



Selling Timber Successfully

Selling timber is the most rewarding management activity many forest owners undertake. It is the most traumatic event for others. In either case, harvesting timber is likely to have a greater impact on your forest than any other management activity. Selling your timber can be a satisfying event, if you have done a thorough job of planning, preparation, and marketing. Many of the problems experienced in making a timber sale, especially by landowners who sell timber only infrequently, are the result of inadequate advance planning, sale preparation, and marketing strategy. The following eight-step guide will help to make your next timber sale a success.

Know Your Objectives For Your Forest

Although most people think the primary benefit of a timber sale is the money the landowner will receive, this may not necessarily be the case. You may have other objectives such as wildlife habitat, recreation, or watershed enhancement that have a higher priority than getting the maximum income. A written management plan outlines your objectives, identifies the management steps necessary to achieve them, and provides a timetable to guide you toward your goals. For owners primarily concerned with growing timber, a management plan provides documentation of your intention to grow timber for profit, which may be useful at tax time. A good management plan is flexible enough to allow altering the timber harvest schedule to take advantage of strong timber markets. The plan also spells out the objectives for the harvest itself. To make sure your timber buyer understands the goals you are trying to achieve on your land, you need to clearly convey your objectives to the timber buyer. This is most efficiently done through provisions written into a timber sale prospectus or bid notice and contract.

Know What You Have To Sell

The idea that you should know what you have to sell before you put your timber on the market may



seem obvious, but many forest owners have only a vague notion of what they actually own. The landowner's lack of knowledge gives the timber buyer an advantage. The forest is constantly changing: Some trees are growing; others are lost to old age, insects, disease, fire, and storms. And total timber volume is only one of many factors that affect the price you will receive for your timber. Perhaps the most significant factor is the classification of the timber products you are selling. These products—pulpwood, chip-n-saw, sawlogs, veneer logs, and poles—are determined by species, size, and quality of your timber, and they can vary greatly in price.

You must know not only what products are to be harvested from your forest, but also the volumes in each product category. This includes having an accurate timber inventory. A timber cruise, or inventory, provides an estimate of the number and volume of trees by diameter class and tree species. Most forest owners will require professional forestry assistance for this task, but they will find the information worth the price when it comes time to sell.

Know The Value Of What You Have To Sell

In the final analysis, your timber is worth only as much as a buyer will pay for it at a certain point in time. This value reflects the following:

- The localized competition for a specific timber product.
- The unique requirements of specific mills.
- The degree of logging difficulty of a particular site.
- Total volume and volume per acre of each product to be harvested.
- Quality of the timber and the distance to the processing mill.

The only way to actually determine the value of your timber is to offer it for sale on the open market to as many potential buyers as possible. The current market value of your timber can be estimated a number of ways. A consultant forester can *appraise* your timber in conjunction with a timber inventory. The appraisal will generally be based upon recent timber sale values in your area. You can also become an informed seller by subscribing to timber market periodicals and checking with local timber buyers, foresters, and forest owners.

Determine A Selling Method

Timber is generally sold by one of two methods—negotiation or sealed bid. Which method you decide to use depends on the product you are selling and your knowledge of the local market.

Negotiated sales involve face-to-face bargaining between you and the buyer. You know the price you want to receive and the buyer knows the maximum price he will pay. Negotiation is probably the most commonly used method of selling timber, and the easiest, but it should be exercised cautiously. You, the seller, are usually at a distinct disadvantage because of a lack of current market knowledge. Even if you make frequent sales, the market can change 10 to 20 percent in a matter of a few weeks. The buyer, on the other hand, is a professional who knows the current market, is skilled in sales negotiations, and is adept at paying as low a price as possible to purchase the timber.

Sealed bid sales require that prospective buyers submit confidential offers in writing for your timber. The ideal situation would be to have several bidders competing for your timber to ensure that you get the best price. **Remember**, the only way to ensure that you get the full market value of your timber is to give the market an opportunity to buy it. Even if you have determined the current market value of your timber,

a buyer may have a special need that allows him to pay more than market value, thus providing you with a greater return than you might have expected. Conversely, the market may be on a down-swing and none of the bidders may be willing to pay what might normally be considered a reasonable price. Sealed bidding limits your ability to negotiate prices, as all offers are opened at a specified place and time. If a bidder meets your minimum bid requirement, no further price negotiations should be pursued.

Generally, the sealed bid method returns the highest dollar value to you the landowner, especially if you are unfamiliar with local markets. The negotiated sale is more prevalent for specialty products such as high value hardwoods, where there are normally very few bidders.

Whether you decide to sell your timber through a sealed bid sale or through private negotiations with a known buyer, you need to consider next the method of payment. Two common arrangements are the **lump sum sale** and the **scaled sale**. In a lump sum sale, a total sale value is determined and paid in full before harvesting begins. This has the advantage of simplicity and, of course, provides income in advance of cutting. Forest owners who do not hold timber primarily for sale to customers in the ordinary course of a trade or business, and who sell timber only infrequently, can sell timber lump sum and still qualify for capital gains treatment of sale income.

In a scaled sale (also known as a pay-as-cut sale), trees are cut, measured, and paid for on a specified rate per unit basis. Alternatively, payment can be based upon the difference between pre-harvest and post-harvest timber cruises. Forest owners who frequently sell timber must follow the scaled sale method in order to ensure capital gains treatment of sale income. The forest owner can either agree to accept the scale of the buyer or provide a scale agreeable to both parties.

Like selling any other products, you want to attract as much interest in your timber sale as possible. Attracting buyers requires the use of good marketing techniques.

Market Your Timber

To inform potential buyers of your upcoming timber sale, you should prepare a prospectus. The prospectus should include the following information to answer most questions a buyer might have about your sale:

- Name and address of the seller or forester managing the sale.
- Map of the area to be harvested. Be sure to include a legal description of the sale area and a descrip-

tion of how the sale area boundaries are marked.

- Description of the timber to be harvested. List volumes by species, diameter class, and grade, if appropriate.

- Special ownership considerations or harvesting restrictions such as protection of Streamside Management Zones (SMZs), wildlife food plots, and restricted areas.

- Duration of the sale agreement. Depending on the volume to be harvested, logging difficulty, road construction requirements, and other conditions, contracts of 1 to 2 years are typical.

- Type of sale: lump-sum or per unit volume cut.

- Closing date for receipt of bids. You should generally allow 4 to 6 weeks between advertisement and bid opening.

- Date, time, and location for opening bids. Invite all bidders to attend and specify how the successful bidder will be notified.

- Amount of down payment required, usually 5 to 10 percent, and when it is required to be paid.

- Performance bond requirement, if any. A performance bond of 5 to 10 percent, placed in escrow until the satisfactory completion of the harvest, provides the owner some assurance that the contract will be fulfilled.

- Statement of right to refuse all bids if none offers an adequate price.

Send your prospectus to as many buyers as possible. You can obtain the names of buyers from your county Extension office, the Alabama Forestry Association, the Alabama Forest Owners Association, or even the telephone directory. You should also consider advertising in local newspapers and agricultural market bulletins. **Remember**, you are increasing competition by inviting more bidders and will generally increase the price you receive.

Select A Buyer

Whether you have opted to sell on a negotiated or sealed bid basis, you should select a buyer carefully. Investigate the reputation of all prospective buyers. Check with others who have sold timber to the buyers you are considering. It is important to check the quality of the work of the loggers who harvest timber for the buyer. Can they be counted on to perform as they promise? A poor logging job may cost you more to correct than any small difference in price you may receive.

If control over who buys and logs your timber is of greater importance than maximizing the price you receive, you may decide that a negotiated sale with

a specific buyer may be to your advantage. In this case, you have more flexibility and time to evaluate the reputation of the prospective buyer.

Protect Your Interests

You should begin protecting your interests in your timber sale by negotiating a comprehensive **timber sale contract**. The purpose of the contract is to protect the interests of both buyer and seller and to reduce the possibility of misunderstandings. Frequently, timber buyers provide their own "standard" contract. Such contracts may or may not adequately represent your interests as seller. You should meet with your buyer to discuss a contract and include provisions you think are important. Be sure to have your attorney review the contract to ensure that all of the provisions you require are included before you sign the instrument.

You may find it to your advantage to have your own contract drafted. You should have it available for evaluation by prospective buyers during the bid-accepting period. More detailed information on the components of a timber sale and harvesting contract can be found in Extension Circular ANR-560, "Timber Sale And Harvesting Contracts."

Contract enforcement is a responsibility that some forest owners would rather entrust to someone else. For a fee, a consultant forester will provide this service along with timber sale design, timber scaling, timber marketing, and contract negotiation. Consulting foresters typically charge about 10 percent of the total timber sale value to handle all of the various responsibilities surrounding a timber sale. As with hiring any professional services, you are well advised to become an informed consumer by checking on the reputation of consulting foresters under consideration. Choose a consultant who is a registered forester with a good reputation in your area. Ensure that your forester is there to represent you, not to purchase timber from you.

You or your forester should plan to make frequent visits to the harvesting site during the harvesting operation. You want to ensure that the logger is complying with the terms of the sale agreement. Ask questions of the logger and observe the operation; but, stay clear of all machinery and wear proper personal protective gear such as hard hat and safety glasses. If you have any concerns, be sure to convey them directly to the buyer's representative, not to other personnel or sub-contractors on the job. You may not only create misunderstandings, but may also create an employer/employee relationship with the logger that may create legal responsibilities for you in the future.

Practice Good Forestry

Make sure that good forestry practices are followed

during the harvesting operation. Implementing Best Management Practices (BMP) is good for the environment—and good for you. The quality of the harvesting job can greatly influence the development of your next forest. See Extension Circular ANR-539, "Best Management Practices for Timber Harvesters."

Consider timber harvesting not as the final phase in the life of your forest, but as the time to prepare for the next forest. Whether you decide to use artificial or natural regeneration methods, effective and efficient timber harvesting can make the regeneration of your next forest easier and less costly.

Your timber sale can be a rewarding or a frustrating experience. By following the eight steps outlined in this circular, you will go a long way toward making your timber sale profitable and satisfying. **Remember**, it only takes a short time to sell a timber stand, but it takes 30 to 40 years to grow it. Get assistance from your county Extension office or private consultants. Do a thorough job of planning and preparation for your timber sale. It may be the best investment in time you will make during the life of your forest.

For More Information call your county Extension office. Look in your telephone book under your county's name to find the number.



Auburn and Alabama A&M Universities

CIRCULAR ANR-626

Prepared by **Richard W. Brinker**, *Extension Forester*, Associate Professor, Forestry, and **John C. Bliss**, *Extension Forester*, Associate Professor, Forestry.

Issued in furtherance of Cooperative Extension work in agriculture and home economics, Acts of May 8 and June 30, 1914, and other related acts, in cooperation with the U.S. Department of Agriculture. The Alabama Cooperative Extension System, Auburn University and Alabama A&M University, offers educational programs, materials, and equal opportunity employment to all people without regard to race, color, national origin, religion, sex, age, veteran status, or disability. UPS, 10M07, Rep. 4:96, ANR-626

