Valuation of Immature Timber Stand

THREE STEP APPROACH

Background

Pre-commercial or immature timber does not hold immediate stumpage value but it has future potential for conversion into timber products. Therefore, appraisal of immature timber stand needs a cautious analysis. From an investor standpoint, immature timberland contains two types of property: a) timber-generally harvested at rotation age, and b) land-with a perpetual ownership. Value of precommercial timber changes annually and progresses towards a mature stand. Therefore, the following method should be used to estimate the value of an immature stand:

$$V_m = \frac{NV_t + LEV}{(1+i)^{t-m}} - LEV$$
 [1]

Where V_m =Value of m aged immature timber stand, m=Age of immature stand, t=Rotation age, NV_t =Net value of income and costs associated with immature stand between year m and rotation age (t), and LEV=Land expectation value.

As clear from above, we need to know the value of bare land, the Land Expectation Value (LEV). LEV is simply a Net Present Value (NPV) but it keeps into mind the perpetual nature of timber rotations. The following formula should be used to calculate LEV of forest stand:

$$LEV = \frac{NFV}{(1+i)^{t}-1}$$
 [2]

Where NFV= Net future value of one timber rotation. A few things are worth noting in the first formula. In the first part, we sum the value of timber between current age and rotation age of the stand (NVt) with the value of land (LEV), and discount the summed amount (NVt+LEV) to the current age of the stand. This provides the value of land and timber. Now, when LEV is subtracted from this sum, we are left the value of the immature stand, which is what we are looking for.

We can use the above equations to obtain the value of an immature stand in three easy steps. Following is an example that will clarify the use of the equations.

Example

A 30 year rotation (t) is prescribed for a loblolly pine forest in East Texas at the real interest rate of 4.5% (i=0.045). Site preparation and regeneration cost is \$250/acre at the beginning. Annual management cost will be \$2 per acre. First and second commercial harvesting at year 15 and 24 will generate revenue of \$98/acre and \$170/acre, respectively. Clear-cut at year 30 will generate \$929/acre. If you want to sell stand at age 14, what should be the value of this immature stand?



First step: Calculate LEV

Year (Y)	Item	Amount/acre (\$)	Compounding formula	Future value (\$)
0	Site prep+ tree planting	250	250*(1+0.045)30	-936.33
15	First thinning	98	98*(1+0.045) ³⁰⁻¹⁵	189.66
24	Second thinning	170	170*(1+0.045)30-24	221.38
30	Final harvest	929	929*(1+0.045)30-30	929.00
130	Annual cost	2	2*[{(1+0.045) ³⁰ }-1]/0.045	-122.01
Net Future	281.70			
Land Exp	102.61			

Second step: Calculate rotation age value

Year (Y)	ltem	Amount/acre	Compounding formula	Future value	
		(\$)		(\$)	
15	First thinning	98	98*(1+0.045) ³⁰⁻¹⁵	189.66	
24	Second thinning	170	170*(1+0.045)30-24	221.38	
30	Final harvest	929	929*(1+0.045)30-30	929.00	
1430	Annual cost	2	2*[{(1+0.045) ³⁰⁻¹⁴ }-1]/0.045	-45.44	
Obtain Net Value (NV _t) at rotation age by summing all items. 1294.60					

Third step: Obtain results

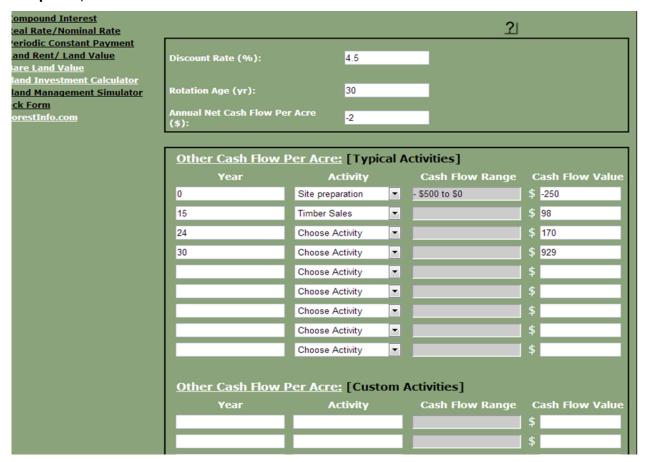
Plug LEV and Net Value (NV_t) in equation 1 (first page) and obtain the value of immature stand (V_m). In above example, value of immature timberstand is (Vm)=\$588.27.

You can use the Timberland Decision Support System (tfsfrd.tamu.edu/tdss) for most of these estimates. A very simple calculation, in the end, provides the value of the immature stand. Please see next pages (3 -5) to know more.

Source: Thomas J. Straka and Steven H. Bullard, "Land Expectation Value Calculation in Timberland Valuation," The Appraisal Journal (October 1996): 399–405.

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Step 1: Open Timberland Investment Calculator.



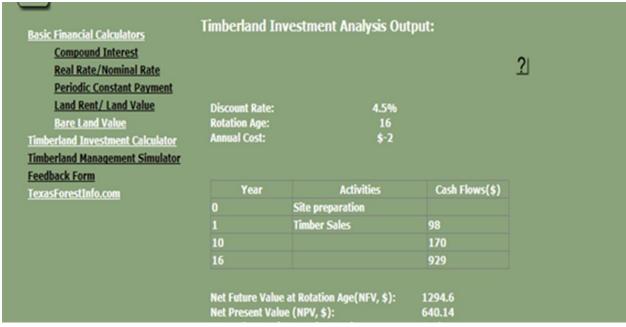
Run and obtain the value of bare land (LEV). It should be \$102.61(see below):



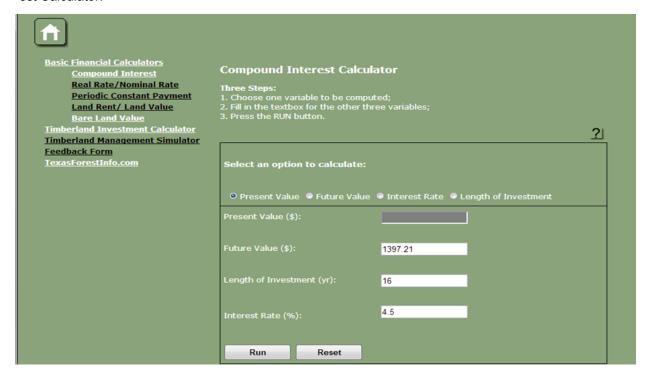
Step 2: Exit and reopen Timberland Investment Calculator. Since the immature stand is already 14 years old, rotation age (30-14=16) and cash flow year need to be revised.



Run and obtain the net future value at rotation age. It should be \$1294.60 (see below). Ignore other estimates.



Step 3: Sum values from Step 1 and 2(\$1294.60+\$102.61=\$1397.21), exit and open Compound Interest Calculator.



Run and obtain the present value of immature stand and land. It will be \$690.88(see below).



Present value of immature stand= Present value of stand and land-present value of land (i.e. \$690.88-\$102.61=\$588.27).