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Seller-supplied timber values: Trust (a little) and verify (a lot)

By Curtis Seltzer

Timberland buyers need to figure out what a tract's timber is worth before they submit a purchase offer.

Many timberland sellers provide different types of documents that "show" the value of their property's timber. Sellers have given me "timber valuations" that go from oral statements, to handwritten notes on the back of an envelope (Red Oak = \$50,000; White Oak = \$75,000) to numerical cruises ranging from two pages to more than 100.

I've found that many of these documents overestimate the volume of timber that a timber buyer will ever pay for, which, of course, inflates the dollar value of the timber the timberland seller is selling and the timberland buyer is purchasing.

Lots of ways exist for timber volume and value to be inflated. I'll email !! [HYPERLINK "http://www.landthink.com/"](http://www.landthink.com/) ¶ [www.landthink.com](http://www.landthink.com/)<sup>1</sup> visitors a chapter from my book, *How To Be a DIRT SMART Buyer of Country Property*, that discusses the tricks I've seen over the years. Ask for "Beware the Seller's Cruise" at !! [HYPERLINK "mailto:curtisseltzer@htcnet.org"](mailto:curtisseltzer@htcnet.org) ¶ [curtisseltzer@htcnet.org](mailto:curtisseltzer@htcnet.org)<sup>1</sup> .

Here's my most recent adventure in this Disneyesque world.

A broker provided excerpts from what he described as a "timber cruise" on several hundred acres in the upper MidWest last week. Missing are the first page and perhaps other pages. The timber inventory was laid out in two tables, with one table showing results by acre and the other by the property total. It was presented in this format:

Product (by acre)
Volumes
Pole Timber Smallsaw MediumSaw LargeSaw Total
Number of trees
Basal area
Quadratic dbh
Arithmetic dbh
Pulpwood (cord)
Scribner
Total (CVib)
Pulpwood...\$\$\$
Solidwood...\$\$\$
Total...\$\$\$

The total tract value of pulpwood and solidwood (whatever that might mean) came to almost \$600,000.

No definitions were provided of which tree diameters were grouped into each sawtimber category. No species were provided; the tables were classified as "combined species group." No cruise parameters were given—number of plots used to make the estimate,

number of acres cruised, methods, etc. Nothing was said as to how the forester arrived at a “combined species” dollar value for either pulpwood or solidwood.

It’s possible that the forester provided this information in parts of his cruise that were not sent.

It’s also possible that these cruise numbers provided are absolutely accurate. But neither I nor a consulting forester I showed them to could make heads or tails out of them.

When I contacted the seller’s forester directly, he added details that helped some. But he did not reveal which species were included in “solidwood” or how he calculated a single, aggregated price for “combined species.”

In the form presented, this information is nearly worthless. The buyer can’t determine what tree species are on the tract and what species are concentrated in the larger, more valuable diameter classes. Are the volume numbers in each column based on one plot per 100 acres or one plot per five acres? Was volume counted on inoperable acreage or not? Loggers won’t buy volume on inoperable acreage.

A buyer’s eye will be drawn first to the total dollar values (\$\$\$) for pulpwood and solidwood. They’re easy to understand, though understanding what they actually represent is much harder.

Those dollar values will anchor the seller-buyer discussion in the absence of other information. These values are unverifiable, at best. At next best, they’re unreliable to one degree or another. At worst, they’re inflated to advantage the seller.

Buyers looking at planted, even-age tracts of one species have a much easier time in valuing merchantable timber than buyers looking at natural forests of many species and various ages. Buyers of the second type are usually helped if they obtain a timber evaluation that’s organized more or less like this:

#### Timber Cruise Inventory

100 acres/150 acres, Jones Farm in ABC County

30 plots, Doyle Scale, FC 78

Top break: first crotch or 10” diameter

September, 5, 2008

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#### SAWLOG DIAMETER CLASS (inches, DBH)

(volume in 1,000 board feet)

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Less than Total \$/1000 Total

12 14-16 16-18 18-20 20-22 22+ Volume bd. ft \$ value

Species

A

B

C Sawlog

Veneer

D

This format shows how much timber volume the forester estimates will be found in each diameter class. Different areas and sometimes different mills within a single locale will

define a sawlog diameter differently. A timberland buyer needs to know whether sawlogs are defined by the local market as 14" and up or 18" and up; a smaller diameter definition of sawlog means more volume will qualify, which means more sale money. The forester using this format indicates that in this market all logs larger than 14 inches diameter at breast height (dbh) are considered sawlogs and all such diameters will be priced accordingly. Logs smaller than 14, will be price-discounted as either poletimber or pulp. Veneer is valued separately, because it is priced higher than sawlogs of the same species.

The format also reveals the parameters used – number of plots, number of acres cruised of total, mill-based species prices, among others – which gives a sense of the forester's methodological integrity and a way of judging the reliability of his numbers.

The subject of cruise integrity deserves far more discussion than I can provide here.

The rules for buyers who are handed a seller's cruise of timber value are:

1. Ask your consulting forester to review the information before relying on it;
2. If your forester thinks the seller's tract has significant immediately saleable (merchantable) timber value, pay him to do either a walk-through (informed impression of volumes and values) or a cruise (reasonably accurate sampling and projection of volumes and values).

I routinely find that seller-supplied timber "cruises" inflate the actual timber value a landowner would realize in a sale immediately following purchase by ten to 50 percent. My favorite example is the seller who estimated timber value on his land at between \$100 and \$300 million when, in fact, it was \$0, because the state would not issue a logging permit for his environmentally sensitive property.