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Forestry and Natural Resources

Timber Marketing

Tips on How to Get the Most from Your Timber Harvest

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Introduction

The sale of timber from your woodland is an important financial undertaking. Unfortunately, timber sales often result in a dissatisfied landowner and a decrease in the potential of the woodland to produce future crops of valuable timber on what may be productive timberland. This can result from a poor contract and misunderstandings with the buyer and logger. You can, however, make your timber sale a positive experience.

Prior knowledge of a few important facts, along with adherence to some basic forest management principles allow you to receive a fair price for your timber and retain a woodland that is in good condition to produce continuous supplies of many valuable natural resources such as timber, wildlife, clean water, and scenic beauty.

The critical factors you should consider when selling timber are discussed in this publication. It supplements FNR-91 Financial Maturity: A Guide to When Trees Should Be Harvested, and FNR -111 Marketing Timber.

Some Things You Should Know Before You Sell Timber

Timber values vary: Indiana hardwood timber can be very valuable, but it can also be of low quality and have little monetary value. Value depends on the species and quality of your timber. Ease of accessibility to your woodlands and seasonal weather conditions also affect value. Professional judgment based on marketing experience is required to estimate the fair market value of standing timber.

Sold in a spot market: Timber is not a widely traded commodity. Standing timber is sold in a “spot market.” This means that each sale stands alone. Unlike agricultural commodities, there is no source of quoted prices on a given date for the many species and qualities of timber commonly found in Indiana woodlots.

Bid sale is usually best: Spot markets require a way to attract buyers to each individual sale. This is accomplished by putting timber up for bid. Bids establish the unique fair market value of timber. In some cases a one-on-one

negotiation between a landowner and a reputable buyer well known to the landowner is appropriate.

Know what you are selling: Have a forester inventory your woodland to assess its overall health and the trees available for harvest now and for future growth. He or she may also note trees of little value that need to be removed to make room for the growth of crop trees. Discuss the inventory with your forester. If a sale is needed to meet your financial needs and/or improve future timber income potential, the trees to be harvested should be marked by the forester. The forester will carefully measure the volume and assess the quality of these trees.

A listing of board foot volumes by species should be made available to all prospective bidders in a sale announcement, demonstrated by Table 1. The sale announcement may also include the forester’s comments about the quality of the timber.

Species	Number of Trees	Volume (bd. ft.)
White Oak (lumber)	15	3500
White Oak (veneer)	3	700
Red Oak	30	9000
Hickory	20	4000
Sugar Maple	15	3000
Tuliptree	10	8000
TOTALS	93	22,200

Table 1. Sample listing of timber for sale to send to potential buyers.

Avoid “diameter limit cut”: If you are offered a fixed amount from a buyer for the right to cut and remove all trees in your woods that are above a certain diameter, for example, “16 inches and larger,” you should be very cautious. This type of sale makes it difficult to assess the value of the timber subject to sale, and it is unlikely to leave you with the species and quality of trees needed to maximize financial returns in the long run.

- **Know what trees are sold:** It is never a good idea to sell something if you do not have some idea of its approximate value. At the very least, get the advice of a forester before entering into a diameter-limit contract. The buyer may be talking about stump diameter, while you are thinking of diameter at chest or “breast height” [diameter breast height (DBH) tree diameter at 4½ feet above ground line]. A 12-inch DBH tree can easily have a stump diameter of 16 inches, and could be cut under this diameter limit agreement.
- **Retain trees to produce next crop:** Tree size alone is a poor method for deciding which trees to harvest. A trained forester takes into account many factors before marking a tree to be cut. These include species, health of individual trees, rate of volume growth, rate of value growth, overall stand conditions, and most important of all, your overall objectives for your woodland.

Selling “on shares”: This is an agreement under which you allow a logger to harvest timber on your land, and you are paid an agreed portion of the revenue the logger receives from the sale of the logs. This type of agreement may be appropriate for small volumes of low-quality timber that would otherwise be difficult to sell. It is not recommended if it would be possible to sell your timber by marking it, agreeing to a fixed sale price, and signing a written contract. The capital gains treatment of revenue from timber sold on shares is questionable. Consult the National Timber Tax Web Site for details (<http://www.timbertax.org>).

Always have a written contract: If problems arise during the sale and logging operation, your options to seek redress are severely limited if you do not have a written contract with the buyer. The services of an attorney are recommended for sales involving substantial monetary sums or legal complications.

Require BMP compliance: The forestry and forest products industries in Indiana have adopted voluntary Best Management Practices (BMP’s) for timber harvesting. These BMP’s have been published in a guidebook available from the Indiana Division of Forestry and on the Web at <http://www.state.in.us/dnr/forestry/bmp/log1.htm>. You should include in your timber sale contract a requirement that the buyer or any sub-contractor of the buyer must comply with these BMP’s in all respects.

Select a buyer participating in Sustainable Forestry Initiative (SFI): Given a choice, select a buyer who will use loggers with BMP and safety training. This may or may not be the highest bidder. In addition, you should give preference to buyers who participate in SFI sponsored by the Indiana Forest Industry Council (IFIC) under the auspices of the American Forest & Paper Association

(AF&PA). The SFI program provides training to loggers in sustainable forestry and protection of the environment through Indiana’s BMP program.

Know the tax treatment of timber income before selling: Federal income tax rules are complicated. You may not qualify for the lower tax rate afforded long-term capital gains income unless your sale contract includes specified provisions. Details can be found at the national Timber Tax Web Site under “Quick Links, Timber Income.”

How to find a forester: Find a forester as you would any other professional, that is, by “asking around.” Your neighbors may have used a forester. Your county Purdue University Extension office, the Indiana Department of Natural Resources Division of Forestry (Indianapolis), or Purdue University’s Department of Forestry and Natural Resources have lists of consulting foresters. The Indiana Forest and Woodland Owners Association publishes a directory of consulting and industrial foresters. It is available online at <http://www.indianawoodlands.org>. Obtaining the services and advice of an experienced forester is always worth your investment in time and money for both near-term income and long-term returns from your woodland.

Your Timber Investment May Be Growing Faster Than You Thought

A forester in consultation with you, the landowner, considers many factors before he or she decides to choose a specific tree to mark for harvest. One important criterion is financial maturity. This is the point in time when the financial rate of return from leaving a tree to grow until the next harvest is less than the rate that could be earned by cutting the tree and investing the proceeds in an alternative investment. For example, if a tree is expected to increase in value at 4 percent per annum, and the tree’s owner could earn 6 percent on a bank certificate of deposit (CD), the tree would be financially mature.

You may question whether your crop trees can earn 10 percent per year? Most can’t if you are thinking only about annual increase in physical volume. The situation changes, however, if you also take log quality or grade increases into account. As most trees increase in diameter, they also increase in quality. This translates into increased value per board foot. The total financial return is determined by the growth in volume, the increase in log quality, and any increase in the market price per board foot.

Typical growth rates for the most valuable species are shown in Figure 1. The annual compound rates of increase in volume and value are presented. Growth rates by species were estimated from the 1998 forest survey data (Schmidt, et. al., 2000). Stumpage prices were taken from the *1985 and 2000 Indiana Forest Products Price Report*

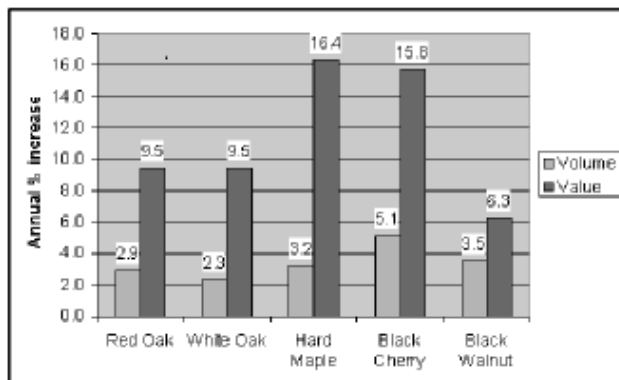


Figure 1. Comparison of volume and value growth rates for high-value hardwood species.

and Trend Analysis. Note that the rate of value increase includes the affect of inflation. Tree diameter in 1985 was assumed to be 16 inches, and tree volume was taken from Herrick, 1956.

Figure 1 shows that the rate of value growth exceeds the rate of volume growth. Even after reducing the rate of value increase by 3 to 4 percent for inflation, the real rates of return indicate that timber can be a good investment. Foresters can provide estimates of the potential returns from your particular woodlands. Your forest investment deserves professional guidance.

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Suggested publications:

FNR-91 *Financial Maturity: A Guide to When Trees Should Be Harvested*

FNR-111 *Marketing Timber*

Literature Cited:

Herrick, A.M. 1956. *Composite Volume Tables for Indiana Hardwoods*, Purdue University Cooperative Extension Service, Extension Leaflet 273, West Lafayette, IN. (Table 1. Merchantable Volume Table for Indiana Hardwoods. Board Feet - Doyle Rule, Average Tree).

Hoover, William L. and Ralph W. Gann. 1985 and 2000. *Indiana Forest Products Price Report and Trend Analysis*, Purdue University Cooperative Extension Service, West Lafayette, IN. (delivered log price less logging and hauling cost per MBF).

Schmidt, Thomas L., Mark H. Hanson, and James A. Solomakos. 2000. *Indiana's Forests in 1998*, USDA Forest Service, North Central Research Station, Resource Bulletin NC-196. (Tables 39A and 44A).



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