Selling Your Timber

A timber sale is a serious matter requiring careful preparation. The results of many years of past timber growth are at stake, and the condition of the forest after the sale profoundly affects its productivity for many years to come.

Basics to Consider

Your best interest should be the top priority of anyone you hire to assist in your timber sale. They should fully disclose and resolve any existing or potential conflicts of interest.

1. Hire a Registered Forester or Consultant (who is a Registered Forester) to Help With the Planning and Sale of Your Timber

Selling timber can be a source of great satisfaction to a landowner, or it may be a source of surprise, frustration, and stress, especially for those landowners who make timber sales infrequently.

Relying on the expertise of a registered forester or consultant that is a registered forester to help with the harvest planning and timber sale can prevent surprises to either the seller or buyer and help ensure landowners get the best value for their timber.

To find a registered forester or consultant, you can go to the Alabama Forestry Commission's web page ***www.forestry.alabama.gov***, the Alabama Chapter of the Association of Consulting Foresters at ***www.alacf.com,*** or the Alabama State Board of Registration for Foresters at ***www.asbrf.alabama.gov.***

2. Develop a Forest Management Plan

Properly managed forests yield more timber, have a higher net present value, suffer fewer environmental impacts, and enhance wildlife habitat more than non-managed forests.

Forest management plans are also required for third-party certification and future markets, such as Woody Biomass and Carbon Sequestration.

3. Pre-Harvest Planning

Pre-harvest planning will ensure that your forest management objectives and goals are not compromised. It will reduce opportunities for misunderstandings between you and the buyer and/or logger, help ensure that the harvest will maximize financial returns for all parties, protect water quality, and maintain or enhance forest productivity.

If profit is your primary objective, avoid the temptation to make a "quick sale." Think about what you are going to do, and don't be pressured into making a decision. Using the competitive bid process can maximize your profits.

Clearly marking sale boundary lines will help ensure that the logger does not cut non-designated trees and/or trespass on the neighbors' property.

The use of topographic maps will assist you in identifying streams, existing roads, property boundaries, steep grades, and road access. Soil maps will help identify wet areas and soils that can be easily damaged during the logging process. The use of topo and soil maps can also help in planning not only the time of year to harvest, but also the potential location of logging decks, stream crossings, culverts, and temporary roads.

You should designate areas adjacent to streams as Streamside Management Zones, where timber harvesting should be controlled or avoided.

Before harvesting begins, you or your representative should conduct an on-the-ground meeting with the buyer and logger to review the pre-harvest plan.

The consequences of not having a pre-harvest plan include: time and money spent on unintended problems, degraded forest conditions, illegal activities, declining water quality, more forest land impacted by skidding, degrading post-harvest condition of forest soils, trees more susceptible to disease and insect damage, reduced regeneration of seedlings and saplings growth, etc.

4. Determine a Selling Method

Timber is generally sold by one of two methods: negotiation or sealed bid. You should seek the advice of your Register Forester or Consultant Forester to determine which method is best for you and your harvesting objective.

Tax Implications

Competent tax advice should be sought well before a sale. It is recommended that prior to making the sale you contact your CPA for clarification of the current tax laws.

There are also various sources of information that you can access on the internet. The Alabama Cooperative Extension System, my-forest.com, the US Forest Service Cooperative Forestry, and the National Timber Tax Website provide tax information that may help you better understand the tax implications of selling your timber.

Those sites are:

- *www.aces.edu/*
- *www.my-forest.com*
- *www.fs.fed.us/spf/coop/*
- *www.timbertax.org*

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You should always consult with a registered forester and attorney when drafting a timber sale contract.

Sample contracts are available on our website at ***www.forestry.alabama.gov,*** under *"Market & Informational Resources"* menu or http://forestry.about.com

Whether you're dealing directly or indirectly with a timber buyer, wood supplier, logger, registered forester or consultant, you should always request references, experience, applicable licenses, and certifications.

Preparing a contract encourages forethought and planning, which will minimize difficulties and ensure that the transaction meets your expectations.

- **Negotiated sales** involve face-to-face bargaining between you and the buyer.
- **Sealed bid sales** require that prospective buyers submit confidential offers in writing for your timber.

Generally, the sealed bid method returns the highest dollar value to you, the landowner, especially if you are unfamiliar with local markets. The negotiated sale is more prevalent for specialty products such as high-value hardwoods, where there are normally very few bidders. Whichever sale method is selected, you should require the logger to be Professional Logging Manager (PLM) certified.

A trained professional logger can ensure trees are effectively harvested and merchandised in a manner that fully utilizes Best Management Practices (BMPs). This is particularly important as more emphasis is being placed on protecting and enhancing water quality. It's a good idea to take time to know the prospective logger by asking for references, business experience, and whether they have completed PLM training. You or your agent can verify they've attended Alabama's PLM course by going to the Alabama Forestry Association's website at ***www.alaforestry.org*** and clicking on PLM.

(If you choose to sell your timber through the bid process, you may limit your ability to specify a particular logger.)

5. Have a Contract

A written contract is essential and will reduce surprises to both you and the buyer and/or logger. Preparing a contract encourages forethought and planning, which will minimize difficulties and ensure that the transaction meets your expectations. A contract is not a substitute for good faith and fair dealing between parties, it is a framework in which good faith and fair dealing can operate in an orderly and effective manner.

The following items should be included in a timber sale contract:

Timber Description

- **An Accurate Legal Description:**
  In the contract, state the exact location and legal description of the timber sale area.
- **Marking Corners and Boundaries:**
  The contract should state at whose expense marking will be done and how the boundaries and corners will be marked.
- **Selling Timber on a Per-Unit Basis:**
  If you choose to sell timber by the unit, specify the units of measurement to be used, who is to do the measuring, and where. Measurements may be made by one of several different methods: log scales, weight, cords, or some combination of these. A per-unit sale should specify that all timber harvested is to be measured and paid for according to its most valuable product use.
- **The Type of Harvest:**
  Specify the type of harvest you desire and if the timber is marked, how it's marked. For example, if you are making a seed tree cut, you may specify that all trees banded with blue paint 4-1/2 feet above ground (Diameter at Breast Height, DBH) are seed trees and will not be cut or damaged. If you are thinning or using a select cut, you may want to designate the trees to be cut with one paint spot above DBH and another below the stump height. If you are doing an operator-select harvest, specify selection guidelines in the contract.

Payment, Damage Clauses, and Penalties

The following are provisions to consider including in a timber sale contract. Be aware that some restrictions placed on harvesting may lower the price someone is willing to pay for your timber, so be reasonable in your expectations.

- **Selling Timber on a Lump-Sum Basis:**
  If you are selling your timber on a lump-sum basis, specify that you desire payment in full at the time of contract execution; or if you are deferring payment, the exact date(s) you expect payment.

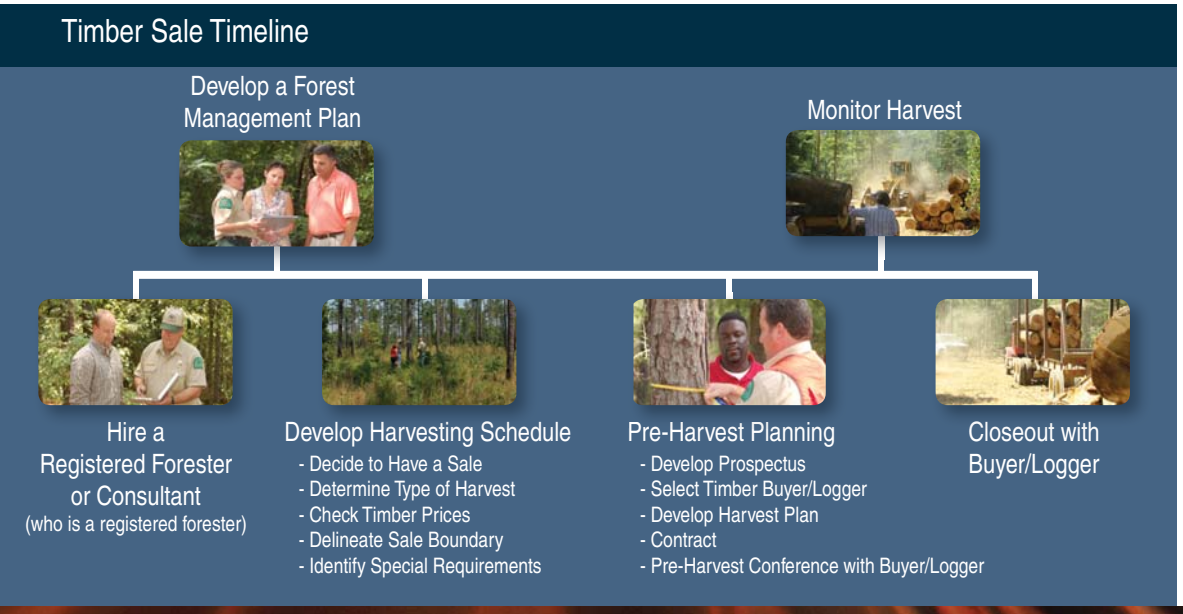
  (A lump-sum sale is the outright sale of standing timber for a fixed dollar amount agreed upon in advance. The sale price is not a function of the volume cut.)
- **Selling Timber on a Per-Unit Basis (price):**
  If you are selling on a per-unit basis, specify the payment per unit for each species and product, as well as timing of payments. Additionally, agree on the method and place of scaling and measurement. Also, you should require in the contract that the buyer provide you with a complete accounting of all species and products by delivery point that are harvested from your sale.

(A per-unit price is determined in advance, but the amount of timber to be harvested is not. Income from sale is based strictly on the volume actually harvested.)

- **Time Period for Cutting Timber:**
  Normal time periods for cutting timber are 12 to 24 months. There can be provisions for extensions, but the details and timing of the extension should be defined. There is usually a cost to the buyer for an extension, and you can consider the value of additional growth if the buyer holds for longer than 12 months.
- **Damage to Your Land or Remaining Timber:**
  A certain degree of damage should be expected. You may want to visit a comparable site that has been recently harvested by the logger who will harvest your tract. Also, you may want to state your damage requirements, such as no more than a maximum number of trees per acre having visible skidding damage, or specify the acceptable depth (in inches) of skidding ruts.
- **Access Restrictions:**
  Specify any restrictions you have for ingress and egress to your property. For example, If you desire that the logger not use a certain entrance to your property, such as through your pasture or beside your house, specify this requirement in the contract.
- **If You are Making a Partial Cut:**
  Include a penalty for cutting non-designated trees. If you specify in the contract a dollar value per merchantable tree volume for the cutting of non-designated trees, later problems will be more easily resolved. The usual penalty for such damage is double or triple the stumpage rate.
- **Removing Canopy or Overstory:**
  If you intend to remove a canopy or overstory to allow the future stand room to grow, you should likewise specify a penalty for failure to cut designated trees.
- **Logging Notification:**
  Agree on when logging can begin and ask to be notified prior to the logger moving on the sale site.

Logging Clauses

- **Method of Logging:**
  You may specify a certain method of logging be used, such as a forwarding system instead of tree-length skidding, to minimize damage to your residual stand during a thinning operation.
- **Road Maintenance and Skid Trail Layout:**
  If you desire that roads be maintained to a minimum standard, refer to that standard in the contract. A usual requirement is to return roads to as good or better condition than before logging occurred. Address your expectations for repair of fences or other special places that may be damaged during the harvesting operation.



As important as it is, the contract is only one of many issues that needs to be considered when the decision to sell timber is being made. The following concerns should have a bearing on the content within the contract:

1. Do you have a clear title for the timber being sold?
2. Have you established your tax basis for the land and timber you plan to sell to claim your capital gains treatment?
3. What are the market conditions for the products being sold or retained?
4. How will the sale be marketed to receive the best price or the best job?
5. Will there be any environmental issues (i.e. wetland management or threatened & endangered species) involved in the sale area?
6. How will the sale area be accessed? You would not want large equipment utilizing trails or traveling on property outside the sale area.
7. Site preparation and reforestation options.

These topics are not all inclusive but show why pre-harvest planning is important.

Monitor the Harvest Operation

Check the logging operation on a regular basis to ensure contract requirements are being met. Always require as part of pay-per-unit sales that you are provided with a full accounting of what's being harvested. This information should be provided to you by the buyer. The frequency with which you receive this information is up to you, but it's recommended that it be provided on a regular time schedule, i.e. weekly, monthly, etc.

Requiring a load-by-load accounting of forest products removed from your timber sale is a good business practice for you and the buyer. It provides you with a full accounting of what is harvested off your property and helps ensure that contractual terms are fulfilled.

Record-keeping on per-unit sales:

- Load number
- County and state of origin
- Landowner's name
- Date and time
- Scale ticket number
- Species and product
- Destination
- Purchaser

Acknowledgements:

- Dr. Richard Brinker, Auburn University
- Alabama Cooperative Extension System
- Arkansas Forestry Commission
- North Carolina Department of Forest Resources
- Cornell Cooperative Extension
- Steve Nix, About.com Guide
- USDA Forest Service, Cooperative Forestry
- www.forestry.alabama.gov

- **Reduce the possibilities for non-point source pollution:**
  You should specify that all logging should be done in accordance with *"Alabama's Best Management Practices (BMPs) for Forestry."* For more information on BMPs visit our website at *www.forestry.alabama.gov/BMPIndex.aspx.*
- **Stump Height and Top Diameter Harvested:**
  If stump height and top diameter harvested is important to you, then you should specify, in inches, the maximum stump height allowed or top diameter. If you want to easily machine-plant your next timber stand, allow a maximum stump height over which the tree planter can easily maneuver.
- **Selling Your Timber Based on Unit Volume:**
  If you are selling your timber based on unit volume, be sure to specify the maximum top diameter that you will allow to remain in the woods.
- **Cleanup:**
  Include a statement requiring removal of all litter and trash from the logging operation. You may also want to specify that logging debris be scattered back over the site, versus piled at the logging deck.

The Sale and Harvest

- Arrange a meeting with the buyer and/or logger so that you or your representative can point out any special restrictions that you have imposed. Walk the sale site to ensure sale boundary lines and other restrictions are understood.
- Check the logging operation on a regular basis and inform the logging supervisor if you think that the terms of the contract are not being faithfully followed.
- Be reasonable in your expectations and assignment of damage penalties. In some instances, the amount that you receive for your timber may be reduced due to excessive restrictions.

Other Contract Provisions to Consider

- Name and address of buyer
- Date contract is executed
- Declarations of the seller's ownership and right to convey. This may include a title abstract and insurance.
- Clarify ownership of by-products.
- Liability Insurance of all contractors and sub-contractors
- State who is responsible for paying severance tax.
- Statement of who suffers the loss if timber is destroyed or stolen
- Provision for or against assignment of the contract
- Notarization of the contract
- Recording of the contract at the county courthouse
- A performance bond or deposit — collected from the buyer prior to the commencement of harvesting — to be held by a third party until provisions of the contract are met
- Require PLM certification for logger.

6. Monitor the Harvest

You or your agent should frequently inspect the harvesting operation to ensure the contract terms are being fulfilled.

When you sell on a per-unit basis, a full accounting of what was removed during the harvest should be provided by the buyer. You can designate how frequently you want the information: weekly, monthly, or at the end of the sale. Minimum information received should include:

- Each load of timber leaving a cutting site must be assigned a load number. Load numbers for each job site should be in numerical sequence.
- The county and state where the timber was cut
- The landowner's name, or if multiple owners, the name of the estate where the timber is being cut.
- Date and time the forest product was loaded on the truck
- The scale ticket number that corresponds to each load number to verify delivery of individual loads of forest product
- The forest product type identified (for example: pine logs, pine poles, pine pulpwood, hardwood logs, hardwood pulp, chip and saw, woody biomass, and miscellaneous forest products)
- Destination of the first wood-receiving facility that the forest product is being transported to
- The name of the logging company, wood dealer, or producer removing the forest products

7. Closeout with Buyer/Logger

- A notice of completion of harvest from the buyer can be helpful in removing any question if the buyer considers the harvest complete and relinquishes remaining biomass back to owner.
- Review and agree on action and timing to address any land or timber damages related to harvesting operations.
- Address any other issues related to non-compliance of the contract.
- Ensure compliance with BMPs.

For more information, contact one of the following agencies or organizations:

www.forestry.alabama.gov | www.sfws.auburn.edu | www.aces.edu | www.alfafarmers.org | www.cleanwaterpartnership.org | www.alabamanaturalresources.com | www.fs.fed.us

www.alabamawildlife.org | www.alaforestry.org/sfi | www.alaforestry.org/treefarm | www.alaforestry.org | www.alacf.com | www.dcnr.state.al.us | www.adem.state.al.us | www.al.nrcs.usda.gov

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