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Timber Sales Is it time to sell?

Woodland Owner Lunch
and Learn Webinar

April 9, 2020



Robert Bardon, PhD
Professor & Extension Specialist

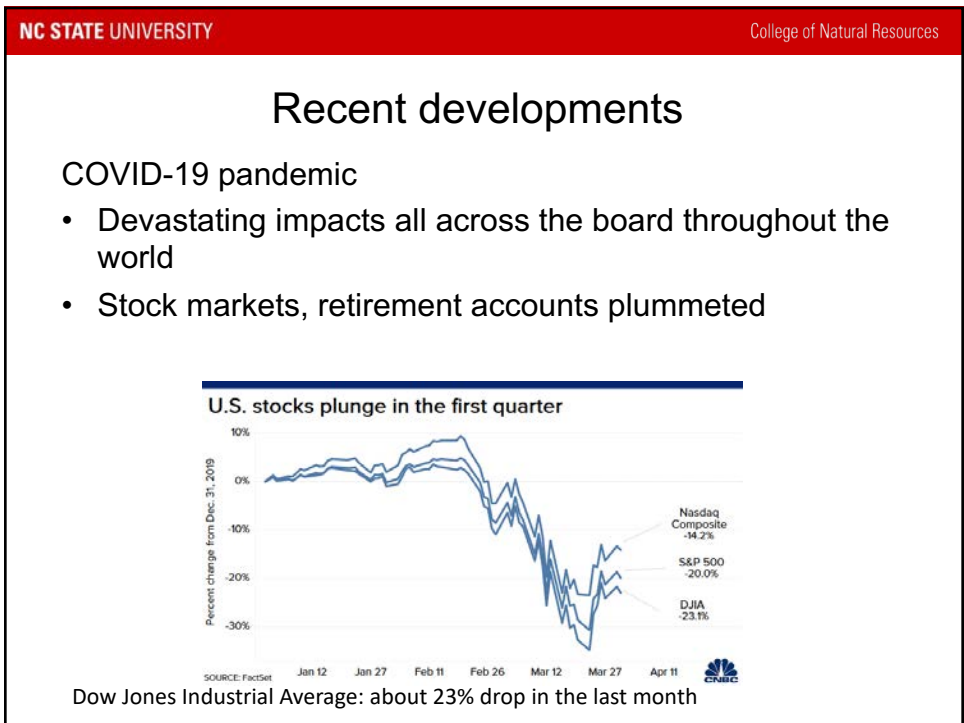
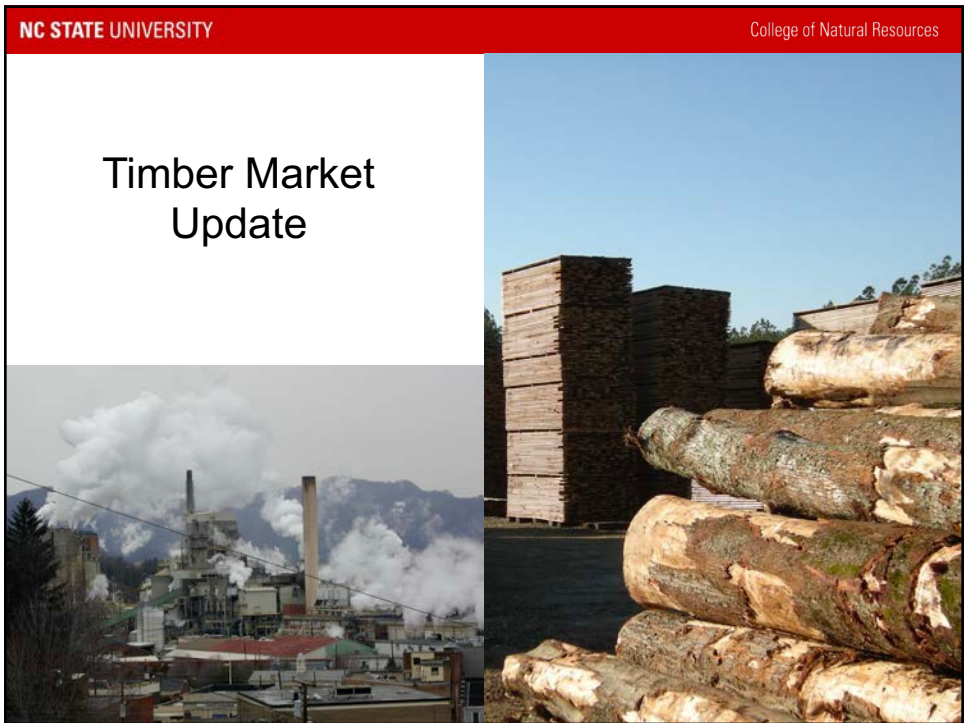
Rajan Parajuli, PhD
Assistant Professor &
Extension Specialist

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Agenda

- Recent market developments
- Timber price trends
- Lower timber prices—what should landowners do?
- Selling Timber
- Seeking Assistance





Recent developments

Worst economy is yet to come

- Unemployment in the US is projected to be over 30% soon.
- Election year adds a fuel in volatility
- Hard to predict how long this pandemic will last



Recent developments

Forest products - an essential industry

- Manufacturers and distributors of paper towels and tissues
- Forest product industry



Recent developments

Surge in toilet paper sales:

- Toilet paper shortage worldwide
- Most of the TP consumption produced in North America
- This is just a hoarding behavior—panic buying, not a long-term demand shift
- People store it, meaning less demand next month or so..

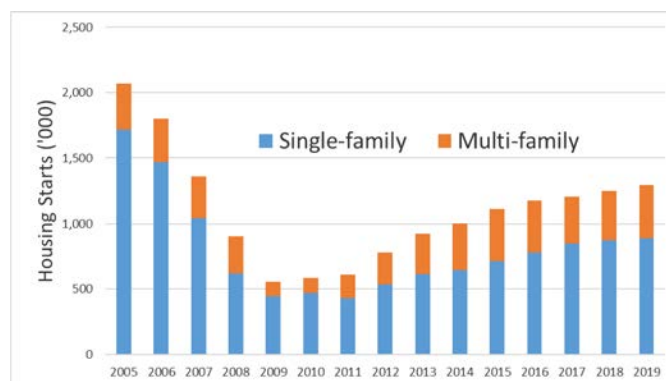
Forest2Market Blog

Recent developments

Housing starts:

- Housing starts in Feb 2020: 1.6 million units (higher than expected)
- About 40% higher than Feb 2019

Yet to see where Housing market would be in this period



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As a part of the first phase of bilateral agreement between the US and China

Woodworking Industry News

China halts tariffs on North American hardwoods

By Karen M. Koenig February 21, 2020 | 3:45 pm EST

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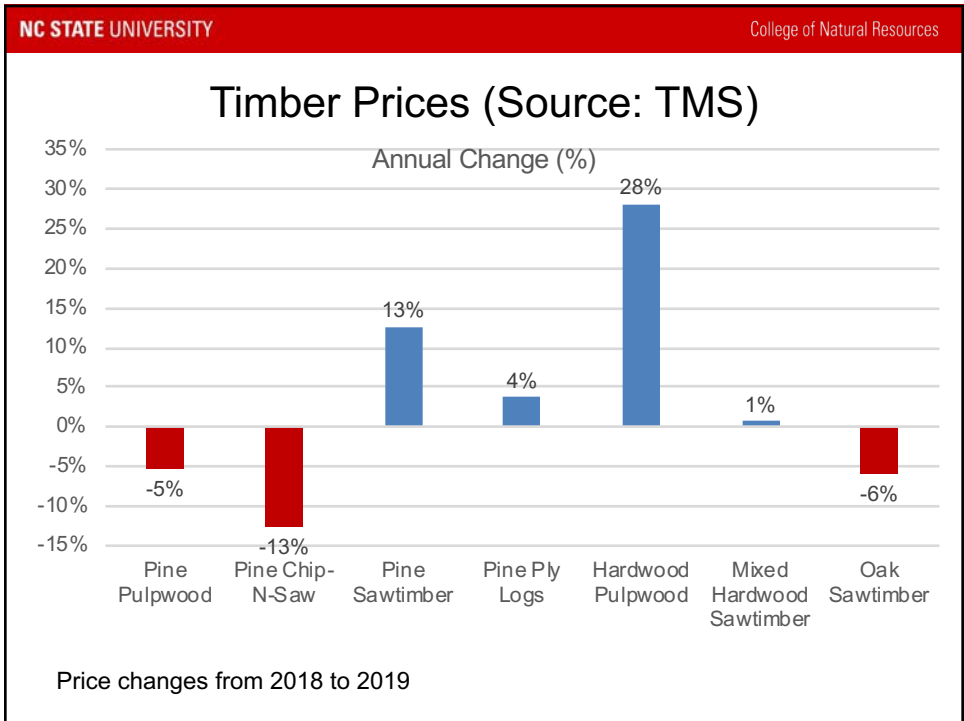
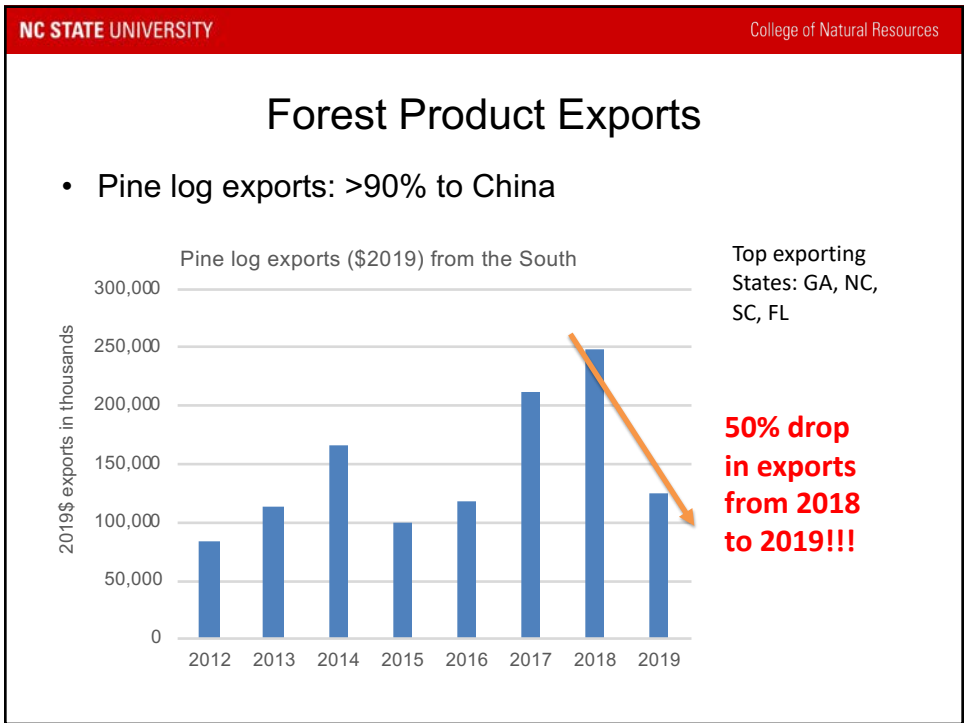
WASHINGTON - The Chinese government has announced it will remove tariffs on certain species of U.S. and Canadian hardwood lumber for one year, starting Feb. 28.

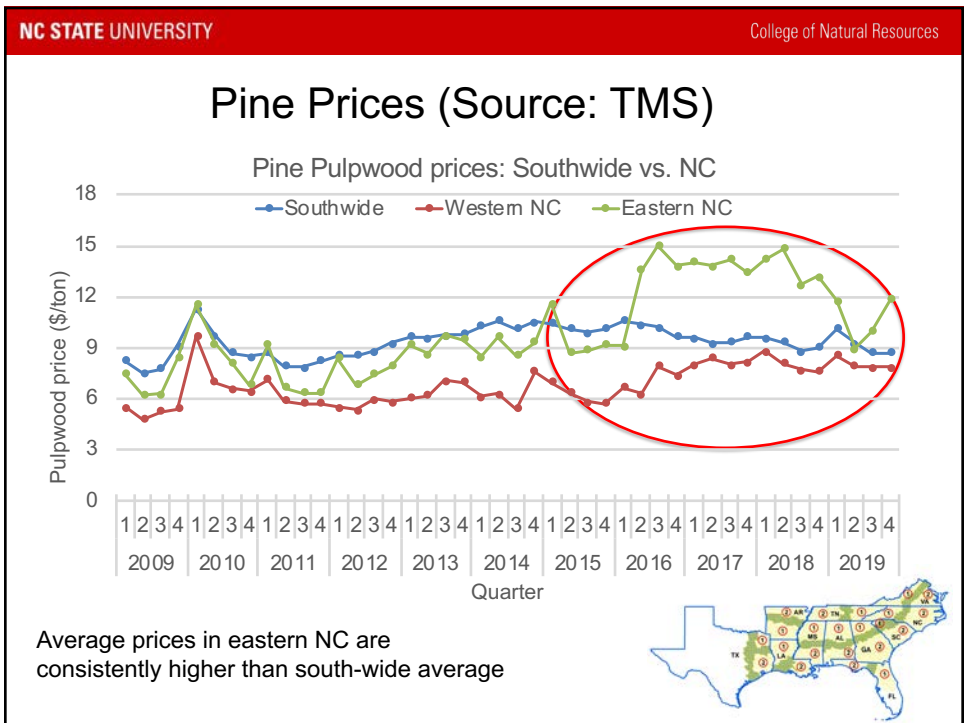
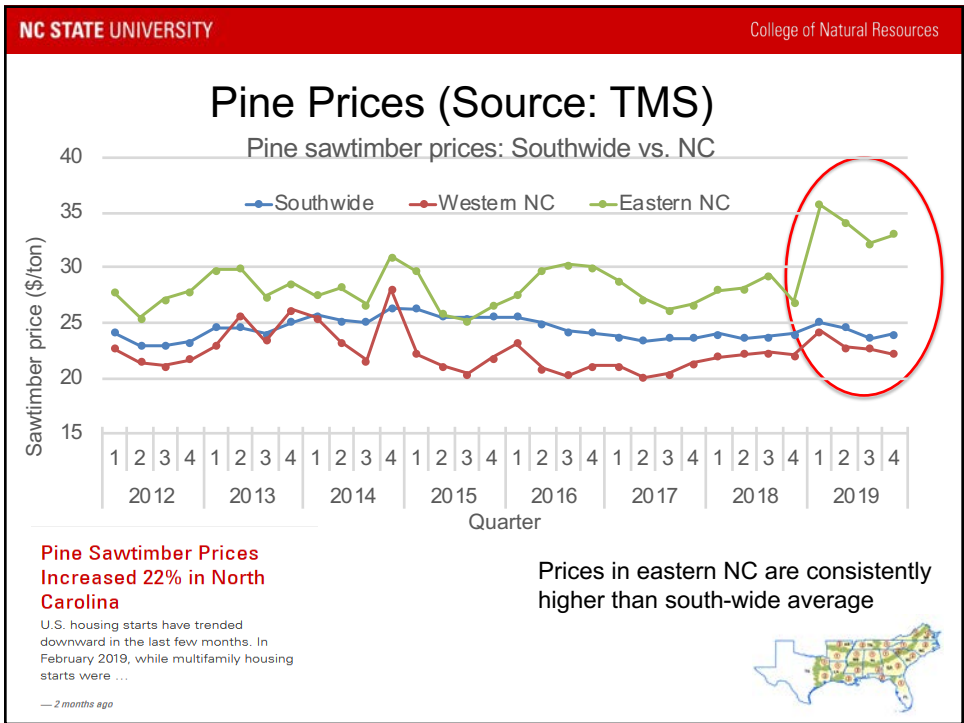
- American hardwoods including cherry, oak, and other **lumber and logs**
- **HOWEVER, Coniferous exports are not exempted.**

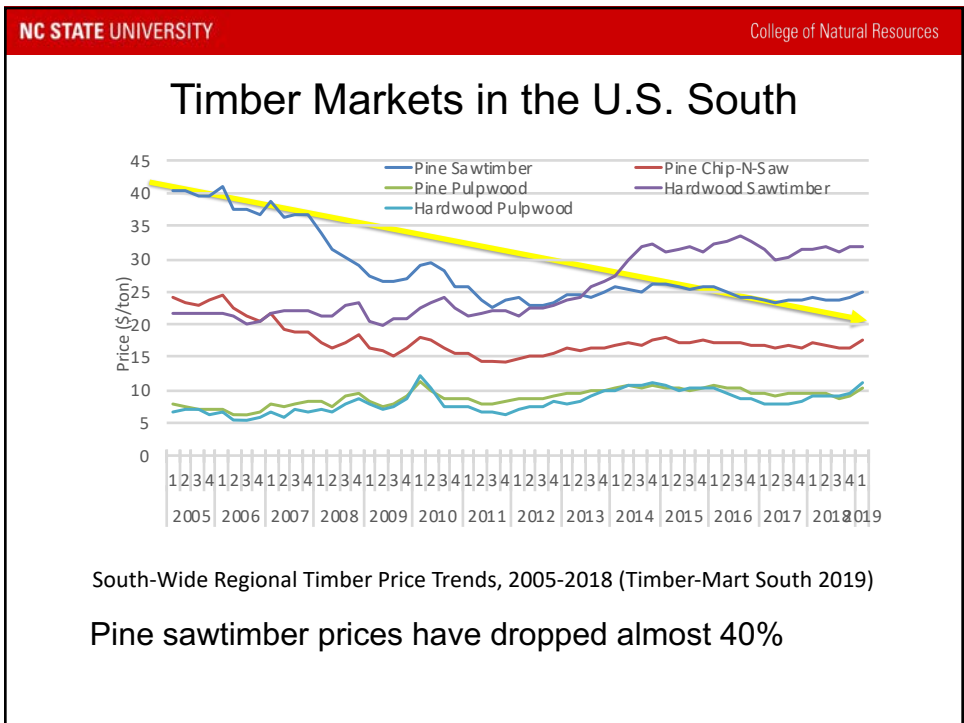
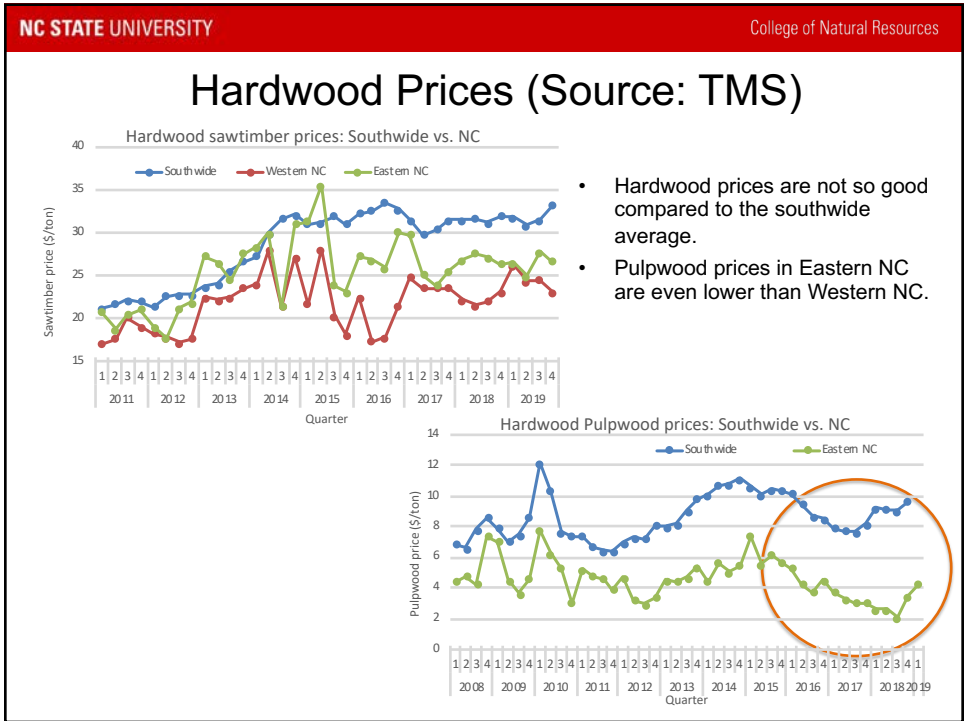
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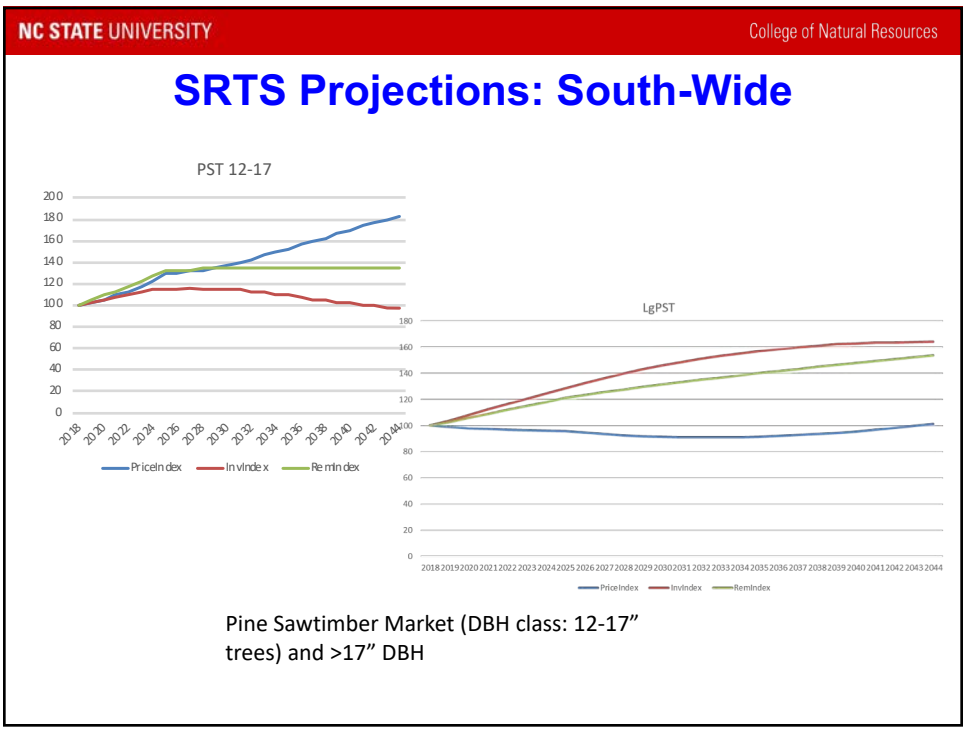
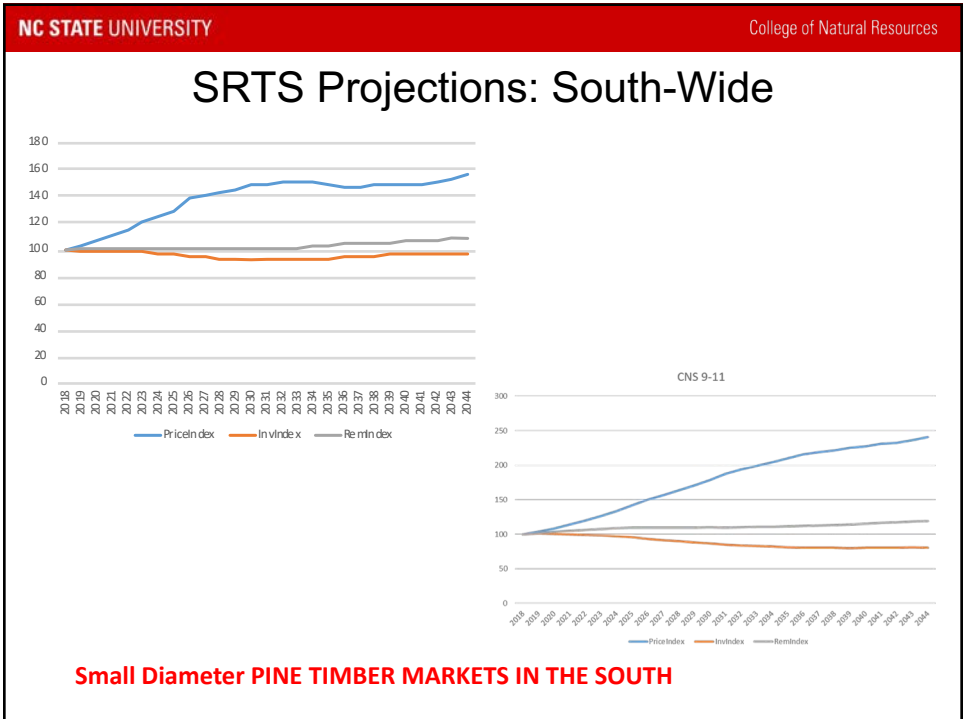
How much are Chinese retaliatory tariffs?

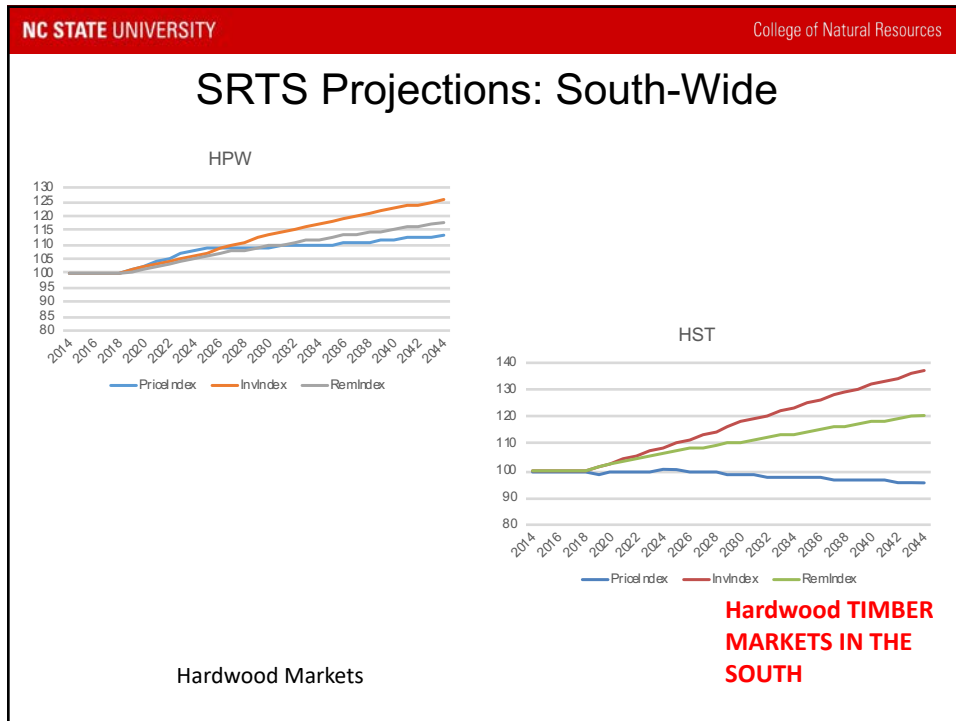
- Wood, tariffed from **5 percent to 25 percent**, is among those products,
 - including **oak (25%), cherry and ash (20%)** and walnut, hard maple, tulipwood and alder (**5%**).
- 10% tariffs on Pine logs
- 30% on Pine lumber, and softwood chips
- 25% on spruce and fir lumber
- 25% on hardwood chips and pellets











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Recent Historical Disruptions

- Forest in the South reeling from long-term Recession disruption & tree planting boom during 80's and 90's
- Supplies of pine grade products (chip-n-saw and sawtimber-sized trees) have ballooned
 - Before: **15 : 1** ratio Inventory : Removal
 - After: **25 : 1** ratio Inventory : Removal
 - NOW **20:1** ratio Inventory : Removal years

Wall of wood! Who's to Blame?

- Forest growth gains...More wood in less time!
- Genetically improved seedling, CRP in early 1990s
- Recession 2008
- Sawmill efficiency (local mill:23% less to yield a MBF)
 - Technology driven
- Fewer, **Larger** Capacity Mills
 - Less Competition for your Sawtimber

Okay, What Can a Forest Landowner Do?

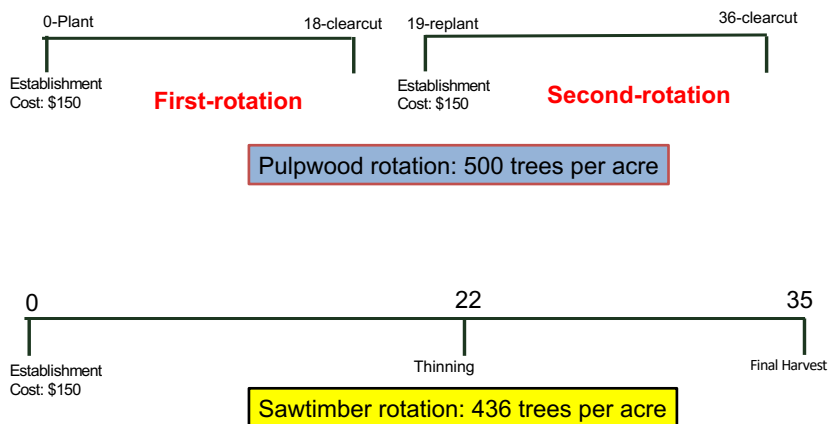
- Can't do much in the demand side (no control in the market)
- Hanging on to larger trees may not be an option...
 - For eg. maximum diameter at Halifax mill is 25 inches

Okay, What Can a Forest Landowner Do?

- Economize:
 - Larger Sales
 - Specialize- Higher value products
 - Minimize costs (tap into financial assistance programs)
- Know the local market and diversify forest stands
 - Find what local mills want
 - Scrimp on poor and drought sites
 - Shorten rotations (in Eastern NC, pulpwood market is better)

Pulpwood vs. Sawtimber Rotation

- Two 18-year pulpwood vs. 35-year sawtimber rotation



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Pulpwood vs. Sawtimber Rotation

Let's suppose medium productive land (SI 65) @\$15/ton of pulpwood, \$25/ton of sawtimber at 5% interest rate:

Pulpwood rotation: 500 trees per acre

Total NPV from two pulpwood rotations: \$350/acre

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Pulpwood vs. Sawtimber Rotation

Let's suppose medium productive land (SI 65) @\$15/ton of pulpwood, \$25/ton of sawtimber, at 5% interest rate:

Pulpwood rotation: 500 trees per acre

Total NPV from two pulpwood rotations: \$350/acre

Sawtimber rotation: 436 trees per acre

Total NPV from a sawtimber rotation: \$332/acre

Pulpwood vs. Sawtimber Rotation

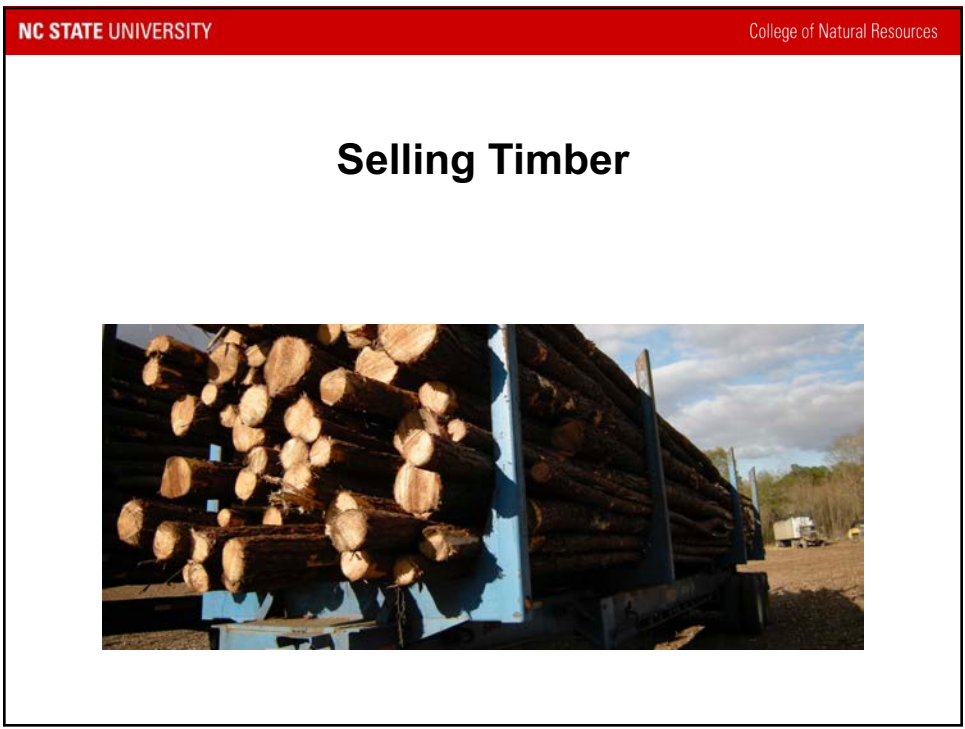
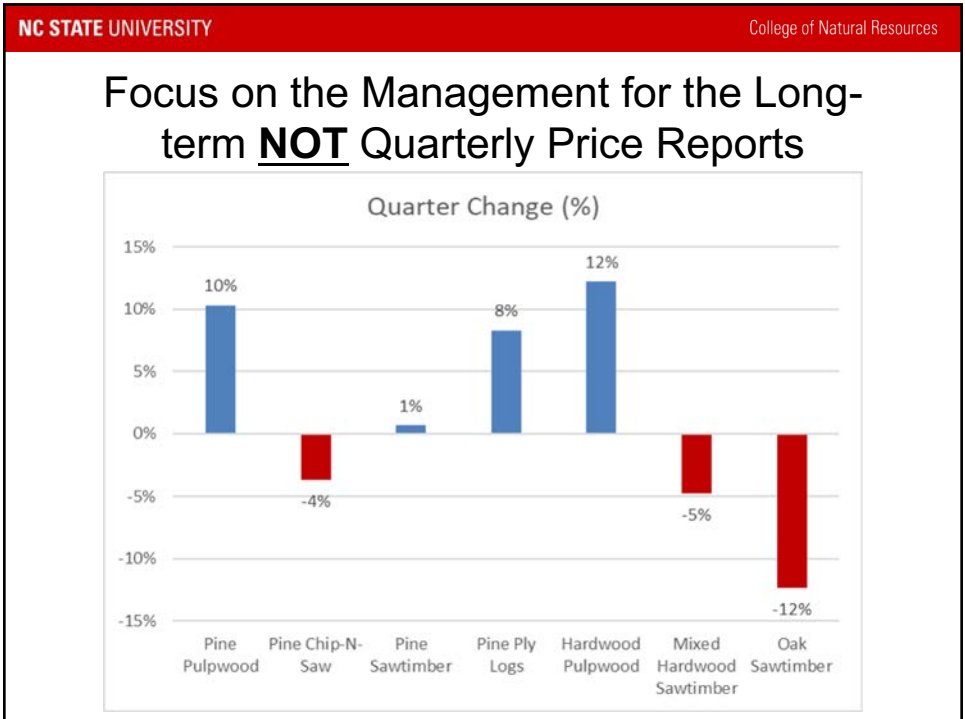
If same scenarios, but pulpwood price is **\$18/ton**, and sawtimber price is **\$25/ton**

Net return from 2 18-yr pulpwood rotations: \$431/acre


Net return from a 35-yr sawtimber rotation: \$370/acre

Okay, What Can a Forest Landowner Do?

- Focus on the management and what your land offers
 - Minimize risk
 - Attentive to the land -
 - Natural in bottoms,
 - Mixed pine-hardwood on mid-slopes
 - Pine on uplands
 - Mixed ages, species, management intensities
 - Tap into alternative income streams

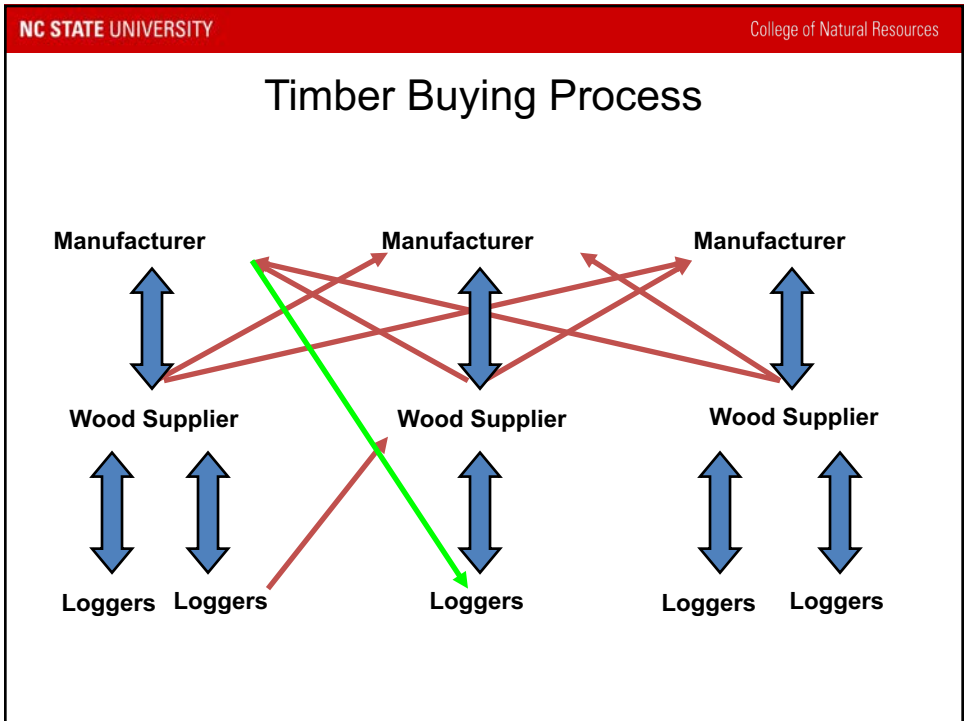


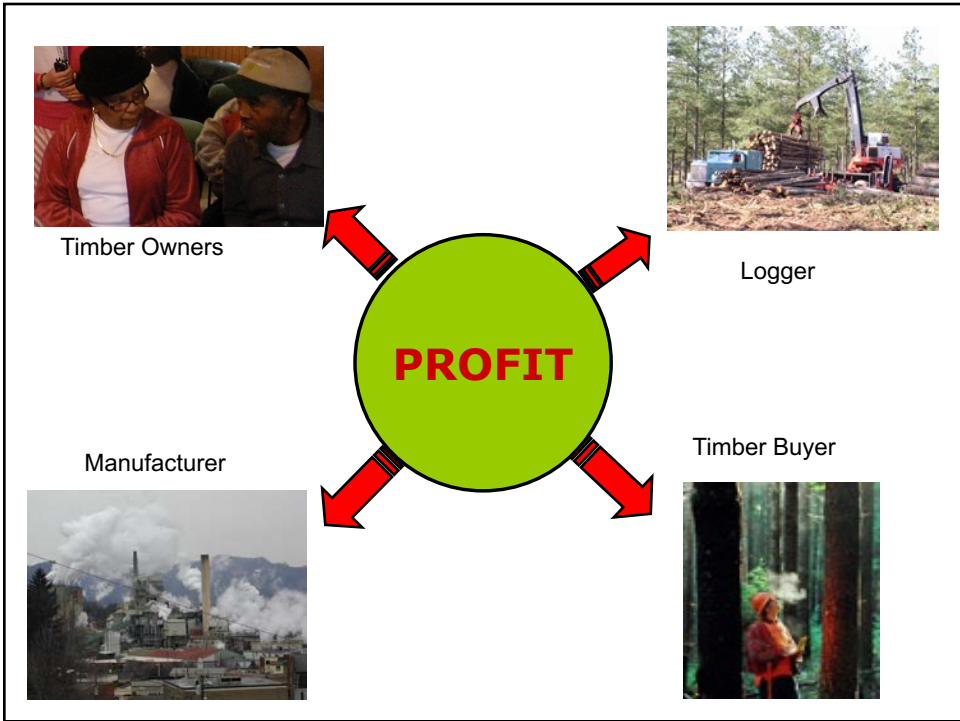
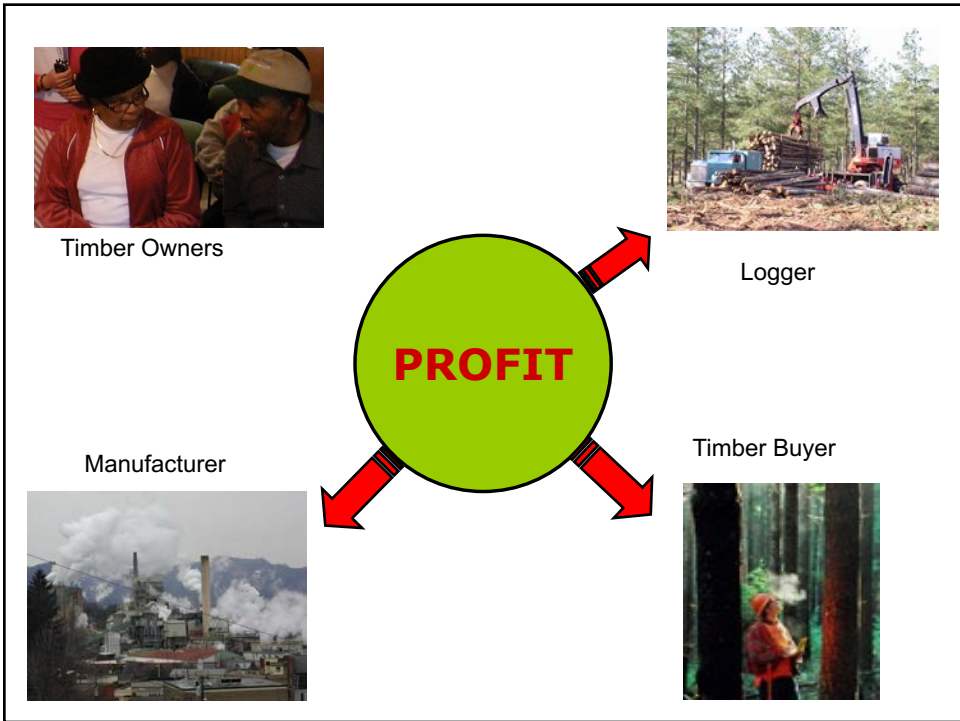
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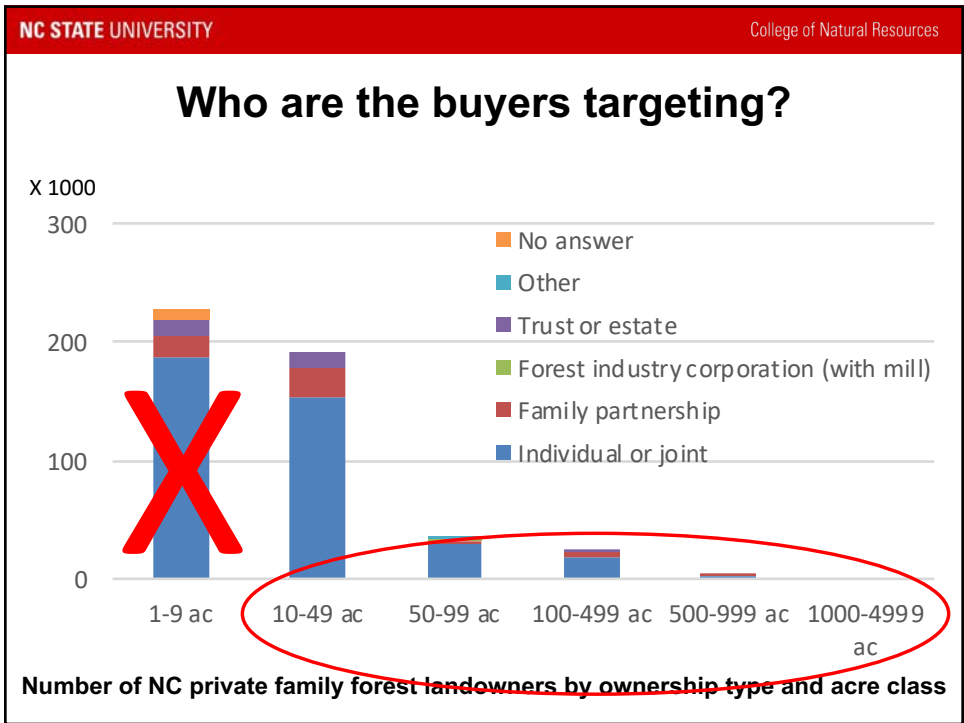


You don't have to be a forester to buy or sell timber !

- Mill Procurement Buyers
- Wood Suppliers
- Loggers
- Timber Brokers







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Ways to sell timber

By the “Unit”

- Often used for
 - Thinning
 - Poor quality stands
 - Small acres
- Sold on contract
 - Retain the rights to the timber until cut
 - Does not require registration or notarization
- Seller assume most of the risk

As a “Lump Sum”

- Often used for
 - final harvest
 - large acres
- Sold on deed
 - Timber title passes to the buyer upon deed delivery
 - Require registration and notarization
- Buyer takes most of the risks




How does the seller know if they are getting a fair market value?



Timber Appraisals

- Unbiased professional appraiser
 - Consulting Forester
- “Timber Cruise”
 - Statistical sample
 - Estimate volumes
- Apply timber values to the estimated volumes


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Timber Bids

- Unsolicited bids
 - 1 bidder
 - Purpose is to avoid competition
- Negotiated bids
 - Usually 1 to 3 bidders
 - Good for small or poor valued stands
- Competitive bids
 - More than three bidders
 - Sealed bids
 - Better for high valued stands

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Seller Mistakes

- Not getting enough bids
- Not knowing the volume
- Not knowing the markets
- Not spelling out all of the conditions of sale before the bidding process begins
- Playing one buyer against another
- Not getting a written contract or timber deed

Finalizing the sale

Controlling logging rights

- Practiced through condition of sales
- Included in contract/deed



Closing the sale

- Mutual confidence and understanding
- Ensure all paperwork is complete, filed and recorded
- Understand who covers what costs in closing sale

Why landowners may want help in selling timber


- Substantial sum of money
- Infrequent sales
- Sold in the forest
- Imperfect markets
- Commodity that is not well understood
- Many variables to consider
- Confusing
 - Deeds, contracts, bids, surveys, etc.



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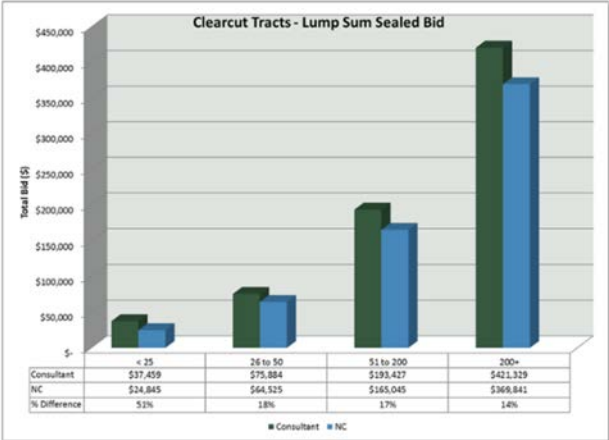
Advantages of a consulting forester

- Works on your behalf
- Understands ecological and economic aspects of forestry
- Knows environmental regulations
- Professional advice not limited to harvesting timber
- Understands timber markets
- Can save you money
 - Taxes
 - Cost share
 - Present use valuation
- Future forest more productive



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Advantages of a consulting forester



	< 25	26 to 50	51 to 200	200+
Consultant	\$37,459	\$75,084	\$193,427	\$421,319
NC	\$24,845	\$64,525	\$165,045	\$369,841
% Difference	51%	18%	17%	14%

- Research shows
 - land is 120% more productive following harvest
 - more likely to be reforested
 - 11-23% more for the timber

<https://blog.forest2market.com/the-value-of-a-consulting-forester>

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What does it cost?

- Fees may be based on
 - daily or hourly rate
 - forest acreage
 - flat fee
 - percentage of gross sale receipts
- He/she represents the interests of his/her clients

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Finding a consulting forester

- Ask friends and neighbors
- Professional organizations
 - Association of Consulting Foresters
 - Society of American Foresters
- State Forest Services/Commissions
- Cooperative Extension



Questions

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