

EXTRACT FROM the Irish Times 2nd April 2004

Investors hope acorns will grow to mighty oaks

Irish Forestry Services is selling shares in its ninth forestry investment plan, with proceeds on asset sale after 10 years being distributed tax-free to investors, writes Laura Slattery

Money might not grow on trees, but the 12,000-plus Irish people who have invested in forestry funds will be hoping that at least the acres of woodlands the trees are planted on will generate wheelbarrows of cash.

Forestry investment in Ireland is easily accessible: you don't have to be a wealthy farmer with an in-depth knowledge of tree species and the pitfalls of plantation in order to plunge your spare capital into carbon dioxide-eating spruces.

Irish Forestry Services, the largest forest asset management company in the Republic, is currently selling shares in its ninth 10 year forestry investment plan. The plan once it is fully subscribed to its €3.75 million limit will be used to purchase bare and semi mature woodlands. The lands will be planted with the aid of afforestation grants maintained for 10 years then sold on the open market. The proceeds will be distributed tax free to shareholders. Profits from woodlands managed on a commercial basis are exempt from income and corporation tax thanks to the Government's policy of encouraging planting programmes. And it is this feature of forestry investment that may prove to be the most clear cut advantage for potential shareholders

The main worry for investors is that the returns on their investment are so uncertain. IFS forecasts a 9.2 per cent per annum return on the investment, after its transaction charges have been deducted, meaning a person who buys one share for €750 should get a return of €1,808. However, the first IFS forestry plan will not mature until 2010, so we are some way off knowing whether or not the model will be as profitable for investors as the company suggests. Indeed, the plan brochure warns that the returns are based on selling semi-mature woodlands, for which there is an emerging vibrant market. "This market may not be as vibrant when the woodlands are sold at the company's maturity date. "Fires, disease, and frost and wind damage also pose threats. Nevertheless, forestry investment has proved to be remarkably popular with investors. Previous plans have been oversubscribed, with IFS having to return approximately €5 million last year and €5 million in 2002.

The average investment level has also almost doubled over the last three years, currently standing at €6,000. About half of investors in the plans are repeat customers, according to Mr Paul Brosnan, IFS marketing director. IFS's first set of forestry funds each had an investment term of 30 years, the length of time it takes the trees to mature. This extremely long term made it unattractive to a lot of people, so IFS cut the investment terms to a third of the length. "Forestry was always seen as an unusual investment," says Mr Brosnan. "But in recent years people have been much less happy to invest in stocks and shares." Burnt by dotcoms, investors are switching from overdependence on equities and investing in the relative stability of forestry.

Ireland is the least afforested country in the EU, with just 9 per cent of land covered by trees compared to an EU average of 33 per cent. Reform of the Common Agricultural Policy (CAP), meanwhile, could free up more land for planting. So as ethical investment opportunities go, there is a good deal of scope for forestry....