

Understanding Your Timber

The Key to Getting the Best Price

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We recently helped a client sell 45 acres of timber that was a mixture of pine and hardwood. The terms of the contract called for clearcutting all merchantable timber, and we asked potential buyers to provide us with a scaled bid along with earnest money for the rights to this timber. The timber was good quality, but the accessibility of the tract was poor, and logging conditions were only average. The results of the bids were as follows:

Bidder #1	\$102,929.17
Bidder #2	\$74,375.18
Bidder #3	\$64,360.00
Bidder #4	\$61,670.00
Bidder #5	\$59,529.00
Bidder #6	\$57,200.00

The difference between the high and low bids was a whopping \$45,729.17. So, where was the market on this day? To bidder #1 the market for this timber, on this tract of land, on this particular day was \$102,929.17; but for bidder #6 the market for this on this tract of land, on this particular day was only \$57,200.00. What creates this disparity? Is bid #1 a fair price? What about bid #6? What if this sale had not been a bid situation and a buyer had simply offered \$61,000 for the timber in a negotiated deal? How can a landowner determine if the offering price is fair? How can a landowner be assured he or she is getting the best price? Does bidding solve all of these problems all of the time?

Consider the typical situation. The timber buyer is almost always a professional who is trained to buy timber and does so on a daily basis. The typical landowner sells timber only once every eight to 10 years, if not only once or twice in an entire lifetime. The typical landowner simply does not have the same level of experience and understanding about timber as the typical buyer. This is not to imply that the buyer

exploits this situation, but when you see such huge price differences in a 45-acre timber sale, doesn't it make sense for the landowner to level the playing field and conduct business from an informed position?

At this point in this article all of our timber-buying friends have just let out an awful groan. They are muttering to themselves something similar to, "Here go those consultants again with the same broken record about sealed bid timber sales."

In the efforts of fair play and to create realistic solutions, remember that it takes both a willing seller and a willing buyer to make a timber sale. A landowner usually does not want to be unreasonable with the buyer. It will be very difficult with a hard-line attitude to ever get a good price for your timber, particularly if pine beetles or hurricanes ever put you in a jam and your damaged timber needs salvaging immediately. Understanding the timber market and what it takes to harvest a tract of land correctly will not only help you get a better price for your timber, but will also make you a better seller. Being a better seller makes the buyer's job easier, which, in turn, makes him more willing to pay top-dollar for your timber.

Where to Start?

There are many excellent articles on the subject of selling timber, and the one underlying theme, which they all describe, is the importance of identifying your objectives. Certainly, the main objective is often financial gain, but timber harvesting is an important management tool as well, so planning for what you want your land to be like after the sale becomes equally important. To develop a harvesting and sale plan,

several pieces of information are necessary:

- How much timber do you have? (You wouldn't sell your cows without counting them.)
- What species are your trees? (Are you selling a brick or a wooden house?)
- What is the quality of the trees? (Are you selling your mint condition 1965 Ford Mustang or your 20-year-old hunting truck with the back window broken out?)
- How far is it to the nearest mill? (Location, Location, Location)
- How many other mills are in the area? (Location, Location, Location)
- What is the property's loggability? (Can a buyer drive heavy equipment on the land after a heavy rainfall or only in the driest parts of August and September?)
- What kind of contract should I use: Lump Sum (money up front), or Unit (money as they cut)?
- Should I ask for sealed bids, or negotiate the sale?

Answering these kinds of questions help you zero in on the value of your timber sale. You need to have information on your personal needs and operating constraints (timber supply) and your buyer's needs and constraints (timber demand). Remember, you are trying to identify your niche in what is a much larger timber market containing buyer, and

sellers "trading" timber every day. You are also gathering the information necessary to make future management decisions concerning such things as reforestation, taxes, inheritance, or scheduling more timber sales. Simply, the landowner should know as much as possible about his or her land and timber and how it compares to others' in the area.

Other Points to Consider (Dressing Up the Sale)

Appearance is everything. If you try to sell your house and the beds are unmade and the kitchen is dirty, the house does not show as well as when it is clean. The same holds true for timberland. If you expect a buyer to give your tract a good honest look, fix that big mud hole in the road so he doesn't get his truck stuck. In some cases the landowner might even want to put a road in if access is difficult. It is also advisable to mark the sale boundaries and streamside management zones clearly with both paint and flagging. Don't worry about using too much paint. Well-marked trees and boundaries are easier to locate, will make the buyer's job of cruising the tract easier, and will drastically reduce logging mistakes. Prescribed fire is another useful tool in pine stands that must be considered early in the planning process. Burning is not only good for forest management, but it also knocks back the underbrush and vines that make assessing a tract difficult.

Timing is also an important factor in getting good prices for timber. In Alabama, we usually have a seasonal adjustment in price with our premiums coming in the late fall and winter. Prices tend to drop in the summer. However, if your tract is flooded most of the time, attempting to sell in the winter is not likely to bring you the best price. Knowing your tract's limitations is as important as timing the right season.

Sale Types

There are really only two ways landowners can sell their timber. They can auction it off to the highest bidder or they can negotiate with an individual buyer. Each has its merits and weaknesses.

Negotiated Sales: There can be several variations on negotiated sales, but the central idea is the same. Either a buyer approaches a landowner with an offer and a contract, or the landowner calls several buyers and asks them for a price. If landowners use this approach, it is very important that they know what they own and how it compares to other timber tracts in the area. It is more difficult to answer the question, "Is this a fair price?"

Sealed Bid: The sealed bid is, in essence, an auction and is the best way landowners can be assured they are getting the best price for their timber on a certain tract of land, on a certain day. However, there has to be a good demand for the timber with several buyers in the area. To the buyer, this is the least desirable type of sale because he has to invest time and money in cruising the timber and preparing a bid that he may or may not win. For that reason, this type of sale does not work in all situations. This point holds true particularly if your tract is not in a good location or is in poor condition.

Get Help

Timber is a commodity. It is a market with buyers and sellers. It is a market that is difficult to understand because the buyers are buying the timber and setting prices often for very different reasons. For example, one buyer's mill is about to run out of wood. This buyer may pay more because he knows it will cost him more to shut his mill down than to pay a little extra for your timber and keep the mill open. Another buyer just purchased a tract of timber right up the road from you

that will keep him busy harvesting for the next six months. He will be less willing to pay top-dollar for your tract.

It is nearly impossible to know all the reasons why buyers pay what they do for a specific tract of timber on any given day. It becomes even more difficult for landowners who only participate in the market a few times in their life.

Level the playing field. Understand how you fit into the larger market. Ask your neighbors about their experiences. Make sure your buyer is from a well-known and reputable company. Ask for references. Go look at other tracts he has harvested. Ask your local Forestry Commission office or county agent for advice. Get help from a professional forester. Call your local consultant. Work at becoming a knowledgeable seller.