How will a buyer value my forest?

Having profiled the property and assessed its forestry characteristics and attendant risks, a buyer is likely to consider the proposition from a forester point of view and then take an investment point of view.

In the forester perspective, the net present value of cashflows for a forest investment for timber and carbon using the proposed new averaging accounting method is calculated. Calculations are adjusted by an expected risk level for the variables used. A forester is principally interested in whether a forest venture on land purchased will be profitable over a harvest rotation, given a large number of variables that are at risk.

The investor's perspective excludes risk adjustment and is based on the internal rate of return (IRR) for different carbon prices. An investor will be principally concerned with the likely return against other investment options. An investor can then be expected to consider relative risk across investment returns under consideration.

Expected rates of return

A number of international foresters have been active in purchasing New Zealand forests for log processing as well as export. Some of these buyers have indicated that while they have been purchasing mature forests for harvest, they are now taking a longer term view and have an interest in new plantings. The international assessment of the New Zealand forest market has these types of buyers using a discount rate and, by implication, expected return in the region of 6 percent.

We note that a 6 percent discount rate has been used extensively by government agency Crown Forestry for their afforestation work.

In terms of private investors, people making their own plans for retirement and family trusts investing for the future, will generally be looking for a premium over term deposit rates and will be familiar with Kiwisaver rates of return. Private investors will generally buy a forest as part of a diversified range of investments. Diversified balanced Kiwisaver funds can be used as an opportunity cost for private investors. The 5-year average returns for the 39 principal funds in this category are currently running at just under 8 percent per annum.