

Does money really grow on trees?

Interest in Ireland's private forests is growing fast as a result of a huge demand for timber and timber products. A clear opportunity now exists for IPAV members to identify suitable pockets of land for forestry and to make the link with one of the forestry companies. Tim Ryan discussed the state of the private forestry industry and opportunities with Padraig Egan, Managing Director of SWS Forestry Services.

Despite the economic recession Ireland's private forestry industry is thriving. In fact forestry is one of the economic areas of activity that is never unduly influenced by the state of the economy and it tends to carve an independent path.

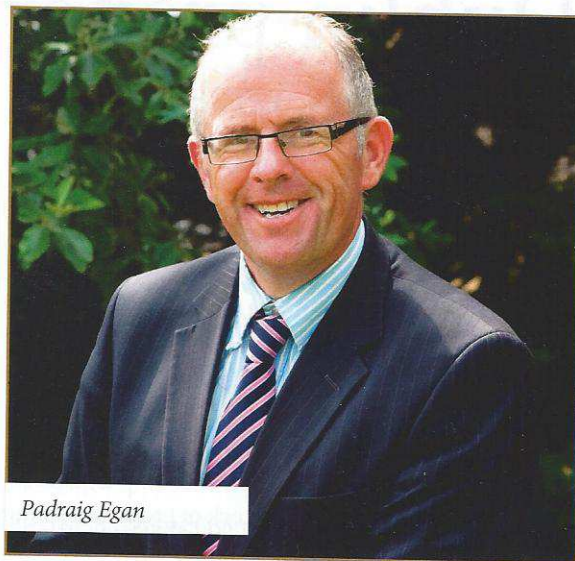
According to Patrick Lawless, CEO of Apian Asset Management, forestry has given good long-term returns with low volatility. "It's an asset class that appears to have demonstrated a low correlation with other asset classes – it doesn't necessarily fall when other asset classes fall nor does it necessarily rise when other asset classes rise."

The country's private forestry is now becoming an important source of wood and energy as many forests established by farmers 20 or more years ago are now entering their first thinning stage. According to Teagasc, the Agriculture and Food Development Authority, direct output from the growing sector of forestry alone in 2010 was €378 million. For every one million euro in expenditure in this sector a further €780,000 in expenditure was generated in the rest of the economy. In addition, direct output in the wood products sector (i.e. panel board mills, sawmills and other wood products sector) was €1.3 billion. The total value to the economy was estimated at €2.2 billion. Employment in the total forestry sector is now of the order of 11,000.

Conditions for timber production in Ireland are excellent. Ideal soil conditions, high rainfall and a mild climate combined with a low incidence of environmental pollution combine to give the country the highest growth rate for forests in Europe.

Having been sluggish for many years, the level of planting has been rapidly increasing in recent years. The total forest area in Ireland increased to over 750,000 hectares in 2011 and now represents about 11 per cent of the land area. According to Padraig, MD of SWS, who along with Greenbelt are the two largest providers of forestry services, there is no reason this cannot increase to 15 or 16 per cent over the next 10 years. And forestry pockets do not have to be of huge size. The average size of a privately owned forest in Ireland is 8 hectares (20 acres).

Padraig Egan says farmers with suitable land can either have the land planted themselves or sell it to



Padraig Egan

an investor. Grant aid comes in two forms, an annual premium paid directly to the landowner for 20 years and an afforestation grant scheme to cover fencing, planting, access, weeding etc.. The premium depends on the type of trees planted and can vary from €173 per hectare to €208 per hectare for oak and beech. The grants (€3,400 per hectare) normally go directly to the forestry services company and the landowner has no involvement whatever in the project allowing for the location to be generally irrelevant. Grants are payable in two instalments. Three quarters of the grant is payable on planting and the balance is payable after four years following inspection and approval. Throughout the entire cycle, the investor remains the owner of both the land and the crop.

In addition, says Egan, all profits from forestry are exempt from income tax and Capital Gains Tax – but not from the Universal Social Charge (USC).

Patrick Lawless of Apian Asset Management says that since 1994, forestry has delivered an average of 5.65 per cent per annum, which is a very strong and consistent performance despite the economic recession. Growing for the Future – A Strategic Plan for the Forest Sector in Ireland estimated the real rate of return in forestry (sitka spruce) at 5 per cent including land costs.

But are there any downsides to investing in forestry? According to Padraig Egan there are a few but these can be reduced significantly. The first is disease and he immediately points to the recent detection of ash dieback disease (*Chalara fraxinea*) which he says should never have been allowed to happen. On 12th October 2012, the Department of Agriculture confirmed Ireland's first case of *Chalara fraxinea* infection in a young forestry plantation in County Leitrim which had been planted with imported trees. The trees on this site and on all ten other sites planted with the same batch of trees were subsequently destroyed under Department

supervision. Following this first finding, the Department undertook a major survey of ash and continues to survey for this disease in forestry plantations, nurseries, roadsides, farms, etc.

The second threat is fire but here Padraig Egan says care should be taken as to the location of the forest. Closeness to heather can be a hazard whereas the presence of a road or a river virtually guarantees security.

In identifying suitable pockets of land for forestry Padraig Egan says IPAV members

should bear a number of factors in mind. These include the size of the area, (clearly the larger the area, the more efficient to manage), the quality of the land (the presence of strong rushes is always a good indicator) and proximity to a processing plant (distance from a plant can add €10 per tonne in transport costs). An additional beneficial factor might be the presence of an old cottage which might allow for the building of a house at some future point or the erection of a wind turbine, an increasing source of income for many farmers (current payments for

turbines are in the range of €18,000 to €25,000 per annum per turbine). Prices vary and currently the going rate varies from €3,300 to €4,000 per acre.

As the private forestry sector grows, so too does activity in the market with owners selling off plantations at various stages of their growth cycle. Thus, says Padraig Egan, a forest plantation is an asset that can be realised throughout its lifecycle depending on the age and circumstances of the owner.

"Good prices will always be paid for forests that have good quality timber as well as good road access and that are well managed," says Padraig Egan. Timber from first thinnings is likely to be the major component in the growing demand for biomass while the prices being paid for second and subsequent thinnings continue to be buoyed by the more valuable pelletwood segment of the market.

Overall private forestry is among one of the brighter beacons which can help lift the Irish economy out of recession as well as providing a steady, regular income for those who choose to invest in it.

For further information on forestry and its potential log onto www.swsforestry.ie



Padraig Egan with Alec Moony, SWS Midlands Forester and Emily Fitzgerald, Snr. Administrator, Cork Head Office.

Clarity for Tenants Needed as Rent Receivers become more prominent



The Minister for Housing and Planning, Jan O'Sullivan, TD, has indicated that she is examining potential changes to the law to provide greater clarity to tenants when a receiver is appointed to their rented accommodation.

Minister O'Sullivan made her comments as she acknowledged the work the Irish Banking Federation (IBF) has done in producing an information leaflet entitled, "A Residential Tenant's Guide to Receivership".

"The numbers of receivers appointed to rental properties is increasing and this can be a very confusing time for tenants who often feel caught between their established landlord and the newly appointed receiver. For most tenants this is an entirely new situation and it is incumbent on all involved in this process to give tenants certainty and clarity. The new IBF information guide is a valuable contribution in this regard."

The guide explains that where a receiver is appointed to a rented residential property the rent should be paid directly to the receiver and that a receipt should be given by the receiver to the tenant. The leaflet also advises that urgent repair requests should be directed to the receiver in the first instance. The guide also addresses the question as to who should return the tenant's deposit in a receivership situation. While individual receivers may return a deposit, the legal responsibility for return rests with the landlord to whom the deposit was originally paid.

"While improved communication for tenants is welcome I believe that we need to look at the law to bring greater clarity to the situation. At the heart of the issue is whether a receiver appointed to a property takes on the responsibilities of the landlord or is the receiver solely concerned with recovering value from the asset. At present that situation isn't entirely clear and it is the tenant who may be disadvantaged as a result. Therefore I want to explore the possibilities for making legislative changes in order to ensure clarity and certainty for tenants."