

# Positive outlook for forestry sector

By Chris Hutching

New Zealand is a favoured choice for forestry investment because species growth rates are generally high, technology well-developed and demand is growing from Pacific Rim countries.

With the increasing number of smaller investors getting into forestry in this country, there is also a growing secondary market in forestry investments.

Investors can buy into forestry by the direct purchase of forestry blocks or buying shares in unlisted and listed companies like Forest Enterprises, Opio and Nuhaka, Carter Holt and Fletcher Forests.

There are numerous other operations now providing investment advice and opportunities. For example, Greenplan is a North Island firm that has recently become a familiar industry name. But a quick search of internet sites like the New Zealand Forest Research Institute website reveals several others.

It's not always an easy choice.

Forestry investment prospectuses tend to vary widely in their assumptions and fees. In 1996/97 the Securities Commission issued two "health warnings" advising investors to treat with care some of the numbers and assumptions used in forestry syndicate prospectuses. Late last month the Commission issued a further warning.

Investors also need to ensure they are aware that forestry blocks may not be as liquid as shares. However, that said, they do change hands regularly.

Forecasts indicate a steeply rising volume of trees maturing in the next 20 years. During the past 15 years the New Zealand harvest has increased from about 10 million cubic metres a year to about 17 million cubic metres this year, and demand appears steady.

While some consultants advise investors to diversify into different woods there is a counter view that buying into the predominant pine species gives added protection because there is a larger research and management effort in place to protect it.

Some investments offer specific blocks and these may be more risky than an entitlement to one hectare's worth of wood from the entire forest.

Financial returns in New Zealand plantation forestry during the last 60 years have been averaged 7.1% p.a. above

inflation, according to the New Zealand Forest Research Institute. The Institute also has additional information about forestry generally, a valuation guideline, and a consultants' registration scheme.

Some forecasters suggest that 9% returns may be achievable in spite of the recent downturn in export volumes and prices. The reason is basic economics: supply

versus demand. New Zealand is expected to provide more forest products to Asian countries as they look further afield after exhausting local suppliers and restrictions are placed on logging indigenous forests in Canada, the US and Russia.

A recent report by the United Nations' Food and Agriculture Organisation confirms increases in global demand for timber will continue to outstrip supply. It says world demand is expected to increase 25% from 1996 levels to nearly 1.9 billion cubic metres in 2010. Wood production from New Zealand's planted forests is forecast to be around 30 million cubic metres in 2010. **fa**

