AN INTRODUCTION TO

Forestry Investing

BLACKFINCH

Don't invest unless you're prepared to lose all the money you invest. This is a high-risk investment and you are unlikely to be protected if something goes wrong. Take 2 minutes to learn more on page 14

Forestry is an exciting and important industry for a number of reasons.

This guide introduces forestry as an asset class, explains how we will manage the risks of a forestry investment, and explains why forestry benefits investors in the Blackfinch Adapt IHT Service.

Put simply, timber is one of the world's most useful and important resources. Not only is timber a key building material, used for everything from houses and furniture to flooring and roofing, but it also has a range of uses in paper products, biofuels and clothing. At the same time, forests play a vital role in regulating our environment and promoting biodiversity. As well as providing habitats for wildlife, trees are 'carbon sinks', meaning they naturally store carbon dioxide as they grow.

Timber is also a sustainable product capable of replacing other materials with a higher carbon footprint, such as steel and concrete. It's no surprise, therefore, that according to the International Labour Organization, the forestry sector employs 33 million people around the world.[1]

[1] Forest sector employs 33 million around the world, according to new global estimates

Meeting UK demand for timber

In the UK, the demand for timber is high, but 80% of the timber we use is imported.[2] In 2021, the UK was the third-largest net importer of forest products, behind China and the US.[3]

However, demand for timber is rising as wood is being used more in construction to help decarbonise the UK's construction industry and contribute to meeting net-zero targets. According to a 2023 UK Government report, using timber in construction is one of the best ways to reduce emissions from buildings: "Larger buildings can store up to 400% more carbon when built out of engineered timber products rather than concrete."

The growing commercial demand for timber in the UK has created a significant opportunity for national forestry investment. As part of its Timber in Construction Roadmap, the Government stated: "Increasing domestic capacity will create new green jobs in the forestry and wood processing sectors, which contribute over £2bn to UK economy."[2]

[2] GOV.UK New timber roadmap launched to boost UK construction and reduce emissions
[3] Forest Research Forestry Statistics and Forestry Facts & Figures

How does forestry investing work?

For Blackfinch, forestry investing involves acquiring a portfolio of woodland across the UK, in which the trees will vary in their degree of maturity. The woodlands we look to acquire contain a mixture of tree varieties which are capable of fulfilling the commercial demand for UK timber.

With forestry investing, the acquirer owns the woodlands indefinitely until they are sold. This means the land's value appreciates, adding to the returns created by the timber harvested. These woodlands must be responsibly managed, to support regional biodiversity, and new trees must be planted to replace harvested trees and avoid deforestation and habitat loss, which is why our forestry investments will be compliant with Forestry Commission sustainability standards.

Glenelg, Scottish West Coast

Forestry sites are often located along the west coast of Scotland, where the climate tends to be wetter and milder than other parts of Scotland, making it ideal for tree growth. The Scottish west coast has a long history of forestry, with some remnants of the ancient Caledonian Forest still existing. This means locations benefit from existing infrastructure and knowledge for managing forests in the region. Wales also has a mild, wet climate that is ideal for tree growth.

What do we look for in a woodland location?

Good quality trees

The Sitka spruce is the main commercial crop in the UK and grows well in our climate. It is also known for being disease-resistant and, therefore, is the most valuable source of domestic timber.

A combination of differently aged trees

Trees generally grow for 30-40 years before being harvested, so forests that vary in maturity mean a consistent cash flow over different periods. When you harvest, you have an obligation to restock.

valuable source of domestic timber.

Diversity of species

Monoculture (having one type of tree) is bad for biodiversity and wildlife. A forest dominated by only one tree species is also more susceptible to specific diseases or pests – so diversification helps to spread risk. UK Forestry regulation dictates that newly-planted forests should have a maximum of 65% of the same species.

Good drainage

Trees won't grow if the ground is waterlogged. More modern techniques include planting trees on small mounds so they drain individually, preventing the need for large drains that require more maintenance and upkeep.

Good access

Sawmills will often bring their own teams to the woodlands to fell the trees and transport them away. The forest needs to be accessible by roads and if roads have not yet been built, the land needs to be suitable for building access roads that can be used by timber lorries.

How are forests identified and acquired?

Forests are marketed by commercial forestry managers such as Savills. An agent listing a forest will share its 'class'. This number reflects the tree species, their rate of growth, the conditions of the land, and other important factors. The higher the class of forest, the higher the yield of the timber. A lower number would mean a lower buying price, but even a lower-yielding forest still presents an investment opportunity.

In our experience, the cost of acquiring a forest can be between £1-4m, although some forests (Glen Shira in Argyll and Bute) were placed on the market for offers over £29m.

What are the risks involved with timber investing?

The price of timber can fluctuate in parallel to the housing market – when mortgage rates are higher, fewer houses are built, so there is less demand for timber. However, unlike other asset classes, timber can more easily weather volatile periods as in periods of lower demand, you simply harvest fewer trees, which makes it easier to manage price risks.

Forests populated with younger trees will present more risk, as younger trees are more vulnerable to pests such as deer and voles, and they are more easily damaged by wind and fire. Wind risk increases as trees grow in height. Insurance is available to protect trees against some types of damage.

Some methods of managing risk can themselves be damaging. For example, plastic tubes around the trunks of younger trees can create plastic pollution. Instead of using plastic, alternative methods include planting trees closer together and surround them with more exciting plants for the deer to eat so they're distracted from eating the trees.

What other considerations are there?

Acquiring a forest can also present more diverse revenue-generating opportunities. For example, it's common for forests to include clear areas. In areas of a forest that are unsuitable for planting trees – such as exposed hilltops where trees would suffer wind damage – the space could instead be used to construct wind turbines, for example, creating a diverse revenue stream. We also consider the long-term value of the underlying land, which can increase over time and provide growth opportunities in addition to the value of the timber.

What are the tax benefits available from forestry investments?

Forests managed with the intention of producing timber for commercial purposes are eligible for **Business Relief,** which is a valuable exemption from **Inheritance Tax (IHT).** And with more estates paying IHT every year, we believe BR has an important role to play in helping more families to successfully transfer their wealth between generations, without losing control over their wealth when they need it.

About the Blackfinch Adapt IHT Service

The Blackfinch Adapt IHT Service is our IHT solution that uses Business Relief (BR) for a swifter route to IHT exemption. Investments in the Adapt IHT Service become exempt from IHT after just two years, provided the shares are still held at the time of death. It targets a net annual return of 3.5% - 5%. There's no annual management fee and no dealing fees on exit in the event of death, and dealing fees will be refunded should an investor die within two years of the BR-qualifying period start date.

Through the Adapt IHT Service, our investors benefit from owning a portfolio of BR-qualifying investments across four distinct asset classes: property development finance, asset-backed lending, renewable energy investment, and forestry investment. Although forestry is the newest asset class in the Adapt IHT Service, we expect forestry to make up around 20% of the total investments within five years.

Why choose Blackfinch?

Our investment expertise means we have deep relationships across all four asset classes we invest in. For example:

Property Development Finance: We work closely with property developers around the UK, providing finance ranging from £1m-£25m. We typically provide loans for new-build projects, redevelopments and major renovation works. We invest across sectors and regions, in everything from eco-flats to care homes.

Asset-Backed Lending: We provide asset-backed finance from £500k up to £25m for business and property deals, where the lending is typically secured against a building, land or business holding. We focus on financing in established sectors with reputable partners that share our responsible investing principles.

Renewable Energy Investment: We're a leading investor in renewable energy projects, with more than 53 solar and wind energy sites nationwide. These energy-producing assets – many of which still benefit from government subsidies – provide our investors with stable revenues and predictable returns as well as portfolio diversity.

Find out more about the Blackfinch Adapt IHT Service and the underlying assets in our brochure.

Find out more

We have a team of Business Development Managers all over the UK who will be happy to visit your offices, explain our products and even deliver training sessions for your team.

Webinars

Hear directly from our investment team

Head to our YouTube →

Case Studies

Breaking down client planning scenarios

Go to our Resources →

Events

Access a range of CPD-qualifying events

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Contact Us

Please do get in touch if we can help. We'd love to hear from you.

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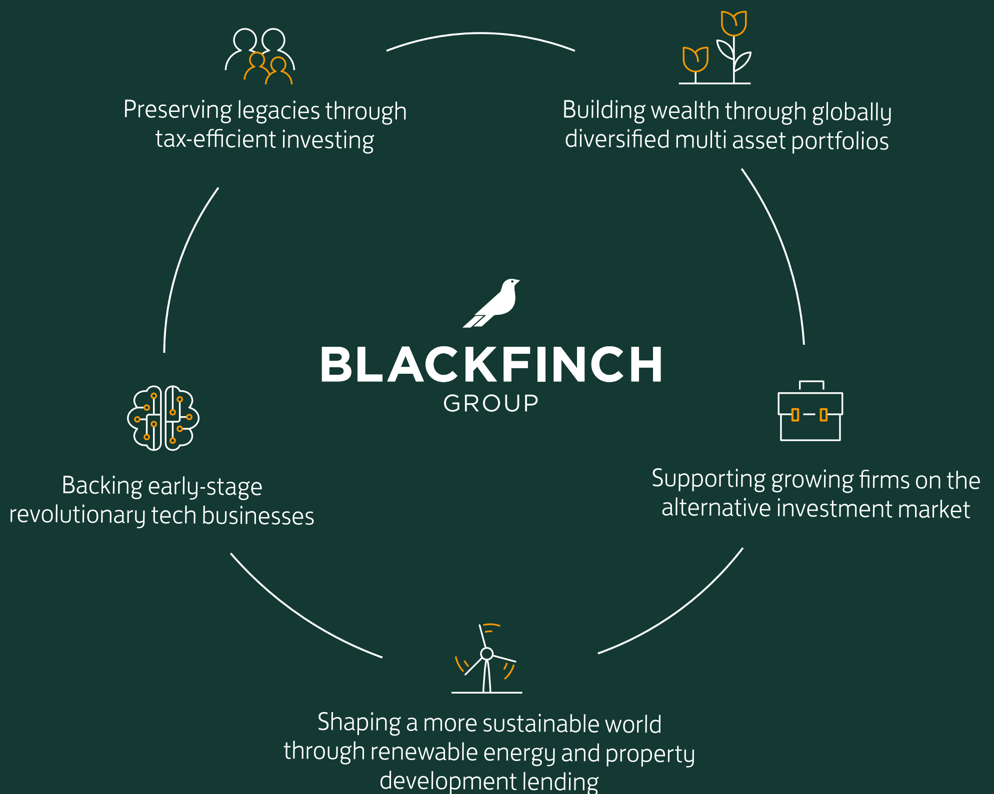
Blackfinch, a lifetime investment partner

Blackfinch offers a number of investment solutions, to address a range of client objectives.

No matter where they are in their investment journey, from starting out in building their wealth, through to managing their estate to ensure they pass on as much as possible to the next generation, we are here to help you achieve their goals.



Risks

Due to the potential for losses, the Financial Conduct Authority (FCA) considers this investment to be high risk.

What are the FCA key risks?

1 - You could lose all the money you invest
If the business you invest in fails, you are likely to lose 100% of the money you invested. Most start-up businesses fail.

2 - You are unlikely to be protected if something goes wrong
Protection from the Financial Services Compensation Scheme (FSCS), in relation to claims against failed regulated firms, does not cover poor investment performance. Try the FSCS investment protection checker (https://www.fscs.org.uk/check/investment-protection-checker).

Protection from the Financial Ombudsman Service (FOS) does not cover poor investment performance.
If you have a complaint against an FCA-regulated firm, FOS may be able to consider it. Learn more about FOS protection (https://www.financial-ombudsman.org.uk/consumers).

3 - You won't get your money back quickly
Even if the business you invest in is successful, it may take several years to get your money back. You are unlikely to be able to sell your investment early.

The most likely way to get your money back is if the business is bought by another business or lists its shares on an exchange such as the London Stock Exchange. These events are not common.

If you are investing in a start-up business, you should not expect to get your money back through dividends. Start-up businesses rarely pay these (https://www.financial-ombudsman.org.uk/consumers).

4 - Don't put all your eggs in one basket
Putting all your money into a single business or type of investment for example, is risky. Spreading your money across different investments makes you less dependent on any one to do well.

A good rule of thumb is not to invest more than 10% of your money in high-risk investments (https://www.fca.org.uk/investsmart/5-questions-ask-you-invest).

5 - The value of your investment can be reduced
The percentage of the business that you own will decrease if the business issues more shares. This could mean that the value of your investment reduces, depending on how much the business grows. Most start-up businesses issue multiple rounds of shares.

These new shares could have additional rights that your shares don't have, such as the right to receive a fixed dividend, which could further reduce your chances of getting a return on your investment.

If you are interested in learning more about how to protect yourself, visit the FCA's website (https://www.fca.org.uk/investsmart).

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