



643 Boysen Lane  
Dundee, OR 97115-9674  
Ph(503)819-8022  
FAX(503)538-6663

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## Timber Harvesting

So you have decided you want to harvest some timber. How should you go about doing this? For the majority of non-industrial private forest landowners there are basically three options when deciding to harvest their timber. One, sell the standing timber to an independent third party for a lump sum of cash. Two, hire a logger to harvest the timber. Or three, hire a forest consultant to manage the timber harvest on your behalf. This article discusses some of the factors you should consider regarding these three options for harvesting your timber.

First of all, lets consider some of the factors involved with selling your timber for a lump sum of cash. This occurs when any private party offers you a lump sum for the rights to harvest your timber. This can sound awfully enticing when someone knocks on your door and says they will give you \$180,000 for the trees on the back forty. The first thing to consider is: do I know how much the timber is really worth? We have all heard stories of individuals selling their timber for a fraction of what it is worth, because they simply did not make the effort to find out the value before selling. At the very least, if you

decide to sell your timber for a lump sum, have a qualified forester cruise and appraise the timber. The small cost of the cruise and appraisal may reveal that the timber on the back forty is actually worth \$250,000, or more, for example.

The other important thing to consider when selling timber for a lump sum is the profit & risk factor. The profit & risk factor is the amount that an investor discounts the value of a commodity they are buying to ensure that they don't lose money, and hopefully make some money. One risk investors incur when buying timber is the potential for the value of the logs to drop between when they are bought and sold. And obviously, profit is the amount they hope to make to pay for their time and effort. A common profit & risk factor used when appraising timber is 10%.

What this means to you, if you are the one selling timber, is this. First, the investor estimates that there is a certain amount and type of timber on your property, but to be sure that they do not over estimate, the 10% profit & risk factor gives them room for error. Second, lets assume the investor is

confident that the timber has a net value of \$200,000. Since they need to make a profit for their work, they discount the value by 10% or \$20,000. The end result is they pay you \$180,000 for your timber and you have just given away \$20,000 that could be in your pocket.

If someone has ever approached you to buy your timber you can be absolutely certain that they are discounting the value of your timber to account for profit & risk, even if they say they are not. If you were in the business of buying and selling goods, and always sold your goods for the same amount that you paid for them, your profit would be \$0, and you would be out business.

To ensure that you are not giving away money needlessly in the form of profit & risk, you need to hire someone to harvest the timber for you, either a logger or a forester.

When deciding whether to hire a logger or a forester to harvest your timber there are also many important factors to consider. While certainly not always the case, many loggers charge landowners on a percentage basis when they are not working for a forester or timber company. In contrast to this, many foresters charge a small percentage fee for managing all aspects of a timber harvest from beginning to end, including tax preparation and reforestation. And then they hire a logger on a \$per/MBF (thousand board feet) and/or \$per/TON basis. In my experience, the latter method often results in greater profits to the timber owner. Not to mention the other benefits timber owners receive by having a professional forester manage their timber harvest.

These benefits usually include: **assurance that the landowners goals are met first**, not those of the logger or mill; assurance of proper site preparation, reforestation, and control of competing vegetation after the harvest; timber tax preparation; thorough log marketing; assurance of proper logging techniques and log utilization; independent log and revenue accounting; assurance that all contractors are properly insured; and being additionally insured on the loggers liability policy. These benefits are something every landowner should expect when hiring someone to harvest their timber, since they are all important to ensuring that the project proceeds smoothly, profits are as high as they possibly can be, and that the remaining, or new forest, is healthy and productive.

Take for example a recent timber harvest I managed, in which I was bidding against several loggers for the job. The loggers all bid the job at a fixed percentage fee, while I agreed to manage the harvest for a small percentage and hire a logger on a \$per/MBF basis. The actual cost of logging the Douglas-fir timber, including the management fee, averaged out to approximately 7% less than the other loggers had bid. If the landowners had chosen to hire one of the other loggers they would have given away approximately \$46/MBF! This really adds up, considering that this stand of timber contained over 30 MBF of timber per acre. For the owners of this timber the advantage of hiring a forester was fairly obvious. First, they made more money. Secondly, they received all of the benefits mentioned in the previous paragraph for free, and their new forest is off to a vigorous, healthy start. And, it

will be monitored for several years to ensure it stays that way.

In Elkhorn Forestry, LLC's opinion, one advantage of hiring a forester and then paying a logger on a \$/MBF basis is that the cost of logging and delivering different types of logs to various locations is just that, variable. For example, the cost of delivering large Douglas-fir logs to X mill may only cost \$120/MBF, while it costs \$200/MBF to deliver alder logs to Y mill. With a flat fee of 30% for example, a landowner may be paying far too much for delivering the Douglas-fir logs. In the previous example I described, some of the Douglas-fir logs were being sold to an exporter for \$900/MBF. If the landowners had decided to hire the logger for 30%, they would have been paying the logger **\$270/MBF** for harvesting those logs, when it actually only cost \$210/MBF!

There are many other factors to consider when harvesting timber besides the net revenue from the harvest. One thing that you should be concerned about is, who will be responsible for site preparation and reforestation, and will it be done properly? Do you want the minimum done to meet the contract and state laws, or do you want the property reforested so that the trees will flourish at their fullest potential? Who will ensure that the brush is controlled so that the newly planted seedlings will flourish? Will anyone check on the seedlings a year after they are planted and make suggestions?, two years after? Who will prepare the timber taxes? Many foresters include tax preparation, reforestation and herbicide application supervision, and annual

inspections as part of the service they will provide when managing a timber harvest.

When hiring a forester, timber owners also receive the benefit of the foresters experience in matching the right logger and equipment to their particular harvest. This can be critically important to minimizing logging costs and site damage. A foresters vast knowledge of the log markets throughout the region, not just in a local area, can also yield increased revenues to timber owners. It can often pay to haul logs a long way. For example, several years ago while managing a particular timber harvest in northwest Oregon, we discovered through our marketing efforts that it was more profitable to the landowner to haul logs to Roseburg, rather than haul them to the nearby local mill.

If you would like a free evaluation of the timber on your property, and the chance to discuss your goals and ideas, please give us a call at 503-819-8022 or e-mail us at [tony.pranger@worldnet.att.net](mailto:tony.pranger@worldnet.att.net). It's the first step in ensuring that your timber harvest is as profitable and successful as it can be.



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