

## Insight

# Region profile: Australian and New Zealand forestry investment

Australia and New Zealand are two of the world's most stable economies. The plantation forest industry is over 100 years old in both countries, with each having well-established plantation management capacity, operating history, infrastructure, and markets. Strong domestic and export demand for timber, including to growing Asian markets, combined with the alignment of the forest sector to decarbonisation, mean the potential for compelling investment opportunities.

# Investment opportunity – diversified timber markets and growing carbon value

Australia and New Zealand offer favourable growing conditions, climates well suited for primary production and a stable infrastructure and regulatory environment. Both have predictable timber supply characteristics with well-known productivity and operating conditions and provide exposure to two core markets that have a strong long-term demand outlook:

1. China, India, and Southeast Asia – These are some of the fastest growing and most dynamic markets in the world, and they provide a market for almost all of the Australian hardwood woodchip exports and New Zealand softwood log exports. (See Figures 1 and 2.)
2. Australian construction industry – Australia runs a chronic deficit of structural softwoods for its domestic construction industry. For over 20 years, Australia has had nearly continuous economic growth, and with little or no new softwood plantations, this deficit is expected to continue to widen over the coming decades.

Figure 1 – Asian Hardwood Woodchip Market Suppliers (Source: RISI 2021)

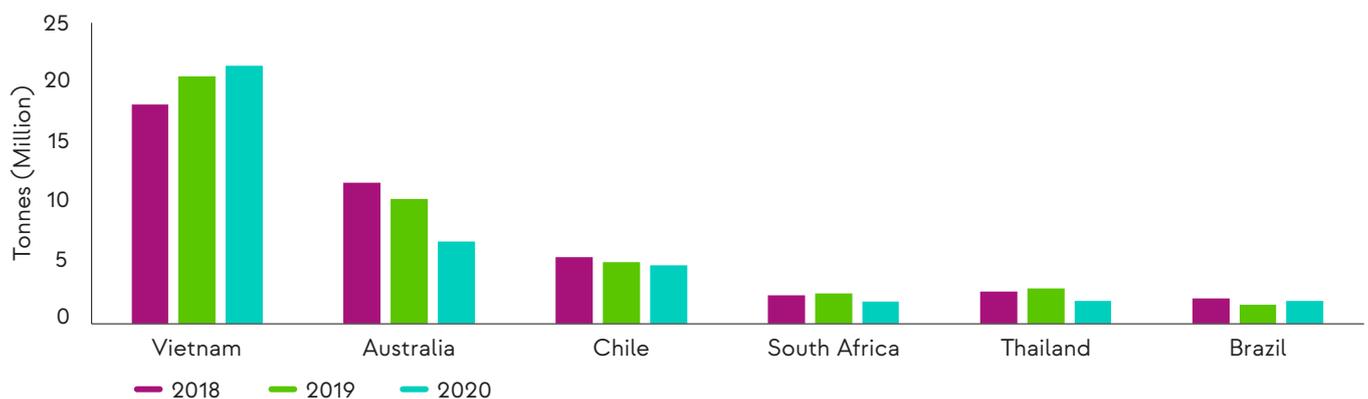
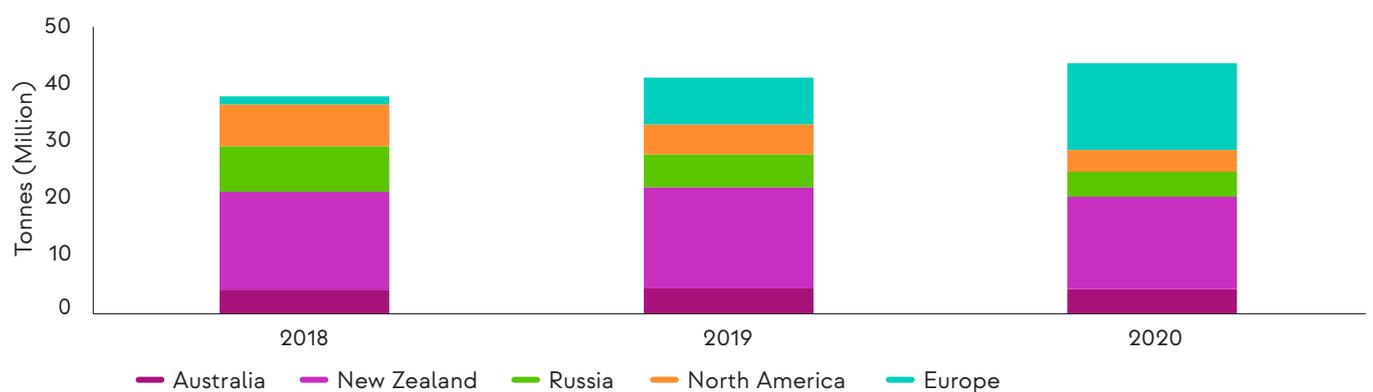


Figure 2 – Chinese Softwood Log Imports<sup>1</sup>



Furthermore, government-regulated carbon markets are driving higher returns, providing optionality and new investment strategies in forestry assets in Australia and New Zealand. Additionally, new markets for timber products and wood fibre, including engineered wood products, bio-composites, renewable energy and biofuels, and bio-based materials are creating new opportunities for forestry investments.

<sup>1</sup> FEA 2021.

## Market Dynamics

We expect that in the next three to five years Australia and New Zealand will provide attractive buying opportunities, not limited to:

- Ongoing privatisation of state-owned plantations and corporate sales in Australia and New Zealand.
- Assets sales from Timberland Investment Management Organisations (TIMOs).
- Continued aggregation opportunities in Australia and New Zealand, where land is increasingly used for multiple purposes to maximise land value and returns.
- The trend towards a whole of landscape approach to forestry assets that includes carbon finance, the conversion of agricultural assets to plantation forestry, and carbon sequestration.
- A strong pipeline of asset sales is enabling investors to build a diversified forestry investment portfolio.

## The investible universe includes:

	<b>Existing, mature forestry assets</b>
	<b>Greenfield sustainability certified plantation</b> forests on freehold and leasehold land
	<b>Timber processing and infrastructure</b> which may create supply chain efficiencies and reduce costs and risks related to forestry assets
	Some <b>agricultural assets</b> integrated with forest and rural land

## What are the key market exposures?

Forestry assets in Australia and New Zealand have seen growth and innovation across timber markets and processing. This means investors can benefit from exposure to mature timber markets and well-established management systems in the region.

### Fibre-end and plantation use



#### Building materials

The market is seeing a rise in demand for a range of wood composites such as composite decking and engineered wood products, due to their use in mid-rise residential and commercial construction.



#### Processing

Processing and export facilities are typically more limited in Australia and New Zealand forestry compared to US counterparts. There's the opportunity to build out these capabilities through vertical integration.



#### Renewable energy sources

Wood chips from trees, shrubs and other residues are a key source of bioenergy, a renewable energy source.

### Carbon markets

The two opportunities for investors in these markets are:

- Australia's voluntary Emissions Reduction Fund (ERF) which allow us to monetise stored carbon or avoided emissions.
- the New Zealand Emissions Trading Scheme (ETS), a regulated carbon market which is more mature and with higher volumes than Australia's ERF.

# Maximising the value of ANZ forestry assets for investors

Creating income and capital growth from Australian and New Zealand forestry assets requires an investment strategy focused on:

- **A long-term investment horizon** with an active focus on value creation from biological growth and asset development.
- **Deep sector expertise** in asset selection, development and portfolio construction.
- **Diversified investment** across the forestry value chain from plantation to ports.
- **End-market strategies** that strengthen access to domestic and international markets and maximise value from primary and secondary timber sales.
- **Supplementary revenue streams** from the sale of carbon units through regulated and voluntary carbon markets.
- **Risk management** to mitigate physical risks, such as fires, and portfolio risks by constructing a portfolio with long-term, uncorrelated income streams.
- **A sustainability framework** that aligns the interests of local communities and the needs of investors, considering the environmental, social and governance (ESG) impact of each investment decisions, ensuring responsible management of land, water and biodiversity.

## Accessing world-class forestry assets

The Australia and New Zealand region has much to commend it – suitable climates, mature infrastructure, a stable and supportive regulatory environment, and access to diverse investment-grade plantation assets. By leveraging state forest privatisation and agricultural land to forestry conversions, New Forests continues to originate a strong pipeline of investment opportunities. It's this track record of transaction origination and portfolio management that has established New Forests as the largest forestry manager in Australia and the second-largest landowner in New Zealand.

## Contact us

To find out more about how you can benefit from New Forests' investment opportunities in Australia & New Zealand, please contact:

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