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Bogus cruises: How do buyers protect themselves? Part VI

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The previous five columns have discussed different ways that the volumes and monetary values in a timber cruise can be inflated. Timberland buyers need to protect themselves from seller-supplied information of this type. How does a timberland buyer go about doing this?

A buyer's first line of defense is to become broadly familiar with the tools and concepts that consulting foresters use to estimate the merchantable value of a property's timber. (link back to Part V)

The second -- and stoutest -- line of defense is for a timberland buyer to hire a full-time consulting forester who has long and broad experience with private-sector timber sales in the area where the target timberland is located. Your forester should have a four-year degree in forestry, at least ten years experience in the area and work primarily in private-sector sales. Retired state and federal career foresters are not as likely to be as knowledgeable and experienced in private-sector sales as those consultants who have been working the private side of the business.

Names and contact information of foresters who work in a particular geographic area are available from the Association of Consulting Foresters, Society of American Foresters and state rosters. A buyer should ask the forester about his experience and credentials. Ask the forester to disclose any conflicts with particular sellers or properties. Ask for current references, and fees for consulting, walk-throughs and timber sales of different types. The timberland buyer needs a forester who is both competent and loyal. Your forester must be riding first for your brand, not any other, including his own.

Timberland buyers should pay for conversational advice from a forester who works in their target county or area before they start looking at properties. This counseling should cover local market conditions and idiosyncrasies, trends in stumpage prices and product demand, sales methods, timber-health issues (blight and/or infestation), timberland prices and related matters. This information is priceless...and buyers should not expect to tap into for free.

If a property seller has provided a cruise, a buyer should ask his consulting forester to review it, to verify the methods used and determine whether the information is timely and credible. Experienced consulting foresters are familiar with many of the timber properties in their counties of operation. This boots-on-the-ground knowledge will provide benchmarks against which any seller-supplied cruise can be measured.

Ask your forester to recalculate an inflated seller-supplied cruise. From that inexpensive effort, you can decide whether there's enough likely merchantable value to justify the expense of a walk-through or a cruise.

A very broad rule of thumb that I use with many timberland investors is that merchantable timber value in current market conditions (based on an honest cruise) should represent at least 60 to 70 percent of purchase price. The 60-70 rule can be adjusted depending on the specific characteristics of the property, its immediate and longer-term timber potential, the investor's time-frame and whether the property has other assets that can generate sale revenue and annual income. The rule, of course, does not apply to recent clear cuts or pine plantations that have just been planted back. The rule should not apply to all investor and all properties. Investors who, for example, are looking for a 25-year timberland investment to hold in an IRA could use other formulas.

Experienced foresters have peer networks. They can check out a forester they don't know through those they do. They can scope another's reputation within the profession.

My experience has been that a straight-up forester can look at a cruise for mixed hardwoods and determine within 30 minutes (or less) whether it's inflated or not. If there's a question, get the forester on the ground with the seller-supplied cruise. A quick walk-around may be all that is needed to judge the cruise's integrity. On large tracts, a buyer-paid for cruise, or a mini-version, may be warranted.

For the most part, I like consulting foresters as a group. They're sensible, practical folks who will be your best friend in a timberland purchase and beyond. The ones I don't like are the information spinners, and buyers need to understand they are out there.