

Added Value:

By TOM
Carignan

Why Hire a Consulting Forester



Mary Rose was confused ... and more than a little bit worried.

She recently received an unsolicited offer on her timber. A man offered her \$25,000, which seemed like a lot of money. But then another man offered her \$55,000 — more than twice as much. This set her alarm bells ringing.

Mary Rose has not thought about her timber since it was last cut back in 1972. Then, their middle child had been starting college and her husband, Charles, sold some of their timber to help pay her tuition.

Charles handled the whole thing back then. Mary Rose didn't get involved in the details, but she had a feeling something was not quite right about the arrangement. The timber buyer was a long-time acquaintance and they were confident he would treat them fairly. Still, she had felt uneasy about relying upon the buyer to tell them how much their timber was worth. But Charles had insisted he knew what he was doing. Now, with Charles gone (he passed in 1998), Mary considered her options.

Explaining the Sale Process

When Mary Rose shared her concerns with a church friend, the friend told her about a consulting forester she hired to help sell her timber a few years ago. The friend spoke very highly of the man and said she would hire him again. Mary Rose asked for his name and phone number and gave him a call the next day.

After a brief inspection, the consultant said her timber could be worth as much as \$100,000. He explained how the selling process works and his role in it. He would mark the sale area boundary and map the size and shape of the area with GPS. He would individually measure each sawtimber tree and estimate the pulpwood trees by what he called a "sample cruise." He would also mark the streamside management zone and designate where the loading area would be located so it wouldn't be visible from the house or the road. After inventorying the trees, he would apply current market prices to the estimated volumes and let her know how much the timber should bring on bid day.

He would publish a prospectus listing the terms of the sale and mail it to all timber buyers within 75 miles of the property. He would be available to answer any questions about the timber and even show it to prospective buyers, if they wished.

On bid day he would receive sealed, lump-sum bids for her to consider. If she accepted the high bid, he would prepare the sale contract, help close the sale, and inspect the cutting operations to document contract compliance. He would also require the buyer to deposit a cash bond at closing, which he would hold in trust until cutting was completed and any necessary repairs had been made.

After carefully considering his written proposal, Mary Rose decided to hire

the consultant. On bid day she received nine bids for her timber. The bids ranged from a low of \$56,000 to a high of \$115,000. The man who originally offered her \$25,000 did not bid, and the man who offered her \$55,000 upped his offer to \$85,000. Needless to say, Mary Rose was well pleased.

Her consultant also prepared a written management plan and enrolled her property in the American Tree Farm System®. When cutting was completed, he supervised the reforestation operations — and today she has a healthy stand of vigorous young trees.

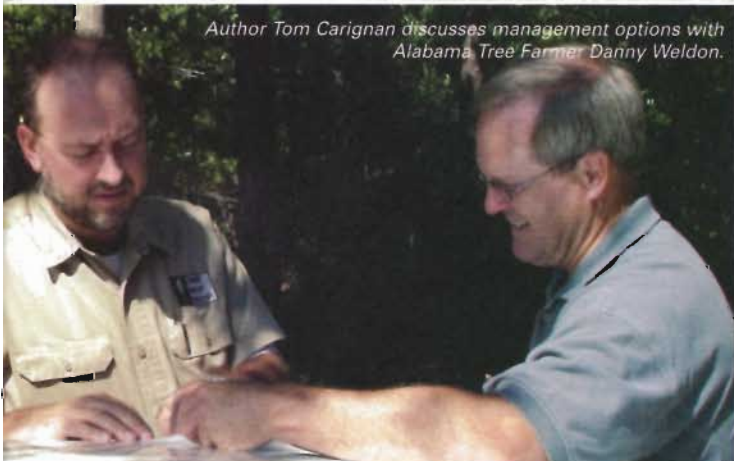
Range of Services Available

Mary Rose is not the client's real name, but her story is very real. In the end, she felt her consultant provided a valuable service. He made sure the sale was handled correctly, and she ended up with more money — after paying his fee — than she would have received selling the timber herself. And his fee was tax-deductible!

Most forestry consultants are independent professional foresters with a background in industry, government, or larger consulting firms. Most have at least a four-year degree from an accredited forestry school. They provide a wide variety of services, including:

- Timber inventory and appraisal
- Timber marketing
- Preparing management plans
- Due diligence prior to land purchase

Author Tom Carignan discusses management options with Alabama Tree Farmer Danny Weldon.



- Growth modeling and financial analysis
- GPS mapping and GIS database management
- Preparing burn plans and conducting prescribed burns
- Wildlife management services
- Negotiating hunting leases
- Land sales
- Periodic maintenance
- Expert testimony

Independent consulting foresters generally work for people who own between 50 and 5,000 acres. Larger consulting firms generally work for high-net-worth individuals and institutional investors such as timber investment management organizations (TIMOs) and real estate investment trusts (REITs). Larger firms often provide other services such as environmental assessments, ecosystem services, database management, and region-wide market analyses.

When Do You Need a Consultant?

Some Tree Farmers will never hire a forestry consultant under any circumstances. And that's okay; some people will never take their car to a mechanic because they have the knowledge, skills, and tools to make the repairs themselves. If you have the knowledge, skills, and tools to do the various forestry jobs described above — and have the time to do it — then you may never need to hire a forestry consultant.

But most people are not situated to manage their own timberland. (When I say "manage" I'm not talking about mowing trails, planting food plots, and fixing fences — you don't need a consultant to do that.) But even if you've taken all the classes offered by the Extension office and are a certified "Master Tree Farmer," chances are you don't practice forestry often enough to get really good at it.

Unless you are a professional forester who happens to own your own Tree Farm, there are at least three occasions

when you would benefit from hiring a consulting forester: when you plant trees, when you thin trees, and when you harvest trees.

Investing in Stand Establishment

Planting a tree in your yard doesn't cost a lot of money. If the tree dies, you can afford to plant another. Planting a new forest, on the other hand, represents a significant capital investment. And how you plant the new forest can make a huge difference in the return on your investment. When planting a new forest you must:

- Prepare the site for planting (do not assume an open field needs no preparation!).
- Select the right species and pedigree of seedling for your site.
- Know how many trees per acre to plant to maximize returns within your investment horizon.
- Ensure that seedlings are handled properly and are replanted as soon as possible after lifting from the nursery bed.
- Assure that the planting contractor closely supervises his crew and that the seedlings are planted properly and at the correct spacing.
- Check seedling survival a few months after planting.
- If planting conifers, apply herbaceous weed control to minimize competition during the first growing season.

A good forestry consultant can help you do all of these things and get it right the first time.

I cannot speak for all parts of the country, but in the Southeast you can figure on spending between \$275 and \$375 per acre to correctly establish a new stand of trees, including your consultant's fee to supervise the operation. Different consultants charge differently for supervising reforestation (some by the acre, some by the hour, some by a flat fee), but generally the fee will be between 10 and 20 percent of the total reforestation cost.



That may sound like a lot, but it is very small when viewed as part of the total cash flow for the plantation. And when compared to the cost of doing something incorrectly, or of having to do it all over again, paying a forester to get it right the first time can represent significant savings.

Supervising a Thinning

It pays to hire a consultant to mark and supervise your plantation thinning. But do not take my word for it: A recent study looked at whether a professionally supervised and marked plantation thinning provided greater economic returns over "operator select" thinnings. (An operator select thinning is one in which the logger chooses which trees to cut).

The authors installed permanent growth plots in 100 different pine plantations in east central Mississippi and west central Alabama. About half of the stands were thinned by the operator select method and the other half were "marked" thinnings — the crop trees to be left after thinning were marked before cutting began. The pre-thin stand conditions were very close to the same for both the operator select and marked thinnings.

The study found that, on average, the average diameter of trees remaining after marked thinnings was one inch greater than the average pre-thin diam-



eter, whereas the operator select thinnings had a 2/3-inch diameter gain. According to authors Bob Daniels and Tom Ebner ("The Benefits of Marking the First Pine Thinning," *The Southeastern Forester*, 2007): "This finding alone strongly recommends marked thinnings." But that's just part of the story.

On average, the marked stands had an average annual diameter growth after thinning of 0.447 inches versus 0.373 inches for the operator select stands. This means the trees left after marked thinnings were healthier and more vigorous than trees left after operator select thinnings. Furthermore, "the marked stands had an average of 26 percent greater diameter growth per year than did the operator select stands."

In marked thinnings, not only are the trees left after thinning larger, they are also of higher quality. The study found that, after thinning, operator select stands contained an average of 14.2 percent defective trees, whereas marked stands contained only 5.2 percent defective trees. This translates into

9 percent more sawtimber-quality trees remaining after thinning in the marked stands.

The Economics of Marked Thinnings

Marked thinnings can cost between \$50 and \$100 per acre to implement, but the payoff is dramatic even in the short run. Because marked thinnings have greater average diameters after thinning — more volume per-acre left in the woods — their present value immediately after thinning is \$100 to \$200 more per acre than operator select thinnings.

And when you look at the increased returns at second thinning and final harvest, the payoff is even more dramatic. The study found that by the time of second thinning, the marked stands contained over \$450 in increased wood per acre. This means that if the marking cost is \$50/acre, the marginal return on the marking fee is 45 percent by the second thinning alone.

At the time the study was published, the stands had not yet reached harvest age. However, I would estimate that bigger trees with fewer defects would translate

into a marginal return on the marking fee in excess of 50 percent, with total stand internal rate of return up by 2 to 3 percent.

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The Final Harvest

Tree Farmers list lots of reasons for owning timberland, from recreation and aesthetics to wildlife management to timber production. But even if timber production is not your primary management objective, when it is time to sell that mature stand, you need to get as much money for it as you can get.

A good consulting forester earns his or her keep in selling mature timber. But do not take my word for it:

"[Consultants] generate higher payments for timber, maintain healthier, more vigorous residual stands, and increase regeneration. ... Landowners that use consultants are generally well pleased with their services. Seventy-five percent of landowners using consultants rated them good or excellent." ("Mississippi Consultant Fees and Services: By Tract Size and Professional Affiliation," by Ian A. Munn and Christopher C. Watkins, *Southern Journal of Applied Forestry*, 2001).

"Consultants generate increased sales revenues that offset their fees and also provide a number of sales-related services at no additional cost" ("The Value of Information Services in a Market for Factors of Production with Multiple Attributes: The Role of Consultants in Private Timber Sales," by Ian A. Munn and Randal R. Rucker, *Forest Science*, 1994).

The two most important things a consultant does in selling timber are maximize competition and level the playing field. Every buyer has an equal chance at winning the timber and no buyer can influence the seller beyond the amount he places on his bid. Furthermore, because a consultant can take the time to do a more thorough inventory, buyers have added confidence in what they are bidding on.

Whether you are selling pine trees or potatoes, you need to know what you are selling before you sell it, and you need to know what it is worth. And unless you are an expert at measuring trees and appraising their value in the current market, you are better off hiring a consulting forester who is an expert at doing these things.

If consulting foresters are so great, then why do not more Tree Farmers use consultants? That's a very good question, and there are some very good answers. First, many Tree Farmers believe that consultants are only for "big" landowners. They think a 40- or 50-acre tract is not big enough for a consultant to work with. Well, if half of a 40-acre tract is in pasture or other non-timber use, then that might be true. But if it is all in timber and the trees have not been cut in living memory, then you probably have more timber than you realize, and it is certainly more than enough to justify hiring a consultant.

Second, some Tree Farmers refuse to

use consultants because the government offers many forestry services free or at reduced cost. And to be honest, those of us in the consulting community have a real problem with that. State forestry agencies — under the authority of the U.S. Forest Service — justify providing free and reduced-cost services by categorizing them as "technical" services, leaving the "professional" services to the consultants. But in many ways this is an artificial distinction. For example, preparing a written management plan is a task that requires more than simple technical know-how: It requires specialized knowledge that can only be acquired through advanced education and training. In other words, it is a professional service. Nevertheless, many state forestry agencies persist in preparing written management plans free of charge. All I can say about this is caveat emptor — let the buyer beware. You often get what you pay for.

Third, some Tree Farmers do not use consultants because they can get free advice from the forest industry. Now, some of the best foresters I know work in the forest industry, and Lord knows I could not practice silviculture without them (someone has to buy the trees!). But when timber buyers or landowner assistance foresters hold themselves out to the public as consulting foresters, they place themselves in an uncomfortable position. One cannot act as another's fiduciary when one's allegiance lies elsewhere.

Per-acre cash flow and IRR of a plantation created and managed with and without a consulting forester

Assumptions:	Activity	Cost or revenue with consultant	Cost or revenue without consultant
Forester charges \$50 per acre for planting and for marking each thinning, and 8.5% commission at final harvest	Stand establishment	-350	-300
	First cash flow: annual property tax	-2	-2
	No. years	15	15
	Second cash flow: first thinning	250	300
	No. years:	1	1
	Third cash flow: annual property tax	-2	-2
More chip-n-saw available at 2nd thinning when 1st thinning was a marked thinning	No. years:	10	10
	Fourth cash flow: second thinning	450	300
	No. years:	1	1
More sawtimber available at final harvest when both thinnings were marked thinnings	Fifth cash flow: annual property tax	-2	-2
	No. years:	10	10
	Sixth cash flow: final harvest	3,200	2,000
	No. Years:	1	1
	IRR:	7.2%	6.7%

why some Tree Farmers are reluctant to use consulting foresters: they may be unsure about a consultant's qualifications. One study in *Forest Landowner* magazine ("Consulting Foresters: Just What the Doctor Ordered," by Lanny Autrey, 1996) suggested that Tree Farmers could relieve uncertainty about a consultant's qualifications by seeking consultants who are members of professional organizations with high educational and ethical standards such as the Society of American Foresters (SAF) and the Association of Consulting Foresters (ACF).

As a member of both SAF and ACF, I can testify that both groups espouse exceedingly high educational and ethical standards. However, only ACF draws a clear distinction between the role a forester plays in buying and selling timber. Article 4 of the ACF constitution states: "No member ... shall have an association with an economic interest in a timber purchasing or procurement entity wherein a potential conflict of interest may exist in serving the public." There are surely many good, honest, independent consultants out there who are not members of ACF. But if you hire an ACF member forester, you can be certain he or she holds no conflict of interest in serving you.

Mary Rose had a choice when she sold her timber. She could have chosen to negotiate directly with the timber buyer; she could have relied upon his opinion as to the value of her timber; she could have closed the sale on his terms using his contract; and she could have relied upon his assurances that harvest operations would be completed in accordance with her state's best management practices. But she didn't. She chose to hire someone who was an expert in selling timber and who honestly looked out for her best interest. And she was glad she did. 🌿

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Procurement foresters and landowner assistance foresters must remain beholden — and rightfully so — to their employers first and the landowner second. An independent forestry consultant, on the other hand, is beholden solely to the landowner and to no one else.

In the words of Alabama forester Al Lyons: "The trust that the landowner has placed with the consultant forester is based on an understanding that no conflict of interest exists. The significance of this fiduciary role is that the consulting forester must act in the sole interest of the beneficiary, which in this case is the landowner." Al continues,

"As a fiduciary, the professional forester must avoid any conflict of interest and these conflicts can often develop in very subtle manners. This principle is (most) obviously shown in the timber buying/selling marketplace, where a forester working for a timber buying company should actively discourage a landowner from thinking they are their fiduciary. The timber buyer owes allegiance to his employer, not the landowner. Likewise, a forester assisting a landowner in selling timber should not advise a sale based on their desire for income, but on the landowner's best interest."

This leads to the fourth and final reason