

Steps to Marketing Timber¹

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Marketing timber involves selling forest products in a competitive market to get the best return on your investment or to meet other objectives. This process requires some planning and pre-sale preparation before you advertise or talk to prospective buyers. Timber sales should be approached in a business-like manner to ensure that both the seller and buyer are satisfied with the results. Following are some important guidelines to follow when planning and conducting a timber sale.

Start with Your Objectives and Financial Situation

Timber is sold for many reasons. The most obvious reason is to convert the timber asset into money. However, the decision to sell timber should be based on the objectives you have for your land. You may harvest trees in order to: regenerate or improve the future value of a stand, reduce stand density (thinning), salvage damaged timber, maximize profits, improve wildlife habitat, or develop recreational opportunities. These types of management decisions should start with a written management plan, which outlines your objectives, identifies the steps necessary to achieve them, provides a timetable to guide management activities, and is the first step to a successful harvest.

Consider your tax situation

How you treat the expenses and income associated with your forestland for tax purposes depends on the scope and nature of your timber-related activities. If you have a small holding with occasional transactions, you would most likely treat these activities as an investment. If your holdings produce regular and continuous transactions, your forestland may constitute a business. Regardless of your tax status, it is extremely important to maintain thorough records for all management activities and costs.

Money from a timber sale could significantly raise your taxable income, but part of that money is your investment, or basis, in the timber sold. The basis must be adjusted up for new purchases or investments and down for sales and disposals. In general, it is most often advantageous to report your timber sale income as a capital gain rather than as ordinary income. Capital gain income is taxed at a lower rate than ordinary income and is not subject to the self-employment tax. These points are made to emphasize the importance of considering federal income taxes and knowing your tax status before planning a timber sale, but they are by no means complete. Consult a tax attorney, certified public

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accountant or a knowledgeable forester about your specific tax situation. The new forest landowners guide to federal taxes, listed in the references at the end of this paper, is well worth your time to study and is available for electronic download at <http://www.srs.fs.usda.gov/pubs/viewpub.jsp?index=2207>

Financed property

If your property is financed, the timber on it is probably covered by the mortgage and, if so, might be part of the lender's collateral. If it is, the lender will require notification and may require that all or a part of the proceeds from a timber sale be applied to the loan. Regardless, the timber buyer will need a release from the mortgagor. This will need to be determined and all relevant arrangements made in writing with the lender before you sell timber in order to avoid future legal or financial complications.

Know What You Are Selling and Its Value

To determine the value of the timber you are selling you should know what products you have to sell. Unless you have experience with forest inventory, it is best to seek the services of a professional forester for this. A forester can accurately estimate the number and volume of trees by product class and then appraise the current market value of the timber you want to sell. This is extremely important because the price of different product classes can vary significantly and will dictate in part how much the buyer will pay for the timber. This information will be worth the price of the inventory when it is time to sell. As with some other forest operations, per acre costs for inventory tend to increase for small properties and non-uniform stand conditions.

Your timber is worth as much as the buyer will pay for it at a certain time. This price is determined by current market conditions, local competition for particular tree sizes, mill requirements, difficulty of logging a site, harvesting equipment, total volume in each product class, size of the sale, volume per acre, quality of the timber, and distance to different mills. All these factors interact to cause timber prices to vary considerably from place to place and over time,

and this variability will affect the price a buyer will pay for your timber. In addition, each buyer may have a different set of cost constraints that will influence what they can offer for a particular sale.

Time Your Sale Strategically

Try to sell your timber when prices are high relative to past prices and expected future values. It is easy to compare current and past prices, but anticipating how prices will change in the future is much more difficult. This requires some knowledge about the behavior of timber prices and markets over time.

Timber price trends have two components: long-term trends and short-term fluctuations. Long-term trends are controlled by major economic factors such as building construction, global paper consumption, foreign currency exchange rates, mill openings and closures, and availability and accessibility of timber resources locally and in other regions. These market trends last for periods of years or decades. Short-term fluctuations often coincide with the seasons or certain weather conditions. Over much of the South, periods of very wet weather can inhibit loggers' ability to harvest timber, resulting in a decreased timber supply and subsequent increased prices. Conversely, timber prices tend to decrease or remain stable during dry weather, when timber is more accessible and supplies increase. As a rule of thumb, it is best to sell timber when current prices are above the long-term trend line. Take advantage of active market periods and avoid selling, if possible, during periods of decreased demand for your products. The advantage of growing trees is that you can usually "bank on the stump" until market conditions improve. Salvage sales after fires or hurricanes obviously don't enjoy this luxury. Information about the timber market can be obtained by subscribing to timber market periodicals and checking with local timber buyers, foresters, and forest owners.

There are also some on-line sources of timber price information. Georgia Pacific's <http://Ewoodorder.com/> is an on-line forum for timber buyers to place bids on timber sales. When registered with the site, you can watch mill price

fluctuations by monitoring these bids on the Web. <http://Timbersource.com/> is a timber listing and notification service, connecting buyers and sellers of land, timber and unprocessed forest products. Average prices for the past 3 to 12 months may also be available from your county extension office.

Decide on a Selling Method: Negotiation or Sealed Bid

The two selling methods used in the South are negotiation and sealed bids. In a **negotiation**, the seller arrives at a price after negotiating with one or more potential buyers. This method may yield a fair price but it may not be as high as the value of a bid sale that receives responses from a larger number of potential buyers. Sellers do not usually have as much information about current market values as the buyers in a negotiation. However, negotiation is necessary and appropriate when: the tract is small and/or irregular; small volumes are sold per acre; timber is sold from a thinning or salvage sale; there are few mills within a reasonable trucking distance; specialty products are sold; and when the seller prefers or has a previous working relationship with a certain buyer.

In a **sealed-bid** timber sale, the seller advertises the sale to as many prospective buyers as possible. The seller may specify a minimum bid or the right to refuse all bids. Potential buyers submit confidential written offers that are opened at a specified time and place. Each bidder is allowed a single bid and no bids are accepted after the bid closing. Sealed bids are most appropriate when the area to be harvested is large and uniform (i.e., clearcut harvest). Sealed bids historically have yielded the highest price to the landowner and take advantage of competition among buyers. However, in today's market, some mills no longer pre-buy timber. Rather, they purchase on very short price notices so it is more difficult for a timber buyer or broker to know what they will be paid, and can therefore offer, for a timber sale. With the risk of price changes shifted from mills to buyers and landowners, the price any individual buyer can bid will tend to be less than when mills pre-buy timber. Generally, the likelihood of finding a buyer who is willing and able to offer a high price increases with the number of bids. This selling method is not

suitable for small, irregular tracts; and it eliminates opportunities for negotiation.

Decide on a Payment Method: Lump Sum or Pay-As-Cut

A critical step in marketing timber is deciding on the payment method. The two methods of payment for timber are lump sum and pay-as-cut. In a **lump sum** payment, the seller and buyer agree on a total price for the timber before it is cut and the full payment is made at contract closing. A lump sum can also be paid in installments. This payment method is best when the sale boundary is easily defined and the timber to be cut is uniform. The advantages of lump sum payments for sellers are that they receive full payment before harvesting begins and risk of timber loss is transferred to the buyer. As such, buyers are careful not to over-pay for the timber to compensate for this added risk. Often the landowner will receive less for his or her timber than they might otherwise receive.

Any individual buyer will likely offer a lower price for lump sum than they would for pay-as-cut because they must incur costs for: (1) spending time for accurately determining the amount of timber in the sale before they bid; (2) financing the money they pay you before the harvest begins; and (3) shouldering the risk of loss once the bid is accepted. However, when sealed bids are used for lump sum sales the seller uses competition among buyers to find the buyer willing to pay the highest price.

Keep in mind that this type of sale will take longer to complete because both the seller and buyer should have an accurate inventory of the products to be harvested. This will translate into added costs for the buyer in terms of cruising, road work, a title search, etc. These costs are compensated for by a lower price paid to the seller.

Tax tip: when using a lump sum payment, income will be treated as capital gains only if timber is held for personal use or as an investment, not for a trade or business. Frequent lump sum sales may qualify the seller as a business.

The **pay-as-cut** payment, or *scale sale*, is the most common method of selling timber. This type of sale requires the seller and buyer to agree on per-unit prices and specifications for each product before harvesting. There is usually an initial advance payment or deposit, with subsequent payments as the timber is harvested. The seller retains ownership of the timber and risk of loss until it is harvested. This method is best when: the seller needs to sell quickly, thinning, harvesting areas with difficult or uncertain access, a timber cruise will be difficult or inaccurate because of non-uniform conditions, or when the seller wants to ensure capital gains tax treatment of income. Close monitoring of this type of sale is critical and the total amount of income is unknown until the end of the sale.

Advertise the Sale and Select a Buyer

The sale advertisement or notice of a sealed bid sale should include specific information about the sale and be distributed to as many prospective buyers as possible. County foresters can provide a list of reputable timber buyers in your area. The following items should be in the notice:

- **Your name, address and phone number** and/or that of the forester managing the sale.
- **The location of the timber.** A map, legal description, and directions, as well as how the sale boundaries will be marked.
- **Description of the timber.** Can be general, such as all timber within unit, or specific, such as how trees were measured, volume by species, diameter classes, or product classes, if appropriate.
- **Type of bid.** Lump sum or pay-as-cut.
- **Time when buyers can inspect the sale area.** Usually at least one month is allowed between the notice and bid opening.
- **Date, time, and location of bid opening and notification of winning bidder.** Also notify all unsuccessful bidders promptly.
- **Down payment requirement.** An amount of 5 to 10 percent of the bid price is standard, returnable to unsuccessful bidders.
- **Provisions for payment.** Specify preference for a personal or certified cashier's check and time of payment.
- **Limitations or special ownership considerations.** Include provisions for best management practices, harvesting deadline, access restrictions, times when loggers cannot operate (e.g., during wet weather), leave trees for wildlife, restoring roads, etc.
- **Performance bond requirement.** Often 10 percent of the sale price (less on large sales) is held in escrow to ensure that the buyer abides by the contract terms. The deposit is refunded immediately following the sale given adherence to contract requirements.
- **Insurance requirements.** Always insist on a certificate of insurance: workers compensation, general liability, vehicle.
- **Statement of the right to refuse all bids.**
- **A copy of your timber sale contract if you have one you prefer.**

Sale notices can be distributed to potential buyers by mail, fax, personal delivery, or as some sellers now do, through the Internet. You may want to know something about the potential buyers' credentials and reputations. Choose carefully the recipients of your notice. Once you advertise for bids, you are obligated to sell your timber to the highest bidder, unless you don't want bidders on your next sale. The Florida Forestry Association maintains a Master Logger Directory, which lists loggers that have completed an educational program in safety, proper harvesting techniques, business management, and environmental protection and regulations. This directory is available on-line at <http://www.floridaforest.org/>. Many mills will not purchase timber today unless the loggers have completed the Master Logger program. Careful selection of a logger is especially important when high value trees are to be left in the residual stand. A poor logging job may be expensive to correct.

Contract With a Buyer

The sale transaction must include a formal, legally binding, written agreement specifying the responsibilities and expectations of both parties. A well-written sale contract will save both the seller and buyer money by eliminating problems, or even litigation, that can result from misunderstandings. The contract will ultimately serve as the mechanism by which any disputes are resolved.

The contract does not need to be lengthy or complex but it must reflect the expectations and responsibilities of the seller and buyer. An effective timber sale contract will contain the following provisions:

- **Identification of parties.** Include addresses, phone numbers, e-mail.
- **Method of payment.** This should specify the amount the purchaser agrees to pay the seller as a lump sum or pay-as-cut as well as how the buyer will provide verification of the amount of timber cut and paid for.
- **Description of timber sold.** Include an estimated volume by species and product class, how the trees or harvest area will be marked, and a provision for trees that grow into a merchantable size during the contract period.
- **Care of property.** Describe each part of the property that could be subject to damage (i.e., fences, roads, bridges, buildings, nest boxes, residual trees, etc.). Include allowable limits of damage and provisions for repair or payment for damages.
- **Arbitration.** Specify a method for settling disputes. Arbitration panels are generally preferred over litigation in courts.
- **Guarantee of ownership.** All buyers will require a title search and an abstract that show clear ownership, especially if a lump sum payment is agreed on.
- **Right of ingress and egress.** Provide buyer the right to come and go to remove timber. Specify entrances and roads to use.
- **Harvest method.** Address the layout of log decks, log roads, and areas to be cut. State any restrictions on equipment use and logging during wet periods or other times (e.g., hunting season). Include provisions for use of Silvicultural Best Management Practices, compliance with environmental regulations, local ordinances, and specify that you reserve the right to inspect the logging site and, if necessary, halt all operations.
- **Penalties for noncompliance.** Detail penalties for noncompliance with contract terms. Address penalties for activities such as cutting non-designated timber, as well as for damaged property, including damages to adjacent landowners' property. Specify provisions for payment of penalties and an escrow account or performance bond.
- **Length of agreement.** State the beginning and end dates of the agreement and provisions for or against renewing the contract if it expires before harvesting is complete.
- **Insurance requirements and indemnification of seller.**
- **Bottom line.** Signatures of all parties, signature dates, notarization of agreement, and registration at the courthouse.

In addition to the above contract provisions, you may wish to consider additional clauses to cover special situations. One that can prevent many problems is a statement for or against assignment of the contract to a third party. You may be fully protected by the contract between you and the buyer but that protection may be compromised if the buyer reassigns the contract to another logger or mill.

Try to prepare a short contract with clauses that are relevant and important to you. Long, complicated, restrictive contracts may scare buyers away and make supervision of the operation difficult. Buyers sometimes have pre-written contract forms, which may satisfactorily reflect your objectives, but the decision to use a buyer's contract should be based on sound legal advice.

Supervise the Operation

Review the contract with the logger, timber buyer, or forester before harvesting begins; and be sure they understand your harvest objectives. If they know you and are familiar with your objectives they should make a greater effort to do a good job; their reputation depends on it. You and/or a forester should visit the area frequently once the operation begins to make sure it is in compliance with the contract terms. Violations of the contract should be addressed immediately. Once the harvest is complete according to the terms of the contract, write a letter releasing the buyer from the contract and refund the performance bond.

Assistance

Professional foresters can assist you in selling your timber. Consulting foresters, county foresters, and industry foresters are all available in varying capacities to help you through the process. Consulting foresters can perform all duties of the sale, including an inventory and the sale contract itself for a fee. County foresters' services are free. They can help you prepare a management plan and provide technical advice on timber harvesting and general forest management activities. Your county forester can be found in the phone book under State Government Offices, Florida Division of Forestry. Industry foresters can also provide management and marketing assistance via their landowner assistance program (LAP), which can be found under timber company names in the phone book or on the Internet. A typical LAP is free of charge and helps with timber sales, reforestation, mapping, and other land management tasks.

Other recommended sources of assistance include an attorney for counsel on the sale contract; and an accountant, for advice about the sale with respect to your specific tax situation. You can also find additional marketing information and sample contracts at Web sites for other state forestry extension programs, such as:

Alabama Private Forest Management Team
<http://www.pfmt.org/harvesting/sample.htm>

Mississippi State University
<http://msucares.com/forestry>
 University of Georgia
<http://www.forestry.uga.edu/h/publicservice/h/publicservice/publications/>
 Clemson University
<http://www.clemson.edu/extfor/>
 Oklahoma State University
<http://agweb.okstate.edu/fwa/pubpage.html>

Conclusion

Marketing your timber or other forest products is usually the culmination of a long investment strategy and a means to reach a variety of resource management objectives. It deserves patient planning, careful consultation and a keen knowledge of what and why you are selling. It is also the beginning of the next management period for your property. Planning for forest regeneration should be as much a part of your sale as wise marketing.

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