Forests as a strategic investment

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Wood is an important economic resource. Due to the growing middle class worldwide, there is increasing structural demand for wood. In this context, forests are becoming an attractive investment, ensuring long-term strategic access to wood in times of geopolitical uncertainty.

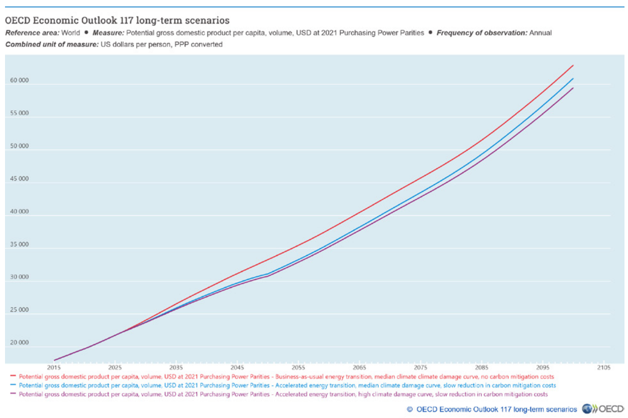
Jasper Renk, Senior Investment Manager Illiquid Assets Natural Capital, and Evert van den Brink, Director Institutional Sales Benelux/ Nordics, both from MEAG – A Munich Re Company, which manages the assets of Munich Re and ERGO and provides investment solutions for institutional and private clients from outside the group, discuss forestry as an asset class.

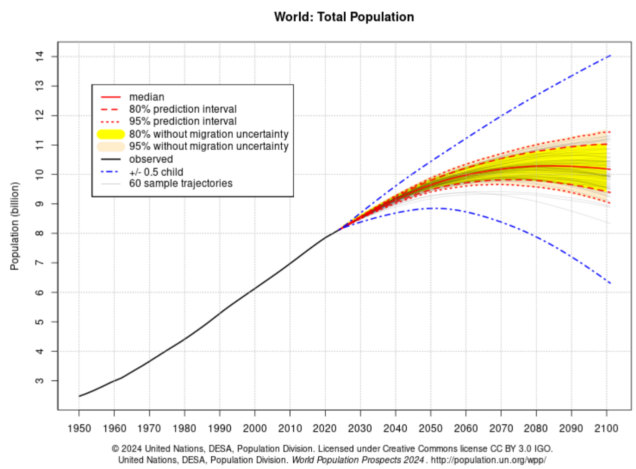
Wood is a popular raw material that we use in our everyday lives. From office paper to packaging and hygienic products, furniture at home and even entire wooden houses, the versatility of this natural material is in high demand. At the same time, wood is a robust substance that, when treated correctly, literally supports large parts of the logistics and construction industries. Our special relationship with wood stems from our proximity to it: forests are natural recreational areas offering not only flora and fauna but also retreat and tranquility.

However, our relationship with wood is also highly ambivalent. While we enjoy using practical and beautiful wooden products, we are reluctant to harvest the trees that provide them. This attitude is only rational to a certain extent, as the most important feature of wood is probably that it is a renewable raw material provided by forests which, as trees are living organisms, also have limited life cycles.

Structural demographic demand

In fact, the demand for wood is supported by demographic and socio-economic factors, as well as structural growth. This is not only because the demand for wood per capita is likely increasing, but also because of a growing global middle class. In particular, emerging and developing countries with strong economic growth and increasing prosperity are demanding wood products for personal use and construction in ever greater quantities. Furthermore, even the most conservative projections suggest that the world's population will reach around ten billion by 2050. This trend is causing compounding, non-linear growth in demand for wood.





Sources: OECD Economic Outlook 117 long-term scenarios (OECD Data Explorer), Data as of Jan 6th, 2026; United Nations World Population Prospects 2024. All numbers are estimates.

Accordingly, we need actively managed forests that can supply sawn wood for further processing to satisfy consumer demand while still being in line with investors' sustainability goals. Demand for wood also drives the forestry asset class. As a real asset, wood offers investors the opportunity to participate in the structurally growing demand for wood. Another notable feature is that investable forests in developed countries with established infrastructure and capable managers have long been managed in a way that is sustainable, mostly by achieving certification status from either PEFC or FSC,[1] and are largely congruent with current ESG ambitions like biodiversity goals or working conditions.

Economic and ecological interests in harmony

From this perspective, and in light of current regulatory reporting requirements like the EU Corporate Sustainability Reporting Directive, which – amongst other indicators – quantifies an investment's carbon impact, harvesting timber for productive use is economically viable and ecologically beneficial. Active management geared towards adaptation to a changing climate also enables the creation of resilient ecosystems that can withstand the risks posed to forests by climate change. Together with transparent reporting, sustainable management of forest areas certified according to recognized standards (PEFC, FSC)[1] also creates predictability for institutional investors, making it possible to model the economic performance of a forest area over the coming decades.

Wood also creates resilience as an asset class. This is because institutional investors secure strategic access to this raw material. This is especially true in times of geopolitical risks, when market-driven wood supply can become difficult in some places. The greater the proportion of forests held by institutional investors in secure, regulated markets, the more secure the economy's access to wood becomes.

Low-correlation asset with attractive risk-return ratio

Stable and growing demand means that timber may offer an attractive risk/return profile with lower volatility than traditional asset classes. Wood has a low correlation with other asset classes such as stocks or bonds and diversification across locations, forests and wood types can make it even more cycle-independent.

For example, different regions present different levels of risk in terms of climate vulnerability, political regulation of land ownership and deal

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Correlation Matrix

Forestry vs. Bonds, Real Estate and Inflation

	Global Stocks	Corporate Bonds US	US Government Bonds	US Inflation	Real Estate US	Forestry US
Global Stocks	1.0	0.3	-0.1	0.1	0.2	0.1
Corporate Bonds US	0.3	1.0	0.8	0.4	0.6	0.7
US Government Bonds	-0.1	0.8	1.0	0.4	0.7	0.7
US Inflation	0.1	0.4	0.4	1.0	0.5	0.5
Real Estate US	0.2	0.6	0.7	0.5	1.0	0.9
Forestry US	0.1	0.7	0.7	0.5	0.9	1.0

Analysed indices: Global Stocks (MSCI World); Corporate Bonds US (Bloomberg Barclays US Corporate Total Return Value Unhedged USD); US Government Bonds (BLOOMBERG/BARCLAYS US TREASURY USD Index); Real Estate US (US NCREIF Property Index); Forestry US (US NCREIF Timberland Index); US Inflation (US CPI -ALL URBAN SAMPLE: ALL ITEMS NADJ). Source: © Refinitiv. Quarterly Time Series from 31.12.2003 to 31.12.2024, in local currency. Past performance does not predict and is no indicator for future performance.

flow. The diversification of tree species depends on the respective ecosystem, but it allows for different growth periods. Having a variety of wood types in a portfolio also enables them to be used in a wide range of products. Lastly, a globally diversified portfolio of forestry assets allows for selling into different markets, both domestic and export markets.

There is a positive correlation between land prices and the consumer price index, meaning that forest portfolios tend to appreciate when inflation rises. This allows investors to participate in general market price developments.

A combination of structural demand and development largely independent of economic cycles, as well as a favorable risk-return ratio and high predictability, ensures a promising long-term investment outlook. This is particularly valued by institutional investors, such as pension funds and insurance companies. The diverse monetization options are also interesting, including harvesting revenues from sawmills and pulp- and paper producers, leasing out areas for infrastructure or renewable energies, sales of smaller areas for highest-and-best-use projects such as construction, and selling sequestrated CO_2 in the form of certificates in selected markets providing for corresponding trading schemes.

Ways of monetizing forests

Primary products:

- **Sawtimber:** Sawtimber is processed into materials for physical applications such as boards, beams or pallets, used in construction.
- **Pulpwood:** Used for the production of pulp and paper products such as office paper, packaging materials or hygienic products.
- **Energy wood:** Firewood is also an important forest product. It is either used by individuals to generate heat, or pressed into pellets, often by larger producers.

Non-timber revenues:

Non-timber revenues represent opportunities to generate additional income streams. These are often not included in base cash flows and cover many opportunities not listed here, such as hunting rights and non-timber products like resin, berries, mushrooms and medicinal plants.

- **Infrastructure:** Small forest areas can be leased (or sold) for infrastructure projects, such as the generation of renewable energy. This often occurs at a significantly higher price than the actual cost of the area.
- **Carbon credits:** As forests store CO_2 and bind it in biomass, they may actively reduce CO_2 emissions. Carbon-intensive industries can purchase these credits in relevant jurisdictions to offset their emissions.
- **Recreational use:** Depending on the region, forest areas can also be used for local recreation. For this purpose, small areas are leased for ecotourism, fishing, camping, and wildlife observation.

This makes forests a genuine alternative for institutional investors seeking predictable and resilient investments with robust structural demand. This alternative real asset is particularly well suited to investors that can tolerate relatively low liquidity and that commit to longer investment horizons and a risk-averse approach. The risks associated with illiquidity can be mitigated through the expertise of an experienced asset management team and the strategic selection of locations that are subject to long-term demand.

[1]PEFC stands for "Programme for the Endorsement of Forest Certification Schemes". FSC is short for "Forest Stewardship Council". Both organisations provide certifications for sustainably managed forests.

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