

WHAT'S MY TIMBER **WORTH?**

UNDERSTANDING THE VARIABLES THAT AFFECT TIMBER PRICES

BY BILLY RYE



Many global, regional, and local forces affect the price that landowners receive for their standing timber. To keep things simple, we will only discuss local factors that normally fall into one of three categories: local market factors, property factors, and method of payment. Regardless of which variables apply, landowners should obtain a written contract, a copy of the timber buyer's certificate of insurance, and a performance bond prior to permitting the timber buyer to move equipment onto their land.

LOCAL MARKET FACTORS

Competition. The number of timber buyers available in the same area can have a significant impact on how much a landowner receives for their standing timber. More competition between buyers generally results in higher prices. Therefore, it is important for landowners to solicit offers from as many reputable buyers as possible to obtain the best price for their standing timber. Unfortunately, landowners have

PROPERTY FACTORS

Quantity/quality of existing timber. The quantity and quality of the wood present on a property has the greatest impact on its value. Timber sales with high quality wood and large volumes will yield the highest prices for standing timber.

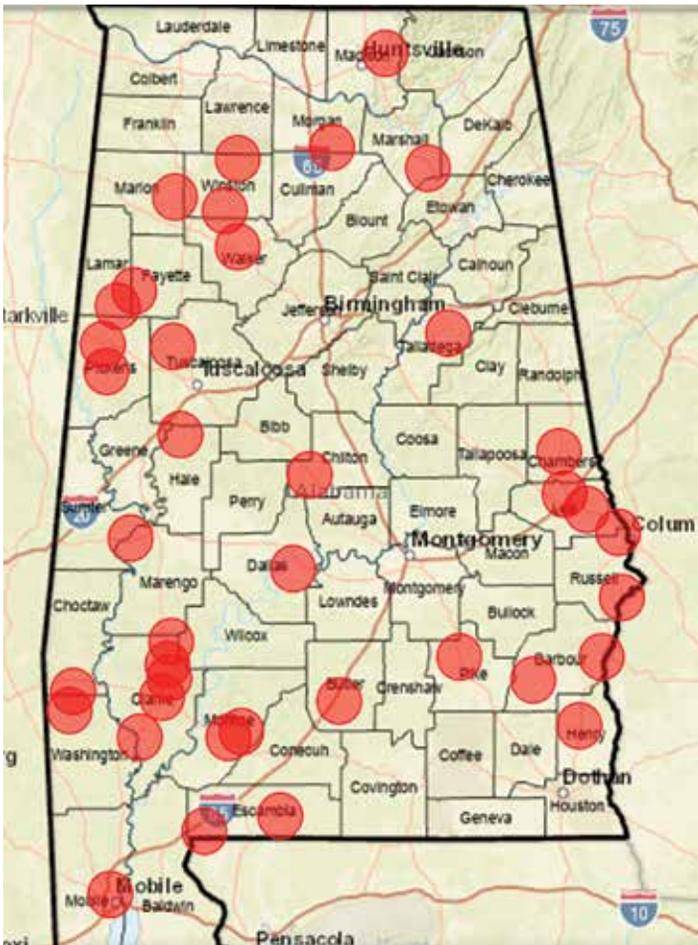
Size of tract. In general, larger timber sales yield higher prices for landowners than do smaller sales with the same type of wood. Moving loggers is expensive so the reduced logging costs on larger tracts may be passed along to the landowner in the form of higher prices. However, landowners and consultants will sometimes break up very large sale areas into multiple smaller sales to increase competition and price.

Topography. It generally costs more for loggers to operate in steep or excessively wet terrain. This increase in operating cost is usually passed along to the landowner in the form of lower prices for standing timber. While landowners cannot change the topography of their land, they can receive more interest from buyers by extending the harvest period for wet areas.

Access. Timber harvest areas that lack direct access to a public road can result in a lack of interest from timber buyers. On high value sales, the timber buyer may be willing to obtain access through an adjoining property on their own. However, some landowners have found it advantageous to secure permission themselves prior to marketing their timber. Landowners who secure access through the adjoining property should seek legal advice when drafting the agreement and require their timber buyer to adhere to the written easement agreement.



The quantity and quality of the wood present has the highest impact on value for standing timber. This timber sale in Marshall County has a dense stand of high-quality white oak. The prices offered for this timber far exceeded the average for timber sales in Alabama.



Competition between prospective buyers is the key to obtaining the best price for standing timber. This map provided by the Alabama Forest Industry Directory shows the location of pine sawmills in our state. The more that purchase in an area, the higher the prices for standing pine saw timber.

little control over the competition in their area and therefore prices for the same product can vary greatly within our state.

Inventory of competing purchasers. The prices paid for standing timber may vary by season and are closely tied to the inventory of wood at area mills. Mills may pay more for wood when their inventory is low, when they have an increased production capacity, when they have a large order for their finished product, or when the future demand for their product is forecast to increase. This is why forestry consultants remain in constant contact with area mills to obtain the optimum prices for their client's timber.

Distance from the market. Transportation of timber after it is harvested to a mill or woodyard can have a large impact on the amount the landowner receives for standing timber. The farther away the timber harvest is from a mill, the more it costs the timber buyers to transport the wood. This increase in transportation cost is often passed along to the landowner in the form of lower prices paid for standing timber.

METHOD OF PAYMENT

Another factor that can determine how much a landowner receives for their timber is the method of how they are paid. While there are many methods of payment for standing timber, the three most used include lump sum, pay-as-cut, and pay-on-shares. Any of these methods may be used to sell timber by negotiating with individual buyers or through a formal bid process.

Lump Sum. A lump sum bid sale usually consists of determining the estimated volumes and value by conducting a timber cruise (sample) of the sale area and then soliciting bids from prospective buyers. After a winning bid is accepted by the landowner, he or she is paid in full by the timber purchaser before any timber is harvested. The benefits of this type of sale include full payment up front, knowledge of exactly how much will be received, and knowledge of exactly what the commission for the consultant will be. Lump sum sales are also simple to administer and often yield higher prices for landowners when compared to other methods of payment. However, there are times when a pay-as-cut sale is acceptable or perhaps even preferable.

Pay-as-cut. A pay-as-cut agreement may be necessary for areas where there is little competition between buyers, when there is a short-term uptick in the market, where the timber is of poor quantity/quality wood, for times when buyers are concerned over future markets, or when the buyers have stretched their line of credit thin. While this type of a sale is more difficult to administer, it may



Sometimes, a pay-as-cut method of payment may be the only practical method of selling timber. Most all pine thinning sales are negotiated on a pay-as-cut payment method.

Timber Sale: TS
 Bid Time & Date: 11:30am 10/23/18
 County, ST: Lauderdale, AL

Company/Individual	Bid
<input type="text"/>	\$245,560.00
<input type="text"/>	\$367,000.00
<input type="text"/>	\$223,313.00
<input type="text"/>	\$257,323.00
<input type="text"/>	\$392,157.00

The method of payment can impact how much the landowner receives for standing timber. Using the pay-as-cut prices secured by the landowner on their own, a consultant estimated the total value for this sale to be approximately \$200,000.00. However, the offers obtained by the consultant using a lump-sum bid process were much higher.

be the only method of obtaining acceptable prices for these situations. If this method of payment is used, the following steps should be incorporated: 1) The landowner should have the timber cruised by a professional with their best interest in mind to have an idea of expected volumes and values, 2) a reputable buyer should be selected, 3) prices to be paid per unit should be agreed upon, 4) logging operations should be closely monitored, and 5) the buyer should provide either the landowner or his/her consultant a weekly summary, copies of scale tickets from the mills, and a copy of the log book kept at the loader. Some consultants use their own ticket system and mount cameras to validate the proper number of loads removed. Stumpage checks are generally mailed to either the landowner or his/her consultant by the purchaser on a weekly basis as the timber is harvested. The risks to the landowner include not being paid until the timber is harvested, under-reporting of the wood that was removed by the buyer, and the timber purchaser may not harvest all the merchantable timber within the sale area as the buyer does not have money invested in the standing timber. Regardless of these risks, this

method of payment is preferable to the traditional pay-on-shares method.

Pay-on-shares. This method of payment was widely used in times past. It consists of an agreement, usually verbal, between the landowner and the timber purchaser on what percentage of the gate value each will receive. The gate value is the value of the timber once it has been harvested and transported to a mill or woodyard. Under this method, the landowner usually receives 50 percent of the gate value for sawtimber products. Of all the methods of payment, this is the least desirable for the landowner. On most lump-sum bid sales, the landowner will receive somewhere between 60-70 percent of the gate value for sawtimber products. The only place where the pay-on-shares method may be justified is on timber harvests that are very small, for storm salvage, for beetle control, or where timber income is not a primary objective.

GET PROFESSIONAL HELP

The average landowner will sell timber only a handful of times. However, they are typically selling to buyers who purchase timber every day and are



Landowners should seek professional assistance when selling timber. Consultant foresters like Clint Wilks of M&W Forestry Consultants, LLC in Ozark make sure that their clients have successful timber sales.

at a distinct disadvantage when it comes to understanding the value of their timber. While most timber purchasers are honest, hard-working people, both the Alabama Forestry Commission and the Alabama Cooperative Extension Service recommend that landowners employ consulting foresters to act as their agent when selling timber. A forestry consultant is an independent professional who manages forests and markets forest products for private woodland owners (Association of Consulting Foresters). These professionals assist landowners with receiving the most for their timber, protecting them and their property with a written contract, inspecting harvesting operations for contract compliance, providing valuable information on the tax treatment of timber-related income, and providing overall peace of mind. Below are a few websites which provide lists of forestry consultants that operate in Alabama. Using professional help and understanding the many variables that affect the prices for standing timber will help landowners successfully market this valuable commodity. ●

- Alabama Chapter of the Association of Consulting Foresters: <https://alabamaacf.com/find-a-forester/>
- Alabama Forestry Commission: https://forestry.alabama.gov/Pages/Informational/Service_Providers.aspx
- Alabama Forest Owner's Association: <https://www.afoa.org/consultant/forestersearch.htm>

