

The Spread in Lump Sum Stumpage Price Bids

David B. Kittredge, Jr. and William Haslam, *University of Massachusetts—Amherst, Amherst, MA 01003.*

Hiring a consulting forester is perceived by many landowners to be an expensive or unnecessary additional cost. Landowners may be approached by a potential buyer of standing timber and offered a lump sum price which at first glance may seem quite attractive, especially if they have no prior experience with the sale of timber. In many cases, however, without professional expertise and experience in the marketplace, landowners are unable to evaluate the reasonableness of the offered lump sum. Frequently, landowners are advised to seek professional advice if they are contemplating the sale of timber, however many are reluctant to do so, because this step represents an additional cost, with benefits that are difficult to understand and measure.

Objective

The goal of this study was to characterize the extent to which lump sum bids for standing timber can vary. If bids for the same timber sale can be shown to vary considerably, a case can be made to landowners to invest in the added expense of professional consulting forestry expertise.

Methods

In April 1999, we developed a survey form designed to help us compile and evaluate actual stumpage bids offered in the previous 12 month period. We tested this survey form and cover letter with 6 practicing foresters first, to determine if our procedures and intent were sufficiently clear. This test group provided valuable feedback that was used to revise the survey form and letter. We sent the form and explanatory cover letter to 170 practicing foresters in Massachusetts, and we assured them that their responses would be kept anonymous. Two weeks later, we sent a reminder letter and another form.

NOTE: Field Notes are edited but nonrefereed contributions from our readers describing useful ideas, shortcuts, and findings from the field forester. This study was funded in part by the Cooperative Extension System of the University of Massachusetts. The authors thank Anne Marie Kittredge for a helpful review. Kittredge serves part-time as Forest Policy Analyst, Harvard Forest, Petersham, MA. He can be reached at (413) 545-2943; E-mail: dbk@forwild.umass.edu.

Table 1. Ranges of lump sum bids, by dollars.

No. of bids	No. of sales	Mean range	Min range	Max range	SD
	 (\$)			
1	11	0			
2	29	7,242	183	34,997	8,542
3	20	13,365	1,695	62,700	13,384
4	22	11,397	1,609	31,923	9,212
5	19	10,870	3,100	28,179	7,639
6	25	11,911	2,559	37,908	8,993
7	18	15,403	6,948	29,350	7,088
8	11	9,839	3,020	22,479	6,289
9	6	16,414	10,301	26,678	5,938
10	1	8,647	8,647	8,647	—
11	2	20,789	12,229	29,350	12,106
Total sales	164				

Results

We received 32 replies with usable data (18.8% survey response), representing lump sum bid information for 164 timber sales. In 1998 in Massachusetts there were a total of 819 commercial sales reported to the state forestry agency; therefore, these 164 sales represent 20% of all commercial sale activity. We calculated the range in value between high and low bid for each reported sale.

Results are summarized in Tables 1 and 2 and organized on the basis of the number of bids offered per sale. There were, for example, 11 of 164 sales that received only 1 bid, and hence no range between high and low bid can be calcu-

Table 2. Ranges of lump sum bids, by percentage.

No. of bids	No. of sales	Mean multiplier	Min multiplier	Max multiplier	SD
1	11	1.00	1.00	1.00	0.00
2	29	2.09	1.07	12.30	2.32
3	20	1.91	1.04	10.35	2.06
4	22	2.52	1.24	8.92	0.04
5	19	2.29	1.28	11.40	2.25
6	25	1.93	1.27	2.97	0.49
7	18	1.81	1.34	2.71	0.40
8	11	2.17	1.22	3.25	0.73
9	6	2.47	1.62	4.98	1.28
10	1	1.47	1.47	1.47	N/A
11	2	2.58	2.39	2.77	0.27
Total sales	164				

lated. There were 29 sales that had 2 bids, and the average range (or difference) between high and low bid was \$7,242. In this case, the smallest range between high and low bids was \$183, and the highest was \$34,997.

The average range between high and low bids for all sales with 2 or more bids was \$11,066.

Ranges expressed on the basis of absolute dollars can be misleading, however. Is the average range of \$11,066 a significant sum, or a minor difference between high and low bids? For this reason, we converted the differences between high and low bids to percentages (i.e., a percentage difference between the high and low bid). We then converted percentages into multipliers. For example, in the case of sales with 5 bids (Table 2), there were 19 sales reported. The average difference between high and low bids was 229%, meaning that the high bid was 2.3 times the low bid. In the case of sales with 5 bids, the percentage difference between high and low sales varied from a low of 128% to a high of 1,140%. In other words, there was one reported timber sale with 5 bids, in which the high bid was 11.4 times more than the low bid. On the other hand, there was another reported sale with 5 bids in which the high bid was 1.3 times more than the low bid.

The average range between high and low bids for all sales with 2 or more bids is 212% or 2.1 times, and the average number of bids was 5.

Discussion

Our results suggest that there is considerable variation in lump sum bids for standing timber. If a landowner were to accept a lump sum offer, without professional advice, it is likely that she would not know if the offer was a reasonable one. Likewise, when timber is sold competitively, some offers may be higher than others.

The dramatic variation represented by a high percentage difference between actual high and low bids for individual timber sales can be attributed to variation in a number of factors, including but not limited to:

- logging costs among operators,
- access to markets for logs,
- demand for timber,
- demand for terrain on which the timber is located (e.g., well-drained soils that can be operated during mud season).

We do not intend to imply by these results that all timber sales should be sold on a competitive basis. Negotiated sales can be an effective and advantageous way to sell timber, especially if the agent for the landowner (i.e., the consulting forester) selects the operator on the basis of equipment mix, skill, attention to aesthetics or other landowner concerns, safety, or overall reliability.

We believe these results suggest that there can be a dramatic difference between high and low bids for the same standing timber. Consequently, it behooves private landowners to be aware of how timber values can vary and to consider the services provided by a private consulting forester. Given price variation, the expenses of a consultant could be covered by a higher bid. For example, a landowner could be offered a lump sum of \$10,000 for timber. If bid prices can vary by as much as 212% between high and low bids, as our results suggest, it is not unreasonable to assume that the timber could be worth possibly 50% more (i.e., \$15,000) if sold on a competitive basis with a consultant as an agent. Customarily, a consulting forester may charge for their services between 15 and 20% of the gross sale. Thus, even after paying the consultant \$2,250 (i.e., 15% of \$15,000), the landowner would net \$12,750, instead of the original \$10,000.

Other benefits to contracting with a private forester include: advice and assistance in the development of long-term management goals; preparation of a sound contract that will protect landowner interests; timber harvest supervision to ensure compliance with local, state, and federal regulations; technical design of roads, erosion control measures, and equipment restrictions. Our results represent only one good reason to seek professional advice. The expense of a consultant can often be offset by higher prices offered for timber.