

Selling Timber Methods

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Timber sales are traditionally performed in the following two manners:

- 1) **Lump Sum.**
- 2) **Pay-As-Cut.**

A comparison summary of the two above methods is as follows:

| <u>Item</u> | <u>Lump Sum</u> | <u>Pay-As-Cut</u> |
|--------------------------------------|--------------------------------------|---|
| Payment: | Prior to logging (at time of sale) | After logging starts |
| Logging Term: | One to two years | One month to two years |
| Negotiation Type: | Sealed Bid (occasional direct) | Direct (occasional sealed bid) |
| Inventory Required: | Prior to Sale (marking or cruise) | No |
| Thinning: | Trees marked | Operator select (sometimes marked) |
| Final Harvest: | Trees marked or cruised. | Operator select |
| Conveyance: | Deed or 631b Contract | 631b Contract |
| Lump Sum: | Yes, payment before purchase | No, payment occurs after harvest |
| Advance Payment: | Yes | No (occasional advance with settlement) |
| Negotiate Per Ton Rate: | No (blended lump sum bid) | Yes, for each species and product |
| Provide Volume Report: | Yes | No |
| Provide Maps (aerial, etc.): | Yes | Optional |
| Bid Letter: | Yes (includes details of sale) | Optional |
| Boundaries Identified: | Yes | Yes |
| BMP Adherence: | Written in contract | Verbal or written in contract |
| Formal Bid Opening: | Yes | No |
| Pulpwood Sale: | No (occasional) | Yes |
| Small Sawlog Sale: | Yes | Yes |
| Large Sawlog Sale: | Yes | Yes |
| Less than 20 acres: | Seldom | Yes |
| Over 20 acres: | Yes | Yes |
| Capital Gains Treatment: | Yes (when conveyed properly) | Yes |
| Timber Liability: | Retained with 631b contract | Retained always by landowner |
| Installment Payment Option: | Yes | Yes |
| Liability Insurance Required: | Yes | Yes |
| Tree Growth during Contract: | Buyer's Gain | Seller's Gain |
| Interest Gained from Sale: | Seller's Gain | Buyer's Gain |
| Drop in Market Values: | Buyer's Loss | Depends on negotiation |
| Increase in Market Values: | Seller's Loss | Depends on negotiation |
| Consulting Forester Required: | No | No |
| Trust in Forester: | High requirement | High requirement |
| Trust in Buyer: | Low requirement (if advertised well) | High requirement |
| Utilization Trust: | No requirement | High requirement |
| Mill Reporting Trust: | No requirement | High requirement |
| Payment Trust: | No requirement (occurs first) | High requirement |
| Payment Default Recourse: | Re-bid or sale to second bidder | File Suit (trees already harvested) |
| Abuse Potential: | Lower | Higher |
| Theft Potential: | No, if use tracer in paint | Potential always exists. |
| Bid Result Falsification: | Yes, if forester uses low volumes | Yes, if buyer reports incorrectly |

| | | |
|------------------------------------|-----------------------------------|--------------------|
| Contract Abidance: | Higher | Lower |
| Mistakes Influencing Value: | High | High |
| Suits: | Lower | Higher |
| Cut-Out Accuracy: | Varied (based on volume accuracy) | Not able to verify |
| Risk: | Lower | Higher |
| Consulting Preference: | Higher | Lower |
| Buyer Preference: | Lower | Higher |
| Landowner Preference: | Mixed | Mixed |
| Practiced Method: | Yes | Yes |

Example of each sale method will be explained and followed by an example.

1) Lump Sum

- 1) Timber to be sold is marked with blue paint and classified (tallied) by species, diameter (at 4.5 feet from ground; dbh), height, form class and grade. A cruise (sample based inventory) can also be used, but the 100% tree marking provides the highest accuracy (or a blend of the two can be used for added accuracy). If a cruise alone is utilized, the probability (usually 90%) and corresponding percent error should be provided to the landowner. Percent error is not to be mistaken with the percent cruise (which refers to the percent surface acres sampled).
- 2) The marked trees are reported to the prospective bidders by species providing the following information (pine sawtimber, pine pulpwood, oak sawtimber, miscellaneous sawtimber, and hardwood pulpwood; when no grade oak exists then can option to blend all hardwood together):
 - a. Tree count
 - b. Tonnage
 - c. Cubic feet
 - d. Doyle log rule board feet.
 - e. Volume, tons, and logs per tree.
 - f. Volume, tons and trees per Acre.
 - g. Average height and dbh.
- 3) Utilization for each species and product to the top end diameter is reported to bidders.
- 4) Volume and tonnage calculations and conversions are provided to bidders.
- 5) Tree count and dbh should be guaranteed for all 100% marked products by seller or their agent.
- 6) Bid letter announcement including the following sale details:
 - a. Bid Opening Date and Location (within three weeks of mailing bid prospectus).
 - b. Harvest Type Overview (including Streamside Management Zones (smz) notation and border identities).
 - c. Inventory Method (including paint color and/or cruise specifications).
 - d. Tonnage and Timber Summary (tree count, tons, dbh, and height).
 - e. Legal Description and Boundary Line notations (flagging and/or paint color).
 - f. Contract Length (one year for winter and two years for summer logging).
 - g. Logging Conditions (Summer to winter logging and access conditions).
 - h. Method for Bid Receipts (mail, fax, phone, mail, email or at opening).
 - i. Payment & Closing.
 - j. Reservations.
 - k. BMP Guidelines.
- 7) Aerial Map (with topographic lines, boundary lines, road, smz, etc. overlaid).
- 8) Vicinity Map (including location of nearest town with highways and county roads named).
- 9) Directional signs should be posted to the sale and at each of the sale's entrances.

The above documents (bid letter, volume report, aerial map, and vicinity map) should be transmitted within an approximate 100-mile radius to all mills and intermediate procurers using the following mediums (no less than 100 recipients):

- a. Email packages (including “jpg” maps).
- b. Mail packages (approximately 10% of procurers do not have emails).
- c. Web Site.
- d. Newspaper (optional for those who do not have developed data-base).

Prior to the bid opening a Pre-Timber Sale Appraisal should be performed for the landowner based on current timber prices by product, which will serve as the critical basis for acceptance or rejection.

After bid acceptance and notification, the successful bidder has 30-day to close at which time a timber deed or contract is provided to the purchaser. All timber harvesting specifications and insurance requirements are executed by a deed or contract and legally binding on the purchaser and seller.

Bid Ethics:

- 1) Bid results should be provided to all bidders the day of bid opening.
- 2) The successful bidder should be accepted the day of or within three days of bid opening.
- 3) Bids received after set closing time deadline cannot be accepted or entertained. Late bids cannot serve as the basis for renegotiation (bumping prices) or rejection. If such ever occurs, the seller and consultant’s future sales will never reach their maximum based on bidder caution.
- 4) Submitted bids must be kept confidential until bid opening.
- 5) Steps to follow for rejected bid sales:
 - a. All bids should fall below 5% or 10% of the Pre-Sale Timber Appraisal (which is based on current comparable timber sale rates). If sales habitually fall 10% above or below the Pre-Sale Timber Appraisal, you should consider contracting a new appraiser. Occasionally, bids are more representative of the current timber market than the pre-sale timber appraisal, and rejection is ungrounded.
 - b. After rejection, the following steps should be followed:
 - Minimum acceptable bid amount must be offered first to the highest bidder. If they pass, then offered to the second bidder, etc.
 - If all bidders pass the minimum offer, then the seller is free to offer the bids outside the initial bid participants. If a non-bidder is offered the purchase before following the above steps, futures timber sales will be affected due to seller distrust.
- 6) Many landowners violate timber sale ethics by “bumping bids”, and likewise develop an unsavory reputation in the bidding community. Bid bumping sometimes takes place in direct negotiations (seldom in sealed bids), and is done in the following manner:
 - a. Buyer #1 confidentially offers seller \$100,000 for their timber. The seller then contacts Buyer #2 and states, “if you will offer more than Buyer #1’s \$100,000, then I will sale it to you. There are cases where the seller then goes back to Buyer #1 and states, if you offer more than Buyer #2’s \$105,000 then I will sale it to you. Hence the term “bumping bids”.
 - b. Bid amounts are confidential and not available for discussion or leverage. Each bid should stand on its own and be accepted based on your pre-timber sale appraisal. Acceptance should never be based on “gut feeling” or “this is what I think its worth” or “bumping bids”.

The following documents should be included in a Lump Sum Sealed bid:

Bid Package (mailed to prospective bidders):

Click to view inserts:

[Bid Letter.](#)

[Volume Report.](#)

[Aerial Map with Topographic Overlay.](#)

[Vicinity Map.](#)

Provided before and after sealed bid:

Click to view inserts:

[Pre-Timber Sale Appraisal](#) (provided to landowner as guideline for bid acceptance).

[Bid Results](#) (provided to all bidders and landowner).

2) Pay-As-Cut

Unlike lump sum sealed bids where the timber is paid for prior to harvest and the cut-out is the purchaser's gain or loss; pay-as-cuts are not paid until after the timber is cut, skid, hauled and delivered to the mill. Once at the mill the 18-wheeler is weighed loaded, and then weighed empty and the difference in weight is the tonnage attributed to the timber (usually varies from 25 to 28 tons per load). The timber is classified by product at the scale house, recorded, and then a "scale ticket" is provided to the 18-wheeler driver which reports the day, time, tons, project number, and vendor. Upon logging completion or at the end of each logging week (with a one week lag), the tickets are added up by tonnage for each product and then paid to the landowner based on the pre-negotiated product rates.

Pay-as-Cuts are primarily directly negotiated (occasional informal bid) by tonnage rate for each species and product (occasionally a blended pay-as-cut rate is used). Illustrated below are potential average negotiated pay-as-cut rates for a natural mixed pine (14" pine average dbh) and hardwood stand (based on \$16/ton for cut, skid, load, haul and administration fee):

| <u>Product</u> | <u>Utilization</u> | <u>Delivered</u> | <u>Stumpage</u> |
|---------------------------------|---------------------------|------------------|-----------------|
| Pine Small Poles (distribution) | 30' -55' lengths | \$65 / ton | \$ 49.00 / ton |
| Pine Large Poles (transmission) | ≥ 65' lengths | \$90 / ton | \$ 74.00 / ton |
| Pine Grade Butt Cuts | ≥ 16" dbh (3-clear faces) | \$405/1000bf | \$285/1000bf |
| Pine Regular Sawtimber | 7" top | \$53 / ton | \$ 37.00 / ton |
| Pine Pulpwood | 2.5" top | \$22 / ton | \$ 6.00 / ton |
| Red Oak Sawtimber | 12" top | \$60 / ton | \$ 44.00 / ton |
| White Oak Sawtimber | 12" top | \$50 / ton | \$ 34.00 / ton |
| Oak Ties | 10" top | \$38 / ton | \$ 17.00 / ton |
| Miscellaneous Sawtimber | 12" top | \$35 / ton | \$ 14.00 / ton |
| Hardwood Pulpwood | 2.5" top | \$23 / ton | \$ 7.00 / ton |

Rates can be negotiated in the following two ways:

- 1) Delivered rate minus an agreed cut, skid, load, haul and administration fee (adjusts with the market).
- 2) Stumpage rate (does not adjust with the market).

Payment can be contracted in the following two ways:

- 1) Single payment at the end of logging.
- 2) Weekly payments with a one week lag (weekly payments start the second week of logging).

Upon successful negotiation, a 631-b contract is utilized to execute the contract. It is important to include in the contract provision by the buyer to seller the following harvest documents:

- 1) Loader's Ledger (maintained on-site by the loader operator or logging foreman).
- 2) Scale tickets (provided by the mill to the 18-wheeler driver).
- 3) Mill ticket summary (provided by each mill).
- 4) Life history of the tract (provided by purchase administrator summarizing all receiving mills and deliveries).

Note:

- 1) 30' to 55' (feet) length distribution poles usually must be ≥ 10.5" at 6' above the ground and cannot exceed 8" of knots in a 1-foot linear section.
- 2) ≥ 65' length transmission poles usually must be ≥ 18" at 6' above the ground and cannot exceed 10" of knots in a 1-foot linear section.

- 3) Above prices are examples only and should not be used as a current negotiation base. Prices are sensitive to the market and fluctuate between seasons.
- 4) Distance to receiving mills will affect the haul rate and consequential stumpage rate.
- 5) Stumpage = Value of the timber to the landowner.
- 6) Logging = Cost of cut, skid, load, and haul.
- 7) Delivered = Total price paid by the mill (includes stumpage and logging cost).