



# FORECON INC. Woodland News

Specialists in Forestry and Natural Resources Management Consulting for Over 48 Years

## Bidding Brings the Highest Prices

Competition for your timber has never been stronger than it is today. There are multitudes of procurement foresters, independent loggers, timber & log brokers, veneer brokers and buyers, even consulting foresters, angling for your timber. Of all things affecting timber price, none is greater than bid pressure. Bidding is the great equalizer in an unequal timber market. All companies, individuals, etc, have different markets for different species, some better than others. Bidding brings all players to the table under the same set of rules for the same piece of timber. Time and again we have professed, and time and again the result is the same... "bidding brings the highest price"

Timber companies today are now stretching as far as 200 miles from their mill to procure timber. Logically you would think that a mill 200 miles from your property could not compete with one 10 miles away. Fortunately, that is not true. In some instances the results are quite staggering, all boding well for the landowner.

As always, we showcase two (2) sales that we marketed through the prospectus and bid process during 2002.

### Sale 1 Profile

The date of this sale was September 30, 2002. It contained approximately 142,297 boardfeet of timber with about 56% of the volume being red oak, 16% soft maple, 14% white ash, and 6% hard maple. We received nine (9) bids, ranging from a low bid of \$39,234.00 to a high bid of \$88,153.00.

Bidder Bid Received	Bidder Bid Received
1 \$88,153.00	6 \$70,614.72
2 \$82,336.00	7 \$69,355.00
3 \$81,997.00	8 \$50,000.00
4 \$80,960.00	9 \$39,234.00
5 \$78,585.00	

### Sale 2 Profile

The date of this sale was August 28, 2002. It contained 33,149 boardfeet of timber with black cherry (51%), hard maple (35%) and soft maple (6%) as the key species by volume. We received fifteen (15) bids, ranging from a low bid of \$27,386.11 to a high bid of \$48,651.00.

### Bidder Bid Received

1 \$48,651.00
2 \$45,416.00
3 \$42,607.00
4 \$42,589.00
5 \$42,364.00
6 \$42,280.73
7 \$41,350.00
8 \$40,200.00

### Bid Received

9 39,048.00
10 38,814.00
11 37,207.00
12 34,815.00
13 33,678.00
14 28,978.50
15 27,386.11

Both timber sales were conducted through a competitive bidding process. Forecon, Inc. was hired by the landowners to mark, cruise and appraise the volume and value of the timber being sold. The species, diameter and merchantable log height of each tree marked for sale is tallied by the forester or forest technician. The information collected is then processed using forestry software to provide the total number of trees by species and the volume they contain. This information is analyzed with respect to the current market conditions and prices paid for the species involved, resulting in an appraisal of the stumpage (standing timber)

value. A timber sales prospectus is then prepared which details the terms and conditions of the sale. The prospectus is generally mailed to 50-80 bidders on any given sale. The bids are opened at a time and date specified in the prospectus. The landowner always reserves the right to reject any or all bids.

If accepted, we then prepare a timber sale contract between the seller and purchaser that provides for protection of the forest property and for payment in full at contract signing. Finally, we oversee the logging operation and assure contract compliance including final restoration of logging roads and landings.

Keep in mind that in each of the sale profiles above, the timber buyers are bidding on the exact same trees given the same circumstances for removal, markets, etc. The results speak for themselves. Put our knowledge of the forest industry and our reputation and contact base to work for you. Let Forecon truly get you the highest price by bidding your timber! ♣

## Investing in Timberland - Part I

Timberland is becoming a popular alternative investment. It is estimated that institutional investors have over nine billion dollars invested in timberland and indications are for this trend to accelerate. There are many reasons to consider timberland as an investment. Timber increases in value through biological growth and the value appreciation of the timber and the land. There are also cash returns from the annual leases of natural resources, recreational usage and from the sale of timber and land. Timberland also offers a good means of portfolio diversification and as a hedge against inflation. There are also income and estate tax advantages to owning real estate. Finally, there is satisfaction in owning undeveloped land with outdoor opportunities that include hiking, camping, hunting, fishing and jogging.

Timberland investments offer many opportunities for appreciation in value. These factors can be broken apart and estimated separately.

**Biological growth:** As an investment, trees have an interesting and unique attribute - they grow. Influenced by species type, location and other factors, growth adds value to trees on a consistent basis. The United States Department of Agriculture's Forest Service has developed a growth and yield model applicable to the northeastern United States called NE TWIGS. For purposes of this paper, annual growth rates for the major species have been estimated by entering timber data collected from almost 200,000 acres of commercial timberland in northern Pennsylvania and southern New York into the NE TWIGS model. Here is a summary of these annual growth rate estimates by species:

Species	Annual Growth Rate	Species	Annual Growth Rate
Red Oak	3.75 %	Red Maple	3.44 %
White Oak	3.69 %	Poplar	4.20 %
Black Cherry	5.11 %	Other Hardwoods	2.22 %
White Ash	5.02 %	Pine/Hemlock	5.62 %
Sugar Maple	2.22 %	<b>Composite Average</b>	<b>3.92 %</b>

Sources: Forecon, Inc. and the USDA - Forest Service, Northeastern TWIGS model.

In summary, this growth study indicates a composite average annual growth rate of 3.92%. In other words, an investment in timberland containing an equal stocking of timber in the species listed above will appreciate at an average annual rate of 3.92% merely because the trees on the property grow at that rate; this creates a "floor" return for an investment in timberland. Good forestry management and site conditions will improve these annual growth rates.

**Price appreciation:** Though renewable, timber is still a geographically limited natural resource that has experienced increased demand. Accordingly, the price of timber (hardwood timber in particular) has increased over time. Since the mid 1980's, the Pennsylvania State University, School of Forest Resources has published a quarterly Pennsylvania Woodlands Timber Market Report (PWTMR). Table 1 compares the PWTMR average stumpage prices by species for northwestern Pennsylvania for December 1985 and December 2001. Total and annually compounded increases are displayed, which when combined with growth rate yield a total annual increase.

Species	Price per MBF (Doyle) 12/31/85	Price per MBF (Doyle) 12/31/2001	% Increase (16 Yrs)	Annual Compound Rate	Growth Rate	Total Annual Increase
Red Oak	\$ 261.03	\$ 791.57	203 %	7.18 %	3.75 %	10.93 %
White Oak	\$ 147.47	\$ 271.20	84 %	3.88 %	3.69 %	7.57 %
Black Cherry	\$ 286.46	\$ 2,664.54	830 %	14.96 %	5.11 %	20.07 %
White Ash	\$ 215.27	\$ 305.10	42 %	2.20 %	5.02 %	7.22 %
Sugar Maple	\$ 93.23	\$ 608.51	553 %	12.44 %	2.22 %	14.66 %
Red Maple	\$ 77.97	\$ 296.63	280 %	8.71 %	3.44 %	12.15 %
Poplar	\$ 57.63	\$ 183.06	218 %	7.49 %	4.20 %	11.69 %
Misc. Hdwds.	\$ 49.16	\$ 111.87	128 %	5.27 %	2.22 %	7.49 %
Pine/Hemlock	\$ 52.55	\$ 67.80	29 %	1.61 %	5.62 %	7.23 %
<b>Average</b>	<b>\$ 137.86</b>	<b>\$ 588.92</b>	<b>327 %</b>	<b>9.50 %</b>	<b>3.92 %</b>	<b>13.42 %</b>

Source: Pennsylvania State University, School of Forest Resources Pennsylvania Woodlands Timber Market Report and NE TWIGS Growth Model.

Using the US Forest Service growth estimates and the Penn State price data, the combination of growth and price indicates an annual appreciation rate of 13.42%. However, both increases actually enhance each other through compounding, and a more accurate estimate of annual appreciation in value due to average growth and price appreciation is 13.89%.

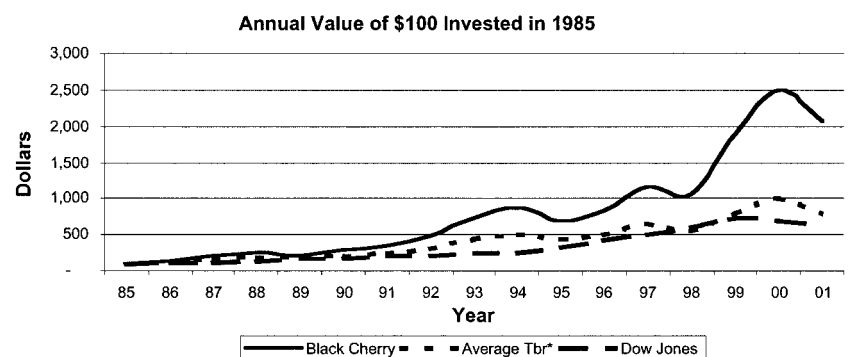
Table 2 and the associated graph depict the annual value of \$100 invested in December 1985 in various timber assets and stock indices.

Table 2: Annual Value of \$100 Invested in 1985 in Various Timber Assets and Stock Indices

Asset/Yr.	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01
Red Oak	100	148	189	191	227	260	298	298	438	463	472	470	571	513	558	721	547
W.Oak	100	145	176	192	206	241	305	305	347	408	345	353	433	402	468	513	329
Cherry	100	129	209	252	219	356	487	487	732	868	688	836	1167	1065	1900	2491	2063
W. Ash	100	127	169	190	219	211	260	260	326	359	392	378	429	294	374	438	310
Hd.Maple	100	126	129	126	157	207	298	298	442	505	385	502	921	656	816	1003	928
Sft.Maple	100	117	135	130	152	184	223	223	359	424	335	410	623	563	625	812	654
Avg.Tbr.	100	133	173	188	201	248	313	313	441	509	448	496	663	565	798	998	801
D.Jones	100	122	125	140	178	205	213	213	243	248	331	417	511	594	743	697	648
S&P 500	100	115	117	141	167	197	206	206	221	217	292	351	459	582	695	625	543

In summary, this data indicates that \$100 invested in December 1985 in a portfolio of stocks comprising the Dow Jones Industrial Average would be worth \$648 in December 2001 and a similar investment of \$100 in black cherry would be worth \$2,063 in December 2001. In fact, \$100 invested in 1985 in an equal mix of all species reported by Pennsylvania State University would have been worth \$801 in December 2001.

In addition to biological growth and price appreciation there are additional factors in the long-term management of timberlands that increase the value of an investment. In the next issue of the Woodland News we will discuss timber grade improvements, species composition, vegetation control, integrated pest management, timber sale administration, timber regeneration, land appreciation, costs and tax advantages associated with timberland investments. ♣



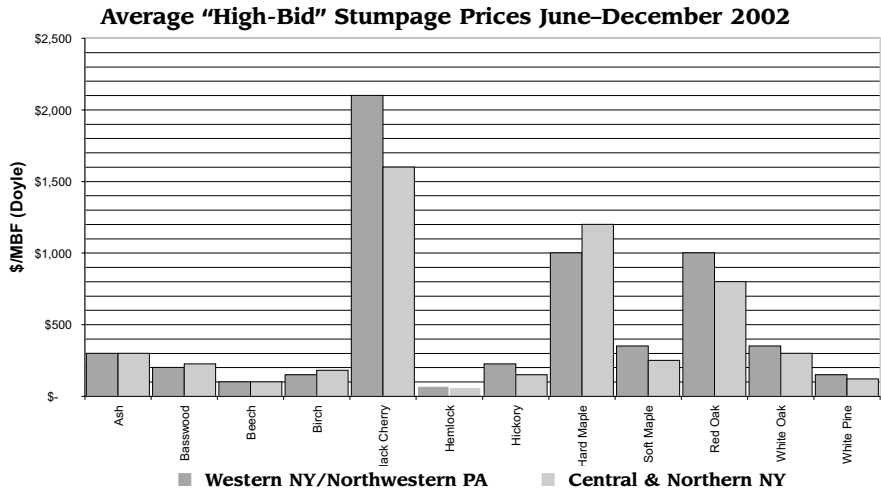
Source: Pennsylvania State University, School of Forest Resources Pennsylvania Woodlands Timber Market Report and NE TWIGS Growth Model.

\* "Average timber" is an equal mix of all species reported by Pennsylvania State University

**FORECON NOTES:** We are moving our corporate headquarters to a new location better suited to handle our growth and expansion of services. Our new address will be 1890 East Main Street, Falconer, NY 14733; please note that our phone and fax numbers will not change. We invite you to visit us at our new site - we expect to move in soon.

We are compiling an email list of clients and interested parties to be used as a means of forwarding announcements and news items related to the timber industry and Forecon. Your email address will be kept confidential. If interested please email a request to [news@foreconinc.com](mailto:news@foreconinc.com).

# Stumpage Prices June-December 2002



Depending upon whether you are talking with a sawmill owner or a landowner, the market is either "down" or "terrific". Many changes in the marketplace during calendar 2002 affected lumber prices in a negative fashion. Concurrently, stumpage prices (the price a landowner is paid for standing timber) were on the rise making 2002 a somewhat "unique" year for timber sales. Many mill owners commented on this strange occurrence, not ever having seen such a narrow gap in prices between stumpage and lumber in their collective experiences. As always, though, the landowner is the one benefiting, even in an "odd" market.

With housing starts up and interest rates down, new construction nationwide helped keep stumpage prices high. Couple that with increased exports to some overseas markets for certain species and the forest owner can look to his/her woodlot and reflect on having made a solid investment. Good logging conditions prevailed through summer and fall, keeping supplies moving and demand high for the key species.

Black cherry continues to lead the market with stumpage values of \$1,200 - \$2,100/MBF in New York and slightly more in Pennsylvania. Average pricing for the year has been about \$1,500/MBF. Even in the face of a soft lumber market we can all agree that this is still terrific value for standing timber. Hard maple continues to be strong with average pricing of \$600-\$800/MBF with high bid prices of \$900-\$1,200/MBF for large diameter, good quality "white" hard maple. Red oak, always the steadiest species for price over the last 7 years, has seen some increase in demand thereby increasing the stumpage price. While most

companies can freely procure red oak at \$500-\$700/MBF, bidding has been telling a different story. Average pricing of \$600-\$800/MBF is no surprise. Bidding, however, has been bringing prices of \$800-\$1,000/MBF for good quality red oak, with many sales of \$875-\$950/MBF. Direct negotiated sales have not brought this value to the table... only bidding has! Soft maple remains "soft" in price yet constant in demand. Much like 2001 pricing, soft maple has been averaging about \$225-\$250/MBF with a range of \$150-\$350/MBF. No change is expected in the coming months. Likewise, white ash is still sluggish in the market. The trend has been downward for ash, making this yet again a good time to grow and not harvest. The current value range is \$150-\$300/MBF with \$200/MBF being paid more often than not. This is down even further than the 2001 average of \$250-\$350/MBF when there were more opportunities to move ash at \$300/MBF than exist now.

The stumpage price graph shows the average high-bid prices received by Forecon, Inc. for timber sales administered from June to December 2002. The prices listed represent the average amount per thousand boardfeet (MBF), as measured by the Doyle Log Rule. The values reported do not necessarily reflect the value of your timber resource. Average tree size, species mix, quality, access, proximity to mill, contract length, value of the species at the time of sale and contract conditions, to name a few, all impact the value of your particular sale. Call us for a free consultation. Put our industry knowledge to work for you. 🌲

# Reflections On Forest Management Planning From A Forest Landowner

Webster's Seventh New Collegiate Dictionary describes "Management" as the "...judicious use of means to accomplish an end..." and "Plan" as "...a detailed program of action; a method of doing something..."

Whether you own 1 acre or 1,000 acres, chances are you have goals that you would like to achieve on your property. A Management Plan is a good place to start in order to help organize your thoughts and ideas into a document that you can refer to time and again.

The purpose of any plan, especially a Forest Management Plan, is to provide the landowner with the means to be able to practice good stewardship of property and its resources. Plans can be simple - one or two pages of your ideas, goals, and means of achieving them, or they can be complex documents with extensive data prepared by a professional.

The bottom-line, however, is that whether simple or complex they both help the landowner achieve his or her objectives. Let's face it, if you have never had a plan before, starting with a complex plan can be overwhelming.

The planning process can help you identify and clarify your long-term goals by taking a close look at the resources on your property and what you expect to realize from the property in terms of timber, water, wildlife, recreation and even financial gain. The plan also helps to identify what aspects of the property and its resources are most important to you and what you would like to do to enhance or protect those resources.

So how do I begin? Well, it all starts with clearly defined landowner goals. These goals may be extremely broad or very precise. A typical landowner today owns property for hunting, hiking, biking, bird watching, observing wildlife, horseback riding, etc., with timber production and/or income from the sale of forest products low on the priority list. Some typical goals are: creating more or better habitat for deer, turkey, grouse; build a pond; create hiking/ATV trails; produce income from timber management. These goals can be achieved, but a landowner now needs to ask: Can the natural resources support my goals? How do I plan to achieve them? Will this be hired work? Will I do the work myself? These are important ideas to consider before you develop too complex and ambitious a plan. When do I want to accomplish Task #1? Do I want the property to pay for itself?

In order to help answer these questions, you need to make a thorough description of the property and its resources. Desiring bluebird habitat on property with no open fields can be a

daunting task, since they spend their time foraging in tall grassy fields. Likewise, desiring to create a pond on gravelly soil types will not help the landowner achieve his or her goal.

It is also important to keep in mind that not all of your goals and objectives can be met on every acre. You may have to work with any one or all of the entities listed above to help identify where your goals can be met on your property.

Once you have identified the property attributes and have defined goals and objectives, it is time to develop a Schedule of Management Activities. The timing of activities should be as specific as possible to reflect your management priorities. In general, plans of 10-15 years are adequate for most landowners. The reason for this is that the resource is dynamic. Plans change, laws and regulations change, neighbors change, trees grow, storm and tornado damage happens, all of which affect the initial plan in some way. Look to revise and renew your plan every 10 years or sooner, if there is significant change in the property.

The Schedule of Management Activities gives the details and answers the questions: What needs to be done? Where will it be done? When will it be done? Who will do the work? Is there a cost or an income? The detail should be sufficient for you to fully understand what is being done and the expected result. Many landowners begin with simple conceptual management plans and graduate to more complex, professionally prepared plans as their length of ownership increases.

During this time, landowners educate themselves by actually doing the scheduled management work and tracking the results. By reading, attending seminars and woods walks, and talking to other landowners your vision regarding a particular goal will come into sharper focus.

Management plans provide a snapshot of your vision for your property. Having some form of written plan benefits not only the current landowner, but also those who acquire the property next. You may not realize the full benefit of your management during your lifetime, but your legacy of good stewardship will be realized for generations to come.

Get excited. Consider what enjoyment you receive from your property. Make a plan. Implement the plan. Get excited all over again.

*Co-authored by Charles R. Patton, Forecon client and Master Forest owner.* 🌲

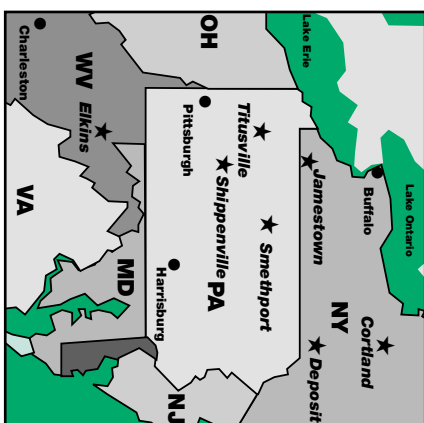
## Forecon, Inc. A Multi-Faceted Resources Management Consulting Firm

Though a good share of our consulting centers around forestry concerns, many folks don't realize that Forecon is an organization with multi-faceted environmental / ecological services to offer those interested in the conservation of their natural resources. To better illustrate this, we thought it best to provide the following summary of our service offerings; remember, this is by no means an exhaustive listing — don't hesitate to call and ask about services which you may desire that are not mentioned here.

- GENERAL ENVIRONMENTAL WORK**
  - Erosion and Sediment Control Planning
  - Environmental Impact Statements
  - Environmental Impact Assessments
  - Watershed Protection/Management
  - Habitat Protection/Enhancement
  - Protected Stream Crossing Permit Acquisitions
  - Resources Utilization Studies
  - Forest Engineering
- WILDLIFE MANAGEMENT**
  - Habitat Management for Songbirds, Gamebirds, Deer, Bear, Turkey, etc.
- FOREST RECREATION**
  - Nature Trail Development
  - Cross-Country Ski Trail Development
  - Interpretive Trail Planning and Implementation
- FOREST INSPECT/PREST CONTROL**
  - Gypsy Moth Suppression Programs
  - Forest Insect/Fest Assessments
- SUBSURFACE RESOURCES MANAGEMENT**
  - Gravel Mining Plan Preparation/Permit Acquisition
  - Oil and Gas Well Lease Preparation
  - Oil and Gas Well Site Damage Assessment
- URBAN FORESTRY SERVICES**
  - Tree Appraisals
  - Inventories
- FORESTRY**
  - Forest Management
  - Planning/Operations Scheduling
  - Timber Sale Administration / Operations Monitoring
  - Timber Stand Improvement Work (TSI)
  - Timber Appraisals
  - Tree Planting Services
  - Christmas Tree Farm Management
  - Boundary Line Maintenance
  - Timber Trespass Assessments and Arbitration
  - Expert Witness Testimony
- REAL ESTATE**
  - Forest and Recreational Land Marketing Services
  - Appraisal Services
  - Easement Acquisitions
- TIMBER TAXATION PLANNING**
  - Assessed Value Reduction Planning (480-a and "Clean & Green" plans)
  - Timberland Estate Planning
  - Timber Income Taxation Planning
- GIS/GPS SERVICES**
  - Map Digitization
  - Resource Analysis
  - Utilities Mapping
  - Topo Maps
  - Aerial Photographs

## Forecon Directory

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- Cortland, NY (Branch Office) - (607) 753-3113**  
11 N. Main St., Suite 202, Cortland, NY 13045
- Titusville, PA (Branch Office) - (814) 827-4254**  
115 S. Washington St., Titusville, PA 16354
- Smethport, PA (Branch Office) - (814) 887-8731**  
215 Lone Alley, Smethport, PA 16749
- Shippenville, PA (Branch Office) (814) 227-5544**  
2119 Paint Blvd., Shippenville, PA 16254
- Elkins, WV (Branch Office) (304) 636-9336**  
219/250 & Chenoweth Creek Rd., Elkins, WV 26241
- Timberland Realty (Main Office) - (716) 664-5604**  
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