

What should a seller do with a low-ball offer?

By Curtis Seltzer

In a sour market, sellers should anticipate discounting their asking prices and receiving discounted offers. The odd thing, however, is that in many areas of the country rural property -- particularly recreational tracts, farms and timberland -- has not been noticeably discounted in asking prices during the last two years. Some sales occur at these 2006-2007 prices, but it seems that a lot of properties are not moving.

Sellers who are holding out for close to their price have the ability to wait. That's a fortunate position to be in.

A buyer, of course, does not know whether a seller is willing to come off his price significantly or whether the seller can hold indefinitely. The only way to find out is to make an offer.

I took a short look at two small timber tracts recently, one in New York, the other in West Virginia.

The New York property is 65 acres, priced at \$54,900, or \$845/A. No improvements. Accessed by a public jeep-trail road about a mile long that is plowed about half-way in the winter. Timbered about 10 years ago to a 14" diameter. Minerals convey. Warranty deed. No easements over the property. Electricity about 1/2 mile away. Clean title. New York taxes are very high, and since this property was currently part of a larger tract, the amount of current tax is unknown.

This property has potential as a retirement investment. It has a good stand of 16-18" diameter sugar maple, red maple, cherry and ash, with a site index of about 70. No current cruise was done, but the broker-forester's opinion was that the hardwood sawtimber in the 16"+ classes would run about 1,500 board feet per acre. He put a value on the sawtimber at about \$20,000 to \$25,000, at current knocked-down stumpage prices.

The purchase price about five years ago was about \$100,000 for 260 acres, or \$385/A.

I could see no reason that this type of property would have increased much in value since 2005 and considering the 25-year wait for the next timber harvest. Its main asset was timber, which was worth less today than when the seller bought it despite growth. As a smaller acreage, the 65 acres might be worth \$500 to \$600/A to an IRA-type investor. Maybe it's worth \$845 to an inexperienced buyer from New York City who is still working on Wall Street.

I put \$475/A orally on the table to the broker who told me to get lost. He should have said, "Put it in writing." I would have gone higher, maybe high enough.

The West Virginia property was 70 acres, priced at \$105,000, or \$1,500/A. It was not in one of the state's garden spots. Minerals did not convey—a discount factor in an O&G field. An honest cruise done in 2005 when the current owners bought it showed about 320,000 bf in hardwood saw 12" DBH+, valued fairly then at \$45,000. A harvest of the 16"+ saw would have brought in \$35,000 to \$44,000, the forester said. The owners had paid \$900/A, or \$63,000. No timbering had occurred since the 2005 purchase.

My consulting forester honestly valued the current sawtimber 12"+ at \$32,000 as a clearcut and \$23,000 as a select, DBH cut at 12".

I calculated the seller paid 140 percent (\$63,000) for the property of the then \$45,000 merchantable timber value. So I told the broker that 140 percent of the current merch value of \$32,000 was \$44,800. I said I was simply following the same reasoning that the seller had used.

Again, I was willing to go higher. But the seller told the broker he wasn't interested in negotiations.

Since it costs a seller next to nothing to look at a written offer and test the buyer's willingness to increase it, both sellers may have passed up a deal because they didn't want to evaluate the firmness of a low-ball offer submitted to over-priced listings.

Some low-balls never move, but others are meant to establish room for negotiations. Sellers don't know which they face unless they look at an offer and respond.

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