VALUATING IMPACTS OF EXPROPRIATION ON OPERATIONAL FORESTLANDS

Introduction

As infrastructure construction continues in British Columbia, there will inevitably be a requirement by the government to expropriate privately owned forestland. Although the Expropriation Act provides guidance on the procedure for completing the expropriation, there generally are unresolved issues on arriving at a mutually acceptable price for the land.

This paper will not deal with raw land values. This component of the expropriation value formula is well served by Professional Real Estate Appraisers. There are other factors, which should be considered by forestland owners, which will be discussed in this paper. These include timber values, both present and future, and a valuation of the increased cost of forest operations after the structure is constructed.

An area which will not be discussed is the values of subsurface minerals and gravel or sand. Another speaker will cover this area.

Merchantable Timber Values

As stated in the Introduction, land values are best assigned by Professional Land Appraisers. It is incumbent upon the landowner to establish whether the appraisal recognizes the value of the merchantable timber in the take area. It is reasonable to expect these values are not attached simply because until the closing date of the expropriation, the landowner could harvest these stands.

This is an important consideration for mutually arriving at a total value of the taking. What stands of unencumbered timber will be left unharvested at the closing date. The term unencumbered refers to netting out any stands of timber which would not be available for harvest due to legislated requirements. The Private Land Forest Practices Regulation of the Forest Land Reserve Act is the most definitive piece of legislation in this regard.

Another speaker will discuss the process for valuing the merchantable timber remaining on the expropriated lands at the time of the taking.

Non-merchantable Timber Values

Everything discussed to this point has been centered around valuing land and timber as of the closing date of the taking. The question of how to value non-merchantable timber is the next step in the process. Non-merchantable timber can be best defined as either species with no commercial value or stands of trees which have not reached economic rotation age.

In the situation where immature stands of trees will be included in the expropriation, several variables should be considered before attempting to arrive at a value for these stands. These include:

- Age at which the stand is anticipated to be available for harvest.
- Current age and species composition of the immature crop.
- Site index of the ground.
- Anticipated harvesting costs, in today's dollars.
- Selling price of the future crop, in today's dollars, based on the variable identified above.

This method looks at the loss of value once the stand would have reached economic rotation. It is not attempting to assign a value to the investment made on the stand to date. If silviculture treatments have been applied to these stands, the projected volumes or quality of wood available for harvesting in the future should reflect these treatments.

Once this information is obtained, a net value per cubic meter can be assigned to the future crop of trees. By using a standard discount formula, the future value of the immature crop can be discounted back to today's dollars.

The other component of non-merchantable timber values are species with no commercial value. Basically, if the trees cannot be taken to market and realize a net profit, there should be no compensation sought for their loss.

Isolated Parcels of Land

The expropriation of land for structures such as highways, pipelines or powerlines generally involves removing a long, lineal parcel of land from private forestland. Depending on the positioning of this removal, it is possible that a landowner could have a corner of land incontiguous from the remainder of the owned forestlands. This isolation could be caused by environmental considerations such as swamps or fish bearing streams. It could also be isolated by ownership issues. It should not be assumed that the adjacent landowners will continue to allow free access across their private land in the future.

Once an isolated parcel of land has been identified, compensation should be sought in much the same manner as the original land takings. A value should be assigned for both the land and the timber.

Extra Roads Required

There may also arise a situation where access to part of the landowners property is cut off from traditional routes by the expropriated land. This could be a case of an existing road being cut off or the projected best route being cut off. In either case, the cost of building extra roads and drainage structures should be reflected in the expropriation compensation. These costs could be projected into the future if the affected parcel of land does not have merchantable timber on it. These future costs should be discounted back to today's dollars.

Another aspect of requiring extra road is the loss of growing site which the new road will occupy. This loss of productive land should be compensated for as it represents a loss of future revenue to the landowner.

Loss of Income in the Future

At this point of the process, the value of raw land, timber and gravel within the expropriated land has been assigned. Basically, these components represent the asset value of the land. Now the potential loss of future income from the land should be examined. The value of any business can be viewed as a combination of hard assets and goodwill. A parallel can be drawn to a farmer selling his or her profitable farmland. The value of the land should include the raw land value, the value of any crops growing on the land at the time of the sale and some compensation for the future value of profits which should be realized from the land.

The process described above has valued all of the assets on the expropriated land up to, but not exceeding one economic rotation of the timber stands. In a process similar to valuating non-merchantable stands, the loss of future income from future rotations should be examined. Generally, this value will be fairly low due to the long time periods involved and the discounting process used to arrive at today's value.

Conclusions

The valuation process for arriving at an agreeable compensation for expropriated land should be based on a single principle: What is a reasonable value for the land which will be removed from the working forest landbase? It is not in anyone's best interest to attempt to stop the construction of the highway, pipeline or powerline. However, it is in the best interest of the landowner to ensure that he or she captures all appropriate values, both capital and goodwill in the process.

Jack Turley Forest Engineering Services
330 Country Aire Dr
Campbell River, BC

(250) 923-7943 **Fax (250) 923-7669**

Biography

I am a graduate of the Faculty of Forestry (Harvesting) at the University of British Columbia. Upon graduating in 1980, I was employed as a staff forest engineer by British Columbia Forest Products at the Renfrew Logging Division. I remained with BCFP and its successor company, Fletcher Challenge Canada until 1993. Since leaving the company, I have been a consultant within the forest engineering field. My clients have included TimberWest, Pacific Forest Products, Western Forest Products, Price Waterhouse Coopers and MacMillan Bloedel.

Over the last couple of years, I have been hired by TimberWest to develop Impact Assessments for various sections of the new Inland Island Highway where it crosses TimberWest's private land. The focus of these reports has been impacts on harvesting operations by the expropriation, both immediately and in the future.