

## What's the best way to sell your timber?

There are various payment methods that a landowner can use when it becomes time to sell timber. The two most common methods are pay-as-cut and lump-sum, and to a lesser degree auction, and composite sales. In this article I will discuss these methods as well advantages and disadvantages for each, and which method is best to use depending on your situation.

### Pay-as-cut (P.A.C.) or Per Unit (ton/cord/MBF) method

The Pay-as-cut method is the most commonly used method. With this method the timber buyer offers to pay a certain amount (usually \$/ton) for each product cut, delivered, and scaled at the mill or final delivery point. The timber cutting rights are conveyed by a Timber Sale Contract, which is signed by both the Seller and Buyer. In a Timber Sale Contract the change in ownership of the timber doesn't occur until the tree is severed from the stump. Payment to the landowner is typically made within two-weeks of delivery, although state law allows up to 30 days for payment to be made. A variation of this method is a pay-as-cut with advance where the buyer advances a certain percentage (10-90%) of the expected value to be harvested.

The advantages of P.A.C method are;

- Flexibility- The landowner or logger can change the amount of timber to be harvested while the harvest is taking place. Say for instance you are performing a first thinning and you prefer more or less trees to be harvested per acre to get to a desired basal area, or you decide to leave a stand of oaks that were in the original sale area. That isn't a problem with this method as the final amount you are being paid will be determined by what's hauled.
- Buyer Interest- Because this method doesn't require the buyer to invest a large sum of money upfront, it increases the number of possible buyers available who would be interested in your sale. It is also useful in generating buyer interest for marginal tracts that have that have lower tons/acre of available timber, or have wet soils which could hinder the harvest.
- Fair Payment- Assuming every stem cut is merchandized correctly, hauled to the mill, and the mill doesn't deduct for any defects, (perfect world scenario) the landowner is paid exactly what the timber is worth.
- Contract Length- This method can be used when, due to the circumstances, a shorter contract length is required as there is less risk to the buyer if the harvest can't be fully completed.

The disadvantages of P.A.C method are;

- Supervision- Due to the higher degree of abuse that is possible on tracts with multiple products, this type of sale requires higher levels of supervision to ensure products are being merchandised correctly.

It is important for landowners to understand how loggers are paid. They are paid a per ton cut & haul rate for the timber delivered. This rate is graduated based on the distance from the tract to the mill. There is usually a base rate for minimum distance hauls (mills less than 30 or 40 miles) and then an added amount for each additional mile hauled for more distant mills.

Landowners should bear in mind that a logger's pay is based on production, more loads, more pay. It's in the logger's best interest to load trucks quickly, so product separation isn't always top priority.

Short-term mill closures can also affect merchandising. Assume you're a logger, it's Friday morning, and the saw log milled just called and isn't accepting any more deliveries for several days. Sometimes higher value products are mixed in with a lower value product for expediencies sake.

- Trust- The landowner is required to exhibit a high degree of trust that the buyer will do what they said they would do in the form of payment and timber utilization.
- Harvest not Guaranteed- P.A.C. sale contract without an advance is not guaranty that the harvest will actually take place. In its simplest form, it only requires the buyer to pay the landowner based on what's delivered. No delivery, No pay. A decrease in market prices may lead to non-harvest or a renegotiation of rates.
- Risk- The landowner assumes all the risk for loss due to poor product merchandising, theft, uncut trees, waste, insects, and storm damage. Since there is usually some delay in payment, there is a slight chance that the landowner can be under or unpaid for their harvested timber when dealing with unscrupulous operators.
- Confusion- In a per ton bidding situation on a tract with multiple products it can be harder for the landowner to determine who is actually the high bidder. It is certainly rare with multiple timber bidders where one buyer is higher on all the products than the other bidders. Usually one bidder is high on one or two products but lower on others. What the landowner will need to know is how much of each product they have to correctly determine how it best benefits them. Assume that Mary has requested bids from three different buyers on a 32-acre mixed stand and she receives the following bids per ton.

Product	Buyer 1	Buyer 2	Buyer 3
Pine pulpwood	\$6.00	<b>\$8.00</b>	\$7.00
Pine Chip-N-Saw	<b>\$16.00</b>	\$13.00	\$15.00
Pine Poles		<b>\$57.00</b>	
Pine Sawtimber	<b>\$28.00</b>	\$27.20	\$26.00
Hardwood Pulpwood	\$3.00	\$5.00	<b>\$7.50</b>
Oak Sawtimber	\$45.00	<b>\$51.00</b>	\$46.00
Misc. Sawtimber	\$39.00	<b>\$42.00</b>	\$40.00

From these results, it would appear to Mary that Buyer 2 was the high bid because he has the high price on four out of the seven products. Buyer 1 would appear to be the second highest bid as he is highest on two of the seven products, with buyer 3 being last as they are only high on one of the seven products. What Mary needs to know is the amount of each the products they have on her property in order to evaluate the bids. Mary, being an astute landowner decides to hire a consulting forester to perform a timber cruise on her property and the foresters reports the following volumes.

Product	Tons
Pine pulpwood	761.5
Pine Chip-N-Saw	871.6
Pine Poles	0

Pine Sawtimber	276.8
Hardwood Pulpwood	575.6
Oak Sawtimber	71.6
Misc. Sawtimber	174.9

Now that Mary has the product volumes, she can properly evaluate the bids. Using the product volumes and the prices/ton she calculates the following:

Product	Buyer 1	Buyer 2	Buyer 3
Pine pulpwood	\$4,569.00	\$6,092.00	\$5,330.50
Pine Chip-N-Saw	\$13,945.60	\$11,330.80	\$13,074.00
Pine Poles	\$-	\$-	\$-
Pine Sawtimber	\$7,750.40	\$7,528.96	\$7,196.80
Hardwood Pulpwood	\$1,726.80	\$2,878.00	\$4,317.00
Oak Sawtimber	\$3,222.00	\$3,651.60	\$3,293.60
Misc. Sawtimber	\$6,821.10	\$7,345.80	\$6,996.00
	\$38,034.90	\$38,827.16	\$40,207.90

By having the additional information, Mary can now conclude that Buyer 3's bid results is the best bid for her particular situation. She can also see that the high price she received for pine poles was just eye candy, as she doesn't have any pine poles on her property.

From the above scenario you can tell how confusing per ton bid results can be.

When to use the PAC method.

- On tracts with fewer products- This is usually the case when harvesting young stands, as the timber has had less time to reach more valuable products. Because there is fewer product sorting, there is less of chance of improper merchandising and the risk to the landowner is lower.
- When you need some flexibility during the harvest to change the size of the sale area or the intensity of the harvest.
- Time constraints- When you need timber removed quickly due to a change in land use or personal financial need.
- Marginal tracts- Use this method when the timber property has a feature that buyers may find undesirable. An undesirable feature may include:
  - Low volumes per acre making it harder for the buyer to get a logger to harvest due to increased harvesting cost.
  - Difficult to access properties which require the buyer to acquire easements from adjoining landowners or perform roadwork to access the timber stand.
  - Wet natured properties which are only able to be harvested during the driest periods of the year, when supply exceeds demand.

### Lump Sum Method

The Lump Sum payment method is the second most common method for selling timber. With this method timber buyers make an offer based on the total price they will pay for the timber cutting rights on a property. Payment for the timber is made in advance of the cutting usually at the time the timber deed is signed (closing). The timber rights are conveyed by a Warranty Timber Deed, which is signed only by the Seller and the change in ownership of the timber occurs when the deed is signed and the timber has been paid for. For this method to have a successful outcome, it is best that all bids be submitted by sealed envelope by a certain date and time, to someone bidders trust. This way bidders will not know what price their competition has submitted, and they must put forth maximum effort to secure the sale. They also must be able to trust that the person administering the sale will not attempt to bid-up the sale after the initial bid opening, or they will begin hedging future bids in anticipation that the sale will be able to bid-up again after the initial offering.

#### Advantages of Lump Sum Method

- Pre-Payment- The landowner receives payment up front so they don't have to worry about payment issues on the backend. Should the buyer's payment default (check doesn't clear) then the landowner can just select the second highest bidder.
- Less Risk- Since payment has already occurred, the landowner doesn't have to be concerned with:
  - Monitoring how the products are sorted and merchandized
  - Drops in market prices
  - Timber damages (on clear-cuts) after the sale due to storm damages, insects, or disease because the buyer now owns the timber. We've seen this situation actually occur after Hurricane Katrina.
- Easier to Evaluate- On highly desirable tracts it is common to receive multiple bids for the landowner to review, which simplifies the decision process. If few bids are received, it is imperative that the landowner have their own independent timber cruise so that they will know if they should rebid the sale at a more opportune time.

#### Dis-advantages of the Lump Sum Method

- Inflexible- The sale area and the terms of the sale must be well defined from the onset, and clearly communicated to buyers. This way all buyers know exactly what is for sale, and what each buyer is bidding on is exactly the same.
- Can deter some Buyer interest- Since the timber must be paid for in advance, some buyers will be discouraged from bidding because do not have the available funds for such a large cash outlay. This may not be a total deterrent to the landowner as they can have some assurance that the buyer that eventually purchases the timber must have demonstrated in the past some degree of financial strength.
- Contract Length – The buyer of a lump sum timber sale is taking on more risk than a P.A.C. sale. There are many variables in the timber business beyond the buyer's control like wet weather, mill quotas, price changes, and logging issues, etc. The buyer will want a sufficient amount of time to help overcome any unexpected impediments.

Can be an Advantage or Dis-advantage depending on timing.

- Market Timing- In a market where timber prices are rising (the good old days) it's possible for the landowner to receive a present-day market price that's less than they could have received at a future date. Then again on a falling market the landowner could lock-in a higher price rather than being subject to lower prices in the future. Timber is a commodity and thus rises and falls and why it's important that landowners considering a sale in the near future, closely monitor timber prices or have a forester that does.

When to use the Lump Sum method.

- On highly desirable timber sales- What makes a timber sale highly desirable to timber buyers? Here are some attributes.
  - Easy Access – Tracts with easy access to paved roads at multiple locations. This allows loggers to have more options for loading areas and keeps semi-trucks closer to paved roads.
  - Wet weather logging- Wet weather tracts have deep sandy and sandy-loam soils with superior drainage and are able to be harvested during the wetter winter months. These tracts are always in high demand and when sold during the wet season will receive vastly higher prices than wet natured properties.
  - Large tracts with high volume- Large tracts allows loggers to reduce moving expenses and make for a more profitable logging operation. Generally speaking, a large tract would be greater than 80-acres with 80+ tons per acre.
- On tracts with multiple products- If the property has multiple products the landowner can reduce the risk of merchandising errors by selling lump sum.
- On final harvest (clear-cuts)- Since the whole stand is being harvested and no flexibility while harvesting is required, lump sum sales are the preferred method of sale.

### Auctions

The auction method for timber sales is rarely used because it has one severe disadvantage to landowners than the other methods. That disadvantage is that during the auction process, bidders know each other's bid, and only have to beat the competition by a minimal amount to win the sale. The few instances I have heard of this method being used resulted in happy timber buyers.

### Composite or combined pricing timber sale.

This type of timber sale takes on similarities of both the pay-as-cut method and lump-sum methods of sale. In this type of sale bids are solicited on a combined price per ton for pine and a combined price per ton for hardwood. It is up to the bidders to determine (by cruise) the volume of each product on the tract and make a combined price per ton. I feel an example is in order to help demonstrate how this would be accomplished. Suppose a tract had the following volumes and the bidder can pay the following rates.

	Tons	\$/Tons	Total \$	
Pine Pulpwood	890	\$7.00	\$6,230.00	
Pine Chip-n-Saw	1247	\$16.00	\$19,952.00	
Pine Poles	329	\$42.00	\$13,818.00	
Pine Sawtimber	685	\$25.00	\$17,125.00	
	3151		\$57,125.00	Avg \$/ton Pine = \$18.13

Hardwood Pulpwood	1481	\$7.00	\$10,367.00	
Oak Sawlogs	247	\$50.00	\$12,350.00	
Misc. Hardwood Sawlogs	360	\$40.00	\$14,400.00	
	2088		\$37,117.00	Avg \$/ton Hwd = \$17.78

In the above example, the bidder would place a bid of \$18.13/ton for the pine and \$17.78/ton for the hardwood. This method elements the risk of product merchandizing problems because the landowner is paid the same amount per ton by species, regardless of product. But, this method of sale can come with some pitfalls. It requires a very detailed contract, to ensure all the merchantable timber is harvested and delivered, otherwise the buyer could just harvest the higher priced products from the stand, leaving the lower priced products. In the above example if the buyer just harvested the pine poles, pine sawtimber, and hardwood sawtimber they would end up paying the landowner an average of \$18/ton for products that average \$35.59/ton in value, thus making \$17.59 a ton profit.

This method is more common in the highly competitive markets in South Georgia and North Florida and are rarely used in south Mississippi because buyers and sellers unfamiliar with its use.

### Summary

Hopefully the foregoing article has helped educate you on the various methods of selling timber and which is best depending on the situation. The one constant the landowner should realize, is that they need to know what it is they are selling in order to make the best decision. Hiring a consulting forester to determine your timber volumes will help you from making costly mistakes in the process. If your timber sale has high volumes, good access, multiple products, is a final harvest, or on good wet weather ground, its in your best interest to consider a lump sum sale. If you need flexibility, have lower volumes, have fewer products, or wet natured soils you should consider a pay-as-cut sale.