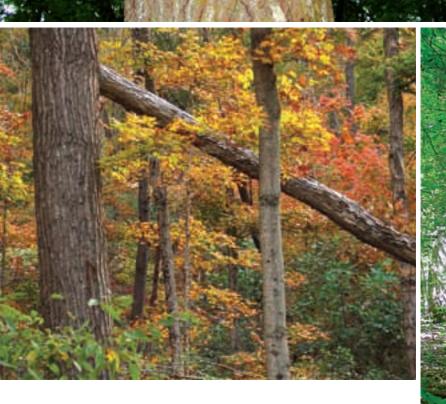
Extension PB 1790

Marketing Timber in Tennessee

(A guide for family forest owners)



INSTITUTE of AGRICULTURE

Marketing Timber in Tennessee (A guide for family forest owners)

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Introduction

Private landowners control the majority of Tennessee woodlands – approximately eight of every 10 acres. Their ownership objectives are as variable as the owners themselves. Some may never harvest timber from their property; others will. This publication has been developed for those who will, and provides *clear steps on the process of selling timber*.

The term *selling timber* is vague, implying a very simple transfer of goods for money. There's a

better, more comprehensive and methodical way – *marketing timber*. Marketing implies following proven chronological steps to arrive at a favorable result through advance planning, careful implementation, diligent oversight and responsible closure. Marketing generates more income while still addressing other important measures, such as establishing a new forest, protecting soil/water/wildlife resources, aesthetics and special places. A simple timber marketing checklist includes:

Step #	Description	Completed	(v)
1	Get Expert Help from a Forester		
2	Develop a Woodland Plan		
3	Confirm Property Boundaries		
4	Select, Measure and Mark Timber		
5	Solicit Sealed Bids		
6	Prepare a Contract		
7	Monitor the Logging		
8	Prepare Your Future Woodland		
9	Address Taxes		

Step 1 – FIRST: See a Forester

Before marketing timber, seek the expertise of a professional forester, and perhaps several. Professional foresters have a four-year B.S. degree in forestry and have dedicated their career to practicing sustainable woodland stewardship. Some can guide you through the entire timber marketing process; others offer limited services. They will have knowledge of how woodlands grow, timber value and market conditions, local loggers, wildlife and more. Three types of foresters are common:



First, see a forester.

State Foresters – State foresters work for the Tennessee Division of Forestry. Their services are normally provided at no cost, but are limited, and include developing forest management plans, administering conservation cost-share programs and coordinating wildfire control. They are a good initial contact for general forestry advice, including determining timber harvesting feasibility. State foresters cannot represent landowners during marketing or timber sale transactions. To locate a state forester in your area of Tennessee, see:

www.tn.gov/content/dam/tn/agriculture/documents/ forestry/AgForAreaForesterMap.pdf

Consulting Foresters – Private consulting foresters offer a wide range of services, including timber marketing. Just as a realtor represents homeowners when selling a home, consulting foresters act as a liaison between landowners and the timber industry. The fee for their marketing services is normally a commission based on the gross sale price. Landowners should not be skeptical of employing a consulting forester. Most find consultant fees are offset by higher sale revenue (because of their knowledge of timber markets). In addition, generally by using a consultant there will be assurance of a quality logging job and a more productive woodland, as well as legal protection (with a sound timber contract). To locate a consulting forester in Tennessee, see State of Tennessee Cooperating Consultant Forester Program Directory (TDA Forestry Division 2010):

https://www.tn.gov/agriculture/forests/ landowners/consulting-foresters.html.us

Industrial Foresters – Some forest industries employ professional foresters who manage company land and procure wood. These foresters may also offer timber marketing services. On occasion, forest industries offer incentives, such as free tree seedlings for reforestation.

Step 2 – Begin with a Plan

Woodland plans are designed to help in managing woodlands to achieve multiple goals. Woodland planning is not a single event, but a series of steps leading to the desired goals. Plans guide activities over time, are implemented in phases and provide a record of activities. Plans can have detailed shortterm recommendations; or general, long-term recommendations. They are also invaluable in continuity when the property passes to the heirs or to new owners.

Woodland plans don't follow a fixed format. Most will have a set of landowner goals, stand descriptions, recommendations, timetable of implementation and maps. In addition, considerations are given for soil, water, wildlife, aesthetics, invasive species and special places. A woodland plan template is available in the **Forest*A*Syst** publication (Mercker 2009) located at:

http://extension.tennessee.edu/publications/ Documents/PB1679.pdf



A plan will designate stand boundaries.

Woodland plans are increasingly required for government forestry cost-share and for emerging certified wood and ecosystem markets. A third-party certified forest assures that wood originates from forests that are practicing sustainable woodland management.

Step 3 – Confirm Property Boundaries

Establishing property boundaries is a crucial early step in the marketing process. In some cases, property boundaries may be clear, such as with an existing fence, road or creek. In other cases, they may be vague or nonexistent. When a boundary is not obvious, the landowner (or designated forester) should meet with adjoining landowners and agree on a location. When these actions fail, a survey will be necessary.

The property boundary must be clearly designated with highly visible paint or flagging. Marked boundaries will allow loggers, unfamiliar with the property, to remain on the specified sale area and avoid cutting or damaging neighbor's timber. The state of Tennessee imposes penalties, referred to as timber trespass, for accidentally or intentionally cutting trees that belong to someone else. For additional information refer to Timber Theft (Mercker 2002):

http://extension.tennessee.edu/publications/ Documents/SP595.pdf



Confirm property boundaries.

Step 4 – Select, Mark, Measure and Appraise the Timber to Be Harvested

Know what you are selling. Based on your objectives, the forester will select and designate the trees to be included in the sale. Tree marking paint is used, creating a band or spot at chest height and a spot at the stump. The chest-high mark communicates to prospective bidders and loggers which trees are included in the sale; the stump spot serves as the receipt upon logging completion (i.e., when the trees are gone, the stumps with spots remain.)

Included in this step is the measurement of wood volume to be harvested. Trees are typically sold using one of two units: board feet or weight. A board foot measures 144 cubic inches, equivalent to a board with dimensions 12" x 12" x 1". Weight is measured in tons. Foresters will tally trees by species, then sum the total estimated volume. An example of a timber summary is below:



Select, mark, measure and appraise the timber to be harvested.

Volume (Board Feet) Average Volume per Tree **Species** Number of Trees Doyle Rule¹ (Board feet) 40,320 Red oak 126 320 Hickory 210 36,120 172 Tulip tree 83 35,790 431 Beech 135 22,410 166 White oak 71 20,365 287 Sweet gum 40 4,200 145 Total 665 159,205 239

Paul Bunyan Timber Summary

¹For an understanding of log rules, refer to A Hardwood Log Grading Handbook (Taylor 2009) available at:

http://extension.tennessee.edu/publications/Documents/Pb1650.pdf

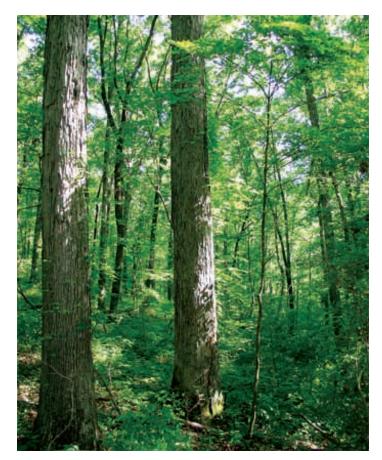
From this summary an appraisal is then prepared. The appraisal represents the minimum acceptable bid for the trees offered for sale. Foresters will generally use log and lumber price reports, and comparable sales, in arriving at the appraisal. The appraised value of standing trees is referred to as *stumpage value*, the value of the trees while still on the stump. Stumpage is the value payable to the landowner. Factors affecting stumpage value are summarized below.

Factors Affecting Stumpage Value	Relationship		
Size of timber	Large trees bring high prices		
Size of tract	Larger acreages are preferred		
Skid (log dragging) distance	Dragging logs long distances will increase logging cost and lower the stumpage value		
Timber quality	Trees of better form and grade bring higher prices		
Access	Tracts easily accessed are preferred, reducing logging costs		
Location	Tracts closer to local sawmills reduce haul costs and boost stumpage value		
Volume per acre harvested	Higher volumes improve production, thus encourage higher timber bids		

Step 5 – Solicit Sealed Bids

Soliciting sealed bids is where the concept of marketing, rather than just selling, materializes. Increasing timber revenue requires exposing the sale to a wide range of potential purchasers. Normally, markets are within a 60-mile radius of the property, and include those who buy timber: master loggers, timber buyers and brokers, and local sawmills. However, when the sale contains pulpwood or topquality veneer trees, foresters will expand their advertising by notifying other markets accordingly.

Potential bidders are sent a sale prospectus. A prospectus includes a volume summary sheet, terms of the sale and maps. Normally, the bidders are allowed four weeks to examine the timber and arrive at their offer. At a predetermined time and place, sealed bids are opened, with the high bidder usually awarded the contract. Terms of payment can vary, with preference given for full payment within seven business days of the bid opening. Regardless, in most cases, payment should occur prior to commencing logging, except for lower-value products (such as pulpwood), whereby payment may be made upon harvesting the trees. This pay-as-cut method is not recommended for timber with substantial value.

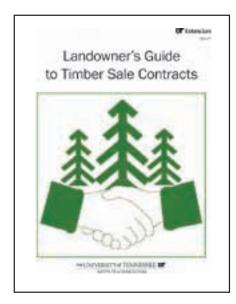


Solicit sealed bids, especially on fine-quality trees.

Step 6 – Prepare a Contract

According to Tennessee law, selling timber without a contract is illegal. A contract is both a communication tool and a form of protection for the landowner and the successful bidder. Most reputable timber firms appreciate timber contracts because contracts confirm ownership and conveyance of the timber, and clarify terms of the sale. Your forester should provide a timber contract for you. A sample is included in the publication **Landowner's Guide to Timber Sale Contracts** (Clatterbuck and Tankersley 2006) available at:

http://extension.tennessee.edu/publications/ Documents/Pb1607.pdf



A contract protects your interest.

Step 7 – Monitor the Logging

Good loggers are professionals who work safely and ensure the protection of woodland sites. Most loggers have been trained through the Master Logger Program and receive continuing education. Even so, situations can arise that require attention. If working through a professional forester, most of the concerns can be resolved. Some areas to evaluate in a logging operation include:

 Best Management Practices (BMPs) – BMPs are designed to protect soil and water resources during and following logging operations. Tennessee's BMP guidelines are published in *Guide to Forestry Best Management Practices in Tennessee* (TDA Division of Forestry 2006), found at:

https://www.tn.gov/content/dam/tn/agriculture/ bocuments/forestry/AgForBMPs.pdf

- property boundaries;
- damage to the residual trees.
- A list of **Tennessee Master Loggers** is maintained by the **Tennessee Forestry Association**. A searchable database can be found at:
- http://www.tnforestry.com/



Monitor the logging.

Step 8 – Prepare Your Future Woodland

Harvesting timber is not an end to woodlands, rather a continuation in the management and care of woodlands. When properly administered, the timber marketing process takes into consideration the requirements for a successful future crop of trees. Your woodland plan outlines the steps. Following a harvest, landowners should evaluate their property. Do the woodland roads need protection? Would timber stand improvement (TSI) be beneficial? Is tree planting needed?

The preferred time for initiating these activities is immediately following a harvest. This is because the proceeds from the timber sale are still available for reinvestment, access is handy (due to the newly constructed trails and roads) and woodland improvement activities are not hindered by thick regrowth of vegetation.

Step 9 – Address Taxes

Income derived from the sale of timber is eligible for special tax provisions that will lower (and in some cases eliminate) the income tax burden. Three provisions are available to woodland owners: capital gains, depletion allowance and management expenses. Your forester and tax advisor can expand on these, but briefly, these provisions include:

- (1) Capital gains Because of the higher risk associated with long-term investments (those owned more than a year), timber revenue is taxed at the lower capital gains rate; capital gains are not subject to self employment tax.
- (2) Depletion allowance Landowners who purchase or inherit woodland (as opposed to it being gifted) will likely have a *tax basis* in their timber. The tax basis is the investment value or the amount invested in a capital item (in this case, timber). When the timber is sold, or when there is a loss, the basis is depleted by recovering it through deductions to gross income on tax returns. Situations where the basis might be zero (or negligently low) include:
- •Timberland that was acquired many years ago that has grown considerably; timber value was insignificant at the time of acquisition;
- Timber that had naturally regenerated after acquisition (for instance, after a clearcut or after a field was abandoned) with no owner investment in the new trees;
- Reforested land where planting costs were recovered through tax credits, deductions or government cost-sharing;
- Property that was gifted and the giftor basis was low or zero;
- The basis account has already been fully depleted from prior timber sales.
- (3) Management Expenses Some woodland owners can deduct ordinary and necessary management expenses from timber income, including fees paid to professional foresters. The IRS restricts this provision to woodland that is held as an investment or for use in a business.

For more information, refer to *Setting up the Books: A Forest Owner's Guide to Capital Accounts and Record-keeping for Federal Income Tax Purposes* (Tankersley 2004):

http://extension.tennessee.edu/publications/ Documents/PB1691.pdf

Concluding Remarks

For most woodland owners, the opportunity to market timber happens infrequently, so infrequently that proficiency in the process is rarely achieved. Woodland owners are encouraged to consult with a forester, develop and follow a woodland plan, and give attention to the future. Doing so will increase current and future timber revenue and protect the many other natural resources found and enjoyed only in the woods.

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After a timber harvest, the forest will immediately respond with new growth. This sequence shows the development of a new forest at five different locations following timber harvesting: 1 year - 5 year - 10 years - 15 years and 20 years later (Location Chickasaw State Forest).

Notes



Forestry

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