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G77-383 Marketing Your Timber

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Marketing Your Timber

Marketing is the key to getting the most from your timber.

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Buying and selling trees is a business transaction. Marketing is the key to getting the most for your timber. Anyone can sell something if they are not concerned about the price received. When you market something, you are selling in a competitive market for the best possible price.

A satisfactory sale occurs when the needs of both buyer and seller are met. The buyer must acquire material at current market prices in order to stay in business and still remain competitive. The timber owner should be paid the fair market value and have his land and remaining trees left in a productive condition for future sales. The woodland owner must receive a fair price to insure sustained yields and to protect the forest land base from conversion to other uses.

Reasons For Selling

People market their timber for a number of reasons:

1. Unexpected expenses may cause the woodland owner to consider selling his trees. Being forced to sell when market prices are low, or before the trees are financially mature can be costly. It often will pay to secure a loan against the value of the trees and then sell them at a later date. Their increased value could more than offset the interest on the loan. If the trees must be sold, the long term losses should be minimized by selective harvesting.
2. Trees are often marketed to improve current and future growing conditions for higher quality and higher value species. This practice may be referred to as a selective harvest, or timber stand improvement. It involves removing slow growing and less valuable trees. The better trees are left in the stand with more room to grow. Thinnings may also give the woodland owner an early return on his land investment.

3. Trees should be marketed when they reach maturity. Maturity has two meanings. Trees beginning to decline in value due to disease, weathering or old age are physiologically mature. The other maturity, financial maturity, occurs when the rate at which the trees are increasing in value begins to decline. Trees harvested at this point yield the maximum return on investment.
4. Potentially, the poorest reason for selling trees is to clear land for conversion to some other use. Many people have found that productive timberland turns out to be marginal farmland. In the long run, high value timber species could be a better investment.

How To Market

There are six basic steps in the proper marketing of timber. A checklist, followed by a more detailed explanation of the proper procedures, follows.

Checklist for a Timber Sale

- ___Decide which trees are to be marketed.
- ___Identify clearly.
- ___Decide upon type of sale.
- ___Have timber appraised.
- ___Notify potential buyers with bid form.
- ___If bid accepted, draw up timber-sale contract.
- ___Check the sale area during and after harvesting operation. If acceptable, release buyer.

1. Identify Trees

With the idea in mind of maintaining the productive condition of the woodlands, there are four basic classes of trees to sell. Trees to be sold should be marked clearly with paint.

- a. Large trees with dead tops or with many large dead or dying branches.
- b. Trees with severe stem defects that makes them unprofitable to grow.
- c. Low quality smaller trees or less vigorous, poorer quality large trees in crowded stands where growth rates are slow.
- d. Trees which have reached maturity and will bring the best return on the investment.

2. Timber Appraisal

Normally, it is a good practice to have trees marked and appraised by a forestry consultant or an Extension District Forester. Their main service is (1) selecting proper trees for harvest, (2) determining approximate values and (3) providing a list of potential buyers. It is important to remember an appraised value is only an estimate and may differ from the true market value.

Your County Extension Office can put you in touch with a District Forester. District Foresters will not help in a timber sale if it is part of the land clearing operation.

3. Type of Sale

There are two general types of sales by which forest products are marketed, a lump-sum sale and a price per unit sale. In the lump-sum sale the seller takes a flat price for all trees to be sold. When selling by the unit the seller receives so much per thousand board feet or per cord. The volume may be tallied either in the woods or upon delivery to the mill. Normally the lump-sum method is recommended.

4. The Bidding Process

The best way to market timber is by sealed bids. The more bidders the better the chances are for a fair price. Potential buyers should be notified with a bid form. The bid notice sent out should include:

- a. Sellers name, address, and telephone number.
- b. Legal description of the location of the trees for sale (distance and directions from the nearest town).
- c. The number of trees to be sold, species, how they are marked, and their average diameter.
- d. Any special restrictions on harvesting (length of harvest, time of year, special cleanup requirements, etc.). Numerous or severe restrictions will be reflected in lower bids by the buyer.
- e. Latest date the bid will be accepted (allow at least one month from the mailing date).
- f. Statement of when and where the bids will be opened and reviewed. The seller should retain the right to refuse any or all bids.

Allow bidders to make their own appraisal and set their own prices. Bids will vary considerably because the value of the timber to each buyer varies. Timber is appraised by deducting from the value of the log delivered to the mill the cost of harvesting and delivery to the mill yard plus a fair profit for the buyer. The intended end product for the lumber will greatly affect the appraised value. Different buyers are buying for different end markets.

Do not contact buyers unless you are definitely interested in selling. Time is money to those people. If you contact buyers merely for the purpose of finding out what your trees are worth, they may not come back when you seriously want to sell.

5. Timber Sale Contract

Every sale should be covered by a timber sale contract. The contract is a legally binding document governing the terms of a timber sale. It is good business practice to set down in writing all restrictions and requirements of the sale in order to prevent misunderstandings. Clarification of obligation serves to protect both the buyer and seller. Interested persons should pick up NebGuide G77-334, *Timber Sale Contracts*, from your County Extension Office, which describes the essential components and offers a sample contract.

6. Checking the Sale

Several times during the harvesting operations the seller should visit the site to check for contract violations. Violations should be brought to the harvesters attention. A little diplomacy will go a long way. Only if violations continue to occur should a breach of contract be called for. Items to be checked during and after the sale include:

- a. Only marked trees were cut.
- b. Roads, culverts, and fences are repaired.
- c. No abnormal or excessive damage to sale area and residual trees.

d. Full payment has been received.

When conditions have been met, the seller should write a letter releasing the buyer from all obligations.

Tax Considerations

Forest products are normally eligible for depletion allowances and other tax benefits because of long term capital gains benefits. Usually, the income that is subject to taxes may be reduced by the original value of the timber at the time the property was acquired. This is true whether all or only part of the timber is sold. Long term capital gains treatment may be claimed on any increased value the timber has acquired due to growth or price increases, provided the property has been held by the seller for a sufficient period of time, as dictated by current tax laws.

As an example: John Doe owns a stand of timber which was valued at \$4,000 at the time he acquired the property in 1962. The value of the land itself is not considered. He recently sold the timber for \$9,000. By using his depletion allowances, he could reduce the taxable portion of this income by \$4,000, the original value of the timber. This leaves \$5,000 to be taxed. Long term capital gains treatment reduces this amount by one-half. John Doe has to pay taxes on only \$2,500 of income instead of \$9,000.

This example is included to make the reader aware that such tax benefits exist. Each individual should consult his local I.R.S. office to see how such benefits might apply to his specific situation.

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