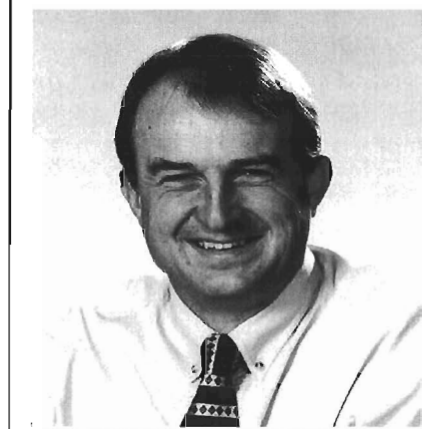


New Journal Editor

Dr Bruce Manley has been appointed Editor of the New Zealand Journal of Forestry. Bruce is Associate Professor of Forest Management at the School of Forestry. Prior to 1999 he was a scientist and research manager at the New Zealand Forest Research Institute.

Bruce has previously been an NZIF office-holder – he was a Councillor from 1990 to 2000 and Registration Board Chairman from 1990 to 1998.

He will be supported by an Editorial Board consisting of Hugh Bigsby, Piers Maclaren, Euan Mason and Colin O'Loughlin.



parameters (such as discount rate and log prices). Rather the emphasis of the Standards is on disclosure. The nature of forest valuation is such that valuers will always have to use judgement and experience. The Standards were developed to ensure that consistent methodology is applied and that assumptions are justified and documented.

The focus of the NZIF Forest Valuation Working Party has now shifted to providing guidance to members as they apply the Standards - for example information about discount rates, log price assumptions, taxation effects, and the treatment of land. This edition of the Journal provides a "bring-up" on forest valuation and contains a compilation of relevant papers to assist practitioners, as well as a review of current issues in forest valuation from a number of perspectives.

The lack of a fully functioning market for forests is still the greatest obstacle to forest valuation. As observed by the writer when he carried out a survey of discount rates in 2001 "In some ways the New Zealand market for forests is a case of chicken-and-egg. There are insufficient transactions to provide different parties with confidence about what the 'market' discount rate is. Because there is no definitive 'market' discount rate, the parties are unable to agree on a market value for forests and so there is no transaction."

The difference in expectations between buyers and sellers was highlighted after the establishment of the New Zealand Forestry Exchange in 1994 to act as a broker in forest sales. With sellers typically valuing forests using discount rates of 7 to 10%, while buyers used 11 to 14%, the seller's reserve price was always well above the buyer's maximum offer. The asymmetry in the tax system whereby the seller's profits on the sale of a tree crop are taxable whereas the purchaser cannot generally deduct the cost until the time of harvest also added to the gap between buyer and seller. Consequently the Forestry Exchange was short-lived.

Forestmarkets.com was founded in January 2000 and specialises in marketing commercial forests. The company, like the Forestry Exchange before it, has experienced the difficulty of getting common agreement on forest value between vendors and purchasers and their advisors. The difference between the vendor's

expectation and the bids offered is often substantial, even for well-marketed plantations that are well described.

As reported in this issue by both Mike Colley and Bill Liley, the market for forests is still very thin with an average of about five transactions per year of forests of over 1000 ha. Those few transactions that occur get detailed analysis (as far as the details are known) and are added to the databases of forestry consultants.

However there are many more transactions on the secondary market - last year there were over 100 units in forest investments sold by promoters on the secondary market. The difficulty in using this information is that the secondary market is segmented with each investment company operating its own market. Transaction information is not publicly available.

What then of the future – how can the NZIF help the development of a transparent market for forests in New Zealand? One role for the NZIF would be to encourage promoters to make information on their secondary markets publicly available. To enable comparability, information would have to be reported in a standard format – for example, the discount rate implicit in a sale (assuming standard log prices) would need to be reported. The NZIF could collect and publish these transaction data.

The Forest Valuation Standards contain a definition of market value as *"the amount for which the defined good or service should exchange"*

- *On the date of the valuation;*
- *between a willing buyer and a willing seller;*
- *in an arm's length transaction;*
- *after proper marketing; and*
- *wherein the parties had each acted knowledgeably, prudently and without compulsion."*

Given the limited number of arm's length transactions that take place, it is important that those transactions that do take place are publicly reported in a comparable way. Such information is vital for parties to act knowledgeably and an active market for plantations to develop in New Zealand – such a market is a necessity for the reputation and well-being of the forestry sector.