

Timber Sale Methods

- Arriving at a sale price
 - Sealed bid
 - Negotiations
- Payment method
 - Lump sum
 - Pay-as-cut (per unit)
 - Single advance payment
 - Percentage basis

Sealed Bid Sales

- General process
 - Inventory and clearly mark sale area
 - Advertise sale to as many buyers as possible
 - Set minimum acceptable bid
 - Collect and open bids, often with a binder
 - Closing

Sealed Bid Sales

- Use:
 - Often used for lump sum sales
 - Large sales area and uniform timber volumes
 - Clearcut harvests

Sealed Bid Sales

- Advantages:
 - Usually provides highest price to landowner
 - Takes advantage of competition among buyers
- Disadvantages:
 - May not be best for small, irregular tracts
 - Bid criteria remain constant during bid process
 - Limits opportunities for negotiation

Negotiated Sales

- General process:
 - Seller negotiates with one or more buyers to determine sale price
 - Seller and buyer agree to all terms
 - Stumpage paid in lump sum or pay-as-cut

Negotiated Sales

- Use when:
 - Tract size small and/or irregular
 - Small volumes/acre; thinning;
 - Limited number of, or distant from, mills
 - Specialty products
 - Seller prefers a certain buyer or has previous working relationship with a buyer

Negotiated Sales

- Advantages:
 - May be only reasonable method for small or irregular sales, specialty products
 - Appropriate for specialized harvesting goals
 - Landowner can negotiate with several buyers and be selective about buyer and logger
- Disadvantages:
 - Seller may miss opportunities of competition
 - Seller may lack current market information

Lump Sum Payments

- Process
 - Agree on total price for timber first
 - Full payment usually at contract closing
 - May also be paid in installments
- Use when:
 - Timber is fairly uniform and to be clearcut
 - Sale boundaries are easily defined
 - Sale must not be completed quickly
 - Seller can retain capital gains tax treatment

Lump Sum Payments

- Advantages
 - Landowner receives all money before harvest
 - Risk of loss transferred to buyer
 - Buyer will harvest all merchantable material
 - Easy to compare bids
 - Seller may benefit from an over-estimate of timber
 - Simplicity - less need for on-site supervision

Lump Sum Payments

- Disadvantages
 - Takes longer to sell
 - Many bids may be conservative
 - Sale area must be clearly defined and uniform
 - Seller (and buyer) must have accurate inventory
 - Less flexibility for altering sale terms or area
 - Capital gains treatment of income only if timber is held as investment, not a business
 - If tract over cuts, landowner loses income

Pay-as-cut Payments

- Process
 - Agree on per-unit prices before harvesting
 - Initial advance payment/deposit
 - Regular (e.g. weekly) payments as timber is cut and scaled at mills
 - Prices based on: separate products or composite
 - Most common method of paying for timber

Pay-as-cut Payments

- Use when:
 - Landowner needs to sell quickly
 - Thinning, or conducting a sale in areas with difficult access
 - Timber cruise will be difficult or inaccurate
 - Sale boundaries not well defined
 - Seller wants to ensure capital gains tax treatment of income

Pay-as-cut Payments

- Advantages
 - Sell timber relatively quickly
 - Seller/buyer do not need estimate of total timber offered in the sale
 - Sale boundaries can be altered
 - Easier to sell irregular volumes/poor quality
 - Seller receives payment for all harvested timber
 - Preserves capital gains treatment of income

Pay-as-cut Payments

- Disadvantages
 - Seller receives less \$ up front
 - Seller retains risk of loss from storms, fire, etc
 - Bid prices may be difficult to compare
 - Close monitoring of sale is critical
 - Risk of loss through poor utilization, improper merchandizing or theft
 - Total amount of income is unknown until end

Single Advance Payments

- Process:
 - Similar to lump sum, but...
 - Contract written as pay-as-cut (total amount of timber included in sale and per-unit price)
 - Total value usually paid in full at closing
- Advantages
 - Like lump sum but preserves capital gains
- Disadvantages
 - Like lump sum but requires very careful contract

Conducting a Successful Sale

- Sources of assistance
 - Consultants
 - Agency foresters
 - Landowner assistance foresters
 - Timber buyers
 - Procurement foresters
- Assistance will “pay its way”

Conducting a successful sale - 2

- Cruise and valuation
- Stand preparation and marking
- Timber sale prospectus
- Invitation to potential buyers
- Finalizing a sales price
- Written sale contract
- Sale supervision
- **Establishing the next stand!!**

Conducting a Successful Sale - 3
Timber Sale Prospectus

- Name and address of seller
- Map and legal description
- Description of timber to be harvested
- Special harvesting considerations
- Duration of sale agreement
- Type of sale and provisions for payment
- Bid procedure and opening date
- Amount of down payment, performance bond
- Statement of right to refuse all bids

Contract Terms

- Sale area and stand specifics
- Prices and payment schedule
- Logging methods and requirements
- Scale determination if pay-as-cut sale
- Liability issues and insurance requirements
- Performance conditions and bonds
- Access rights, maintenance, responsibilities
- Site protection (e.g., BMPs) and penalties

Contract Tips

- Consult an attorney for advice and counsel
- Put all agreements in writing
- Make all parts of the contract easily understood
- Be sure each party has a copy of contract
- Clarify all special conditions (*buyer or seller*)
- Do not sign until all terms are clear

Marketing Guidelines

- Do:
 - Utilize competition among buyers
 - Expose sale to large number of potential buyers
 - Know what you are selling and its value
 - Know what is happening in markets & prices
 - Provide bidders with accurate information
 - Use an appropriate payment method
 - Seek professional assistance with sale
 - Monitor the harvesting operation

Marketing Guidelines

- Don't:
 - Sell without a signed contract that protects you
 - Allow harvesting to begin without proof of adequate insurance
 - Deviate from terms outlined in notices
 - Negotiate or change your mind after a sealed bid sale (without very good reason)
 - Negotiate a sale if it could be bid
 - Sell without a release on the mortgage
 - Have unclear boundaries or cut neighbors' trees

Timber Leases

- Right to harvest
 - Lessee: manages land; assumes risk; pays costs; determines harvest timing
 - Lessor: receives regular revenue
- Option to purchase at time of sale
 - Lessee: provides management advice, services
 - Lessor: carries risks; decides when/where to sell
- Other combinations

Other Forest Products

- Recreation (*hunting, fishing, hiking, etc*)
- Edibles (*maple sugar, honey, mushrooms, nuts, blueberries and other fruits*)
- Medicinals (*ginseng, palmetto berries*)
- Decorative (*greens, Spanish moss, dragon wood, holly berries, grape vines*)
- Wood (*firewood, carving, other specialties*)
- Christmas trees
- Pine straw & landscaping plants

Important Considerations

- Markets and marketing
- Labor intensity
- Capital investment
- Record keeping
- Management options
 - Utilize existing resources
 - Cultivate or create resources

Keys to Profitability

- Available local markets
 - Research and promotion are critical
 - Cooperative marketing may help in some cases
 - Direct retail, wholesale or lease
- Knowledge about culture, production and opportunities
- Appropriate pricing
- Start small, build on success
- Good reputation

Leases

- Used for hunting, grazing, bee hives, pine straw, recreation, ???
- Advantages
 - Generate income with small landowner risk
 - Prices and lease responsibilities are negotiable
 - Additional “interests” in protecting land
- Disadvantages
 - Landowner needs to protect liability risk
 - Landowner gives up certain resource benefits

Pine Straw Management

- Markets:
 - landowner > producer > brokers > ? > retailer
- Sale methods
 - Per acre - usually when selling to a producer
 - Per bale -
 - Have a contract!
- Pine straw lease
 - Single harvest or multi-year
 - Responsibilities for stand management

Conclusions

- Know:
 - what you are selling
 - why you are selling it
 - what it is worth
- Two people are always better than one.
- Prepare for the next time around while marketing your products.
- Protect your investment.
