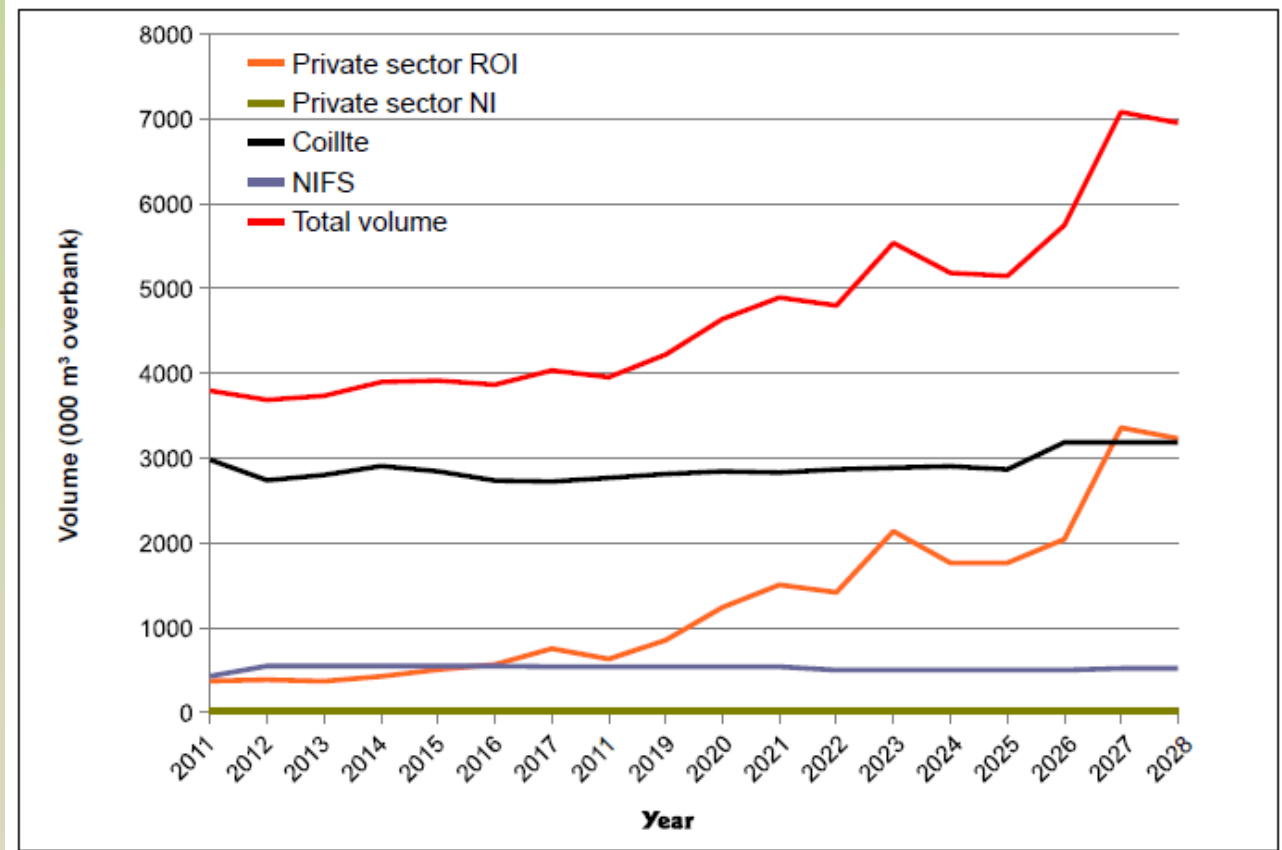
3 A portion of sawmill and panel residues is used for process drying and for the production of energy. In 2011, it is estimated that 750,000 m<sup>3</sup> OB of such residues will be thus used on the island of Ireland. To avoid double counting, the demand for forest-based biomass (for energy production) is discounted by 750,000 m<sup>3</sup> OB. It is estimated that by 2020 the use of sawmill/panel residues for energy production will have increased to 876,000 m<sup>3</sup> OB.

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# Supply Forecasts

## Forecast of Net Realisable Volume Production 2011 – 2028

Source March 2011:  
Coford All Ireland  
Roundwood  
Production Forecast  
2011 - 2028



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# Coford Supply & Demand Forecasts

By 2020 the **Supply** of roundwood from Irish forests is forecast to be **4.786** million m<sup>3</sup>

While roundwood **Demand** in 2020 is forecast to be over **6** million m<sup>3</sup>.

Source March 2011: Coford All Ireland Roundwood Production Forecast 2011 - 2028

# Forestry as an Asset

- Physical Forest Growth = Asset Growth
- Timber a strong world commodity

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- Low to Moderate Risk
- Environmentally friendly

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- Availability of Grants and Annual Premium Payments

### Afforestation Scheme: Grant Rates effective 1 January 2011 (€/ha)

Grant/Premium Category (GPC)	1 <sup>st</sup> Grant	2 <sup>nd</sup> Grant	Total Grant	Additional Fencing Allocation (IS436)	Alternative Fencing Allocation (Non IS436)	Total Available Funding
GPC 1-Unenclosed	1500	500	2000	400	350	2400
GPC 2-Sitka spruce / lodgepole pine	2200	700	2900	400	350	3300
GPC 3-10% Diverse	2250	750	3000	400	350	3400
GPC 4-Diverse	2500	800	3300	400	350	3700
GPC 5-Broadleaves	3600	1100	4700	500	450	5200
GPC 6-Oak*	3800	1200	5000	500	450	5500
GPC 7-Beech*	3800	1200	5000	500	450	5500
GPC 8-Alder*	2400	800	3200	500	450	3700

\*includes specification changes

### Afforestation Scheme: Premium Rates (new approvals) effective 1 January 2011 (€/ha)

Grant/Premium Category (GPC)	Farmer	non Farmer
GPC 1-Unenclosed	155	126
GPC 2-Sitka spruce / lodgepole pine	369	181
GPC 3-10% Diverse	427	181
GPC 4-Diverse	454	181
GPC 5-Broadleaves	481	195
GPC 6-Oak	515	195
GPC 7-Beech	515	195
GPC 8-Alder	481	195

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# Forestry as an Investment

- Predictable Physical Growth Rates
- Good Record of Long Term stable returns
- Availability of Grants and Annual Premium Payments
- Timber Demand forecast to increase

# Forestry as an Investment

- ❑ Cash Flow suits longer term investments
- ❑ Tax Treatment
- ❑ Investment Risks
  - natural risks such as windthrow, fire, pests, diseases, frost, etc



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# Forestry as an Investment

- Cash Flow suits longer term investments
- Tax Treatment
- Investment Risks
  - natural risks such as windthrow, fire, pests, diseases, frost, etc
  - macroeconomic risks
- Green Investment



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# Basis of forestry valuations – Potential returns

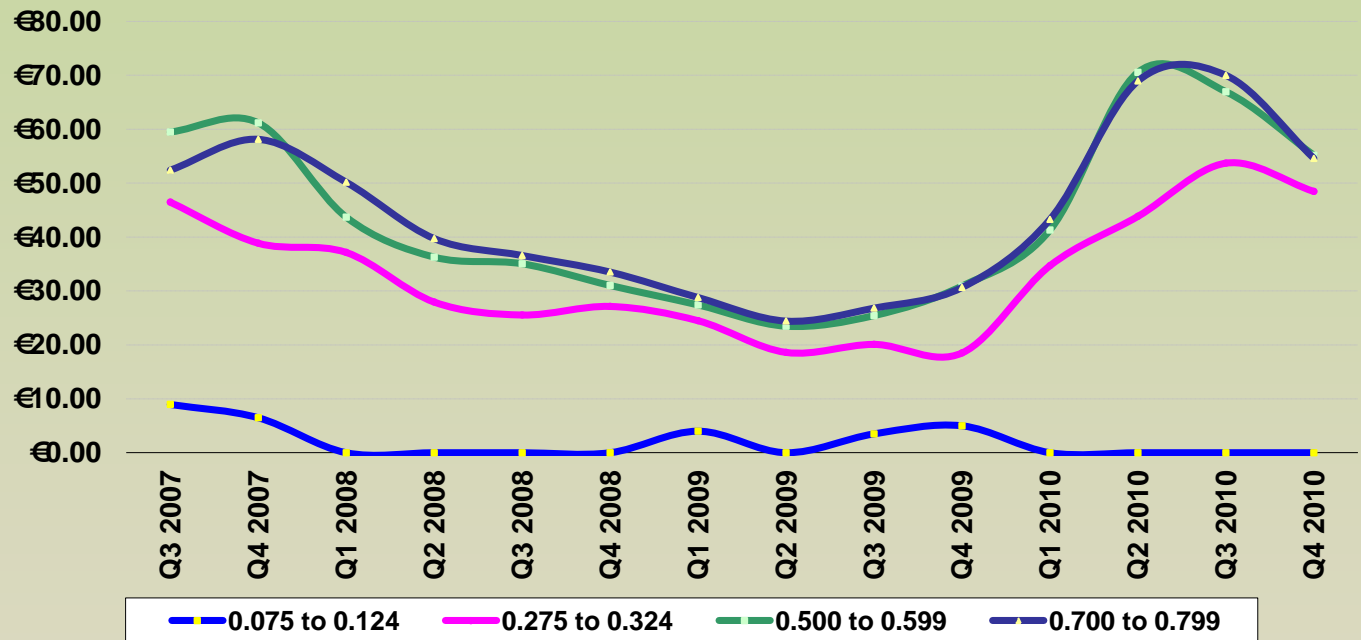
- Discounted cash flow (DCF) accepted valuation technique.
- Typically, a range of discount rates can be used.
- Rates of return sensitive to costs and revenues and their timing.
- The timber prices used in calculating revenues are difficult to predict. Historic timber prices averaged over 10-15 years, inflation adjusted.

# Recent Roundwood Price Trends

Based on Coillte Quarterly Roundwood Prices (€/m<sup>3</sup>) from Oct 2007 – Dec2010

Price by Quarter

- Allows tracking of market
- Aid in decision making process
- Further Expansion planned



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- The timber prices used in calculating revenues are difficult to predict. Historic timber prices averaged over 10-15 years, inflation adjusted.
- The optimal duration of an investment in forestry-financial rotation.
- Rates of return in forestry sensitive to many parameters, analysis of good investments show average rates of return of 4% to 7%.

# Basis of forestry valuations – Potential returns

- Investment in Forestry attractive for farmers - higher annual premium for 20 year period V non-farmers with lower premium for 15 years.
- The current tax regime important factor in forestry investment returns.
- Analysis of a forestry investment requires understanding of:
  - site assessment/analysis
  - forest yield predictions,
  - forest management practices,
  - operational costs and historical/current timber revenues
  - assessment of risks factors
  - assumptions used in financial analysis.



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# Tax Treatment of Forestry in Ireland

- Forestry income exemption has been restricted for individuals. It is currently limited to an exempt amount per person of €80,000 per annum, assuming total income exceeds €125,000 for that person.
- Exempt from Income Taxes for companies.
- Woodlands Grants are not treated as income in the tax system and are not affected by the new rules.

# Tax Treatment of Forestry in Ireland

- **PRSI**: Income from commercial woodlands, including forest premium, is reckoned for the purposes of PRSI.
- **Universal Social Charge**: Income from commercial woodlands, including forest premium, is reckoned for the purposes of USC.
- **CGT**: Commercial woodlands occupied by individuals are exempt from CGT on the growing timber. The underlying land is not exempt. The exemption does not apply to companies which occupy woodlands.
- **VAT**: Commercial forestry operation is regarded as agricultural production and exempt from VAT but the exemption may be waived.
- **Stamp Duty**: Growing timber in commercial woodlands is exempt from Stamp Duty but the underlying land is not.

# Tax Treatment of Forestry in Ireland

## Capital Acquisitions Tax (CAT) i.e. (Inheritance and Gift):

Commercial woodlands in the State are subject to CAT on gifts to, or inheritance by, individuals regardless of the residence or domicile of the disposer and beneficiary. In addition to specified exempt thresholds, relief is available to commercial woodlands as agricultural property.

The relief, as a reduction in market value is as follows:

- A flat rate reduction of 90% applies to both inter-vivo gifts and inheritance of commercial woodlands.
- All gifts and inheritance between husband and wife are exempt from CAT.
- From 20/11/2008 the woodlands can be located in any member State of the European Union and still attract Agricultural Relief.

# Tax Treatment of Forestry in Ireland

**Keeping of records:** The Finance Act 2003 provides that from 1<sup>st</sup> January 2004 the profits or gains from the occupation of woodlands must be included in a Tax Return even though the current tax exemptions will continue.

The above information is based on the Law at 30/9/2011.

# Outlook for sector – Potential for increased trading

- Over 84% of private forestry holdings are farmer owned
  - Representing over 16,000 farmers
- After age 20 yrs the Farmer Premium cashflow ends
  - Potential increased interest in sale of holdings

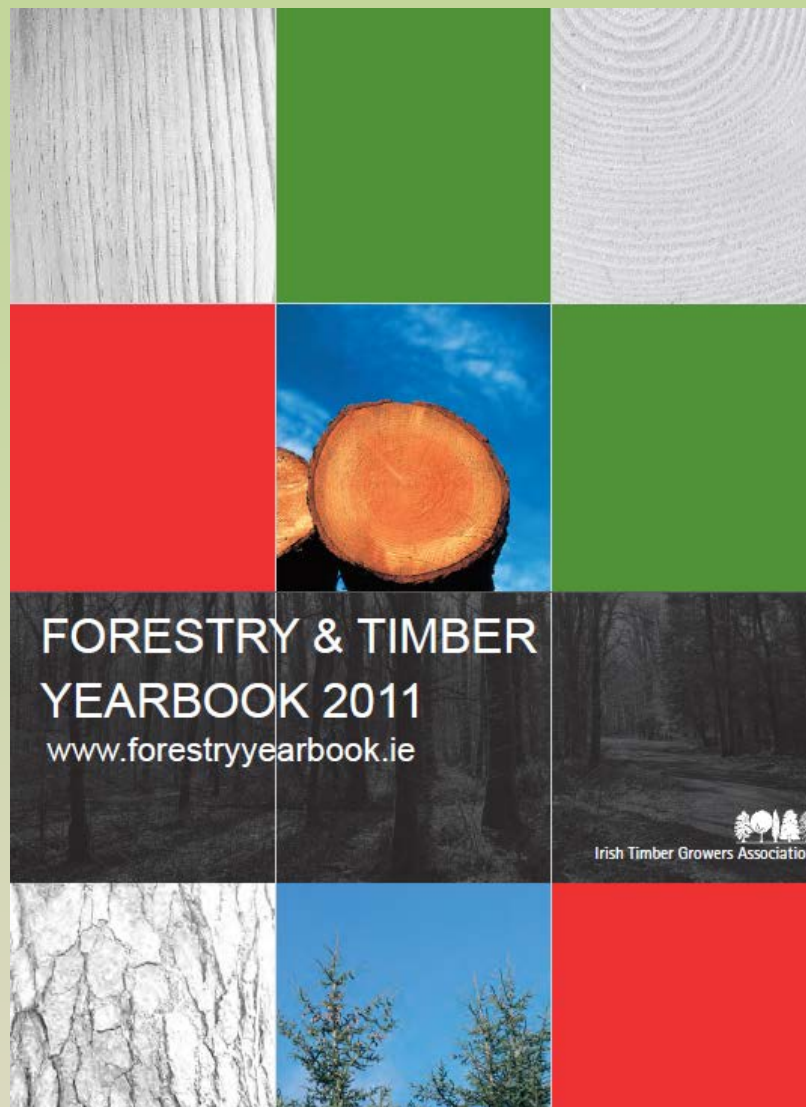
Report on the Review of State Assets and Liabilities made the following recommendation:

**Recommendation 32:** The Group recommends that the state should initiate the disposal of Coillte's forest and non-forest assets (but not its forest land),.....  
Unforested land surplus to Coillte's requirements should be sold and the proceeds remitted to the Exchequer by way of special dividend.

(April 2011)

# Where to find information and assistance

- [www.itga.ie](http://www.itga.ie) (Irish Timber Growers Association)
- [www.forestry.ie](http://www.forestry.ie)
- [www.forestryyearbook.ie](http://www.forestryyearbook.ie)
- [www.societyofirishforesters.ie](http://www.societyofirishforesters.ie)



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