



## **Forest as an investment in Estonia and Finland**

The price of forest land in Estonia and Finland rose over 5% a year almost the entire 2010s and early 20s, with the first dip only at the end of 2023 as interest rates and mild recession finally started to affect the property markets.

The supply of forest on the market has consistently exceeded supply, although a lot of plots continue to come on the market annually. With the rise in prices the annual yield – measured in stumpage prices only – has correspondingly come down to between 2-4% p.a, since forest will not grow faster to make up for rising land prices. However, the average total yield has remained at over 5% on average throughout the 2000s due to the land price increases.

In the long term forests still look attractive as a low risk investment giving a low-to-medium yield. Wood is needed as a building material to replace steel and concrete, which generate large carbon emissions per ton, as well as to replace certain plastics as fossil fuel-based products are gradually phased out. Timber prices can be expected to hold steady and in the medium to long term rise steadily: this is because wood production itself is unlikely to rise and may even drop, as there is considerable pressure to set aside more forest for both carbon sequestration as well as for protection of biodiversity.

An additional reason to look at investing in forest is its carbon. Forests are the key sequestrators of carbon in the N Hemisphere and an important part of all boreal countries' sequestration strategies under the Paris Climate Agreement. It is increasingly likely that governments will start to pay forest owners subsidies to increase the average carbon levels of their forests, which can be achieved in a variety of ways. Improving forest carbon levels and selling the difference on the voluntary carbon market is already a possibility offered e.g by Innofor to its clients.

The price of any particular piece of forest real estate will vary depending on the current quality and quantity of timber it holds at the moment of sale, as well as to some extent its soil type and location. Any potential for zoning, e.g. of summer residences on lakesides, will tend to increase the price considerably, especially in S Finland. The more remote the site, the more likely it is that the price will be determined by commercial forest values only.

Currently the best investment potential is with forests located between S Lapland (S of Rovaniemi) and N of Jyväskylä. Here, if excessive bog soils are not a burden, are the best price – growth ratios at the current time. If one can take a long-term view of one's forest investment – and it is wise to do so – the best investments are into forests with average age at purchase of 15-35 years. At that age most trees will be only pulpwood sized and not very valuable, but about to enter their best growth phase of over 10% p.a. Once they exceed saw log size in the next 15-35 years, their value will triple. At this time trees will also sequester the most carbon relative to size, although northern forests will continue to sequester carbon in

excess of 300 years. Therefore the best way to sequester carbon in a boreal forest is not to log it all.

If your investment horizon is of the order of 10-15 years or less, a good return on your investment will be more dependent on the price increases on forest land due to high demand. Of course your forest will continue to grow annually, but it is unlikely without very lucky timing that much of your pulpwood logs will reach saw log size in such a short time period.

Indicative prices: stands averaging 15-40 years in N Finland cost 1800-4200 eur/ha depending on growth conditions and latitude. But a commercially mature pine or spruce forest of 100+ years may contain 400 m<sup>3</sup>/ha of timber worth 20 000€/ha. So the variation is large. Of course larger plots will in practice usually contain tracts of many different ages. If possible, it is worth aiming at a purchase of at least 40-50 hectares. This will on average yield enough timber per sale to attract an offer from most major buyers.

Prospective buyers should ensure that their representative gets a good overview of their targets: whether the forest is being purchased for timber profits alone or whether e.g. carbon or biodiversity issues are also important. The purchasing process itself doesn't vary much from other types of real estate. For brokerage, Innofor charges 3,5% + VAT with a max of 10 000€ for sites less than 200 ha. This includes a thorough on-site vetting of the forest. We vet on-site the quality of the owners' forest data and estimate also other major factors affecting the value such as the quality of logging roads and ditches, the proximity of main roads, and whether there are any lakes or rivers running through the area.

Based on the data gathered we will assess whether to make to our client a purchase recommendation or not. The client is not obliged to buy even with our recommendation, though normally we will not give the thumbs up to sites that don't fully fulfill our own criteria for potential, as well as having to meet all standards and targets set by our client.

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