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# ACES

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# VALUATION OF WOODLANDS

## Woodlands: An undervalued asset?

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John is Principal Consultant, Nicholson's. He has over 30yrs experience as a rural chartered surveyor, specialising in forestry and environmental planning. He has been a fellow of the British Institute of Agricultural Consultants since 2014 and has served as Chairman of the RICS Rural Professional Board.

John has participated in numerous government-led forums on forestry, tree health, carbon and biodiversity net gain and has presented on business opportunities around woodland creation, natural capital and green infrastructure. He currently leads on green infrastructure and environmental net gain on a number of large-scale development projects. Over the last year, John has led the consultancy team supporting Defra on its Nature for Climate Fund project, focused on returning vacant and derelict land into beneficial, productive woodland, with greater environmental and social benefits.

In 2020, John was appointed as Non-Exec Director to the Forest Services Board and sits on the Conservation Committee of the Queen's Green Canopy. He was on the Expert Working Group that helped advise/develop the RICS Valuation of Woodland and Forests Standards 2nd edition.

RICS recently updated its Valuation of Woodlands and Forests Standards. As a member of the expert working group, John kindly agreed to write this article "to provide some guidance on the factors that we as property managers and valuers need to be aware of as we approach the management and valuation of this complex asset class going forward."

Woodlands are often misunderstood which can result in them being an undervalued asset class. The Environment Bill enshrines additional protection for trees and woodlands, with ancient woodland and veteran trees acknowledged as irreplaceable habitats. Woodlands are also some of the most highly valued habitats for biodiversity within the Defra Metric 4.0 (1).

The government is focused on woodlands as a critical component of the strategy to combat climate change and meet our 2050 net zero obligations. It has committed to spend more than £500m of the £640m Nature for Climate Fund (2) by 2025, to achieve its target of planting 30,000 ha p.a. across the UK by 2025. At a recent Forestry Commission parliamentary reception, Trudy Harrison MP, Forestry Minister, and Forestry Commission Chairman, Sir William Worsley, pledged their focus on making this happen as a matter of urgency.

Woodlands are increasingly attracting interest in the marketplace, both due to the rising demand for forest products, as well as the non-timber benefits, such as carbon sequestration, flood alleviation and other ecosystem services, with all these factors potentially impacting values. Within this context, the values attributable to

both existing woodland and bare land that might be suitable for planting, come into the spotlight.

This brief article aims to provide some guidance on the factors that we as property managers and valuers need to be aware of as we approach the management and valuation of this complex asset class going forward.

Woodlands have recently been the focus of a RICS expert working group which has assisted the primary author and helped guide the drafting of the updated professional standard for the Valuation of Woodlands and Forests 2nd edition. Published in March 2023, this has an effective date of 1 June 2023 (3).

As with many asset classes, woodlands and forests are a niche sector within the valuation profession and it is always critical to ensure that advice is sought from experienced and competent valuers with demonstrable experience in the valuation of such assets. This is particularly pertinent in the current market, in light of the huge range of values we are now seeing reflected in both the amenity and commercial marketplace for woodlands and forests that to many may appear to be broadly similar.





## Factors influencing the value of woodlands

There is a wide range of factors that can either singly or in combination influence the value of woodlands. The relative importance of these factors will depend on the type/category of woodland and the purpose of the valuation.

### Physical factors

As for any land asset class, physical factors will be key. How large is the site? What are the ground conditions e.g., soil, drainage, terrain etc? Internal access infrastructure and access to the wider public highway network will be important, especially for woodlands with commercial timber crops and harvesting requirements. In addition, ecological features, and opportunities for the possible delivery of ecosystem services are also becoming more important as we see markets starting to emerge in these areas. The presence or absence of existing public access rights or use, and existing features such as buildings and ponds, will also have an influence on the potential for recreational activities or demand for the woodland.

### Tree crop

Often, and particularly in the amenity space, the actual tree crop is seen as being secondary; however, subtle differences to both crop type and historic management can have a huge impact. Within larger more commercial woodland, species type is important as this affects the yield class and rotation length, as well as the likely timber markets. The diversity of species and the age class also influences the resilience of the woodland, as well as the non-timber benefits that it can offer.

Tree health has also increased in

importance. There are a range of diseases and pests that pose significant threats to some tree species and forest sites, affecting not only the productivity, but also the biodiversity and amenity value of the woodland. In extreme cases, disease may necessitate the entire clearance and on-site or off-site disposal of the affected timber. Understanding the risks and liabilities will be fundamental when considering any valuation.

### Legal and regulatory factors, and other obligations

Woodlands are possibly one of the most highly regulated rural asset classes, with all activities controlled through the Forestry Act and UK Forestry Standard (4). Tree protection has always been seen as important, but recent provisions within the Environment Act have seen increased levels of protection, especially for ancient woodland and veteran trees, and from the end of last year we saw hugely increased penalties for illegal felling (5).

In support of any valuation exercise, it will be important to have a comprehensive understanding of all the current legal protections. Consideration will also need to be given to rights of access, both authorised and illegal, sporting rights and provisions. Woodlands are often subject to environmental designations, in particular ancient woodland status, which may have impacts on value both positive and negative. A comprehensive understanding of these factors and their potential importance will be essential.

### Forestry policy, support measures and fiscal incentives

As noted above, the increased focus on forestry has seen a huge upsurge in policy

initiatives and structures for grant support for both new woodland creation and management of existing woodlands. Many of the grant funding contracts will have maintenance obligations that will have an impact on values and demand, and will need to be well understood. Taxation policy is also important in relation to woodland values. Historically and currently, woodland owners receive benefits from a range of tax concessions, including capital gains tax and inheritance tax. The availability of these tax concessions is closely linked to the objectives and management, with separate treatment for commercial and amenity woodlands, and will affect the supply and demand for woodlands and value.

## Market factors

As with any property asset, there are a range of market factors that influence the woodland market. These include supply and demand, interest rates and the availability and cost of finance, the state of the economy and the performance of other investments, planning and fiscal policies and societal trends and fashions.

Woodland is almost unique in the range of motivations and drivers for ownership. The focus on Environmental Social Governance (ESG) and ecosystem services, for example carbon sequestration which woodlands can provide, further complicates the position.

### Valuation approaches

It is not within the scope of this article to outline the specific valuation approaches that might need to be considered, but as noted above, it will be critical to undertake a comprehensive evaluation of the



property and the considerable range of issues highlighted.

Each different type of woodland could be valued on different bases, including market value, fair value, market rent, investment value or worth, equitable value, synergistic value, and liquidation value. Valuations will be required for different purposes, but typically include those for fund or financial accounting; sales and acquisitions; pre-purchase advice; loan security; winding-up procedures; taxation, including inheritance and capital gains taxes; divorce; business arrangements; financial reporting; dispute resolution; disposal under the Charities Act 2011 (6); and expert witness work.

It will be down to the valuer as to the most appropriate method, whether comparable transaction, income expectation, or replacement cost methodologies. The details and appropriate application of these methods is well documented within the new RICS standard, the Valuation of Woodlands and Forests 2nd edition.

## Other factors to be considered:

### Land values

The taxation position of woodland often requires values to be considered separately for the bare land and standing timber crop. The detailed requirements around this are complex where a timber crop has been felled and not replanted. The “prairie value” of the resultant asset will need to account for the obligations to replant and maintain, and will require careful consideration.

As noted above, we are also seeing an increasing demand for bare land that would be suitable for woodland establishment. In these cases, an understanding of the land’s suitability for planting, grant and ecosystem services that the land could deliver will be key. In light of planting targets, policy is shifting quickly, and a comprehensive understanding of the existing emerging policy and markets will also be required.

### Ecosystem services

Within the ecosystem services areas, both existing woodland and proposed woodland can deliver a vast range of non-timber benefits. These might include biodiversity and conservation, landscape, leisure and recreation, health benefits, soil and erosion control, flood alleviation, water and air quality and climate change mitigation, in particular carbon sequestration. All these possible opportunities and emerging markets will need to be carefully evaluated within the valuation process.

## Summary

Woodlands are often a poorly understood and undervalued element of many property portfolios. The recent political and investment sector focus on carbon, biodiversity and ESG have meant that we must look at this asset class through a different lens.

The recently launched RICS Professional Standard empowers professionals to ensure that they are cognisant of all

relevant factors that potentially impact the value of woodlands and forests and provides an overview of the bases of value that may be utilised.

The complexities associated with this asset class will require specialist expertise to interpret appropriately sourced data in the context of the land use and market.

Reappraisal of this asset class may highlight new options and opportunities that will greatly assist with the current climate emergency and the wider challenge of net zero by 2050.

Possibly this is the opportunity for our woodlands to have their time in the sun.

## References

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5. <https://www.gov.uk/government/news/new-powers-to-crack-down-on-illegal-tree-felling>
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