

SELLING TIMBER ON THE SHARES

A good or Bad Deal, and for Whom?

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Timber is often sold on shares in Missouri, and most landowners truly do not know if this is the best way of conducting business. This is a startling statement! However, many landowners sell on shares, even though they do not fully understand what they are doing. Why? Many previous landowners have sold timber this way, so it must be OK, they think. "The logger I sold to said that this is the only way he buys timber, so what was I to do?" explains the unaware landowner.

What is "selling on shares"? Usually, this means the logger cuts the timber, hauls it to the mill to be scaled and sold, and once a week the logger brings the landowner the mill scale tickets and pays him his or her share of what the logs sold for—a classic buy now, pay later situation. However, in some cases, the mill will send a check to the landowner. A 50:50 or halves share agreement is the most common type of transaction. If the landowner has more valuable grade logs, the deal is often sweetened so the he receives 60% and the logger 40%. Veneer logs can bring two-thirds to three-fourths share for the landowner to one third to one-fourth for the logger. Sounds fair; but is it?

Crop landowners have share arrangements with farmers year after year, thus selling timber on shares seems only natural. Are these two share arrangements the same? As you will see, the answer is a huge "NO"! Crop land is commonly shared with the farmer on a 50:50 arrangement. With this arrangement, the landowner furnishes the land and the farmer supplies the labor and equipment; they then each share one-half of the costs of seed, fertilizer, spraying, harvesting, hauling and value of sold grain. Some landowners have a one-third/two-thirds agreement wherein they furnish the land, the farmer furnishes everything else, and the grain value is divided one-third to the landowner, two thirds to the farmer. Remember, crop share arrangements are often with a neighbor who the landowner has known for many years. A timber harvest share arrangement is not usually with someone the landowner knows or has previously dealt with. The landowner also knows market prices for corn, beans, etc., and the yield certain fields usually produce, but timber market value information is limited since the landowner doesn't know quality by log grades, and he has no control or method of knowing the volume (board feet) harvested. He also has little or no control over damage to property (rutted roads, tree tops left in fields or creeks, broken fences, etc.), not to mention liability issues.

Let's examine a two-thirds landowner, one-third logger share arrangement on black walnut veneer. The timber landowner gets a larger percentage of sold crop (logs) than the crop landowner, thus, it sounds very good. It is not! An A Grade veneer log will usually bring \$3.00 to \$10.00 per board foot, depending on log diameter and length. Suppose your large, high quality tree brings \$6.00 per board-foot. A logger's cost to fell, skid, load, and haul your selected trees should be about 30 cents per board-foot, which includes his profit. Thus, the landowner should receive \$5.70 per board-foot, and the logger 30 cents. On a large veneer log of 200 board feet, for example, the landowner should receive \$1,140.00 and the logger \$60.00. But, with a two-thirds/one-third arrangement the landowner receives \$800.00 and the logger \$400.00. On a three-fourths/one-fourth arrangement, the landowner receives \$900.00, and the logger \$300.00. If you do the math on large white or red oak veneer logs which could average up to \$2.00 per board foot, again you will see that loggers are over paid by cutting into the landowner's profits. Do not under any circumstances, sell veneer logs on shares. To maximize timber profits, contact a professional forester to assist you with the sale.

What about grade logs (saw out higher value boards for flooring, furniture, etc.) sold on a 60% landowner, 40% logger arrangement? These logs are more valuable than pallet, blocking, or railroad tie logs and usually bring 40 to 80 cents per board foot delivered to the mill. Let's use an average of 70 cents per bd. ft. for this example: Since grade logs are cut throughout the woods along with the low value logs, logging costs are less than for veneer. Logging costs are usually 14 cents to 15 cents, averaging around 15 cents per board foot. Logging costs vary by terrain, size and number of trees per acre, and hauling distance from the mill. Therefore, a 60 cent per board foot log delivered should make the landowner 45 cents per bd. ft. and the logger 15 cents per bd. ft. With the 60/40 share arrangement, the landowner gets 35 cents per bd. ft. and the logger 25 cents per bd. ft. On a 100 bd. ft. log, the landowner should receive \$45.00 and the logger \$15.00; however, on shares, the landowner makes \$35.00 and the logger \$25.00. On a 50/50 arrangement that is fairly common, the landowner gets \$30.00 and the logger gets \$30.00. Once again, the logger has profited by reducing the landowner's share.

Since most trees/logs in an average harvest are not veneer or grade logs, is a 50:50 share arrangement fair? Most logs are of lower quality coming from a forest or woods that has received little to no management. Generally, sawmills pay 20 to 22 cents per board-foot for lower quality logs delivered. When logging costs are 15 cents per board foot, the landowner would receive 10 to 11 cents per bd. ft. and the logger 10 to 11 cents per bd. ft. when the delivered price is 20 to 22 cents. The logger loses money on low quality trees. You can't expect the logger to lose money logging low value trees or logs. But what if mill delivered price for low-valued logs is only 18 cents per board-foot? The logger would lose on low value logs, but make good money on grade logs and excellent money on veneer logs in the total harvest. The temptation, which often occurs, is that all the veneer and grade logs are cut and sold, because the logger makes more money, and the lower-valued trees are often not cut, but left in the woods. Cutting on shares tends to encourage a logger to cut all the best trees and leave the poorer quality trees. The landowner receives less for his good quality trees than their fair market value, and many poor quality trees and logs are sometimes left in the woods. This is called "high grading", whereby the woods continually becomes less valuable by cutting only the "best" and leaving the "worst".

Some landowners complain that they never received all the money promised them. One load of veneer or grade logs is 5 to 20 times more valuable than one load of pallet or blocking logs. Do you know how many loads of logs were hauled from your property? Were the scale tickets you were paid on really your logs? Although most loggers do a good job and are honest, there are a few problem loggers who take advantage of landowners. Why take a chance of having no control over how many trees are harvested, how much they are worth, and little to no injury or liability protection?