

**SUMMARY REPORT  
ON  
THE APPRAISAL OF**



**SALE 467  
SWEET GRASS COUNTY, MONTANA**

**AS OF:  
JUNE 22, 2008**

**FOR  
DNRC REAL ESTATE MANAGEMENT BUREAU  
HELENA, MONTANA**

**PREPARED BY  
TERRY L. ROHRER**

*Ferguson Group (Billings)*



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September 15, 2008

Mr. Tom Konency  
Montana DNRC  
P.O. Box 201601  
Helena, MT 59620-1601

Dear Tom:

At your request, I have personally inspected and prepared an appraisal of the real property commonly known as Sale 467 in Sweet Grass County, Montana. The legal description appraised, per your appraisal order, is included in the body of the report.

The purpose of this appraisal is to estimate the current fair market value of an undivided 100% interest in the fee simple estate in the subject to be used in support of the decision making process concerning the potential sale of the subject. From my investigation and analysis, it is my opinion that the current fair market value of an undivided 100% interest in the fee simple estate in Sale 467, as if with legal access, on June 22, 2008, is:

**Sale 467      \$850,000**

The reader cannot completely understand this appraisal without reading the **"Special Assumptions and Limitations of Appraisal"** and "Assumptions and Limitations of Appraisal" sections of this report. Users should read and thoroughly understand those sections before relying on any information or analysis presented herein.

We genuinely appreciate the opportunity to serve your appraisal needs. Please call me at (406) 259-2220 with any questions regarding this appraisal report.

Sincerely,



Terry L. Rohrer  
MT General Certification #249

Encl.: Appraisal Report



**TABLE OF CONTENTS**

LETTER OF TRANSMITTAL

TABLE OF CONTENTS ..... 1

SUMMARY OF SALIENT FACTS ..... 3

SPECIAL ASSUMPTIONS AND LIMITING CONDITIONS ..... 4

ASSUMPTIONS AND LIMITING CONDITIONS ..... 4

FACTUAL DATA

Client and Intended Users .....	8
Intended Use of Appraisal .....	8
Purpose of the Appraisal .....	8
Definition of Current Fair Market Value .....	8
Date of Value Estimate .....	9
Property Rights Appraised .....	9
Scope of Work .....	10
Present Ownership and Identification of the Property .....	10
Legal Description .....	11
Area Description .....	12
Incidental Environmental Screen .....	14
Property Description .....	14
History .....	17
Subject Photographs .....	17
Subject Aerial Photograph .....	19

ANALYSIS AND CONCLUSIONS

Marketability Analysis .....	20
Highest and Best Use .....	21
The Appraisal Process .....	23
Cost Approach to Value .....	25
Sales Comparison Approach .....	26
Income Approach to Value .....	33
Valuation "As Is" Without Legal Access .....	34

RECONCILIATION AND FINAL VALUE ESTIMATE ..... 37

CERTIFICATION ..... 39

ADDENDUM ..... 41



**SUMMARY OF SALIENT FACTS**

1. Subject: Sale 467 in Sweet Grass County, Montana
2. Owners of Record: The State of Montana
3. Location: The subject is located about 5.5 miles northwest of Big Timber, Sweet Grass County, Montana
4. Interest Appraised: An undivided 100% interest in the fee simple estate in the subject real estate, unencumbered as of the effective date of value
5. Date of Value: The effective date of the estimate of current fair market value is June 22, 2008. The report was prepared between May 12, 2008 and September 15, 2008, the date the report was signed
6. Property Description: Presently, the subject is native range land used for livestock grazing. The subject is mostly open terrain sloping moderately to the east, bisected by Lien Gulch, a steep draw through the subject just south of its center.
7. Improvements: There are no improvements that contribute to the value of the subject.
8. Highest and Best Use: Local market conditions, present economics of commercial agriculture, and the subject's physical resources suggest a highest and best use as a recreational/residential tract, or as an add-on tracts to a larger, recreational ranch. Market data suggests that these related uses command similar prices in the subject market area.
9. Estimates of Value ("as if" with legal access):

Cost Approach	\$N/A
Sales Comparison Approach	\$850,000
Income Approach	\$N/A
10. Conclusion of Value ("as if" with legal access): \$850,000





## **SPECIAL ASSUMPTIONS AND LIMITING CONDITIONS**

1. The subject does not appear to have legal access. Conditions of this assignment require the appraisal of the subject "as if" it has legal access, then determination of the impact on value "as is," without legal access. Consequently, the subject is appraised first under the hypothetical condition that it is legally accessible.
2. The subject is currently leased to an individual for grazing livestock. These leases are typically for 10 year terms, with some likelihood of extensions for subsequent 10 year terms. Lease rates are typically below market rents, creating a positive leasehold interest in these tracts for the tenants. In order to appraise the current fair market value of the fee simple interest in the subject, we must do so subject to the hypothetical condition that the leases does not exist.

## **ASSUMPTIONS AND LIMITING CONDITIONS**

1. **LIMIT OF LIABILITY:** The liability of the Appraiser(s) and employees are limited to the client and to the fee collected. Further, there is no accountability, obligation, or liability to any third party. If this report is conveyed to anyone other than the client, the client shall make such party aware of all the limiting conditions and assumptions of the assignment and related discussions. The Appraiser(s) assume(s) no responsibility for any costs incurred to discover or correct any deficiencies of any type present in the property...physically, financially, and legally.
2. **COPIES, PUBLICATION, DISTRIBUTION, OR USE OF THE REPORT:** Possession of this report or any copy thereof does not carry with it the right of publication, nor may it be used for other than its intended use; the physical report remains the property of the Appraiser(s) for the use of the client, the fee being for the analytical services only.
3. **CONFIDENTIALITY:** This appraisal is to be used only in its entirety and no part is to be used without the entire report. The Appraiser(s) whose signature(s) appear on this report, unless indicated as "Review Appraiser," prepared all conclusions and opinions concerning the analysis set forth in the report. No changes to the report shall be made by anyone other than the Appraiser(s). The Appraiser(s) shall have no responsibility if any such unauthorized change is made.
4. **TRADE SECRETS:** This appraisal was obtained from the Appraiser(s) signing the report or associated independent contractors and consists of "trade secrets and commercial or financial information" which is privileged and confidential and exempt from disclosure under 5U.S.C.552(b)(4). Notify the Appraiser(s) signing the report of any request to reproduce this appraisal in whole or in part.
5. **INFORMATION USED:** No responsibility is assumed for accuracy of the information furnished by work of others, the client, his/her designees, or public records. The Appraiser(s) are not liable for such information or the work of possible subcontractors. The client is further advised that some of the people associated with the Appraiser(s) and possibly signing the report are independent contractors. The comparable data relied upon in this report have been confirmed with one or more parties familiar with the transaction or from affidavit or other sources thought to be reasonable; all are considered factual and appropriate for inclusion to the best of our judgment and knowledge. An impractical and uneconomic expenditure of time would be required in attempting to furnish unimpeachable verification in all instances, particularly as to the engineering and market-related information. It is suggested that the client consider independent verification as a prerequisite to any transaction involving sale, lease, or other significant commitment of funds for the subject property.
6. **TESTIMONY AND COMPLETION OF CONTRACT FOR APPRAISAL SERVICES:** The contract for appraisal, consultation or analytical services are fulfilled and the total fee payable upon completion

of the report. The Appraiser(s) or those assisting in the preparation of the report will not be asked or required to give testimony in court or hearing because of having made the appraisal, in full or in part, not engage in post appraisal consultation with the client or third parties except under separate and special arrangement for an additional fee. If testimony or deposition is required because of subpoena, the client shall be responsible for any additional time, fees, and charges regardless of issuing party.

7. EXHIBITS: The sketches and maps in this report are included to assist the reader in visualizing the property and are not necessarily to scale. Various photos, if included, are made available for the same purpose as of the date of the appraisal. Site plans are not surveys unless shown from a separate and qualified surveyor.
8. LEGAL, ENGINEERING, FINANCIAL, STRUCTURAL, MECHANICAL, HIDDEN COMPONENTS, SOIL: No responsibility is assumed for matters legal in character, nor nature, nor matters of survey, nor of any architectural, structural, mechanical, or engineering nature. No opinion is rendered as to the title, which is presumed to be good and merchantable. The property is appraised as if free and clear, unless otherwise stated in particular parts of the report.

The legal description is assumed to be correct as used in this report as furnished by the client, his/her designee, or as derived by the Appraiser(s).

Please note that no advice is given regarding mechanical equipment or structural integrity or adequacy, nor soils and potential for settlement, nor drainage (seek assistance from qualified architect and/or engineer); nor matters concerning liens, title status, and legal marketability (seek legal assistance). The lender and owner should inspect the property before any disbursement of funds; further it is likely that the lender or owner may wish to require mechanical or structural inspections by a qualified and licensed contractor, civil or structural engineer, architect, or other expert.

The Appraiser(s) has (have) inspected, as far as possible by observation, the land and improvements. However, it was not possible to personally observe conditions beneath the soil or hidden structural components. We have not critically inspected mechanical components in the improvements and no representations are made herein as to these matters unless specifically stated and considered in the report. The value estimate considers there being no such conditions that would cause loss of value. The land or soil of the area being appraised appears firm, however, subsidence in the area is unknown. The Appraiser(s) does(do) not warrant against this condition or occurrence of problems arising from soil conditions.

Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyls, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the Appraiser(s) become aware of such during the Appraiser(s)' inspection and investigation of the market area. The Appraiser(s) has (have) no knowledge of the existence of such materials on or in the property unless otherwise stated. The Appraiser(s) is (are), however, not qualified to test for such substances or conditions. If the presence of such substances such as asbestos, urea formaldehyde foam insulation, or other hazardous substances or environmental conditions, may affect the value of the property, the value estimated is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto that it would cause a loss in value. No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to discover them.

All mechanical components are assumed to be in operable condition and status for properties of the subject type. Conditions of heating, cooling, ventilating, electrical, and plumbing equipment are considered to be commensurate with the condition of the balance of the improvements unless otherwise stated. No judgment may be made by us as to the adequacy of insulation, type of insulation, or energy

efficiency of the improvements or equipment which is assumed standard for the subject age and type.

The Appraiser(s) assume(s) no responsibility for any costs or consequences arising due to the need, or lack of need for flood hazard insurance. An agent for the Federal Flood Insurance Program should be contacted to determine the actual need for Flood Hazard Insurance.

9. **LEGALITY OF USE:** The appraisal is based on the premise that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in the report; further that all applicable zoning, building, and use regulations and restrictions of all types have been complied with unless otherwise stated in the report; further, it is assumed that all required licenses, consents, permits or other legislative or administrative authority by local, state, federal and/or private entity or organization have been or can be obtained or renewed for any use considered in the value estimate.
10. **COMPONENT VALUES:** The distribution of the total valuation in this report between land and improvements apply only under the existing program of utilization.
11. The separate valuations for land and building(s) must not be used in the conjunction with any other appraisal and is invalid if so used.
12. **INCLUSIONS:** Furnishings, equipment, personal property or business operations, except as specifically indicated and typically considered as a part of real estate, have been disregarded with only the real estate being considered in the value estimate, unless otherwise stated. In some property types, business and real estate interests and values are combined.
13. **PROPOSED IMPROVEMENTS, CONDITIONED VALUE:** Proposed improvements, if any, on- or off - site, as well as any repairs required are considered for the purposes of this appraisal to be completed in a good and workman like manner according to information submitted and/or considered by the Appraiser(s). In cases of proposed construction, the appraisal is subject to change upon inspection of the property after construction is completed. This estimate of market value is as of the date shown, as proposed, as if completed and operating at levels shown and projected.
14. **VALUE CHANGE AND ALTERATION OF ESTIMATE BY APPRAISER(S):** The estimated market value, which is defined in the report, is subject to change with market movement over time; value is highly related to exposure, time, promotional effort, terms, motivation, and conditions surrounding the offering. The value estimate considers the productivity and relative attractiveness of the property physically and economically in the marketplace as it contributes to an economic or social need.
15. In the case of appraisals involving capitalization of income benefits, the estimate of market value or investment value or value in use is a reflection of such benefits and the Appraiser(s)' interpretation of income, yields, and other factors derived from general and specific client and other information. Such estimates are reported as of a specific date; they are thus subject to change since the market and value are naturally dynamic.
16. The "Estimate of Market Value" in the appraisal report is not based in whole or in part upon the race, color, creed or national origin of the present owners or occupants of the properties in the vicinity of the property appraised.
17. **CHANGE:** The appraisal report and value estimates are subject to change if physical, legal entity, or financing is different than envisioned at the time of writing this report and becomes apparent at a later date.
18. **MANAGEMENT OF THE PROPERTY:** It is assumed that the property which is the subject of this

report will be under prudent and competent ownership and management; neither inefficient nor super efficient.

19. APPRAISAL FEE: The fee for this appraisal or study is for the service rendered and not for the time present on the physical property or the physical report itself. The compensation (fee) for the preparation of this appraisal report has no relation to, and is not contingent upon the final values reported.
20. MODIFICATIONS: The Appraiser(s) reserve(s) the right to alter statements, analysis, conclusion or any value estimate in the appraisal if there becomes known to the undersigned facts pertinent to the appraisal process which were unknown to the Appraiser(s) at the time of report preparation.
21. MINERAL RIGHTS, NOISE AND ENVIRONMENTAL CONCERNS: Mineral rights, noise and environmental factors have not been given segregated consideration except as noted; they have been treated with the whole.
22. **Our client and any third party should understand that the State of Montana is a “nondisclosure” jurisdiction. Consequently, sale prices of real estate transactions are not publicly recorded, and few centralized sources of sale prices and terms concerning such transactions exist. Additionally, no one associated with a particular real estate transaction is obligated to release or verify sale prices or terms of the sale. Our client is hereby notified that it is possible there are sales of comparable properties of which the appraisers have no knowledge, or have only limited, incomplete knowledge. These sales have not been included herein, and received limited, if any, consideration in our analysis. The information presented herein is derived from sources deemed reliable and every effort has been made to insure its accuracy.**
23. **ACCEPTANCE OF AND/OR USE OF THIS APPRAISAL BY THE CLIENT OR ANY THIRD PARTY CONSTITUTES ACCEPTANCE OF THE ABOVE CONDITIONS.**

## **CLIENT AND INTENDED USERS**

This report is intended for the use of our clients, the State of Montana, the Montana Board of Land Commissioners, and the Department of Natural Resources and Conservation (DNRC). Use of this report by others is not intended by the appraiser.

## **INTENDED USE OF APPRAISAL**

This report is intended only for use by our clients and the intended users stated above for documentation and support of decisions regarding the potential sale of the subject. This report is not intended for any other use.

## **PURPOSE OF THE APPRAISAL**

The purpose of this appraisal is to estimate the current fair market value of an undivided 100% interest in the fee simple estate in the real estate legally described in the body of the appraisal report, located in Sweet Grass County, Montana, as if unencumbered on June 22, 2008.

## **DEFINITION OF CURRENT FAIR MARKET VALUE**

Both economic and legal definitions of market value, the focus of this appraisal assignment, have been developed and refined. Current fair market value, the focus of this assignment, is defined as follows:

"Current fair market value is the price that would be agreed to by a willing and informed seller and buyer, taking into consideration, but not limited to, the following factors:

- (1) the highest and best reasonably available use and its value for such use, provided current use may not be presumed to be the highest and best use;
  - (2) the machinery, equipment, and fixtures forming part of the real estate taken; and
  - (3) any other relevant factors as to which evidence is offered."
- (MCA 70-30-313)

This definition of market value must be considered in the context of an appropriate exposure time. Exposure time is the estimated length of time the property interest being appraised would have been offered on the market before the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon analysis of past events assuming a competitive and open market (USPAP, 2008-2009 Edition, SMT-6).

Exposure time varies with types of real estate and under differing market conditions. The reader should realize that the overall notion of reasonable exposure encompasses not only

adequate, sufficient and reasonable time but also adequate, sufficient and reasonable effort. Based on recent sales of similar properties in the subject's marketing area, a six to twelve-month exposure time for the subject is considered reasonable. Current market activity suggests that marketing time for the subject would likely from 6 to 12 months.

When considering sales of properties comparable to the subject, the appraiser must make adjustments for special or creative financing or sales concessions. No adjustments are necessary for those costs that sellers normally pay because of traditions or law in a market area; these costs are readily identifiable since the seller pays these costs in nearly all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third party institutional lender that is not already involved in the property or the transaction. The appraiser should not calculate any adjustments to value on a mechanical dollar cost of the financing or concession, but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

#### **DATE OF VALUE ESTIMATE**

The date of the value estimate is June 22, 2008, the date of inspection. Comparable sales were inspected and photographed during 1995 through 2008.

#### **PROPERTY RIGHTS APPRAISED**

The property rights to the deeded acreage being appraised are an undivided 100% interest in the fee simple estate, defined as:

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat (*The Dictionary of Real Estate Appraisal*, The Appraisal Institute, 4<sup>th</sup> Edition, 2002).

We know of no adverse easements, or deed or use restrictions, except zoning and normal police power restrictions, and typical utility easements. The appraisers made no detailed check of courthouse or other records; our knowledge is limited to a superficial examination of some records and casual conversations with people involved with this property. Users of this report should consult an abstractor or an attorney if they have any concern over these items.

## **SCOPE OF WORK**

The subject was inspected by driving along established trails and interior roads where possible, or by walking within the subject, and from a distance where immediate access was impossible, impractical, or unnecessary. Nearly all of the subject tract was observed, although some portions were only seen from a distance. Inspection of aerial photographs, satellite images, topographical maps, and other resources supplemented our physical inspection of both the subject and the comparable sales.

The subject is located northwest of Big Timber, on the bench overlooking Big Timber Creek, near the center of Sweet Grass County. We investigated the rural real estate market in Sweet Grass County, and determined that the entire county is the market area for the subject. Differences in location can largely be explained by specific attributes whose impact on value can be measured. The appraisers reviewed transfers of rural properties in the market area which occurred during the past five years for inclusion in the appraisal report. Older sales were used to extract specific adjustments from the market. Transactions occurring during the past eighteen to thirty months were given the greatest consideration, with those within 10 to 15 miles of Big Timber given the most weight.

We based information regarding soil types present on the subject and comparable sales on inspections by the appraisers and on the USDA Natural Resources Conservation Service (NRCS) Web Soil Survey (WSS). Acreage estimates and the number of acres in each particular use are based on owners' estimates and statements, FSA aerial photographs, and County Assessor estimates. The appraisers have resolved discrepancies between those sources, based on their judgements after on-site inspection of the subject and sales. *Montana Agricultural Statistics*, the Montana Department of Commerce, Travel Montana, and U.S. Bureau of the Census supplied data concerning area economic data, employment and unemployment statistics and general tourism trends in the state and region. Local agricultural producers contributed typical rental rates and "hands on" information concerning yields and carrying capacities.

Analysis of recent sales of rural properties suggested relevant trends in the subject market area. Realtors active in that locale and other knowledgeable parties supported those conclusions. Individuals knowledgeable of, or involved in, the actual sales employed in deriving the conclusions in this report provided pertinent details regarding those transactions. The appraisers viewed all comparable sale properties. Montana is a "nondisclosure" jurisdiction. There may be sales of comparable properties of which the appraiser(s) have no knowledge, or have only limited, incomplete knowledge. These sales have not been included and receive limited, if any consideration in this analysis. The information presented is derived from sources deemed reliable and every effort has been made to insure accuracy.

## **PRESENT OWNERSHIP AND IDENTIFICATION OF THE PROPERTY**

The State of Montana is the present owners of record of the subject.

## LEGAL DESCRIPTION

The legal description of the subject appraised, all in Sweet Grass County, Montana, is reported below:

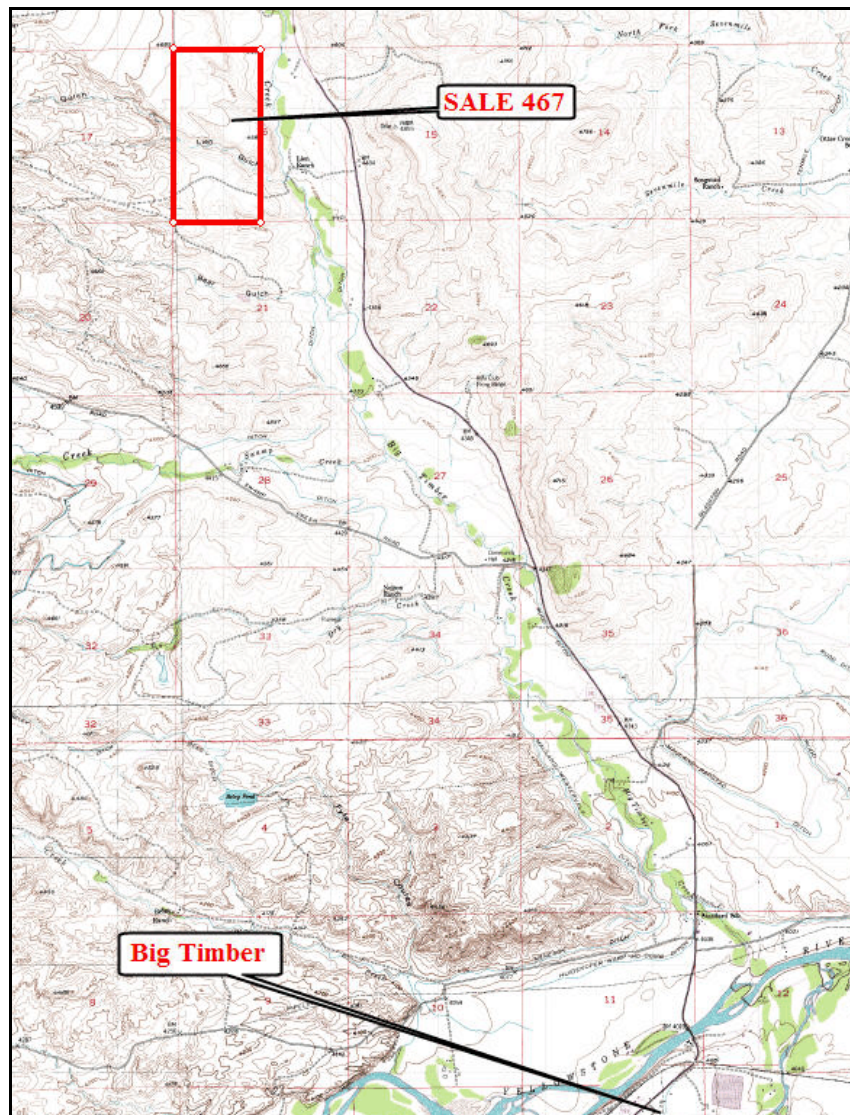
Sale 467:

Township 2 North, Range 14 East, M.P.M.

Section 16:     W½

The preceding legal descriptions were supplied by our client. The appraisers accept no liability for the accuracy of the subject legal description.

The topographic map below shows the subject, outlined in red, and its location related to that of Big Timber.





## **AREA DESCRIPTION**

The subject lies about 5.5 miles northwest of the central business district of Big Timber, Sweet Grass County, Montana. Sweet Grass County lies in south central Montana and encompasses about 1,839 square miles. The county is longer on its north-south axis (seventy-two miles) than it is wide on its east-west axis (thirty-six miles at the mid point). The Absaroka and Beartooth Mountain Ranges comprise most of the southern half of the county and include a part of the Gallatin National Forest and the Absaroka-Beartooth Wilderness Area. The Crazy Mountains and another unit of the Gallatin National Forest lie in the northwest corner of the county. Sweet Grass County is in the transition between the mountain area of western Montana and the open, rolling range of eastern Montana. The northeast part of the county resembles eastern Montana's plains. The Yellowstone River flows east to west through the center of the County.

Big Timber, the County Seat and the largest and most diverse community in the county, near its geographic center, had a population of about 1,557, according to the 1990 census...about forty nine percent of the total county population of 3,154 at that time. Between 1990 and 2000, the county population grew by about 14.43% to 3,609, the tenth fastest growing county out of fifty six in the state. This followed a decline of about 1.9% during the 1980s. According to the 2000 Census, Big Timber had a population of 1,650, a gain of 5.97% during the past decade.

ESRI estimates that Big Timber currently has about 1,732 residents, up 5.0% from 2000, and projects continued, slow growth to about 1,780 residents by 2013. Their current estimate of 3,775 county residents is up about 4.6% since 2000, and they expect county population to climb to about 3,775 persons by 2013.

The annual precipitation varies from 10"-20" with the higher rainfall found in the higher elevations. About 75% of the annual precipitation falls between April and September, with May and June usually being the wettest months. Normally there are 125 frost free days at the lower elevations. Mild weather is common during the winter and with moderate summer temperatures seldom above 90 . The average daily minimum is 7 in January and the average daily maximum is 84 in July. Day length at Big Timber ranges from 8.7 hours in December to 15.7 hours in June.

Short periods of severe weather are common in the area. Short blizzards occur during winter months. Summer heat can spur thunderstorms, often accompanied by gusty winds, lightning, cloud bursts, and hail. In most years, weather damages some crops in the county, although such damage is seldom widespread.

Interstate 90 follows the Yellowstone River through the county. Big Timber, the county seat, lies on Interstate 90 at the center of the county. U.S. Highway 191 begins in Big Timber and provides access to the northern half of the county. Billings, eighty miles to the east, Montana's largest city and the region's most important retail and trade center. Bozeman,

## *Ferguson Group (Billings)*

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Montana, sixty miles west, boasts Montana State University and has the nearest commercial air service. Big Timber has small, local airport suitable for small, private aircraft.

According to the USDA 2002 Census of Agriculture, some 357 farms/ranches operated on 867,058 deeded acres in 2002. The average size of operations in the county was about 2,429 acres, just slightly above the state average of 2,139 acres per farm/ranch. These numbers reflected a 15.5% rise in the total number of farms since the 301 counted in 1997, although most of that increase is likely due to a change in the official USDA definition of a farm.

Crop and livestock production, the principal industries in Sweet Grass County, have declined in importance relative to other service and retail industries in recent decades. In 2002, agricultural receipts totaled \$16,678,000, including \$14,992,000 in livestock receipts, \$1,686,000 in crop receipts, and \$623,000 in government payments.

By comparison, some 95 non-farm establishments in the county, with a total payroll of \$5,066,000, generated about \$49,990,000 in total receipts in 2002. Of these sales, about 32.1% were generated from retail activities, and another 75% were generated by retail activities. The county per capita personal income of \$17,880 is near the state average of \$21,067. In July of 2008, the county unemployment rate stood at about 1.7%, less than half of the state's 3.5% rate.

Development of the hardrock mine in the southeast corner of the county during the 1990s was largely responsible for recent population growth in the county. The mine is reportedly now in full production, and fully staffed, and will likely not provide much additional growth in the area.

A dentist, chiropractor, and medical doctor practice locally, with an ambulance service in operation. The nearest medical facilities are hospitals located thirty-four miles west in Livingston or thirty-eight miles east in Columbus.

There are many recreational opportunities available in and around Sweet Grass County with fishing the major attraction. Opportunities for hunting, camping and rafting abound as well. Yellowstone National Park is south of Sweet Grass County.

## **INCIDENTAL ENVIRONMENTAL SCREEN**

The appraiser inspected the subject and the area surrounding it in an attempt to detect apparent indications of the presence of environmental hazards. Apparent is that which is obvious, evident or manifest to the five senses during a physical inspection done with reasonable care.

We noted no evidence that the subject had ever been improved, lived on, or used for any purpose other than livestock grazing. Several farmsteads are located immediately east of the subject, but pose little risk to the subject as they lie at elevations almost 100 feet below the majority of the subject.

No other apparent, environmental hazards were noted on the subject or in the immediate vicinity. No one informed the appraiser of any other potential, environmental hazards either on the subject, in the immediate vicinity, or in the subject neighborhood, and no such conditions are known to exist. The appraiser makes no recommendation for action and the reader must determine what course of action is warranted. This investigation has been limited to apparent indications of environmental hazards, and the appraiser is not an expert. An inspection by an expert may reveal information that is contrary to that discovered by or assumed by the appraisers. The estimate of value herein assumes that the subject is free of environmental hazards that would adversely affect its value.

## **PROPERTY DESCRIPTION**

### Location and access

Sale 467 is reached by traveling about 5.5 miles north from Big Timber on U.S. Highway 191, then meandering to the west and slightly south on a graveled farm lane. This lane passes through the farmstead of the old Lien Ranch, and across a private bridge over Big Timber Creek. The trail west of Big Timber Creek is somewhat gravelly, but could become difficult to negotiate in inclement weather.

### Climate

The subject lies in a 15"-19" precipitation zone, with about 75% of the annual precipitation falling between April and September, with May and June usually being the wettest months. Normally there are 115 frost free days in the area. Mild weather is common during the winter and with moderate summer temperatures seldom above 90°. The average daily minimum is 7° in January and the average daily maximum is 84° in July. Day length at Big Timber ranges from 8.7 hours in December to 15.7 hours in June.

### Hazards and Detriments

The reader should refer to the previous section, INCIDENTAL ENVIRONMENTAL SCREEN, for potential, environmental hazards. Any hazards and detriments to agricultural production on the subject property are prevalent throughout the market area. These may include high winds, hail storms, and strong thunder storms during the summers, and deep

snows during severe winter and spring snow storms.

#### Easements and Encroachments

We are not aware of any detrimental easements or encroachments affecting the subject, or that could impact its value. The subject appears to only be fenced on the north, south, and west sides, and existing fences are assumed to accurately depict subject boundary lines, although the appraisers make no warranties in that regard, and readers of this report contemplating investment of funds in the subject should commission a land surveyor to establish subject boundary lines if certainty in this matter is of great importance to them. There are reportedly two private access easements (numbers 10355 and 14008) that rely on the trail across the subject for access to other private lands. These have no apparent impact on the subject, and are not likely to impact its value.

#### Zoning

The subject is located in rural Sweet Grass County. There are no county wide zoning ordinances in Sweet Grass County, although the property is subject to State of Montana regulations regarding flood plains and sanitation.

#### Covenants and Restrictions

There are no known covenants or restrictions on the use of the subject.

#### Utilities

Public telephone and electrical service are available near the subject, but do not appear to be immediately available. The cost to bring these utilities to the subject would be relatively small, and is not likely to impact its marketability or value.

#### Taxes and Assessments

The subject is not presently subject to real estate taxes as it is owned by the state. Nothing about the subject suggests that taxes levied against it under private ownership would be anything but typical for the area.

#### Water Rights

A search of Montana DNRC records, by place of use, revealed one water rights claim appurtenant to the subject. Water right statement of claim number 43B-136165-00, with a priority date of April 15, 1910, claims surface water directly from Lien Gulch for stock water use.

#### Minerals

Appraisal of mineral interests is beyond the scope of this appraisal, and no consideration of the value of any mineral interests in the subject is included herein.

#### Soils

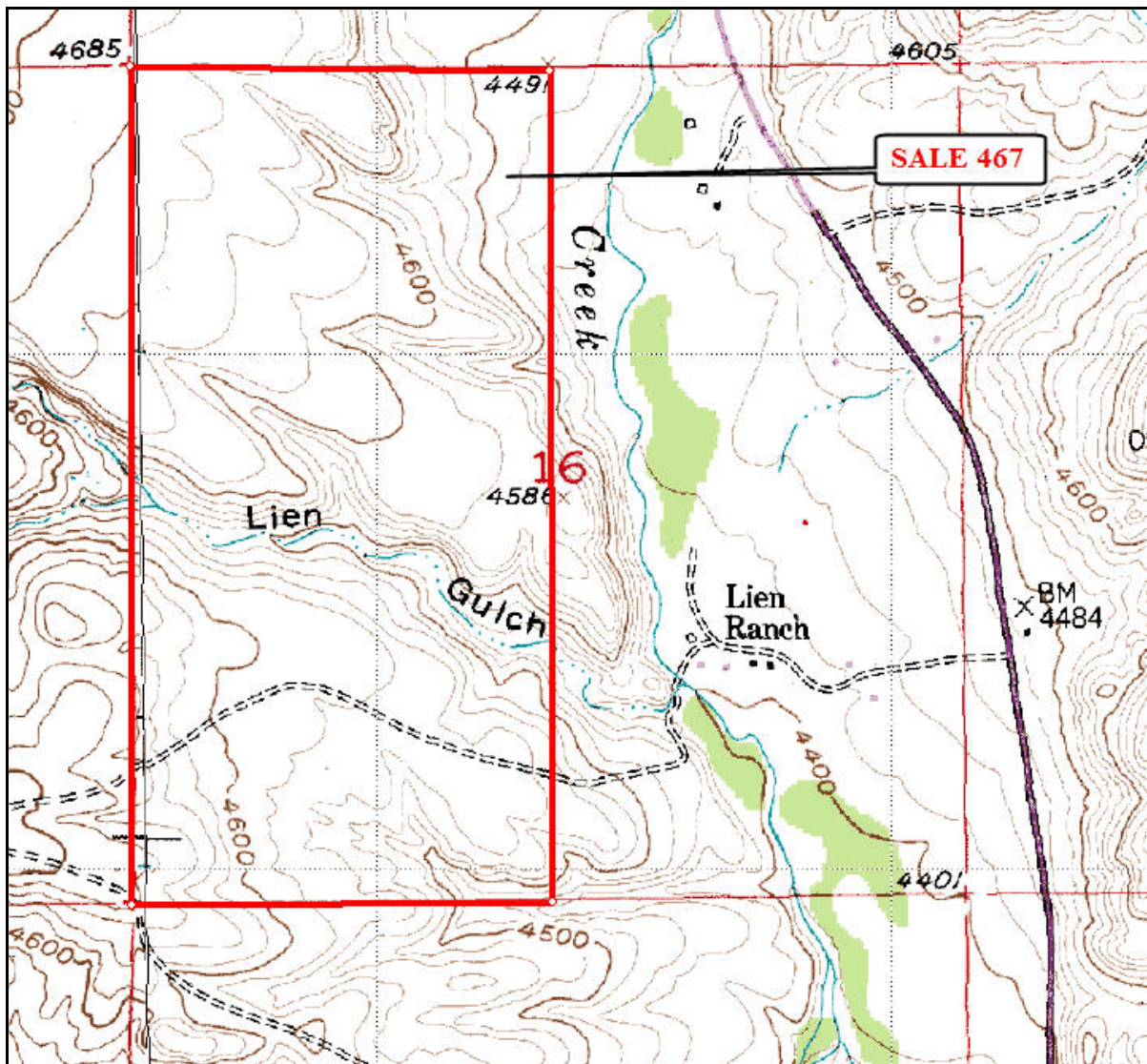
Analysis of recent sales in the subject market area reveals no measurable correlation between soils types and market values in the area. This finding is typical for the region. The USDA

## *Ferguson Group (Billings)*

web soil survey indicates that subject soils are predominantly loams and gravelly loams lying on 2% to 8% slopes, with the majority below 4% slopes. Small portions of the subject, along Lien Gulch and at the southern edge, are rated at 15 to 60% slopes. There are no apparent limitations on uses of the subject due to soil types or conditions.

### Topography

As shown in the topographical map below, most of Sale 467 lies on an elevated bench at about 4,600 feet, and sloped moderately toward Big Timber Creek to the east. Those moderate slopes break sharply toward Lien Gulch, dropping as much as 100 feet in elevation in a rather short horizontal distance. The elevated nature of the subject provides expansive, closeup views of the Crazy Mountains to the west, Big Timber Creek Valley to the east, and the Absaroka and Beartooth Mountains to the south.



Operation

The subject is currently leased to the owner of adjoining/surrounding land for livestock grazing. The subject is not fully perimeter fenced from the privately owned tracts under the same management. There are no developed sources of water on these tracts, although there seem to be few limitations preventing that improvement. It is likely that a shallow, productive well could be drilled along Lien Gulch for minimal cost, although there appears to be a spring-fed, intermittent stream flowing through this portion of the subject.

Improvements

There are no improvements on the subject.

Personal Property/Fixtures

There were no personal property items noted on the subject, none are considered necessary for of the subject achieve its current, highest and best use, and none are included in the estimate of value herein.

**HISTORY**

To our knowledge, the subject has not been offered for sale, and has not been the subject of offers or contracts for sale, during the past 3 years.

**SUBJECT PHOTOGRAPHS**



Looking south east from near the center



Looking south from near the center



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Looking north along the west boundary



Looking west up Lien Gulch

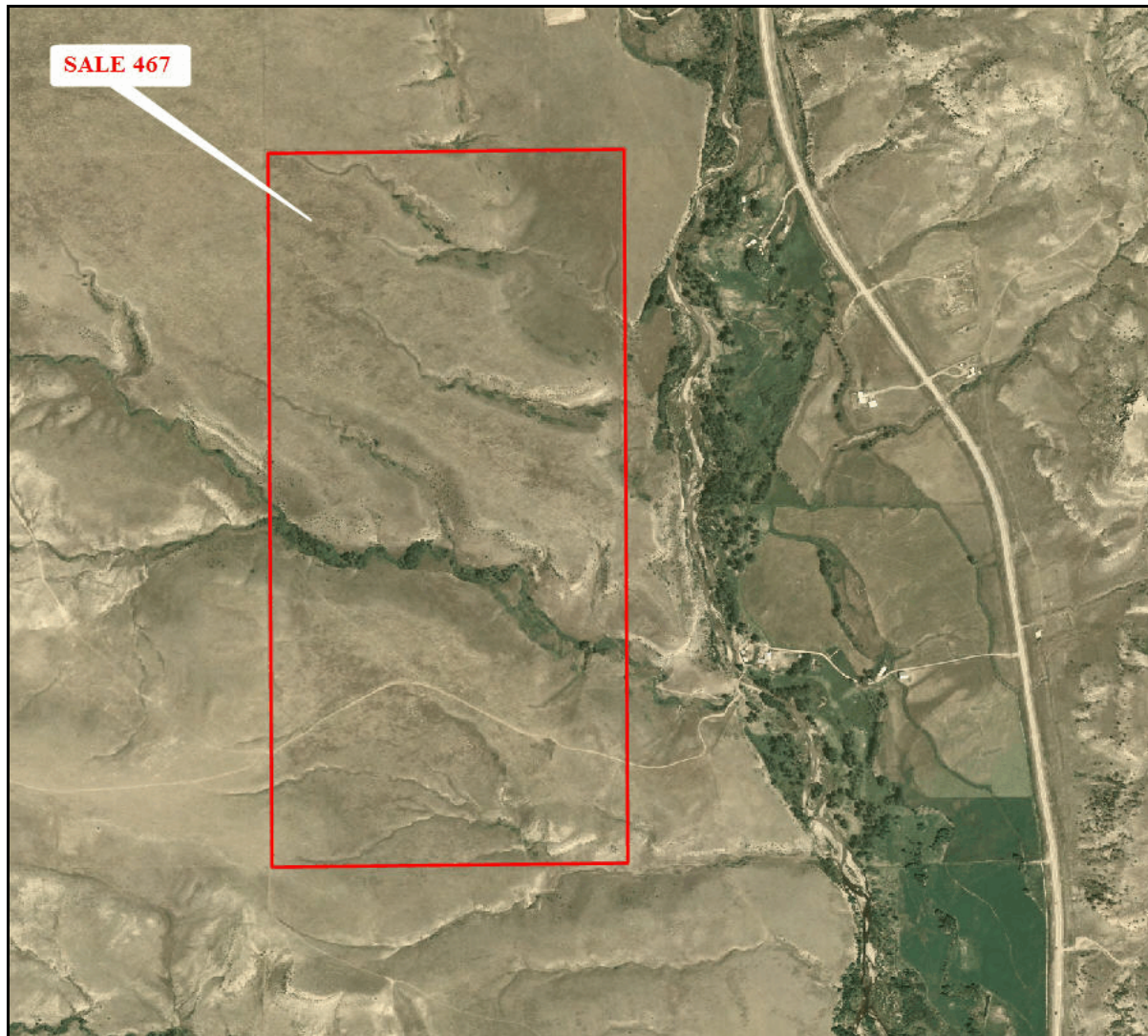


Looking west across the south end



Looking in to the northeast corner

**SUBJECT AERIAL PHOTOGRAPH**





## **MARKETABILITY ANALYSIS**

The subject market area has remained fairly active compared to most in the surrounding market areas during recent turmoil in the credit markets, although based on the number of closed sales, it has slowed substantially. We confirmed 14 sales that closed in 2006, 12 sales that closed in 2007, and 3 sales that closed in 2008, suggesting that the number of sales has dropped by about 50%. While brokers active in the subject market reported mixed experiences regarding number of contacts from prospective buyers, the number of closed sales clearly reflects a slower market. Brokers in the surrounding market areas are indicating that, while buyers capable of closing deals still exist, they are beginning to take a wait and see approach, recognizing that stagnant markets surrounded by falling markets will likely follow suit.

The 3 sales that closed in 2008 in the subject market, when compared to sales closed in earlier periods, continued to reflect rising prices. This is likely near the end for the current cycle, although judging the likely impact of current macro trends (credit crisis and slowing general economies throughout the world) on the subject market is difficult at best. Most of the recent sales in the area have involved absentee buyers, and many have involved absentee sellers as well. A high percentage of the local market participants have clearly been speculating/developing, quite likely with the expectation that the steady, strong inflation in local prices will continue. None of the most recent sales in the area appear to fall in this category, which could explain part of the diminished market activity.

There are 4 different owners neighboring the subject, plus 2 that have corners in common with the subject. Several of these expressed an interest in acquiring the subject. Under the assumption that the subject has legal access, it would be very competitive with current listings and recent sales in the subject market area. The subject would be expected to sell efficiently if priced reasonably and marketed professionally.

“As is,” without legal access, the subject is not considered marketable in the typical sense. The definition of a market specifies “many buyers and sellers,” not one or two sellers that would likely have an interest in these parcels because they own adjacent property. Except in very small, defined markets, we are not aware of any sales where the property was marketed without legal access and sold to a party who did not adjoin it. Current, ongoing litigation in a number of cases where the legality of access is in dispute suggests that no informed buyer would risk their capital in this manner.

## **HIGHEST AND BEST USE**

Highest and best use is defined as "that use which will yield the greatest net return to the land in the foreseeable future, or that legal use which will yield to the land the highest present value." This definition forms the essence of the highest and best use analysis. The property's highest and best use must be:

1. Legally permissible.
2. Physically possible.
3. Financially feasible.
4. Maximally productive.

Consideration is given to trends based on recent land sales, economic factors, and strength of the local market. An analysis of the highest and best use of the property forms a basis for the valuation of the property. Highest and best use serves as a guide in the selection of comparable sale properties to be used in the analysis of the subject.

The definition applies specifically to the highest and best use of the land. It is to be recognized that in cases where a site has existing improvements, the highest and best use may very well be determined to be different from existing use. The existing use will continue, however, unless and until value in its highest and best use exceeds the total value of the property in its existing use. These definitions infer a recognition of the contribution of existing specific uses to the community environment or to community development goals in addition to increasing the wealth of individual property owners.

Determination of highest and best use results from the appraiser's judgement and analytical skills, according to these definitions. The use determination from analysis represents an opinion, not a determination of fact. Thus, in this analysis, consideration must be given to that range of uses which is appropriate for the subject to support its highest value. Consideration must be given to alternative uses, and the existing use, the type of markets available in the area, and the surrounding use types.

There are few limitations to the legally permissible and physically possible uses of the subject. However, there are relatively few uses for which similar properties in the area have recently been purchased. By far the most prevalent are for recreational/residential use. While some buyers use their acquisition for livestock grazing, this is an interim use, and is not common among the smallest tracts most similar to the subject. Like the subject, many smaller tracts are not fully fenced. Many have no source of stock water. Also, many of these recent sales, upon inspection, show no indications that construction of a home is underway, or imminent. This suggests a strong, speculative element, at least partially based on past inflation, has existed in the subject market.

The subject market area has enjoyed a consistent inflation in values of near, or above, about 1% per month for most of the past decade. This trend has continued almost unabated, and the

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area that appears impacted by seems to have expanded. Many of the properties sold as larger tracts have been subdivided and re-listed. Others have been added to existing holdings of larger owners. No one of these uses has been predominant, but each has commanded values similar to the others, all other aspects being equal. Given current market conditions and the very limited income potential of the subject, the subject is judged to have a highest and best uses as an add-on tracts for a neighboring owners in its "as is" condition, lacking legal access. With legal access, the subject has a highest and best uses as a residential/recreational tract.

## **THE APPRAISAL PROCESS**

When sufficient data and information are available, the final opinion of value is based on considered correlation of values obtained from three basic approaches to value...the Cost Approach...the Income Capitalization Approach...and the Sales Comparison Approach. However, with some appraisal assignments obtaining adequate information to use all three approaches reliably is not possible or feasible. The appraiser typically applies those that have adequate data to give a reliable value estimate. We have given each of these traditionally acceptable approaches to value consideration in this appraisal.

The appraisal process and its corresponding approaches to value are predicated largely on the principle of substitution that infers that a prudent or knowledgeable purchaser will not pay more for a property than an equally desirable substitute property would cost, assuming no undue delays in the acquisition of that alternative property. On the other hand, a prudent or knowledgeable seller will sell for no less than what similar properties are selling for unless under undue duress. The appraiser conducted a detailed investigation of market transactions involving similar properties, and other related and relevant market information, including an individual analysis of buyers' and sellers' activities and motivations.

### Cost Approach to Value

In the cost approach, an estimated reproduction or replacement cost of the building and improvements is developed with an estimate of the loss in value that has occurred due to wear and tear, design and plan, or neighborhood and area influences. To the depreciated building cost estimate, entrepreneurial profit and the estimated value of the land are added. The total represents the value suggested by the cost approach.

### Sales Comparison Approach to Value

In the sale comparison approach, the appraiser compares the subject with similar properties that sold recently, and to pending sales and listed properties. Data for generally comparable properties are used and adjustments made to demonstrate a probable price at which the subject would likely be sold if offered on the market. Due to variation of features between properties, including location and size, and other amenities such as highway frontage, services or other factors that may affect value (either positively or adversely), analyzing several sales from which one can estimate the size of the adjustments is necessary. The appraiser adjusts each sale, reflecting the differences to the subject, based on knowledge of the sold properties and a thorough and detailed analysis of the general area including economics, growth, interviews with buyers, sellers, lenders, Realtors and other individuals knowledgeable of the area.

Income Capitalization Approach to Value

The income capitalization approach is an appraisal technique in which anticipated net income is processed to indicate the capital amount, or total investment which produces the net income. Analysis of the capitalized income gives an indication of market value of the property under consideration. Comparable properties were analyzed for income-producing potential on a share lease basis.

The income approach has been considered in this appraisal based on the income potential of the subject with its current production of dryland hay and grazing. Rental arrangements for irrigated crops and dry crop land in the area are typically on a crop share basis. Grazing land is typically rented on an Animal Unit Month basis.

The formula multiplying gross production times the commodity unit price, less the producers share and typical landlord expenses, is used to determine the net income potential from a lessor-landlord arrangement. It is recognized that this differs from an owner-operator analysis which determines the value of commodities sold and actual operating expenses of the "going concern." Treatment of comparable sales in the market in an identical manner to develop the market capitalization rate ensures valid analytical results using this methodology.

### **COST APPROACH TO VALUE**

In the cost approach, the values of component parts, as they contribute to the value of the property, are estimated. Under its current highest and best use as residential/recreational tracts, the subject has a single component with contributory value: the land. Further, the subject is entirely native range land (as opposed to tracts that may have irrigated and/or dry crop land, native range land, farmsteads, etc.). Typically, in the development of the cost approach, the land is valued by the sales comparison approach, and that value is added to the value of the other components, such as improvements. In the valuation of the subject, the cost approach and the sales comparison approach would produce identical results. Consequently, the cost approach is not developed further herein.

### **VALUE INDICATED BY THE COST APPROACH**

**\$N/A**

## **SALES COMPARISON APPROACH**

The sales comparison approach is based on the premise that an informed purchaser will pay no more for a property than the cost of acquiring an existing property with the same utility. In this approach, market value is estimated by comparing the sale prices of recent transactions involving properties similar to the property being appraised. Adjusting sale prices resolves dissimilarities of each comparable, equalizing its attributes with respect to the subject.

The reliability of the sales comparison approach depends on three factors:

1. The availability of sufficient comparable sales data
2. The ability to verify sales data and discern the true motivations of buyers and sellers
3. The existence of market sales that are reasonably comparable...requiring minimal adjustment to approximate the characteristics of the subject.

Of necessity, the estimate of value via the sales comparison approach is based on transactions that have already occurred. When market data are available, this approach is the best reflection of how typically informed and prudent buyers react to the market. The credibility of this approach is proportional to the number of recent comparable sales in the immediate area. These sales must be arms length transactions that include bona fide buyers and sellers.

The comparative analysis in this report focuses on differences between the legal, physical, locational, and economic characteristics of similar properties and the subject and differences in the real property rights conveyed, the dates of sale, the motivation of buyers and sellers and the financing arrangements for each sales transaction. All of the above specifics can account for variations in sale prices and appraisal values.

The appraisers analyzed and considered sales of rural properties in the subject market area which occurred during the past five years for inclusion in the appraisal report. The most recent sales were given the most weight, particularly since prices in the area have risen strongly during that period. Older sales assisted in developing necessary adjustments. Six sales include each of the subject components, are in the subject's market area, and are included in this report for direct comparison to the subject.

The initial step in the sales comparison approach is to reduce the total sale price of each sale to a per acre price. This is done by dividing the total, unallocated sale price of an individual transaction by the total, deeded acres transferred. That resulting quotient is reported as the Cash Equivalent Value Per Acre (CEV/Acre) in the adjustment grids presented in the following analysis. As discussed under the subsection titled Terms below, one adjustment could be required between division of the sales price by the acreage and the conclusion of CEV.

Analysis of area market data showed that the following adjustments were appropriate and relevant:

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### Terms

The method of adjustment used in this report is to adjust contract sales first to a cash basis, or the Cash Equivalent Value (CEV). Sale 2 sold with seller financing reportedly equal to conventional rates and terms, and the remaining 5 sales were financed with conventional loans, or sold for cash, and no adjustments were warranted.

### Market Conditions

Analysis of sales in the subject market area suggests that rural residential/recreational land prices have been trending strongly upward during the past decade. The 5 resales and 9 paired sales summarized in the following table provide the best measure of the rate of that increase. The following analysis and application of its results are based on monthly compounding. Annual rates are provided only for informational/comparative purposes.

<u>Pair</u>	<u>Period Covered</u>		<u>Inflation Rate</u>	
	<u>(Sale Dates)</u>		<u>Monthly</u>	<u>Annually</u>
	<u>Begin</u>	<u>End</u>		
Resale #1	3/1/1996	9/19/2006	1.0%	12.7%
Resale #2	7/15/2002	6/9/2006	1.0%	12.6%
Resale #3	6/4/2004	3/15/2006	4.5%	70.4%
Resale #4	3/15/2006	6/21/2007	4.8%	76.5%
Resale #5	6/17/1996	5/22/2008	0.7%	8.7%
Paired Sale #1	7/21/2000	3/31/2006	0.9%	11.7%
Paired Sale #2	7/21/2000	2/6/2007	1.3%	17.2%
Paired Sale #3	7/21/2000	3/16/2006	1.4%	18.1%
Paired Sale #4	7/21/2000	8/17/2006	1.1%	14.3%
Paired Sale #5	7/21/2000	7/10/2007	1.4%	17.7%
Paired Sale #6	1/11/1995	12/15/2005	1.2%	15.0%
Paired Sale #7	6/2/1995	12/15/2005	1.3%	16.9%
Paired Sale #8	7/13/1995	12/15/2005	1.2%	15.5%
Paired Sale #9	4/10/2001	6/9/2006	<u>1.3%</u>	<u>16.1%</u>
Average of Resales			2.4%	36.2%
Average of Paired Sales			1.2%	15.8%

Comparing the prices received for the sale and resale of the same property (resales) is the best way to measure inflation, particularly if the property has not changed substantially between the two sales. Resales 3 and 4 included the same property in all 4 transactions, with minimal differences. The rates of inflation indicated by these sales is not supported in the general market. Consequently, the overall average of 2.4% inflation per month indicated by averaging the 5 resales is overstated. When resales 3 and 4 are excluded, the remaining 3 resales suggest an inflation rate of about .9% per month, or 11.3% annually. The 9 paired sales suggest an average monthly inflation rate of 1.2%. In the following analysis, older sales are adjusted upward by a rate of 1% per month to reflect changing market conditions in the subject market area.



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### Land Mix

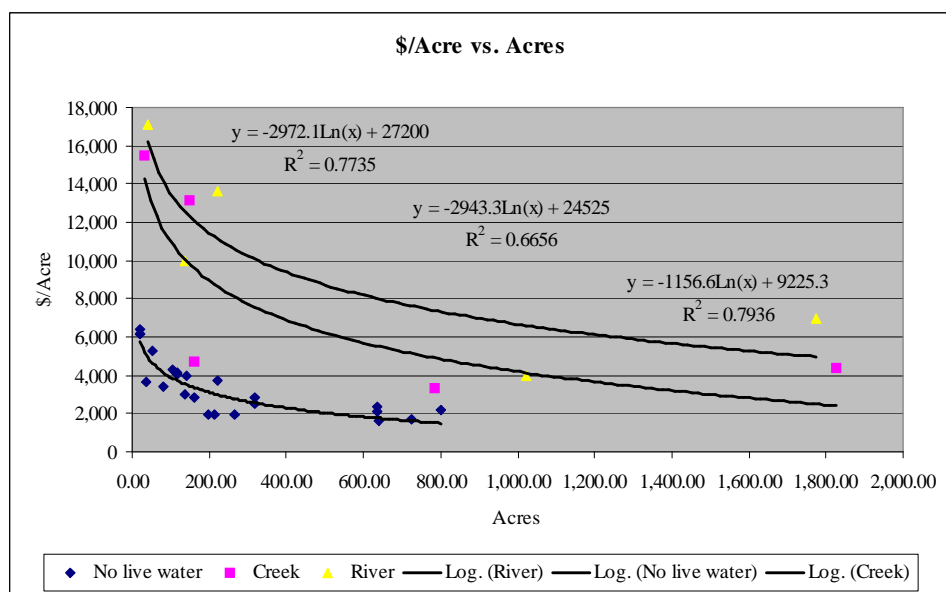
When the focus of buyers in the subject market area first began changing from agriculture to residential and recreation, there was some evidence that land use impacted value. For instance, irrigated crop land typically contributed more per acre than native range land, all other aspects being equal. However, in recent sales, differential values based on agricultural use is not evident or measurable. Consequently, no adjustments are made for different uses. Variations in sale prices, and prices per acre, are explained by other characteristics.

### Location

Most of the sales included herein are within about 10 miles from Big Timber, similar to the subject. For the most part, differences in the exact distance from Big Timber, within this limited area, has little impact on values. However, there is some evidence that parcels to the north of Big Timber, at the outer edges of this 10 mile radius and beyond, sell for less than those closer in. This is a generalization that cannot be easily quantified, and no dollar adjustment is made. In those instances where it is likely an issue, it is addressed in the reconciliation below.

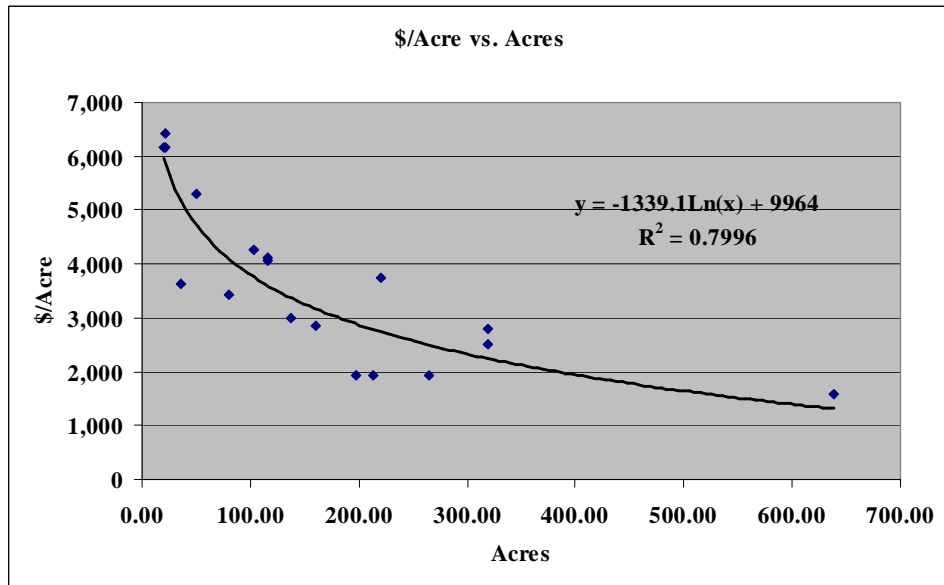
### Size

We considered closed sales ranging between about 15 and about 3,500 deeded acres. The following chart shows the results from graphing 38 of those sales, after adjusting for time at the rate indicated above. There are three sets of data, divided as follows (in order of value from highest to lowest): (1) sales with frontage on the Yellowstone or Boulder Rivers; (2) sales with frontage on Big Timber Creek; or, (3) sales with frontage on smaller, less renowned creeks, or without creek frontage. As the chart reveals, values per acre tend to drop as size increases, and based on the tier of data the sale is in (category 1, with Yellowstone or Boulder River frontage being the highest value tier, and sales with little or no creek influence being the lowest tier). Because the subject lacks river or creek frontage, the sales included were selected from the third tier.



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Size adjustments in the following analysis are based on the chart below. This chart, like the previous one, shows the relationship between the size of sales and the price per acre realized in those sales, after accounting for inflation in the subject market area. This chart is based on 18 of those sales graphed earlier, and none of these sales have river or creek frontage that contributed to their value. These sales were also selected as they mostly closely bracket the sizes of the individual subject parcels. These sales range from 20.0 to 640 acres.



The equation that best fits these data are shown by the smooth line. The equation of that line is shown in the upper right portion of the chart. Below that equation is an  $R^2$  value of .7996. In layman's terms, this measure suggests that about 80% of the variation in prices per acre indicated by these sales can be explained by the differences in their overall size. The slope of this line indicates that, as the total size of the tract increases, the price per acre declines. This is a rather typical finding, usually attributable to the declining number of buyers who can fund larger transactions.

The size adjustments shown in the following adjustment grids are calculated from the equation shown in the preceding chart. First, the value of the subject is estimated by replacing the "x" in the formula by the acreage of the subject. Then, the value of each sale is calculated in the same way, replacing the "x" with the total acreage included in a given sale. The adjustment to that sale is simply the remainder from subtracting the calculated value of the sale from the calculated value of the subject. If the sale is smaller than the subject, a negative result is calculated, and a negative adjustment is made to equate that sale to the subject. If a positive result is calculated, the subject is "better" than that sale, and an upward adjustment is made.

### Improvements

There are no improvements on the subject, and none of the sales included improvements. Consequently, no adjustment is warranted.

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### Adjustment Grids:

The adjustment grid below summarizes the results of these adjustments applied to the 6 sales.

	<u>Sale #7</u>	<u>Sale #8</u>	<u>Sale #9</u>	<u>Sale #10</u>	<u>Sale #11</u>	<u>Sale #12</u>
Size:	138.05	160.00	264.62	319.40	319.76	639.16
<u>Date:</u>	<u>03/31/06</u>	<u>05/23/07</u>	<u>06/09/06</u>	<u>03/20/07</u>	<u>08/08/06</u>	<u>11/04/05</u>
CEV/Acre	\$2,282	\$2,500	\$1,512	\$2,405	\$2,002	\$1,152
Time	\$703	\$345	\$427	\$387	\$515	\$432
Size	(\$972)	(\$802)	(\$220)	(\$2)	(\$1)	\$800
Creek	\$0	\$0	\$0	\$0	\$0	\$0
<u>Improvements</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Adjusted Price/Acre	\$2,013	\$2,043	\$1,719	\$2,790	\$2,516	\$2,383
Indicated Subject Value	\$644,160	\$653,760	\$550,080	\$892,800	\$805,120	\$762,560

### Sales 7

Sale 7 is about .25 miles northeast of the subject. This tract is about a mile long and only about .25 miles deep, and fronts a busy highway for more than a mile. The parcel is very steep throughout, rising nearly 300 feet in elevation in about .25 miles. Except for its smaller size, there is nothing about this parcel that would induce a buyer to prefer it to the subject. After adjusting for changing market conditions and size, Sale 7 suggests a subject market value of \$2,013 per acre, or \$622,160 overall.

### Sale 8

Sale 8 is about 7.4 miles southeast of the subject, and is a rather plain, moderately sloping tract with good views. Adjustments for changing market conditions and size were required, and this adjusted sale suggests a subject market value of \$2,043 per acre, or \$653,760 overall.

### Sale 9

Sale 9 is located about 14 miles southeast of the subject, overlooking Interstate 90 to the north, the State Prairie Dog Park immediately to the east, and the Big Timber Water Slide less than a half mile to the north. This tract slopes almost entirely to the north east, limiting views mostly to the Yellowstone River Valley and the Crazy Mountains in the distance. After adjusting for improving market conditions and size, this sale suggests a subject market value of \$1,719 per acre, or \$550,080 overall.

### Sale 10

Sale 10 is located about 9.5 miles southeast of the subject, and is a recent sale almost identical in size to the subject. This sale is open and moderately sloping from the south over about its southern half, then rises more steeply toward its northern end. The southern half is open, native range land, and the northern end is lightly timbered pasture. Expansive views of the Crazy, Absaroka, and Beartooth Mountains are available from this parcel. This adjusted sale suggests a subject market value of \$2,790 per acre, or \$892,800 overall.

Sale 11

Sale 11 is located about 9.5 miles southeast of the subject, adjacent to Sale 10, and is a recent sale almost identical in size to the subject. This sale is open and moderately sloping from the south over about its southern half, then rises more steeply toward its northern end. The southern half is open, native range land, and the northern end is lightly timbered pasture. Expansive views of the Crazy, Absaroka, and Beartooth Mountains are available from this parcel. This adjusted sale suggests a subject market value of \$2,516 per acre, or \$805,120 overall.

Sale 12

Sale 12 is located about 9.5 miles southeast of the subject, and is an earlier sale that included the two tracts identified as Sales 10 and 11, above. This sale is open and moderately sloping from the south over about its southern half, then rises more steeply toward its northern end. The southern half is open, native range land, and the northern end is lightly timbered pasture. Expansive views of the Crazy, Absaroka, and Beartooth Mountains are available from this parcel. This adjusted sale suggests a subject market value of \$2,383 per acre, or \$762,560 overall.

These sales only required time and size adjustments to equate them with the subject. These adjusted sales suggest a subject market value between \$1,719 and \$2,790 per acre, or between \$550,080 and \$892,800 overall.

Sale 10 establishes the lower end of these indicated ranges, and is furthest from the subject and from Big Timber, surrounded by tourist attractions that result in moderate to heavy traffic in its immediate vicinity. Sale 10 significantly understates the current market value of the subject. Sales 7 and 8 establish indications of subject value toward the lower end of the indicated range. Sale 7 fronts a busy highway, while Sale 8 has limited recreational appeal within its borders. These two sales establish the very lowest end of the subject's likely value range.

Sales 10, 11, and 12 establish the likely subject value range, between \$2,383 and \$2,790 per acre, or from \$762,560 to \$892,800 overall. Sale 10 is a recent sale, and Sales 10 and 11 are nearly identical in size to the subject. These three sales also have some recreational appeal from their internal characteristics, most similar to the subject.

We also considered 4 recent sales that adjoin the subject. Each of these sales is bisected by Big Timber Creek, three included improvements, and ranged in size between 33 and 1,825 acres. All sold for a significant premium over Sales 7 through 12, even after accounting for differences in the time of the sale, and in the total size. Two of these sales were in a single, contiguous parcel, and two were divided into two non-contiguous parcels. One of those two divided sales was split by the highway, with about a third of the acreage not contiguous to the part bisected by Big Timber Creek. The other sale was divided by the subject, with about 80% of the total acreage not contiguous to that part bisected by Big Timber Creek.

We attempted numerous methods to measure the impact of these difference on value. We used paired sales analysis to determine a difference in value between tracts with, and without creek frontage, then applied a “land mix” adjustment to those two split sales to equate them with the subject. We used regression analysis to determine the value contributed by creek frontage to these sales, both on a lump sum basis, and on a “per mile of creek” basis, then applied these adjustments to these 4 sales to equate them to the subject.

Each of these attempts to quantify the impact of creek frontage on values resulted in a wide range in values from the adjusted sales. In each case, the range bracketed the range suggested by adjusted Sales 7 through 12, but was much lower on the low end and much higher on the high end. No series of adjustments we attempted resulted in a different outcome. It is likely that this is due to the specific motivation of the parties involved in these 4 sales. The smallest sale was only about 10% of the subject size, so would have a much greater universe of potential buyers. The other three sales were purchased by two different buyers, and efforts to verify their motivations were unsuccessful.

The buyer who purchased two of these sales demolished the improvements on one, but has not done so on the other. The other buyer quickly subdivided their acquisition and listed it for sale in 4 tracts for 4 times their purchase price. We cannot resolve the differences between these sales, but they loosely support the indications from Sales 7 through 12. These 4 are given little weight in our conclusions.

Sales 10, 11, and 12 are given the most weight. Sales 10 and 11 are the same size as the subject, and are weighted more heavily than Sale 12. Sale 10 is the most recent of those three sales, and is weighted more heavily than Sales 11 or 12. Based on these sales, we have concluded that the current fair market value of the subject’s 320.0 acres is \$2,650 per acre, “as if” it has legal access.

Summary of the Sales Comparison Approach:

320.0+/- acres at \$2,650 per acre = \$848,000

**Value indicated by the Sales Comparison Approach**

**Sale 467      \$850,000**

## **INCOME APPROACH TO VALUE**

The income approach to value is an appraisal technique which converts anticipated benefits (dollar income or amenities) to be derived from the ownership of property into a value estimate. The technique considered in this appraisal was to take the income flow from the subject property and "capitalize" that income flow to arrive at an estimate of the subject market value. The "capitalization rate" used in any given situation is derived from the marketplace; more specifically from the income flows and sales prices of properties which have sold that are comparable to the subject. Simply put, the capitalization rate of a sold comparable property is calculated by dividing the annual net operating income (NOI) of that property by its sale price.

The income approach to value was considered in developing an estimate of market value for the subject. Generally, capitalization rates suggested by the comparable sales considered in the accompanying analysis fell below 1.00%, and some even indicated "negative" returns on investment. A growing number of tracts of all sizes in the area are being purchased for recreational and/or residential purposes, with income generation only a secondary consideration. In some instances involving the purchase of relatively large tracts of grazing land, the buyers expressed no intent to utilize the land in an economic endeavor.

Such low returns to invested capital, or limited focus on the income potential of agriculturally oriented properties, is fairly common in areas where recreational and/or residential demand is as strong a component in the market as it is in the subject market area. Consequently, the income approach to value becomes more of a mathematical exercise than a reliable process for measuring buyer and seller attitudes toward income generating real estate.

Due to these factors, valuation of the subject through the income approach to value is not considered a reliable methodology in the valuation of the subject, and development of that approach is not fully documented herein.

## **VALUE INDICATED BY THE INCOME APPROACH**

**\$N/A**

## **VALUATION “AS IS” WITHOUT LEGAL ACCESS**

As noted earlier, while the subject is readily accessible physically, it has no apparent legal access except that available to adjoining land owners. Typically, such tracts sell at a discount to an adjoining land owner when the owner decides to sell. Often, the only benefit owners of such tracts receive is an annual property tax expense, and the surrounding owner has free use of the grazing or hunting or other resources and benefits that can be derived from it.

Typically, appraisers consider one or more methods or processes to estimate the value of tracts without legal access. One method is to compare the subject to a similar property in the immediate vicinity of the subject that sold recently, and lacked legal access. Ideally, this would involve sales of properties that sold to buyers who did not own adjoining land. We have never seen such a sale, despite .

Another method begins with an opinion of value developed in the same manner as summarized in the preceding sections of this report, the value of the subject “as if” it had legal access. Then, an opinion is developed as to the appropriate discount from market value that should be applied to that preliminary estimate. That discount is measured by comparing prices of recent sales of rural land that lacked legal access to the prices of recently sold, similar properties that had legal access. Again, this would involve sales of properties that sold to buyers who did not own adjoining land, and we have never seen such a sale, in spite of repeated, extensive searches for such.

In markets where property where values and income differ by use, a reduction in income that might arise from the lack of legal access, or restricted access, is capitalized by some to estimate a loss in value due to the lack of legal access. Development of market rents and capitalization rates from sales of properties lacking legal access is unlikely, with results severely lacking in credibility, and with significant potential to be misleading.

It must be noted that none of these methods is likely to approximate the current fair market value of an undivided 100% interest in the fee simple estate of a property that lacks legal access. First, the fee simple interest implies that all of the bundle of rights are available to the seller to transfer to a prospective buyer. Lack of legal access limits or eliminates a number of the basic rights inherent in the bundle of rights: the right to use the property; the right to lease the property; and the right to enter the property.

Secondly, while not expressly included in the definition of market value at MCA 70-30-313, the concept of market value normally includes the premises that: 1) the buyer and seller are typically motivated; and 2) a reasonable time is allowed for exposure to the open market. While data can often be found to measure the discount applicable to the sale of a landlocked parcel to an adjoining land owner, we have never seen a sale where a number of prospective buyers without adjoining lands have pursued a property lacking legal access, and one of those individuals closed the deal.

## *Ferguson Group (Billings)*

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Following are the results from our efforts to estimate an appropriate discount from the current fair market value of an undivided 100% interest in the fee simple estate of the subject due to its lack legal access

### **1) Direct comparison to similar properties.**

We found no recent sales of tracts in the subject market area that could be compared directly to the subject.

### **2) Valuation using market derived discounts.**

The typical method for valuing tracts without legal access begins by developing an opinion of value of the subject “as if” it had legal access. Then, an opinion regarding an appropriate discount to apply to that value is developed by comparing prices of recent sales of land that lacked legal access to the prices of recently sold, similar properties that had legal access. Usually, the number of these types of transactions, and pairs of transactions, are very limited.

The following table summarizes the comparison of one sale in the subject market area (about 10 miles northwest of the subject) that reportedly sold without legal access. This is a comparison between the value of the native range land value on the property lacking access and range land values suggested by two other sales which had legal access at the time of the sale. Comparing the third sale to the second suggests the indicated size adjustment. Then comparing the time and size adjusted values indicated by these two sales suggests a loss in value to the first sale, due to its lack of legal access, of 38.9%, rounded to 40%.

	<u>No Access</u>	<u>Access</u>	<u>Access</u>
Size:	280.00	120.00	295.00
<u>Date:</u>	<u>Dec-99</u>	<u>Mar-99</u>	<u>Feb-99</u>
CEV/Acre (Range)	\$314	\$583	\$477
Time	\$0	\$41	\$37
Size		(\$110)	
<u>Improvements</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Adjusted Price/Acre	\$314	\$514	\$514
		38.9%	38.9%

This is near the center of the overall range resulting from similar analyses conducted in markets throughout eastern Montana during the past 15+ years. These are instances where the buyers and sellers reached agreement. The highest measured discounts have been about 75%, and the lowest around 25%. The lower discounts were seen where two adjoining land owners were offered an opportunity to purchase the tract without legal access. Conversations with several parties involved in litigation over lack of legal access to their property have revealed that adjoining landowners have offered to purchase their property for discounts approaching 75%, and they would not accept these offers.



## *Ferguson Group (Billings)*

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In May of 1998, a buyer purchased a section of land about 18 miles east of the subject. While this tract had legal access, it was rough and not to the buyer's liking. He purchased a mile long easement along a fence line to the nearest county road. This route was along the southern edge of dry crop land, and likely did not encumber any crop acres. The owner paid \$25,000 for this easement, then spent about \$31,000 improving it to provide year around access. At that time, dry crop land was worth about \$425 per acre, and native range was worth about \$321 per acre. The easement would have encumbered less than 2.5 acres, suggesting a cost equal to about \$10,000 per acre of easement area, or about 23 times the value of dry crop land. The cost of the easement equaled nearly 12% of the purchase price of the land acquired by this buyer.

Another sale occurred in November of 2003 about 5 miles northwest of the subject. After an appropriate marketing period, an agreement to sell and purchase this property, which included 2 non-contiguous tracts, was negotiated at a price where the land contributed about \$1,205 per acre. Access was by easement across a neighbor's land, and this easement was to include access to the second tract. However, this easement was reportedly only for the benefit of the seller, was only for agricultural and recreational purposes, and could be revoked by that neighbor.

In order to close this transaction, the sellers had to agree to pay half the cost of acquiring a nonexclusive easement to replace the existing, restrictive easement. The new easement cost about \$14,235 per acre for the roughly 8.43 acres encumbered, approximately 12 times the value of the fee simple interest in the land, for "unrestricted, perpetual, nonexclusive access." However, permissive uses were only for "hunting and other recreational uses," which likely precludes subdivision of these lands. The transaction involving the easement represented about 6% of the purchase price agreed to before the easement was negotiated.

The preceding data suggest a discount of 40% for the lack of legal access when a neighboring land owner agrees to acquire a land locked parcel, and when less than the full bundle of rights are available for the seller to sell, and provides a broad range of indications approximating the "cost to cure" a lack of legal access, primarily based on the personal circumstances of the parties involved. None of these situations provides a means by which to estimate the current fair market value of an undivided 100% interest in the fee simple estate in the subject "as is," lacking legal access. Application of any of these rates toward that purpose would be misleading, at best.

**RECONCILIATION AND FINAL VALUE ESTIMATE**

The appraisal approaches documented in this report have produced the following indications of market value of a 100% undivided interest in the fee simple estate in Sale 467, “as if” it has legal access, as of June 22, 2008:

Cost Approach		\$N/A
Sales Comparison Approach		
	Sale 467	\$850,000
Income Approach		\$N/A

Because the subject includes only an unimproved tract with a single land use in a market where land values do not vary due to different uses, and where very few buyers are motivated by the income potential of their acquisition, only the sales comparison approach is considered relevant and meaningful in the valuation of the subject. The sales comparison approach is valid when a sufficient number of recently sold, similar properties have occurred, and can be identified and verified. Subject characteristics, particularly size, location, and market appeal, are well bracketed and represented in the available market data, resulting in a relatively narrow spread between the most comparable, adjusted sales. Sufficient sales in the subject area were available to establish confidence in the indicated adjustments. Applying those adjustments to less comparable sales provided almost identical results compared to those resulting from the most comparable sales. Consequently, the sales comparison approach yields a reliable and credible estimation of the subject's market value.

**VALUE ESTIMATE OF THE SUBJECT AS A WHOLE:**

**Sale 467      \$850,000**

**CERTIFICATION**

The appraiser(s) hereby certify that:

1. I have no present interest in the property appraised; neither the employment to make the appraisal nor the compensation for it is contingent upon the appraised value of the property.
2. I have no personal interest in or bias with respect to the subject matter of the appraisal report or the participants to the transaction. The "Estimate of Market Value" in the appraisal report is not based in whole or in part upon the race, color or national origin of the prospective owners or occupants of the property appraised or upon the race, color or national origin of the present owners or occupants of the properties in the vicinity of the property appraised.
3. I have personally inspected the property and have made an inspection of all comparable sales listed in the report. To the best of my knowledge and belief, all statements and information in this report are true and correct and I have not knowingly withheld any significant information.
4. All contingent and limiting conditions are contained herein.
5. All conclusions and opinions concerning the real estate that are set forth in the appraisal were made by the appraiser whose signature appears on the report. No change of any item in the appraisal report shall be made by anyone other than the undersigned and we shall have no responsibility for any such unauthorized change. This report was prepared by the undersigned appraiser.
6. My compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
7. The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
8. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute and the American Society of Farm Managers and Rural Appraisers, which include the Uniform Standards of Professional Appraisal Practice.
9. The use of this report is subject to the requirements of the Appraisal Institute and the American Society of Farm Managers and Rural Appraisers relating to review by its duly authorized representatives.



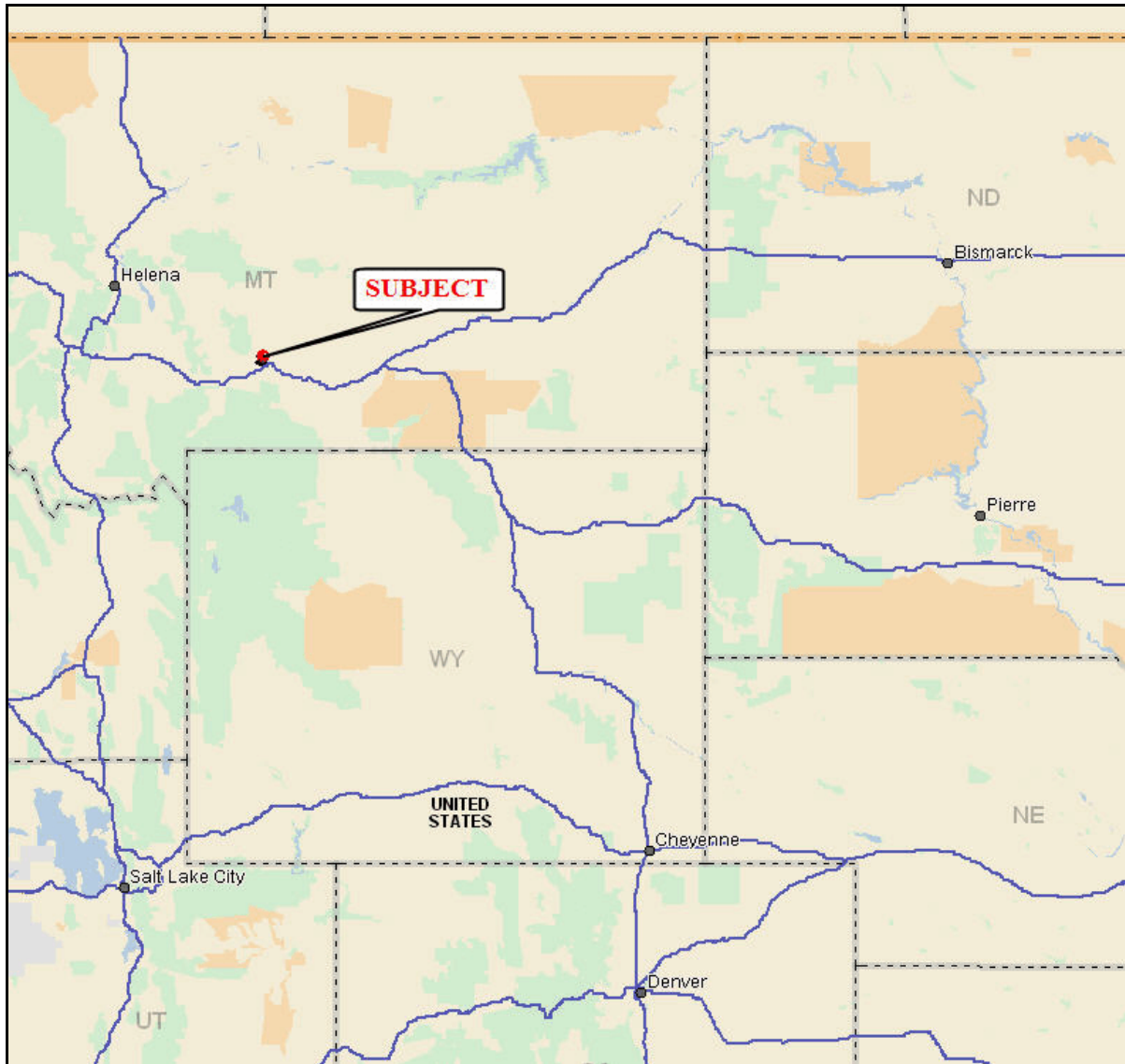
Terry L. Rohrer, Fee Appraiser  
MT General Certificate #249  
Date: September 15, 2008



**ADDENDUM**



**REGIONAL MAP**



## **QUALIFICATIONS**

**TERRY L. ROHRER**

### **BUSINESS EXPERIENCE**

6/93 - Present: Independent Real Estate Fee Appraiser...Presently self-employed as an independent fee appraiser, contracting with various individuals, lenders and appraisers to appraise single family and multi-family residential properties, vacant land, agricultural properties, recreational properties, special use properties, commercial properties, subdivisions, and businesses.

4/91- 6/93: Lead Residential Appraiser, MT Department of Revenue...responsible for directing 6 appraisers in establishing market values for over 45,000 residential parcels in Yellowstone County valued in excess of \$2.3 billion...including detached, single family residences, condominiums, mobile homes, and vacant land...solely responsible for the development, calibration and application of 8 residential market models to estimate the current market values.

1/90 - 4/91: Ranch Manager...working manager of the Oarlock Ranch for Connecticut Mutual Insurance company. In addition to day to day operations, responsible for estimating proposed capital expenditures, and making various improvements within the established budget.

2/87 - 3/90: Assistant County Supervisor, Farmers Home Administration...primarily responsible for farm and ranch appraisals, single family dwelling appraisals, and property (both real and chattel) inspections to assess the condition and value of loan collateral...for loan liquidations, inventory property management, and new loan making activities.

### **EDUCATION**

1/08	Appraisal Institute, Valuation of Conservation Easements
1/08	Appraisal Institute, Hypothetical Conditions and Extraordinary Assumptions
1/08	Appraisal Institute, 7-Hour National USPAP Update Course
1/07	Appraisal Institute, National USPAP Update Course
9/06	Appraisal Institute, Subdivision Valuation
3/06	ASFMRA, A-25 Eminent Domain
3/06	ASFMRA, A-29 Highest and Best Use
1/06	Appraisal Institute, 550 Advanced Applications
12/05	Appraisal Institute, Business Practices and Ethics
12/05	Appraisal Institute, 530 Advanced Sales Comparison and Cost Approaches
10/05	Appraisal Institute, 520 Highest and Best Use and Market Analysis
9/05	Appraisal Institute, 510 Advanced Income Capitalization
5/05	Appraisal Institute, 540 Advanced Report Writing and Valuation Analysis
5/05	Appraisal Institute, 15 Hour National USPAP Online Equivalent Course
4/05	Appraisal Institute, Feasibility, Market Value, Investment Timing: Option Value
4/05	Appraisal Institute, Introduction to GIS Applications for Real Estate Appraisal
3/05	Appraisal Institute, Analyzing Distressed Real Estate
2/05	ASFMRA, A-12 Part III, 7 Hour National USPAP Update Course
4/03	Appraisal Institute, Analyzing Operating Expenses
3/03	Appraisal Institute, Small Hotel/motel Valuation: Limited Service Lodging
3/03	Appraisal Institute, Appraisal of Nursing Facilities



## *Ferguson Group (Billings)*

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3/03	Valuation of Detrimental Conditions in Real Estate
4/01	The FHA and the Appraisal Process
9/99	IBA 1009, Succession Planning
9/99	IBA 1002, Application of the Market Approach
9/99	IBA 1010, Report Writing and Analysis
9/99	IBA 1012, Appraising for Estate and Gift Tax
9/99	IBA 1003, 10 Advanced Steps to Take Appraisals From Ordinary to Outstanding
9/99	IBA 1004, 12 More Steps to Take Appraisals From Ordinary to Outstanding
8/99	IBA, 8001B-Valuation of Closely Held Businesses
5/99	IBA, 8001A-Valuation of Closely Held Businesses
11/98	BREM, Valuing a Business
11/98	ASB, Uniform Standards of Professional Appraisal Practice
3/97	IRWA Course 401, The Appraisal of Partial Acquisitions
2/97	ASFMRA, Uniform Standards of Professional Appraisal Practice
8/94	ASFMRA A-20, Principles of Rural Appraisal
4/94	Appraisal Standards Board-appraisal Foundation, Uspap Revisions
5/93	ASFMRA A-10, Fundamentals of Rural Appraisal
3/93	IAAO Course II, Income Approach to Valuation
10/92	IAAO Course I, Fundamentals of Real Property Appraisal
11/91	NAIFA Course 5.0, Professional Standards of Practice
8/89	FmHA, Farm and Ranch Appraisal Training
8/89	FmHA, Rural Housing Appraisal Training
10/87	FmHA, Appraisal Training
8/87	FmHA, New Construction Training
5/87	FmHA, Rural Housing Appraisal Training
3/87	FmHA, Farm, Ranch, and Chattel Appraisal Training
1/86-4/86	Montana State University, Graduate School of Economics
9/80-12/85	Montana State University, B.S.-Agricultural Business

### **ADDITIONAL EDUCATION/EXPERIENCE**

1989-Present: Owner and manager of Ferguson Group (Tulsa) Ltd.'s Billings office...The Ferguson Group is a consulting group with offices in 7 states providing management and financial assistance in improving profitability within family owned or closely held small businesses ...community banks...and commercial production agriculture. Besides providing a broad range of professional support services, the FERGUSON GROUP is also active in strengthening local management's business and financial skills via intensive workshop/seminar training.


### **PROFESSIONAL ASSOCIATIONS**

Associate Member-Appraisal Institute

Candidate Member-American Society of Farm Managers and Rural Appraisers

## APPRAISER'S STATE CERTIFICATIONS

<b>STATE OF MONTANA</b>		<b>Specialty:</b>
<b>Department of Labor and Industry</b>		
<b>Board of Real Estate Appraisers</b>		
This verifies the below named is currently licensed as a Certified General Appraiser		
<b>License #:</b>	<b>249</b>	<b>Active</b>
<b>Expires:</b>	<b>03/31/2009</b>	
TERRY L. ROHRER TERRY ROHRER 629 EGGBRECHT LANE BILLINGS, MT 59108		
		VERIFY YOUR LICENSE AT ► <a href="http://LicenseLookup.mt.gov">LicenseLookup.mt.gov</a> RENEW YOUR LICENSE AT ► <a href="http://LicenseRenewal.mt.gov">LicenseRenewal.mt.gov</a>

<b>Permit Number 387</b>	<b>STATE OF WYOMING</b>	<b>NON TRANSFERABLE</b>
		<b>No. 23803</b>
<b>CERTIFIED REAL ESTATE APPRAISER PERMIT</b>		
<b>TERRY L. ROHRER</b> CERTIFIED GENERAL APPRAISER AS PROVIDED FOR BY THE LAWS OF WYOMING.		Issued: 07/24/2006 Expires: 07/23/2009
FERGUSON GROUP (BILLINGS) 629 EGGBRECHT LANE BILLINGS, MT 59106-2631	AUTHORIZED BY THE WYOMING CERTIFIED REAL ESTATE APPRAISER BOARD WITNESS MY HAND AND THE OFFICIAL SEAL AT CHEYENNE, WYOMING.  <i>Donna L. Rice</i> Donna L. Rice Executive Director	