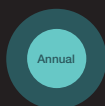




IPD UK Forestry Index

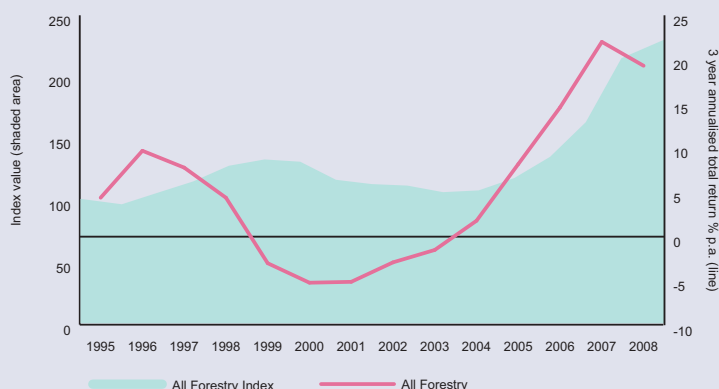


Results for the year to 31st December 2008

On the pulse of
the property world



Historical performance



The IPD UK Forestry Index is calculated from a sample of private sector coniferous plantations of predominantly Sitka spruce in mainland Britain and in 2008 returned **7.0%**.

IPD UK Forestry index returns

Forestry	Dec 1992=100	2008	Annualised total return %			
			3 yrs	5 yrs	10 yrs	16 yrs
Total return	226.2	7.0	19.3	16.2	5.7	5.2
Timber price change*	62.6	-28.5	7.5	9.3	0.0	-2.9

* On a year to March basis (2008 = March 2009)

Comparative data - Total return

	Dec 1992=100	2008	3 yrs	5 yrs	10 yrs	16 yrs
Equities	275.8	-29.9	-4.8	3.5	1.2	6.5
Bonds	348.8	15.0	6.9	6.9	5.6	8.1
Commercial property	411.0	-22.1	-3.9	4.6	7.5	9.2

Data sources: Forestry Commission Nominal Price Index of Coniferous Standing Sales (for Great Britain), FTSE All-Share Index, FTSE UK Gilts Index 5-15 yrs, IPD UK Annual Property Index

Sponsors of the IPD UK Forestry Index

Bidwells, Border Consultants, Close Asset Management, ConFor, Eamonn Wall & Co. Forestry Investment Management, Forestry Commission, fountains, Highfield Forestry, Scottish Woodlands, UPM Tilhill

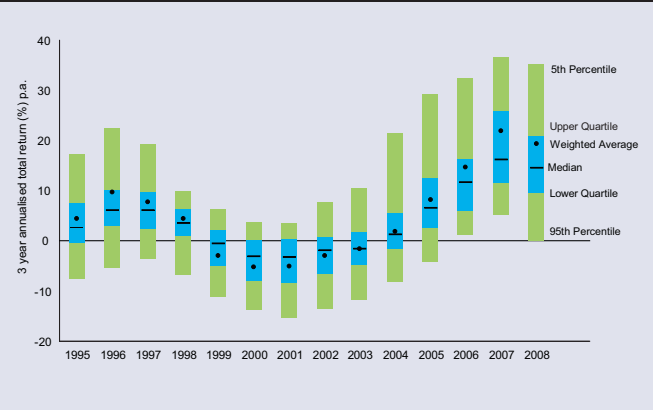
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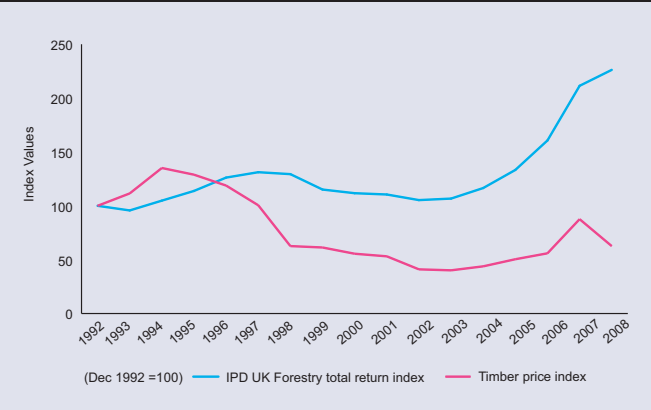
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Summary of full results

Range of individual forest returns



IPD UK Forestry total return index vs timber price index



3 year rolling annualised returns

(% p.a.) 3 year	Weighted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
1998-01	-5.1	3.5	0.3	-3.3	-8.4	-15.4
1999-02	-2.9	7.8	0.7	-1.8	-6.8	-13.7
2000-03	-1.5	10.7	1.7	-1.7	-5.0	-11.8
2001-04	1.8	21.6	5.4	1.2	-1.7	-8.3
2002-05	8.2	29.2	12.5	6.6	2.5	-4.1
2003-06	14.6	32.4	16.3	11.7	6.0	1.1
2004-07	22.0	36.7	26.0	16.2	11.5	5.2
2005-08	19.3	35.2	20.9	14.5	9.3	0.0

5 year rolling and long term annualised returns

(% p.a.) 5 year	Weighted average	Top 5%	Upper quartile	Median	Lower quartile	Bottom 5%
1998-03	-3.8	4.9	0.5	-2.6	-6.9	-13.1
1999-04	0.2	10.3	3.0	0.2	-3.1	-9.5
2000-05	3.6	12.7	5.5	2.2	0.1	-5.3
2001-06	7.8	22.4	10.3	6.1	3.5	-2.0
2002-07	15.0	26.0	16.7	12.8	7.6	-0.3
2003-08	16.2	28.5	17.9	11.7	7.7	0.3
Long term (% p.a.)						
1992-08	5.2	9.2	6.4	4.8	2.9	0.2

Summary

- In 2008, the average total return on investments in forestry was 7.0%. This was significantly lower than the record levels seen in 2006 and 2007; when total returns of 20.6% and 31.6% respectively were achieved, and reflects the impact of the global economic crisis. In spite of a more subdued return in 2008, forestry still remained strong in the three years to 2008, returning 19.3% p.a. and saw an improvement over the mid to long term, returning 16.2% p.a. in the five years to 2008 and 5.2% p.a. since the start of the index in 1992.
- The returns of plantations in the top and bottom 5% have continued to diverge in the three years to 2008, with the top 5% returning 35.2% p.a. and the bottom 5%, 0.0% p.a. Over the long term, the gap has started to widen as well, in the 16 years to 2008 the top 5% returned 9.2% while the bottom 5% just managed to produce a positive return of 0.2% p.a.
- Timber prices fell 28.5% in the year to March 2009 - the biggest y/y fall in the last decade and this has clearly taken its toll on forestry investments.
- Forestry investments out-performed both equities and commercial property in 2008. Both of these asset classes saw total returns tumble to -29.9% p.a. and -22.1% p.a. respectively. The continued recovery of gilts saw them out-perform forestry, returning 15.0% p.a. in 2008. Over the three and five years to 2008, forestry investments significantly out-performed all three asset classes but remained the weakest asset class over the long term. In spite of this, forestry continued to display less volatile behaviour than equities, with a standard deviation of 10.7 compared with 18.2 for equities.
- The majority of the forests in the index sample (87.8% of total capital value) fall into the two oldest age bands and the performance of these forests will have a greater impact on the overall forestry total returns.

The Index

The IPD Forestry Index is calculated from a sample of private sector coniferous plantations of predominantly Sitka spruce in mainland Britain. By the end of 2008 the 144 forests in the index had a total capital value of £121.9m.

The Index is derived from a series of annual valuations and cash flows, but in order to reflect the long-term nature of forestry investment the series is presented on a three-year annualised basis. The year-on-year returns and Index values are shown on the back of this publication, but analysis is based principally on the annualised results. These demonstrate more clearly the long-term returns available to investors.

Tax Status

Tax is a very important consideration for investors in forestry, but the wide variation of tax status between investors makes it impossible to reflect these benefits in the results. The Index excludes these substantial fiscal advantages that are available to the investor.

Income from timber sales in the UK is free of Income and Corporation Tax and growing timber is exempt from Capital Gains Tax. After two years of ownership, commercial woodlands qualify for 100% Business Property Relief from Inheritance Tax.

The index series is based at 1992 after the expiry of tax relief on expenditure, which was withdrawn in March 1988 with a period of transitional relief until December 1992. The Index reflects movements in valuations driven by changes in the underlying long-term trend in UK timber markets and investor demand.

Market commentary (provided by the sponsors)

2008 was a tumultuous year for the global economy with major price corrections for many asset classes. However, the value of UK commercial forests held and with very low leverage in the UK forestry market there was little evidence of distressed selling. Investors are seeing trees and land as a safe haven and retained their belief in the long term fundamentals of forestry investment, despite the sharp fall in UK timber prices. The favourable tax regime remained unchanged during 2008.

The volatility in the commodities markets in 2008 is illustrated by the Forestry Commission's Coniferous Standing Sales Index. In the year to March 2008 prices rose by 56%, but in the year to March 2009 they fell by 28%, a dramatic about-turn that caught many by surprise. Harvesting activity has subsequently fallen, as private sector forest owners are reluctant to bring timber to the market at lower timber prices.

The UK imports 80% of its timber requirements but the weakness of sterling has helped UK timber processors by increasing the demand for home grown timber. By the second quarter of 2009 it appears that prices for UK standing timber have stabilised and are generating renewed harvesting activity.

Looking ahead, with significant reduction in new house starts the demand for structural timber is expected to remain weak. However, energy wood demand is increasing significantly and this trend will continue. For example in Scotland, some 850,000 tonnes of new energy wood demand has come on stream in the last year.

The volatility in the timber market has not been reflected in freehold commercial forest values. In most situations, when forests come to the market, felling can be delayed for five or more years, and for many felling may be 20 or more years into the future. Investors are taking a long term view and demand for forest property has not reflected the fall seen in the timber market.

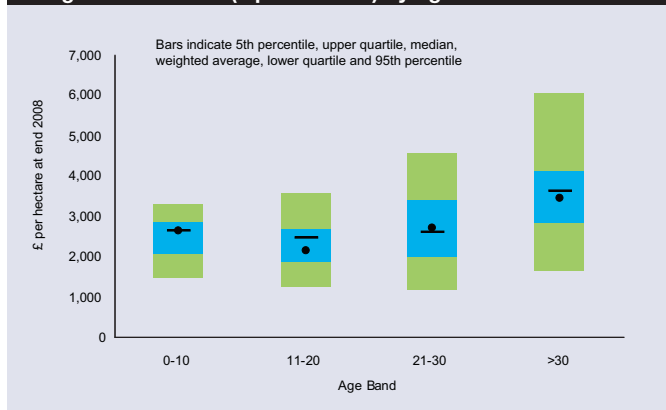
With uncertainty over the impact of quantitative easing on inflation and the value of paper money, investors are moving into tangible assets, such as land, timber and gold.

UPM Tilhill/Savills annual Forest Market Report estimated an average price rise for forest property of 10 to 20% for the year to September 2008. These figures did include a number of very high prices paid late in 2007 and early 2008 when the market may well have peaked. The averages were based on £25 million of sales from only 50 properties sold.

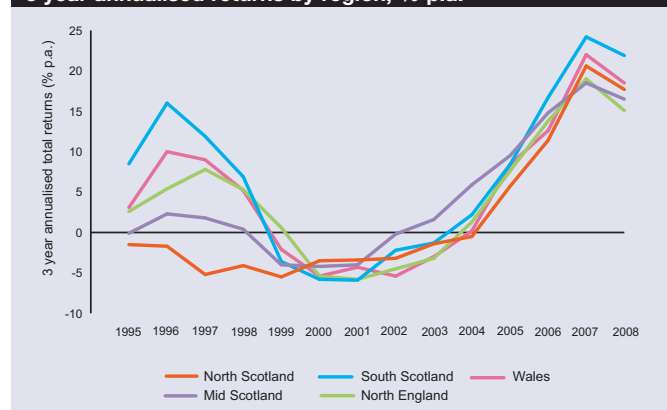
As part of the Forestry Commission's disposals programme, it sold a number of large forests in south Scotland in late 2008, with sale prices generally ahead of asking price. The next phase of FC sales will be in the north and west of Scotland and will be a useful measure of the strength of the commercial forest market in 2009.

There is much more caution in the market in 2009, but providing there are no further significant falls in timber price, investor confidence should remain intact.

Range of valuations (£ per hectare) by age band



3 year annualised returns by region, % p.a.



Performance by age and region of plantation (see tables overleaf)

- Total returns were considerably lower across all age bands in 2008 with the most significant change experienced by forests in the over 30 year band. These plantations had an exceptional year in 2007 but in 2008, produced the weakest return of 1.2% p.a. Older plantations tend to be more responsive to the price of timber and have therefore been most affected by the sharp drop in 2008. Plantations in the 21-30 year band proved to be the most resilient in 2008 and achieved the strongest total return of 11.3% p.a. Historically, the youngest plantations (0-10 years) have tended to out-perform those in the 11-20 year band but in 2008 the youngest plantations under-performed for the first time since 1997, returning 8.7% p.a..
- Since 1999, the 0-10 year old forests have achieved the highest returns p.a. on a three year rolling basis. However, a weaker return in 2008 saw them under-perform the two oldest bands in the three years to 2008. With a total return of 21.4% p.a., plantations >30 years were the top performing group in the 3 years to 2008. In the mid to long term, the 0-10 year old forests still manage to produce the highest returns; 23.2% p.a. in the 5 years to 2008 and 10.9% p.a. in the 16 years to 2008.
- In 2008 the 11-20 year old group saw the lowest weighted average capital values. Weighted average capital values ranged from £2,139 up to £3,436 per hectare with the oldest forests having the widest range of valuations; from £1,622 per hectare for the 5th percentile to £6,050 per hectare for the 95th percentile. The range of valuations for the 0-10 year old group has narrowed as values in the lower quartile increased.
- The age composition in each region is not perfectly balanced and does impact on the regional analysis, with some of the variation in performance being due to the variation in the age mix.
- Plantations in South Scotland produced the highest total return in 2008 of 9.9% p.a. This region was also the best-performing over the 3, 5 and 16 years to 2008, returning 21.9% p.a., 18.3% p.a. and 6.9% p.a. respectively over each of these periods.

Index series

Year-end	Total return %	No. of forests	Total return index	Timber price change	*Timber price index
31st Dec					
1999	-11.1	157	115.1	-2.0	61.3
2000	-2.9	155	111.7	-9.4	55.5
2001	-1.1	163	110.5	-4.4	53.1
2002	-4.7	169	105.3	-22.9	41.0
2003	1.3	165	106.7	-2.1	40.1
2004	9.2	161	116.5	9.2	43.8
2005	14.4	158	133.3	15.1	50.4
2006	20.6	159	160.7	11.0	55.9
2007	31.6	145	211.4	56.6	87.6
2008	7.0	144	226.2	-28.5	62.6

Total return and timber price indices based at 1992=100

* Forestry Commission Nominal Price Index of Coniferous Standing Sales (for Great Britain) on a year to March basis (2008 = March 2009). It reflects the price in other years of the size and mix of timber sold in the base year. This is based on a size and mix of timber that is updated every 5 years (5-yearly chain linking) and the series has been re-based to 1992.

Index Design

The sample was originally structured to reflect market capitalisation across the regions and an approximately even number of plantations by age band in each region. This pattern has been distorted over the years by the ageing of plantations. For the purpose of the age band analysis plantations are artificially sold and re-purchased when they change bands. Properties are included in the three year rolling returns according to their age in the end-year of the period. Felled plantations are replaced by the youngest age band whenever possible.

Tax position as at December 2008

Income	All income from UK timber sales is free of Income and Corporation Tax
Capital gains tax	Growing timber is exempt from Capital Gains Tax
Inheritance tax	After two years of ownership, commercial woodlands qualify for 100% Business Property Relief

Sample composition by age band

Years	0-10	11-20	21-30	> 30	Total
No. of forests	9	25	63	47	144
% Capital Value	1.5	10.8	50.4	37.4	100.0

Sample composition by region

Region	North Scot	Mid Scot	South Scot	North England	Wales	Total
No. of forests	20	25	52	18	29	144
% Capital Value	8.4	15.0	43.6	8.7	24.2	100

Valuation range (£ per hectare) by age as at 2008

Years	0-10	11-20	21-30	>30
5th percentile	3,294	3,602	4,569	6,050
Upper quartile	2,861	2,674	3,398	4,126
Median	2,632	2,459	2,590	3,636
Lower quartile	2,035	1,828	1,966	2,829
95th percentile	1,448	1,223	1,151	1,622
Weighted average	2,649	2,139	2,721	3,436

Acknowledgements

IPD would like to thank all those forest owners, land agents and forest managers who have provided information for this analysis and the Forestry Commission who contributed to the cost of data collection and analysis. Forestry consultancy has been provided by the sponsors, who are responsible for the Market Commentary section of the text.

Special Notes

Every care has been taken to ensure the correctness and accuracy of this publication. IPD cannot accept responsibility for any errors or omissions.

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3, 5 and long term total return by age (% p.a.)

Years	0-10	11-20	21-30	> 30
2001-04	14.9	2.4	0.7	1.2
2002-05	27.0	7.2	7.1	7.6
2003-06	30.0	12.2	12.1	16.0
2004-07	27.0	13.2	19.8	26.3
2005-08	15.3	12.7	19.1	21.4
1999-04	13.2	1.2	-1.1	0.3
2000-05	19.3	3.0	2.6	3.2
2001-06	21.1	6.5	6.0	8.3
2002-07	23.7	10.1	13.3	17.1
2003-08	23.2	11.8	15.5	17.2
1992-08	10.9	4.1	5.5	4.6

Range of return by age 2005-2008 (% p.a.)

Years	0-10	11-20	21-30	>30
5th percentile	70.9	21.8	31.8	37.6
Upper quartile	34.8	19.0	21.4	21.3
Median	11.9	16.1	14.6	12.1
Lower quartile	6.2	12.8	10.3	5.4
95th percentile	3.1	6.9	1.1	-4.1
Weighted average	15.3	12.7	19.1	21.4

3, 5 and long term total return by region (% p.a.)

Region	North Scot	Mid Scot	South Scot	North England	Wales
2001-04	-0.5	5.9	2.2	1.3	0.2
2002-05	5.7	9.5	8.4	7.6	8.4
2003-06	11.4	14.8	16.7	13.8	12.6
2004-07	20.6	18.5	24.2	19.0	22.0
2005-08	17.7	16.5	21.9	15.1	18.5
1999-04	-0.8	3.5	0.5	-1.0	-1.4
2000-05	1.9	5.4	4.2	2.6	2.7
2001-06	5.9	9.7	9.0	6.9	5.8
2002-07	13.1	14.7	16.0	13.0	14.9
2003-08	13.3	14.4	18.3	13.8	15.8
1992-08	2.0	3.9	6.9	4.1	4.9

Range of return by region 2005-2008 (% p.a.)

Region	North Scot	Mid Scot	South Scot	North England	Wales
5th percentile	38.6	23.0	38.4	41.1	33.9
Upper quartile	21.0	17.8	22.0	23.3	19.7
Median	12.8	13.6	15.1	15.6	12.0
Lower quartile	9.4	10.8	10.7	5.6	5.8
95th percentile	1.2	1.3	4.1	-4.8	0.6
Weighted average	17.7	16.5	21.9	15.1	18.5

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