



BUYING AND SELLING FORESTS



Forests are a key input into the building supplies industry. They are a key input into the packaging industry.

Plantation forests were originally the preserve of government. Large public holdings provided a degree of certainty as to availability of logs to supply mills. Through a combination of tax incentives, government sell down and Treaty settlements, forest ownership has become more diverse. Mills need to maintain multiple relationships in order to get continuity of supply.

Iwi are the largest forest land holders. As iwi groups work to bring existing non-productive land into forest and the Treaty settlement process transfers additional forest land into Maori control, iwi will own over half of all plantation forest land. Other important forest land owners are farmers and forestry partnerships. Overseas Investment Office restrictions suggest that overseas investors are less likely to be forest land holders in the future.

In terms of cutting rights for the trees themselves, dominant holders are overseas timber investment management groups. Farmers and forestry partnerships encouraged by tax incentives in the 1990's are also significant holders of trees. For this group they are nearing their first harvest. The presence of a large number of small suppliers will be a new dynamic in the market. Looking further into the future key influences on the composition of tree ownership will include the degree to which iwi go beyond being landlords and become foresters, along with the degree to which carbon prices encourage new entrants.

Selling forests

Forests can be sold when the trees are first planted, helping to finance the cost of planting. Buyers pay land rent and maintenance costs through to harvest. By maintaining the same forest manager as the forest changes hands, comprehensive records and hence forest value can be maintained.

Forests can be sold when the trees are close to harvest age. The buyer pays land rent until harvest. The forests can then be harvested at a time convenient to their ultimate user whether this user be a local mill or overseas importer.

Forests can be sold on harvest. Selling on harvest means the seller can take the full production profit.

Buying forests

Mills like to buy forests to ensure they can maintain continuity of production.

Traders like to buy forests when they are close to harvest so that they can help mills, both here and overseas, maintain continuity of supply.

Investment funds are open to buying forests from when they are first planted. The funds can create a return for their investors, provided they are able to on-sell their holdings to mills and traders as the forests mature. Overseas the auditors of superannuation funds will generally look for 3-10 percent of funds under management to be held in forestry assets. Forests are seen as a source of steady returns

that don't necessarily move with other asset classes.

Forest market

Since early times New Zealanders and overseas forestry interests have been buying and selling New Zealand forests.

A variety of methods are used. Generally, a fixed price will be negotiated. Sometimes tenders and auctions are used. Because the market has in the past been informal, buyers and sellers have had difficulty finding one another and therefore getting the best terms.

www.forestx.com

New Zealand's electronic forest market is a common, easily accessed place for buying and selling forests. It provides transparency in terms of the range of lots that are available and how a transaction for any one lot will take place.

Sellers can be confident that they are reaching a wide range of domestic and overseas buyers. Buyers can be confident that the rules by which their bid will be received and processed are clear and fair.

To sell

To sell a forest you need to:

- Register, agreeing to the standard terms and conditions
- Describe what you are selling based on certain characteristics including details on the forest manager and available forest records

- Choose a method of sale between fixed price, tender and auction, attaching the proposed sale and purchase agreement you have arrived at with your solicitor, with the option of using one of the templates provided to speed the process
- Be available for questions and due diligence
- When bids come in you will need to make a decision as to which one you wish to accept, unless you are selling by auction. If you are selling by auction your forest will be sold according to the uploaded contract to the highest bidder above your reserve price.

To buy

To buy forests you need to:

- Register, agreeing to the standard terms and conditions
- Search through the listings for what you wish to purchase
- Review the information provided including the proposed contract, asking questions of the seller where you are unsure
- Bid according to the rules set out in the terms and conditions
- Sign and return the contract that will be sent to you on your successful purchase

Please note that for auction bids over \$4m you will be expected to prove your ability to settle prior to making a bid. Proof is by way of credit rating from an approved

rating agency, provision of a letter of credit provided to ANZ Bank or business review completed by PricewaterhouseCoopers. Those selecting business review are expected to provide latest audited accounts in English.

Getting it right

Buying and selling forests is a technical exercise that requires many assumptions about uncertain future events. By consulting professionals, including a registered forestry consultant, your accountant and your solicitor you can take a systematic approach to the decisions you will have to make.

The market hosts a number of technical tools which give you and your advisors access to knowledge that will help inform the decisions you make. From Scion tools include:

- Land resource description, soils, terrain, indicative roading and harvesting costs
- Local forest resource description and wood supply forecasts
- Forest productivity and growth projection
- Possible risks from wind and disease.

About us

The market is operated by Commodity Markets (NZ) Ltd. As an electronic market it is a platform for buyers and sellers to make considered transactions. Its principals are John Stephens and Kim von Lanthén. John is an information technology specialist in the financial services industry. As a former corporate trustee Kim has

been licenced by the Financial Markets Authority as statutory supervisor of over 150 forest partnerships.

In registering, sellers undertake to meet fees on the successful consummation of a sale. Fees are as follows:

- 0.4 percent for transactions
- 0.4 percent if the technical services provided by Scion have been used in the transaction

a maximum of 0.8 percent.

Bidders are required to meet the cost of ANZ Bank and PricewaterhouseCoopers services in advance of using their services.

The market is for the benefit of participants. Commodity Markets (NZ) Ltd warmly invites your feedback on how the market can be refined so that it better meets your needs.

Regulated transactions

It is the responsibility of market participants to ensure that they trade within regulations. On registration you will be asked to certify that you will not trade in trees that are subject to unsatisfied covenant or cannot legally be harvested.

If as part of your sale of a forest you also wish to sell the land on which the trees are planted, this can be facilitated through one of our recommended land agents, or an agent of your choice. Our recommended agents are Harcourts and PGG Wrightsons, both specialise in the sale of forestry land and have national representation. Sellers will be asked to state their land agent as part of their sale listing. The agent will attend to the land sale element of the transaction.

Please note that in most circumstances only Managed Investment Schemes licenced by the Financial Market's Authority, are in a position to offer for sale shares in forest partnerships.

Help is at hand

If you need assistance, please email us at help@forestx.com or call us during New Zealand business hours on +64 4 390 1700. We will be pleased to assist you.

23 August 2016