

-
- Supported by the Joint Venture Agroforestry Program, the Private Forestry Council Victoria, AFFA, and ABARE
 - In association with Australian Forest Growers
-

Many companies are seeking to increase the area of their plantation forests by leasing in or buying lands, or by forming joint ventures with farmers or other landholders. This report looks at lease arrangements on offer from plantation companies. The information will be useful to those who want to consider leasing out their lands.

The last part of the report presents stumpage recently received by growers in Australia (stumpage means price of wood in a standing tree).

Land leasing can be helpful

Plantation forestry requires substantial capital investment in the first year or two. And as trees take ten or more years to reach harvesting stage, there is little or no cash flow from the land for years. The capital and cash flow constraints can be major hurdles to adoption of plantation forestry for many farmers.

Leasing out a part of farmland to plantation companies is one of the solutions a farmer can use to address the financial constraints. It helps the farmer avoid the need to find investment capital and, at the same time, provides a regular cash income—rent for the leased land. (Some plantation companies refer to rent by other names, eg lease rental, licence fee, or annuity.) To the extent that the rent is greater than net return the farmer gets from current use of the land, leasing out the land can be an attractive proposition. The attraction for companies is that, with a given amount of capital, they can expand the area of their plantations more by leasing land than by buying it; it may also be a more tax-effective strategy for them.

Lease arrangements: An overview

A large number of plantation companies are seeking to lease land. They are also offering a variety of lease arrangements. A lease contract can be 40 pages long, so it is not practicable to describe the arrangements fully for even a few companies. However, useful information can still be gained from brief descriptions. Such descriptions are presented below for a sample of companies. The companies are listed in alphabetical order and are those which responded to a request for information. No endorsement or comment is implied by the inclusion or omission of any company. As the lease market is competitive, lease arrangements offered by even the same company can differ widely over space and time. Hence the arrangements outlined below are only indicative.

A private company (name unavailable for publication) leases lands in Queensland for softwood and hardwood plantations. Lease period: up to 25 years. Annual rent: \$80–250/ha.

Forestry Tasmania Tree Farms leases lands for hardwood and softwood plantations in the State. Lease period: up to 31 years. Minimum average annual rainfall: 800 mm. Minimum plantable area: 20 ha. Rent paid

quarterly in advance, adjusted annually for inflation. Annual rent: \$110–\$250/ha.

Gunns Plantations Ltd leases lands in Tasmania for the growing of softwood and hardwood plantations for pulp, veneer and sawlogs. Lease period: up to 25 years. Minimum average annual rainfall: 900 mm. Minimum plantable area: 20 ha. Fertile, well-drained soils to a minimum depth of 600 mm, slope less than 35 per cent. Rent paid quarterly, adjusted annually for inflation, but capped at a maximum increase of 5 per cent a year. Annual rent: \$150–\$250/ha.

Integrated Tree Cropping Ltd leases in lands for hardwood plantations in S-W Western Australia and in Green Triangle of Victoria and South Australia. Lease period: up to 12 years, with an option for another 12 years. Minimum plantable area: 100 ha. Rent paid quarterly in advance, adjusted annually for inflation, but capped at a maximum increase of 7 per cent a year. Approximate annual rent: around Albany, \$180–\$300/ha, depending on minimum average annual rainfall of 600–750 mm and distance to port of less than 20 km to 150 km; Esperance, \$75–\$130/ha, depending on minimum average annual rainfall of 600 mm and distance to port of less than 20 km to 130 km; Green Triangle, \$160–\$260/ha, depending on minimum average annual rainfall of 600–750 mm and distance to port of less than 20 km to 150 km.

North Forest Products: Tree Farm Program leases lands in Tasmania for hardwood plantations. Lease period: up to 23 years. Minimum average annual rainfall: 700 mm. Minimum plantable area: 20 ha. Well drained soils to 800 mm depth, with slope less than 35 per cent; within 150 km of company mill. Rent paid quarterly, adjusted annually for inflation, but capped at a maximum increase of 5 per cent a year. Annual rent: \$130–\$240/ha.

Sotico (previously, Bunnings Treefarms) leases lands in S-W Western Australia for hardwood plantations. Lease period: around 12 years, with an option for another 12 years. Average annual rainfall of more than 700 mm. Minimum plantable area: 20 ha. Lands cleared and pastured for at least five years; soils of sufficient depth and consistency. Rent paid quarterly in advance, adjusted annually for inflation. Annual rent: \$150–\$260/ha.

State Forests of New South Wales: Softwood and Hardwood Treefarms leases lands close to its hardwood and softwood plantations in NSW. Lease period: up to 35 years. Minimum average annual rainfall: above 700 mm for softwood and 1,000 mm for hardwood plantations. Minimum plantable area: 40 ha for softwood and 50 ha for hardwood plantations. Lands cleared prior to 1990; fertile, well drained soil to at least 500 mm depth, less than 18 degrees slope. Rent paid quarterly in advance, adjusted annually for inflation, but capped at a maximum increase of 6 per cent a year. Annual

rent: \$30–\$90/ha for softwood and \$80–\$150/ha for hardwood plantations.

Treecorp Pty Ltd leases land in Victoria and South Australia for hardwood and softwood plantations. Lease period: 12–15 years for one rotation and 16–24 years for two rotations of hardwood plantations; 25–30 years for softwood plantations. Minimum average annual rainfall: 650 mm. Minimum plantable area: 20 ha. Lands within 150 km of a market; cleared and pastured for at least five years; soils well drained and fertile; slope of less than 15 degrees. Annual rent: \$140–\$190/ha.

More detailed and up to date information on lease arrangements is available from these and other companies.

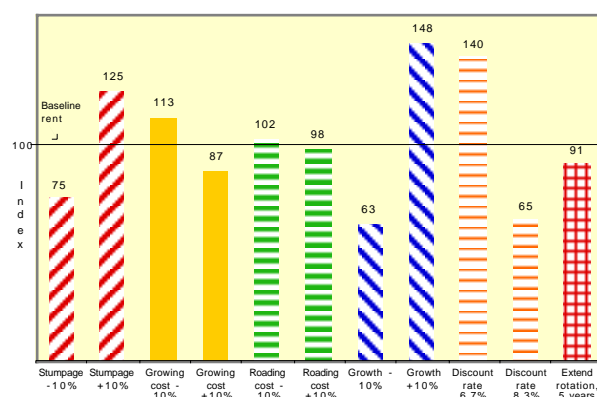
Factors affecting offer of rent

The overview shows rents offered by each company differ widely; rents also differ between companies, regions, species, and so on. The differences reflect the influences of productivity of land, distance to mill or port, costs of inputs and services, product prices, particular situation of individual companies, institutional arrangements, and other factors. In essence, any factor that affects profitability influences the rent offered by a company.

Farmers considering leasing out their lands will find it advantageous to understand these factors and their influences on rent. To contribute to such an understanding, an analysis was carried out. Its results are outlined below.

The analysis was based on a discounted cash flow model of pine plantation that a company actually uses as an aid to decision-making on its offers of rents. The model refers to production of sawlogs in S-E Australia; it assumes a discount rate of 7.5 per cent, a rotation of 30 years, and ‘average’ values for other factors. Key assumptions of this ‘baseline’ scenario were changed singly in the model to create alternative scenarios, and the resulting rent for each scenario was recorded. Rents for the baseline and alternative scenarios were converted from dollar values to an index, with rent for the baseline scenario equal to 100 index points. The bar chart presents the estimated rents indexes.

The chart shows, for example, that when stumpage assumed in the baseline scenario was reduced by 10 per cent, the rent offered fell from 100 index points to 75 points, ie rent fell 25 per cent from the baseline level. Percentage changes in rent due to changes in other factors can be similarly read from the chart. However, as any model can only approximate the complex real world, it is prudent to treat the estimates as indicative. Nevertheless the results provide useful insight into sensitivity of rent to key factors. They also show that change in a factor which increases (reduces) profitability of a plantation enables offers of higher (lower) rent.



Summing up

Leasing out a part of their farmlands for plantation forestry can be an attractive option for some farmers. This report has presented an overview of current lease arrangements and the effects of selected factors on offers of rents.

Stumpage prices

ANU Forestry has collected information on actual stumpage recently received by small scale growers. As the collected information was insufficient for deriving averages and trends, it is presented in case study format in the following table. Users should exercise due care in using it for assessing stumpage for a particular situation.

Stumpage case studies

State/ Region	Period	Log type	Stumpage	Comments
2000				
Green Triangle, Victoria – South Australia	June	Pine: Small logs Pulplogs Posts	\$18/cu. m \$12.92/cu. m \$23/cu. m	First thinnings, age 15: 55 km to mill; up to 24 cm SED 60 km to mill 55 km to treatment plant
Gippsland, Victoria	June	Pine preservation logs	\$50-\$53/t*	
South Australia	April-June	Pine: Sawlogs Preservation logs Pulplogs	\$35.27/cu. m \$19.39/cu. m \$9.35/t	1,126 cu. m 69 cu. m 1,834 t, 90 km to mill
S-W, Western Australia	March-June	Pine: Sawlogs Pulplogs	\$39.99/cu.m \$11.67/t	395 cu. m; \$62.82/cu.m* 351 t; \$35/t*

* Mill door price. SED, Small end diameter of logs.

For further information and feedback, contact: Dr U.N. Bhati, Department of Forestry, The Australian National University, Canberra ACT 0200; fax (02) 6249 0746; e-mail: un.bhati@anu.edu.au. Previous market reports and information on the project are available on website: www.anu.edu.au/Forestry/info/marketreport/index.html.