SUMMARY OF SALIENT FACTS AND IMPORTANT CONCLUSIONS

SUBJECT PROPERTY: Portions of the Preliminary Plat of Skyview Ridge Subdivision, 1st Filing

PROPERTY ADDRESS: Located south adjacent to Wicks Lane and west of Governor's Boulevard, Billings, Montana 59105

LEGAL DESCRIPTION: The lots appraised for sale as *residential lots* are described as follows:

Lot 1, Block 3
Lot 1, Block 4
Lot 1, Block 5
Lot 1, Block 6
Lot 1, Block 9, and
Lot 1, Block 12 of the Preliminary Plat of Skyview Ridge Subdivision, 1st Filing, located in Yellowstone County, Montana.
and
Lot 45, Block 34, of Continental Divide Subdivision, 1st Filing, located in Yellowstone County, Montana.

The lots appraised as *commercial ground lease lots* are described as follows:

Lots 1-9, Block 1
Lots 1 & 2, Block 2 of the Preliminary Plat of Skyview Ridge Subdivision, 1st Filing, located in Yellowstone County, Montana.

POLITICAL ENTITY: City of Billings

OWNER OF RECORD: State of Montana

IMPROVEMENTS: There are no above-ground improvements on the real estate that is the subject of this report, save for the site improvements in the street that fronts Lot 45, Block 34, of Continental Divide Subdivision, 1st Filing, on Kootenai Avenue. These improvements consist of asphalt pavement, curb and gutter, and all city utilities. As far as the appraiser is aware, there are no utilities stubbed into any of the real estate that is the subject of this report.

ZONING: Varied – see individual section write-ups in the report

HIGHEST AND BEST USE:

Lots 1-4, Block 1	Community Commercial
Lots 5-9, Block 1	R-6000
Lot 1, Block 2	Neighborhood Commercial
Lot 2, Block 2	Residential Professional
Lot 1, Block 3	R-9600
Lot 1, Block 4	R-9600
Lot 1, Block 5	R-7000R
Lot 1, Block 6	R-7000R
Lot 1, Block 9	R-7000R
Lot 1, Block 12	R-7000R

of the Preliminary Plat of Skyview Ridge Subdivision, 1st Filing, located in Yellowstone County, Montana.

Lot 45, Block 34	R-9600

of Continental Divide Subdivision, 1st Filing, located in Yellowstone County, Montana.

PROPERTY TAX DATA: Tax ID: X00427: $3,058.00 (2008 total). No delinquency noted. No SID's.

Tax ID: A27674: $ 299.82 (2008 total). No delinquency noted. No SID's.

FINAL CONCLUSIONS OF VALUE:

Legal Description	Zoning Class	Estimated Value
Lots 1-4, Block 1	Community Commercial	$920,000
Lots 5-9, Block 1	R-6000	$425,000
Lot 1, Block 2	Neighborhood Commercial	$420,000
Lot 2, Block 2	Residential Professional	$250,000
Lots 1, Blocks 3 & 4	R-9600	$ 85,000
Lots 1, Blocks 5, 6, 9, & 12	R-7000R	$365,000
of the Preliminary Plat of Skyview Ridge Subdivision, 1st Filing, located in Yellowstone County, Montana.		
Sub-Total		$2,465,000
Lot 45, Block 34	R-9600	$ 6,500
of Continental Divide Subdivision, 1st Filing, located in Yellowstone County, Montana.		
Grand Total		$2,471,500

EFFECTIVE
DATE OF VALUE: 4 May 09

BACKGROUND

The Appraisal Group, Ltd., was asked to perform a contemporary appraisal of (1) the value of the real property rights of selected real estate for the purpose of eventual sale and, (2) the value of the real property rights of selected real estate for the purpose of engaging in long-term ground leases. The Appraisal Group, Ltd., was officially retained by the client on 30 Jun 08. Subsequent extensions of time were granted to the appraiser to finish the project.

IDENTITY OF THE CLIENT AND INTENDED USERS

The client is the Montana Department of Natural Resources and Conservation (DNRC), P.O. Box 201601, Helena, MT 59620-1601, and the authorizing agents were Mr. Jeff Bollman and Mr. Richard Moore of the DNRC's Southern Land Office, 1371 Rimtop Drive, Billings, MT 59105. The intended users of this report are the client, the State of Montana, the Montana Board of Land Commissioners, and their assigns.

INTENDED USE OF THE APPRAISAL

The intended use of the appraisal shall be to aid in or support decisions related to the disposition of property pursuant to the Land Banking statutes found in MCA 77-2-362, et.seq., and to utilize the property for long-term rental uses; for the determination of the compensation to be paid for the lease or license on said subject property.

PROPERTY RIGHTS APPRAISED

The property rights appraised are those of the surface rights of the property ownership subject to any easements or reservations of record – in this case the greater subject property parcel area is known to contain a significant surface easement for a major power line that crosses the area. In addition, there is a large subsurface underground pipeline that crosses the greater subject land parcel.

PURPOSE OF APPRAISAL AND DEFINITION OF VALUE

Current Fair Market Value, as used in the following report, is defined in MCA 70-30-313 as:

> 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.

EFFECTIVE DATE OF APPRAISAL AND DATE OF REPORT

The effective date of the value estimate contained in this report is contemporary – as of the last date of inspection – 4 May 09. Photographs of the subject property included in this report were taken on the last date of inspection. This written appraisal document was completed on 20 Jun 09.

SCOPE OF WORK USED TO DEVELOP THE APPRAISAL

The appraisal problem to be solved is this: the client desires to know the value of certain real property, as described herein, for the purpose of either (1) selling, or (2) leasing same. All valuations will involve assumptions or conditions – which do not exist as of the date of appraisal – but are assumed for the purposes of this report. The Appraisal Group, Ltd., was officially retained by the client on 30 Jun 08.

-

The scope of this appraisal, specifically, the extent of the process of collecting, confirming, and reporting data, is presented as a means of conveying the methodology employed in assembling data. The scope of this appraisal included a detailed inspection of the subject site and the subject improvements and a review and analysis of neighborhood development trends. The subject property is analyzed using all appropriate, accepted valuation techniques and the appraisal process includes the assemblage, verification and analysis of all appropriate market data; and finally, reconciliation of the property's value.

In this particular appraisal, several sources are utilized for both general and detailed information pertaining to the subject property, the comparable sales and rental information and the area real estate market. Data sources include, but are not limited to, office files, market participants including brokers, agents, investors, buyers and sellers, lenders, the Yellowstone County Clerk and Recorders Office, the Yellowstone County Assessors Office, the Billings/Yellowstone County Planning Department, and information from the property owners.

Historical development cost estimates derived from the engineering offices of Sanderson Stewart, Inc., were relied on to project construction cost estimates for infrastructure and off-site developments that relate to this specific appraisal.

Portions of this report include an income or subdivision development approach to value. No analysis of project feasibility with respect to project analysis or supply and demand analysis was undertaken in this report. No housing demand forecasts or analyses of competing projects or project absorption were conducted. See *extraordinary assumptions*.

All sales utilized in this report are contained in a separately bound addendum and are not included as part and parcel of this report.

PERSONAL PROPERTY / FIXTURES / INTANGIBLE ITEMS

No items of personal property, fixtures or intangible items are included in the value estimates provided herein.

ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal report has been made with the following ***general assumptions***:

1. No responsibility is assumed for the legal description or for matters including legal or title consideration. Title to the property is assumed to be good and marketable unless otherwise stated.

2. The property is appraised as if free and clear of any and all liens or encumbrances unless otherwise stated. ***No title report was provided to the appraiser.***

3. Responsible ownership and competent property management are assumed.

4. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.

5. All engineering and architectural data is assumed to be correct. The plot plans, building plans, and all other illustrative material in this report are included only to assist the reader in visualizing the material.

6. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging engineering studies that may be required to discover them.
7. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the appraisal report.

8. Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyl’s, 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 become aware of such during the appraiser's inspection. The appraiser has no knowledge of the existence of such materials on or in the property unless otherwise stated. The appraiser, however, is not qualified to test 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 herein 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, or for any expertise or engineering knowledge required to discover them.

9. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a non-conformity has been stated, defined, and considered in the appraisal report.

10. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained herein is based.

11. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.

12. This appraisal report has been made with the following ***extraordinary assumptions:***

- Even though the lots within the preliminary plat of Skyview Ridge Subdivision that are the subject of this appraisal are, at the effective date of this report, lots that do not legally exist, they are nonetheless officially zoned as notated in this appraisal report. This appraisal assumes that all zoning in Skyview Ridge Subdivision reflects the highest and best use of the lots as platted in the preliminary plat.

- Although the report does include an income or subdivision development approach to value on certain residential properties, no analysis of project feasibility with respect to project analysis or supply and demand analysis was undertaken in this report. No housing demand forecasts or analyses of competing projects or project absorption were conducted. This appraisal assumes that Skyview Ridge Subdivision is an economically viable project and reflects the highest and best use of the lots as platted in the preliminary plat.

13. This appraisal report has been made with the following ***hypothetical conditions:***

- The lots that are the subject of this appraisal and legal description are, at the effective date of this report, lots that exist *only* as the result of a preliminary plat – they do not legally exist as official lots because the plat has not been recorded. This appraisal assumes that the subject lots are in fact legal, are represented as part and parcel of a final recorded plat (Skyview Ridge Subdivision), and represent the highest and best use of the land. The lone exception to this stipulation is Lot 45, Block 34, of Continental Divide Subdivision, 1st Filing, which is, in fact, a legally platted lot of record.
- Currently, there are no off-site improvement charges that accrue to the subject property; this report assumes that there will be off-site improvements constructed and the cost of same will be borne in full by the future developer.

This appraisal report has been made with the following ***general limitations*:**

1. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.

2. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event only with proper written qualification and only in its entirety.

3. The appraiser herein by reason of this appraisal is not required to give further consultation, testimony, or be in attendance in court with reference to the property in question unless arrangements have been previously made.

4. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, sales, or other media without the prior written consent and approval of the appraiser.

IDENTIFICATION OF THE REAL ESTATE INVOLVED IN THE APPRAISAL

This appraisal concerns approximately 63.44 acres of real estate that currently has *preliminary* plat status – as of the effective date of value it is the real estate composing two phases of a first filing of a much larger conceptual subdivision located in the “Heights” area of Billings. The subdivision’s name is Skyview Ridge Subdivision; the larger and remaining portion of the subdivision (some 223.335 acres +/-) has yet to receive preliminarily plat status.

Sales History: The State of Montana has owned all the real estate that is the subject of this report for many years. A review of public records reveals no change of ownership with respect to the subject properties in the three-year period preceding the effective date of this appraisal report.

Tax Information: The Yellowstone County Assessor's records for the subject property reflect the following:

Assessment and Tax Information

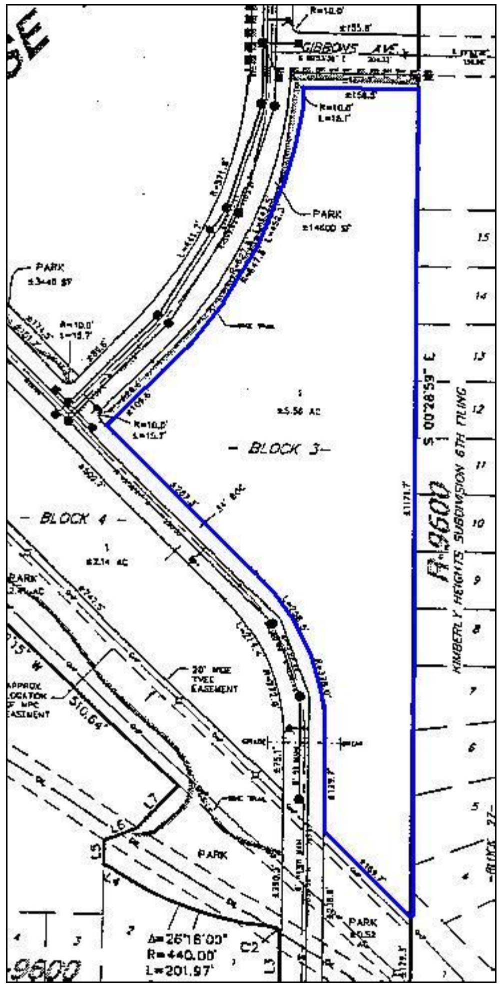
Tax Code		Market Value	2008 Taxes
X00427	Land (All other)	$13,258	
	Improvements	0	
Total		$13,258	**$3,058.00**
A27624	Land (Lot 45, B34)	$33,169	
	Improvements	0	
Total		$33,169	**$299.82**

Taxes reported above are for the 2008 tax year and pertain to real property only. Public records indicated that taxes were current as of the effective date of this appraisal report.

Assessments: There are no ongoing maintenance charges for SID’s.

Individual Tract/Parcel Descriptions: There are several parcels that are the subject of this report. Below is the legal description and representative plat of each parcel within the Preliminary Plat of Skyview Ridge Subdivision, 1st Filing, and within Continental Divide Subdivision, 1st Filing. The outline of each respective lot is bordered in blue and factual information for each lot is listed below its respective plat depiction.

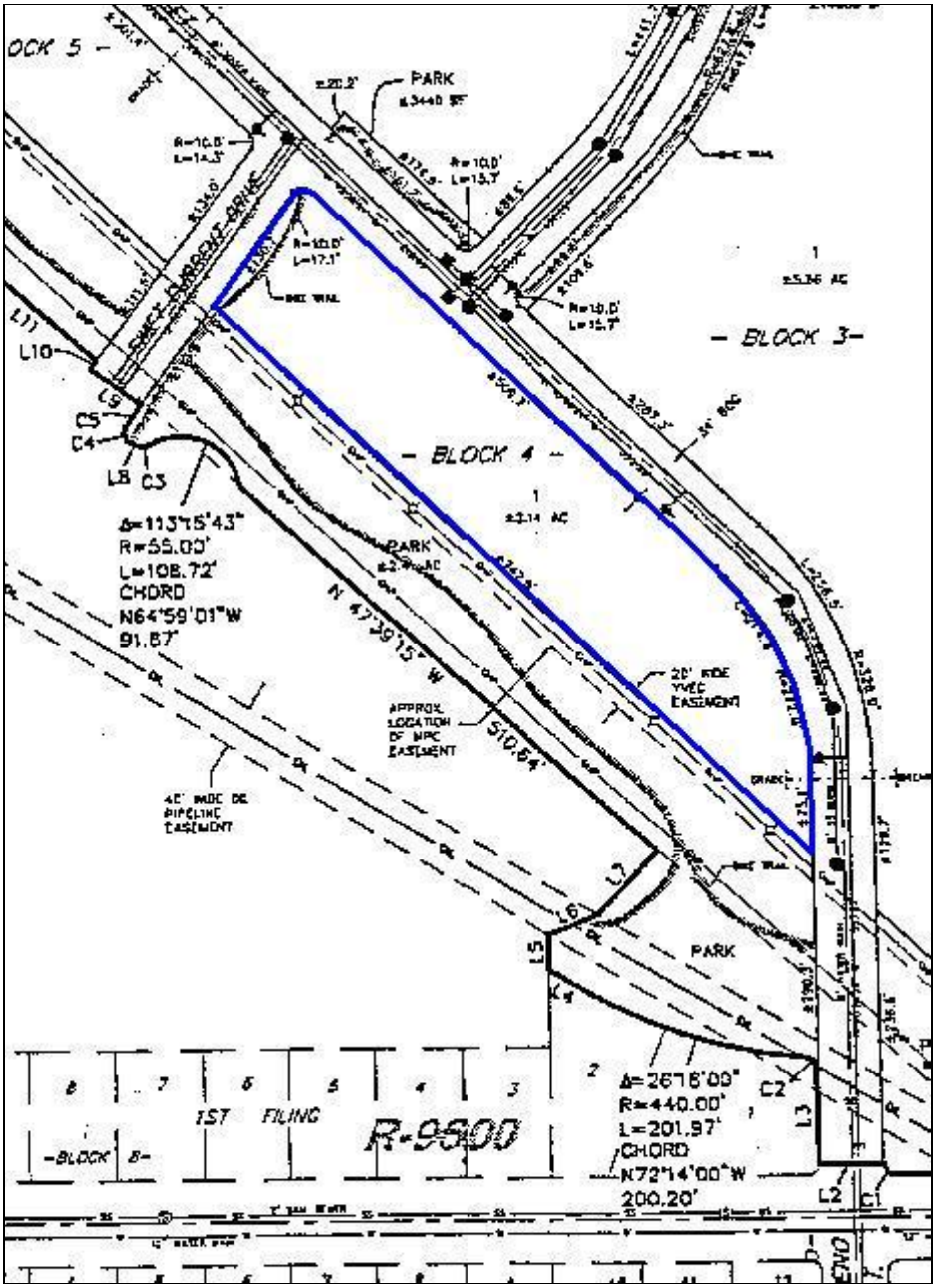
Legal Description: Lot 1, Block 3, Skyview Ridge Subdivision, 1st Filing



Lot Size: 5.56 acres (+/-), or 242,194 sq.ft. (+/-)

Zoning: R-9600 (Residential, Single-Family)

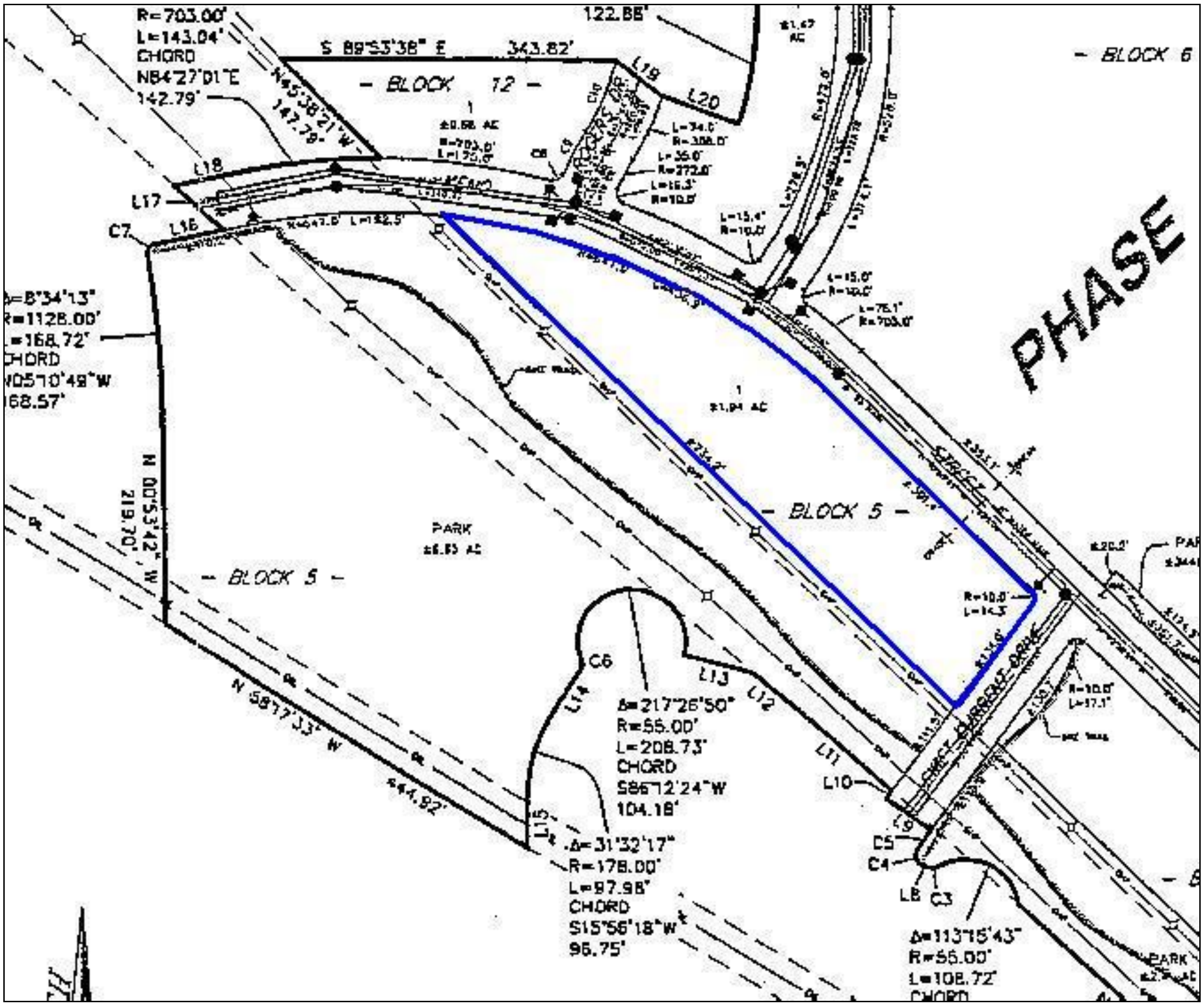
Legal Description: Lot 1, Block 4, Skyview Ridge Subdivision, 1st Filing



Lot Size: 2.14 acres (+/-), or 93,218 sq.ft. (+/-)

Zoning: R-9600 (Residential, Single-Family)

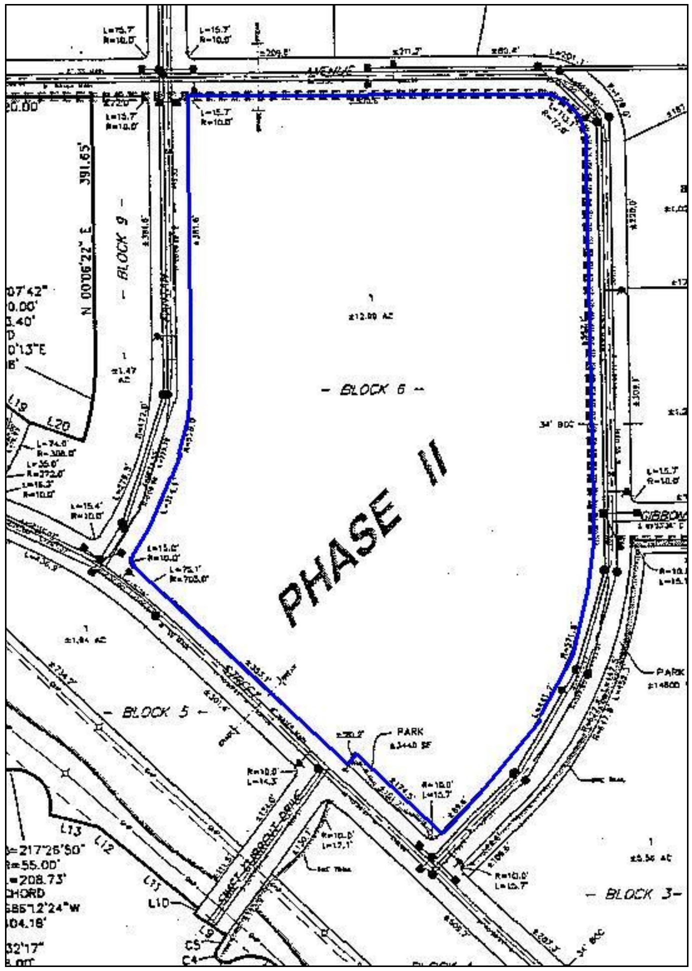
Legal Description: Lot 1, Block 5, Skyview Ridge Subdivision, 1st Filing



Lot Size: 1.94 acres (+/-), or 84,506 sq.ft. (+/-)

Zoning: R-7000-R (Residential, Single-Family - Restricted)

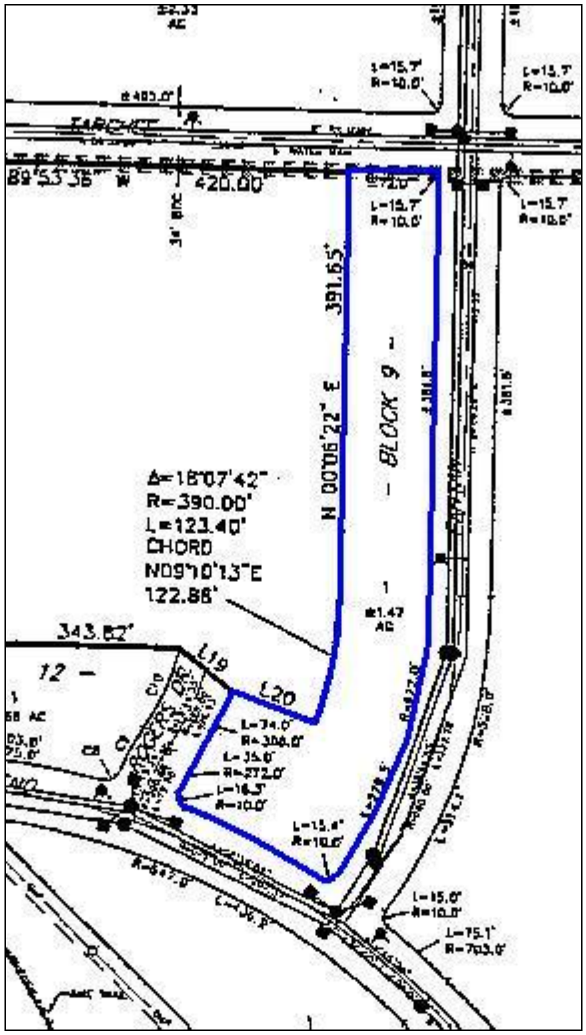
Legal Description: Lot 1, Block 6, Skyview Ridge Subdivision, 1st Filing



Lot Size: 12.99 acres (+/-), or 565,844 sq.ft. (+/-)

Zoning: R-7000-R (Residential, Single-Family - Restricted)

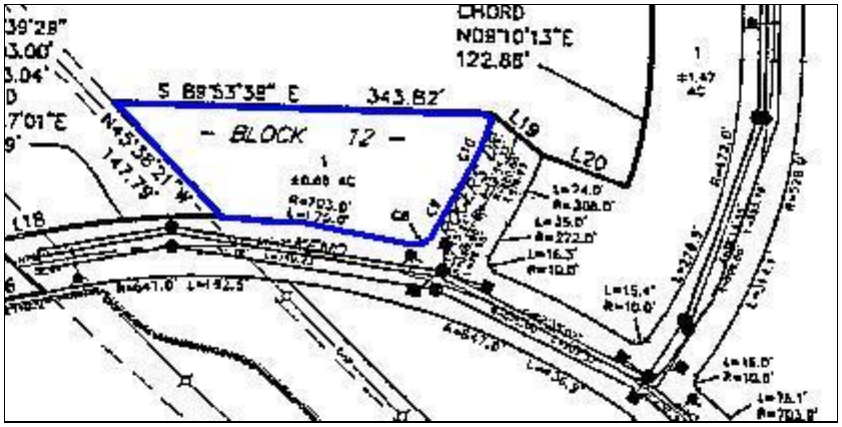
Legal Description: Lot 1, Block 9, Skyview Ridge Subdivision, 1st Filing



Lot Size: 1.47 acres (+/-), or 64,033 sq.ft. (+/-)

Zoning: R-7000-R (Residential, Single-Family - Restricted)

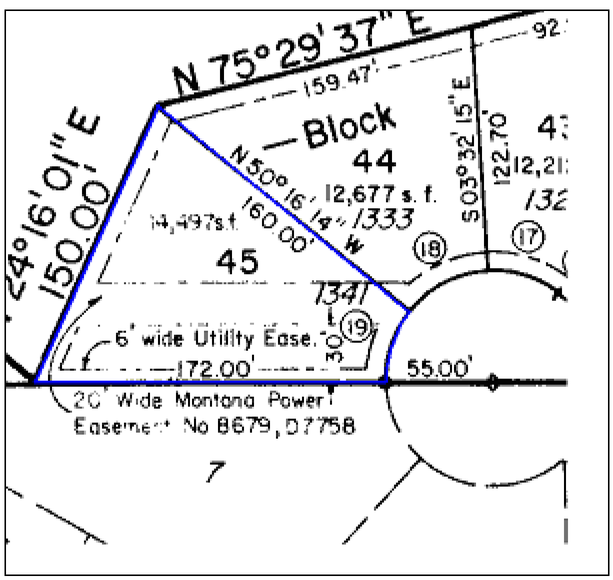
Legal Description: Lot 1, Block 12, Skyview Ridge Subdivision, 1st Filing



Lot Size: 0.68 acres (+/-), or 29,621 sq.ft. (+/-)

Zoning: R-7000-R (Residential, Single-Family - Restricted)

Legal Description: Lot 45, Block 34, Continental Divide Subdivision, 1st Filing



Lot Size: 0.33 acres (+/-), or 14,497 sq.ft. (+/-)

Zoning: R-9600 (Residential, Single-Family)

Legal Description: Lots 1-9, Block 1, Skyview Ridge Subdivision, 1st Filing

CC Zoned Lot Sub-total: 5.53 acres (+/-), or 240,887 sq.ft. (+/-)

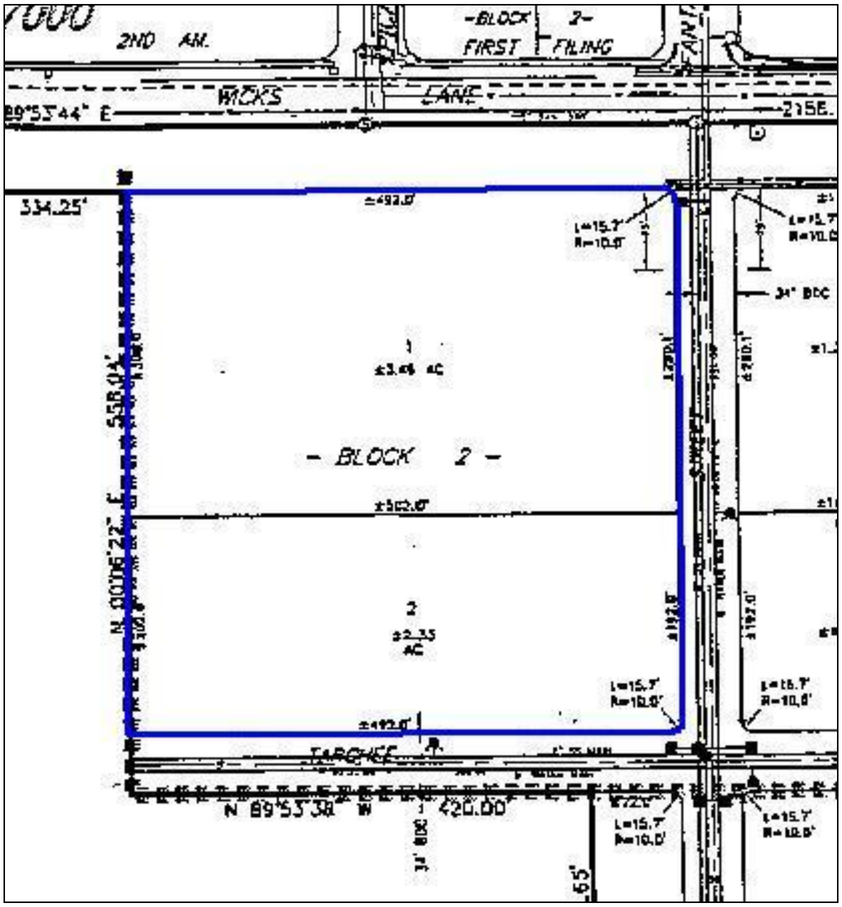
R-6000 Zoned Lot Sub-total: 6.47 acres (+/-), or <u>281,833 sq.ft.</u> (+/-)

Total of Lot Sizes: 12.00 acres (+/-), or 522,720 sq.ft. (+/-)

Zoning: Community Commercial – (CC) Lots 1-4

R-6000 – Lots 5-9 (Multi-family – up to 10 dwellings per structure)

Legal Description: Lots 1 & 2, Block 2, Skyview Ridge Subdivision, 1st Filing



Lot Size:	NC Zoned Lot:	3.46 acres (+/-), or 150,718 sq.ft. (+/-)
	RP Zoned Lot:	2.33 acres (+/-), or 101,495 sq.ft. (+/-)
Total of Lot Sizes:		5.79 acres (+/-), or 252,213 sq.ft. (+/-)

Zoning: Neighborhood Commercial (NC) – Lot 1

Residential Professional (RP) – Lot 2

REGIONAL AND CITY DATA

The City of Billings, county seat of Yellowstone County, is located in the south central portion of Montana. More specifically, it is situated midway between Seattle, Washington and Minneapolis, Minnesota and approximately 550 miles northwest of Denver, Colorado.

Billings is the largest city in Montana with a 2005 population estimate of 92,844 persons. This is virtually the same population that was indicated with the 2000 census figure of 92,988, but a 14.41% increase over the 1990 population figure of 81,151. U.S. Census figures indicate a slight increase in the growth patterns in Yellowstone County. The County's 2005 population estimate of 133,762 represents a 3.41% increase over the 2000 figure of 129,352, and a 17.94% increase over the 1990 population figure of 113,419.

Population Statistics

	1970	1980	1990	2000	2005 est.
City of Billings	61,581	66,798	81,151	92,988	92,844
Yellowstone Co.	87,367	108,035	113,419	129,352	133,762

The City's economy is generally characterized as diverse. The Billings trade area includes 25 Montana counties and eight Wyoming counties and is considered one of the largest geographical trade areas in the nation. As such, the City serves as a major wholesale and retail trade center. Agriculture has also been a traditionally strong part of the Billings economy. Billings has the second largest livestock auction market in the nation and has always served as an important center for the growing and selling of such crops as wheat, barley, sugar beets, corn and oats.

The Billings medical community consists of two major hospitals, several group practices, surgical groups, the Northern Rockies Regional Cancer Treatment Center and the South Central Montana Regional Mental Health Center. These facilities contribute to making Billings the largest major medical center between Spokane and Minneapolis and north of Denver.
Tourism and recreation also play an important role in Montana's economy. Billings' proximity to Yellowstone National Park, numerous ski resorts, and excellent hunting, fishing, camping and hiking opportunities make it a likely stop over point for the vacationer in this area.

In summary, the City of Billings is a viable metropolitan area with a diverse economy and a history of healthy, sustained growth. The growing viability of the community as a retail and wholesale trade center, the continued growth in the local medical community, and ever increasing levels of tourism all contributed to predictions by the University of Montana's Bureau of Business and Economic Research that Billings and Yellowstone County would be among the leaders in the state in population and economic growth well into the first decade of the new millennium.

NEIGHBORHOOD DESCRIPTION

The subject properties are situated in a newer and developing neighborhood located approximately three miles north of the Billings central business district. The following is a brief overview of the neighborhood characteristics:

Neighborhood Characteristics at a Glance

Item	Comments/Notations	Rating
Relative Location	3 miles east of Billings CBD	Avg.
Political Continuity	Mostly in city limits with exception of areas adjacent to the west which are in Yellowstone County	Avg.
Physical Barriers	Alkali Creek drainage and rimrock formations	Avg.
Distance to Inter-State Highway	5.0 miles to southeast – Lockwood Interchange	Avg.
Change	Developing area – within last 10-15 yrs.	Avg.-Good
Adequacy of Utilities	City property has city services	Avg.
Zoning	Predominant types noted are R-9600, R-7000, CC, and Public	Avg.
District Noted	Residential mixed with some neighborhood commercial nodes	Avg.
Property Compatibility	Mostly newer construction	Good
Property Appearance	Mostly reflecting pride of ownership	Good
Public Water & Sewer	All services in city limits	Avg.
Police & Fire Protection	In city limits only – County has sheriff & subscriber fire service	Avg.
Distance to Schools	Elementary: < .5 mile; High: < .5 mile	Avg.
Public Transportation	Available on Wicks Lane & Governor's Blvd.	Avg.
Neighborhood Life Cycle	Growth noted currently.	Good
FEMA Flood Hazard Area	Not noted on official maps	Avg.
Competition	Few in Heights area – east of Main Street	Good
Environmental Liabilities	Potential with high voltage lines in proximity	Fair-Avg.
Overall Rating	Predominantly a residential neighborhood with pockets of retail and professional office uses	Avg.-Good

For the purposes of this analysis, the subject neighborhood is considered to be the area generally bounded by the rimrock formations on the south, Alkali Creek Road on the west, the Billings city limits on the north, and Main Street (U.S. Hwy. 10) on the east. Major access routes to the neighborhood include Main Street and Governor's Boulevard from the south, and Wicks Lane from the east.

Existing land uses in the subject neighborhood include a mix of residential, public park area, and professional office along Wicks Lane. There is also a car wash located near the junction of

Wicks Lane and Governor’s Blvd. All land uses tend to be newer and most properties in the area reflect pride of ownership.

The neighborhood developed approximately 20 to 30 years ago as a moderate-income residential area, with commercial land uses limited to areas along Wicks Lane; the focus of the development had been Lake Elmo State Park, but it gave way to the general development of the Heights area and the connectivity to Billings Skyview High School. Since the mid-1990's, new construction dominated; the majority of the residential lots and subdivisions were built during the period from 1994 through 2006. Subsequent commercial construction and supporting land uses followed to capitalize on the relatively young population cluster found in this area.

The majority of the subject neighborhood is fully serviced with all public utilities including public water, sanitary sewer service, electricity, natural gas, and public telephone service. Public transit service is provided by MET Transit and two major routes traverse the subject neighborhood.

The area is included in the five-year capital improvement program (until 2014) for the City of Billings; the Inner Belt Loop project is planned to be designed from July of 2009 to June of 2010 with construction bonded and finished within five years. The March 2006 Inner Belt Loop Connection Planning Study lists two separate estimates of average daily traffic count for Wicks Lane west of Governors/Glen Eagles Boulevard: the estimates range from 8,500 to 9,400 vehicles in year 2027. This future projection assumes that: 1) Skyview High School reaches peak enrollment, 2) the area adjacent to this intersection continues to grow at a rapid pace, and 3) the inner belt loop has been constructed by year 2015. Interestingly, there are no immediate plans for the widening of Wicks Lane included in the City’s Capital Improvement Plan (a five-year projected period).

The area features a preponderancy of high-voltage electric lines which crisscross the neighborhood. Historically, residential lots near the power lines and towers sell last in a subdivision; however, most all remaining lots in the older subdivisions have filled in below the tower structures. To a great extent, it appears that the utility lines have been accepted as part of the features of the neighborhood, however, some discounts to land pricing proximate to the power line corridor are not unexpected.

In summary, the neighborhood is best characterized as a newer residential neighborhood with limited amounts of commercial and professional land uses. Infrastructure is newer and in many areas is in need of extension to areas within the neighborhood that are newly annexed. No observable trend toward feature properties, such as newer restaurants, hotels, retail stores, entertainment centers, educational or medical institutions, etc., is noted to have occurred in the area over the past several years. The viability of this neighborhood for residential and light commercial land uses is expected to continue into the foreseeable future – particularly along the major arterials of Wicks Lane and Governor's Boulevard.

HIGHEST AND BEST USE

The Appraisal of Real Estate, 11th Edition, published by the Appraisal Institute defines "Highest and Best Use" as follows:

> "The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value."

It is to be recognized that in cases where a site has existing improvements on it, the highest and best use may very well be determined to be different from the existing use. The existing use will continue, however, unless and until land value in its highest and best use exceeds the total value of the property in its existing use.

Implied within the above definition is recognition of the contribution of that specific use to community environment or to community development goals in addition to wealth maximization of individual property owners. Also implied is that the determination of highest and best use results from the appraiser's judgment and analytical skill, i.e., that the use determined from analysis represents an opinion, not a fact.

The highest and best use analysis is a progressive process whereby the determined highest and best use is found to meet each of the following four criteria:

> **Physically Possible** - Are there any physical characteristics that would preclude development or limit potential uses?
>
> **Legally Permissible** - What uses are permitted by local zoning regulations and private deed restrictions?
>
> **Financially Feasible** - Which possible and permissible uses will produce a net return to owner of the subject property?
>
> **Maximally Productive** - Among the feasible uses, which will produce the highest net return or highest present worth?

For the purposes of this report, all zoning that is stated is assumed to be the highest and best uses of the properties; the client has requested an analysis of the subject parcels based upon pre-established zoning criteria. No analysis is therefore made of the above listed four criteria in reference to any of the parcels. Please review the *Extraordinary Assumptions* and *Hypothetical Conditions* in this report for further clarification.

Highest and Best Use as If Vacant

Physically Possible: Not considered (see above comments).

Legally Permissible: Not considered (see above comments).

Financially Feasible: Not considered (see above comments).

Maximally Productive: As below (see above comments).

<u>Preliminary Plat of Skyview Ridge Subdivision, 1st Filing, located in Yellowstone County, MT:</u>

Lot 1, Block 3	R-9600 (Single Family Residential)
Lot 1, Block 4	R-9600 (Single Family Residential)
Lot 1, Block 5	R-7000-R (Single Family Restricted)
Lot 1, Block 6	R-7000-R (Single Family Restricted)
Lot 1, Block 9,	R-7000-R (Single Family Restricted)
Lot 1, Block 12	R-7000-R (Single Family Restricted)

<u>Preliminary Plat of Skyview Ridge Subdivision, 1st Filing, located in Yellowstone County, MT.</u>

Lots 1-4, Block 1	Community Commercial (CC)
Lots 5-9, Block 1	R-6000 (Multi-Family up to 10 units)
Lot 1, Block 2	Neighborhood Commercial (NC)
Lot 2, Block 2	Residential Professional (RP)

<u>Continental Divide Subdivision, 1st Filing, located in Yellowstone County, MT.</u>

Lot 45, Block 34,	R-9600 (Single Family Residential)

Highest and Best Use as Improved

Physically Possible: Not considered (see above comments).

Legally Permissible: Not considered (see above comments).

Financially Feasible: Not considered (see above comments).

Maximally Productive: As below (see above comments).

Preliminary Plat of Skyview Ridge Subdivision, 1st Filing, located in Yellowstone County, MT:

Lot 1, Block 3	R-9600 (Single Family Residential)
Lot 1, Block 4	R-9600 (Single Family Residential)
Lot 1, Block 5	R-7000-R (Single Family Restricted)
Lot 1, Block 6	R-7000-R (Single Family Restricted)
Lot 1, Block 9,	R-7000-R (Single Family Restricted)
Lot 1, Block 12	R-7000-R (Single Family Restricted)

Preliminary Plat of Skyview Ridge Subdivision, 1st Filing, located in Yellowstone County, MT.

Lots 1-4, Block 1	Community Commercial (CC)
Lots 5-9, Block 1	R-6000 (Multi-Family up to 10 units)
Lot 1, Block 2	Neighborhood Commercial (NC)
Lot 2, Block 2	Residential Professional (RP)

Continental Divide Subdivision, 1st Filing, located in Yellowstone County, MT.

Lot 45, Block 34,	R-9600 (Single Family Residential)

Definitions and Characteristics of Applicable Zoning in this Report[1]

Community Commercial (CC)

The Community Commercial zone is intended primarily to accommodate community retail, service and office facilities offering a greater variety that would normally be found in a neighborhood or convenience retail development. Facilities within the classification will generally serve the community, and is commensurate with the purchasing power and needs of the present and potential population within the trade area. It is intended that these business facilities be provided in business corridors or in islands (thirty (30) acres) centrally located in the trade area rather than a strip development along arterials. This zoning will accommodate nearly all uses in the subject neighborhood and is the least restrictive zoning of the commercial zonings considered in this report.

Neighborhood Commercial (NC)

[1] Unified Zoning Regulations, City of Billings and Yellowstone County Jurisdictional Area

A zone for commercial centers and limited retail activities conducted in a unified development designed to serve the surrounding neighborhood with shopping facilities consisting of convenience retail and personal service establishments which secure their principal trade by supplying the daily needs of the neighboring population. It is a zoning which is less restrictive than RP zoning, but more restrictive than CC zoning.

Residential Professional (RP)

A zone intended to accommodate limited commercial and professional offices as would be compatible with adjoining residential districts and consistent with the objectives of the comprehensive plan. It is considered the most restrictive of the commercial zoning group.

Residential 6,000 (R-6000)

A zone intended to provide for medium density residential dwellings on lots served by public water and sewer services, with provisions for multi-family dwellings with a maximum of ten (10) dwelling units per structure. The number of units placed on the property depend on the size of the lot.

Residential 7,000 Restricted (R-7000 RESTRICTED)

A residential zone intended to primarily provide a single family residential environment on smaller lots at a medium density that are served by a public water and sewer service. One single family home is allowed on a lot of 7,000 sq.ft. or greater; no duplexes are allowed; modular homes are allowed.

Residential 9,600 (R-9600)

A zone intended to promote primarily a single-family residential environment on lots that are served by public water and sewer service. It is the most restrictive residential zoning in the city.

Market Conditions – An Overview

National Outlook –

The U.S. economy has been in a recession since the end of 2007, with job losses mounting and real estate prices declining. In December of 2008, the Federal Reserve lowered the key federal funds target rate from 1.00% to a historically low range of 0.00% to 0.25% in an unprecedented move to shore up the floundering economy. In addition to the rate reduction, the Fed announced that it would take other measures to breathe life into the economy, including the possible purchase of agency, mortgage-backed, and Treasury securities. The stock market spent most of 2008 on a downward trajectory that grew steeper as the year progressed. The U.S. equity market began the year with its worst quarterly decline since 2002. There was some resurgence in the market during mid-term, but downward fluctuations left the major indexes down more than 35%.[2]

The U.S. unemployment rate – now at 8.1%, the highest in more than 25 years – is expected to hit a peak of 10.3% to 10.8% in the next two years.[3] The unemployment rate is forecast to rise to 9.0% by year-end and inflation is expected to moderate, as economic slack builds and as oil prices are forecast to remain relatively depressed.[4]

The National Association for Business Economics predicts the economy to slide backward at a 5% pace in the current January-March quarter. That is a sharp downgrade from the 1.3% annualized drop projected in the old survey. This leaves a decline of 0.9% in 2009, on the heels of a 0.2% decline in 2008. A meaningful recovery is not expected to take hold until next year. The good news is that economic activity is expected to turn up in the second half of the year and 2010 is expected to see modestly above-trend growth of 3.1%.[5]

Montana Outlook –

An economic forecast was presented in Billings on 3 Feb 09 by Paul Polzin, the former Director of Bureau of Business and Economic Research at the University (BBER) of Montana. He reported that growth in Montana in 2009 is expected to be an anemic 0.5%, depending on how

[2] *Manager's letter to shareholders*, T. Rowe Price Health Sciences Fund. (Dec. 2008), p.3.
[3] *When economy bottoms out, how will we know it?*, Billings Gazette, 8 Mar 09, pgs. 1A, 12A.
[4] *NABE Panel: Recession to End in Second Half of '09; Above-trend Growth in 2010*.(February 2009) National Association of Business Economics. Reviewed March, 2009 at http://www.nabe.com/publib/macsum.html.

many announced layoffs actually happen. If that were to happen it would represent the slowest growth in Montana since 1988, and "there's a 50-50 chance that it could be a minus 0.5% or maybe even lower."[6] The BBER had noted in July of 2008 that new data showed a slowdown in the construction industry, because of ripples from the flagging housing market. At that point in time it was apparent that there was a weakening in the hottest housing markets, such as Bozeman, Kalispell, and Missoula. That was also tied to tighter credit restrictions that hurt businesses that require access to capital to expand.[7]

Consumer confidence among Montanans in December set records in pessimism, and construction is the key industry showing significant and widespread declines. Montana tourism saw a 3.7% drop in non-resident visitors in 2008, compared to 2007, apparently due to high gas prices in 2008.[8] Montana's seasonally adjusted unemployment rate rose to six percent in February, the first time it has been that high in 16 years (last time in July, 1993, during the recovery from the 1992-93 recession).[9]

Yellowstone County / Billings Outlook –
Housing construction has slowed down about 40% in Yellowstone County, but existing homes of average size are holding their value.[10] The city of Billings issued 427 building permits for single-family residences in all of 2007; as the economy worsened, that number dropped to 261 for 2008: That represents a decline of 38.9%. The number of new duplex starts remained constant at 42, but the number of multi-family unit new starts actually increased from 18 in 2007 to 30 in 2008, representing an increase of 66.7%.[11]

In a study reported in early March of 2009, the BBER noted that "while the median price of a home in Montana grew by 96% between 1998 and 2008, per capita income rose by only 26 percent." The study also noted that the percentage of homeowners in Yellowstone County spending more than 30% of their income on housing was approximately 23%; this figure compared favorably with six other counties studied – in fact it was the lowest in the study group. A more telling statistic showed that the percentage of renters spending more than 30% of their

[5] *NABE Panel*, *ibid*.
[6] *Prediction: Recession will reach its peak in December*, Billings Gazette, 4 Feb 09, pp. 1A, 12A.
[7] *Economists at UM revise state forecast*, Billings Gazette, 31 Jul 08, p. 5C.
[8] *Prediction,. op.cit*.
[9] *State's jobless rate highest since 1993*, Billings Gazette, 28 Mar 09.
[10] *Prediction, op.cit*.

income on housing in 2007 was 43%.[12] This suggests that there is good reason for the number of new building permits for multi-family construction to increase: with tight credit restrictions and higher housing prices more and more families are finding it harder to pay for new affordable housing, and they will have to rent. There is a glut of lots that are not built on in the Billings area: A recent study found that less than one-third of lots platted between 2005 and 2008 have houses on them. A bright spot in the mortgage sector is the local foreclosure rate: Montana, Wyoming and the Dakotas have the lowest foreclosure rate in the country – less than half of one percent.[13]

Interviews with Local Area Developers / Builders / Property Managers / Lenders –
Most builders are currently experiencing down times and depressed markets for real estate in the area. Some developers have relatively few lots in inventory as compared to the "good times" of just several years ago, when the area was in a building phase. One developer has lots available to build on but the owner is subordinating them to him, so he does not have any carrying costs on the land; he is not motivated to purchase land and hold it for speculation at this point. The developer opined that land prices will have to come down significantly in order for him to realize any profit on a completed house in this market; in one particular area he estimated that it would cost $72,000 to purchase the lot and develop it, but he doubts that he could get that cost out of the market now – before he would have realized a lot sale of $89,000, or a profit margin of 23.6%. Profit margins of up to 30% were fairly common on finished lots, but now there are getting to be some "fire-sale" lots that are marked down past 30% from previous levels.

A review of several property managers in the area reveals that rents are showing consistent firmness in the marketplace with waiting lists still in evidence. One property manager stated that occupancy levels citywide might be down somewhat from levels a year ago, but he still maintained it was around 95% or so.[14] Another property manager calculated his vacancy levels companywide at 2.6%, based upon a recent tally of rental units.[15]
Contrary to some reports and belief, lenders are still loaning money for residential customers in Billings. Credit requirements have stiffened somewhat, however. Most lenders report that residential borrowers need to have a minimum credit score of 620 points to secure a loan – this is elevated from years past when credit scores in the 500's would suffice. Borrowers also need

[11] *http://bil.ci.billings.mt.us/buildinginspection/default.aspx*
[12] *Housing Study: Billings ranks fairly high in report on housing affordability in Montana*. Billings Gazette, 9 Mar 09, pgs. 1A-6A.
[13] *Lots of undeveloped lots,* Billings Gazette, 5 Apr 09, pp. 1A, 7A.
[14] Conversation with Tamarack Property Management (4/09).
[15] Conversation with Rainbow Property Management (4/09).

steady income, and a total debt-ratio of 45% or less to get a standard FHA loan. The FHA loan threshold is currently near $291,500 and the down payment needs to be 3.5% of the purchase price. Most people do not have larger sums of cash for a down payment, but there are programs that can alleviate the total amount of a down payment; specifically, there are grant programs that can be gifted on an FHA loan. First time homebuyers can (under certain conditions) qualify for gift funds, which can refund a large portion of the down payment. One lender also reported that mortgage insurance premiums (MIP) are waived when the loan to value ratio meets or is less than 78%. Most of the larger FHA loans are refinances ($190K-$200K) rather than purchases – the purchases tend to be below $200K. Sellers can pay a good portion of the closing costs. The amount of household income that goes toward house payment cannot normally exceed 30% - depending on a credit score, however, it can go up to 40%. Most lenders report that they are busier than ever with refinancing and some new purchases. This is attributed to the cost of new funding; most home loan rates are yielding between 4.5%-5.0% for a 30-year fixed FHA loan.

Conclusion

Most reliable sources are now stating that the nation is currently in a deep recession with consumer confidence at near historic lows. Montana seems to have been spared the affects of sharp unemployment rises due to its location in the desirable upper northwest and its varied economic profile: a general lack of major employment in secondary sectors of the economy (this includes manufactured goods, processing, and construction). Most areas of the U.S. where secondary employment sectors are located have had significant employment layoffs and stagnation – locations such as the upper mid-west (Michigan and Ohio), the west coast (California), southwest (Arizona and Nevada), and the southeast (Florida).

Indeed, Montana is fairly diversified economically and has significant amounts of its employment in primary (raw materials and agriculture), tertiary (service industries), quaternary (government and education), and quinary (universities and healthcare) sectors of the economy. Most banks in this region have not overextended themselves with problem loans or injudicious management. That being said, Montana has seen consumer price increases in food and housing sectors, and significant slowdowns in construction-related industries.

There is a sense of “wait and see” among the buying public, and Realtors report declines in the number of housing starts and new purchases over the past six months. There are a number of lots to choose from in the Billings area and a good number of them are located in the Billings

Heights area. Commercial real estate is also slowing – most commercial Realtors report that people are just not making offers – they are also adopting a "wait and see" attitude.

Developing real estate is a risky business in good times – it is especially so in times of economic uncertainty. Local engineering firms and contractors estimate that the cost to bring infrastructure improvements to new subdivisions is averaging $3.00 to $4.00 per sq.ft. – an increase of two and one-half to three times as much as it was twenty years ago.[16] As it concerns the focus of this assignment, it is fair to say that Billings' real estate market is currently a "buyer's market." Raw and developed land prices are thought to be stagnant, or "soft" – no upward movement in land values have been noted in the past year (this assertion is from paired sales and sale/resale analysis). As the economy continues to improve, home ownership will advance and the rental market will start to soften. When that starts to happen, the value of land zoned specifically for higher density rental property will likely soften as well, as demand will slow and rents levels will erode because of people purchasing homes.

[16] *Lots of undeveloped lots,* *op.cit.*

THE APPRAISAL PROCESS

The valuation process is a systematic procedure employed to provide the client with an indication of real property value. It is accomplished by following specific steps, the number of which depends on the nature of the appraisal assignment and the availability of data necessary to complete it. In assignments to estimate market value, the ultimate goal of the valuation process is a well-supported conclusion that reflects the appraiser's study of all influences on the market value of the property being appraised.

It is important to note that the subject property is being appraised *as-is*: that is, the real estate is reflective of raw land that is improved to a slightly higher state. True raw land typically hasn't any improvements that accrue to it – it is simply land that has never been improved to any extent; it hasn't any infrastructure, platting, zoning, roadways or streets, etc. The subject real estate, however, is decidedly different: it does have a preliminary plat, and is approved for several different types of zoning. In addition, the subject has gone through many hours of critical analysis at the engineering level, so as to maximize its potential and minimize some of its more detrimental aspects (high-power electrical and gas lines). At this juncture, the subject has no infrastructure improvements or interior streets, and has not participated in any off-site improvement costs – all of which need to be developed or incurred in order for the subject to be represented as a viable subdivision, ready for retail sale.

One or more of the following three approaches to value may be employed in an effort to estimate the market value of the subject property:

> *The Cost Approach* is particularly valuable in analyzing proposed developments. The total cost of production is an important measure of the financial feasibility and risk associated with a development. The inability to recover the cost to create a proposed development is not only an indication of economic obsolescence, but also a sign that the property may not be competitive in the marketplace. If a well-designed subdivision cannot recover the costs incurred to produce it, current supply may be excessive relative to demand. The intent in this approach, then, is to estimate the subject property value in its finished state – complete with streets, infrastructure, etc., and then subtract those costs that properly accrue to the property in the finished state, to arrive at the value of the subject real estate *as-is.* The approach is not utilized in this report, however, because the land value is unknown. This report does

utilize some estimates of engineering-generated subdivision infrastructure costs however. These estimates are for both off-site and on-site costs; the on-site costs are for major streets only and do not include those costs for Lot 1, Block 6 of the R-7000R zoned tract. These estimates are subsequently utilized in the Income Approach to Value and were calculated on a square foot basis: the total of the Phase 1 and Phase 2 development costs were $3,537,777.33 (see addenda). The costs were divided by the net area (minus streets and common areas) contained in the subdivision and a final cost of $1.91 per sq.ft. is calculated for the developer's contribution amount.

The *Sales Comparison Approach*, sometimes referred to as the Market Approach, involves a direct comparison of the subject property to actual sales of similar properties in the market place. In a typical appraisal assignment, the value of vacant land can be estimated by direct sales comparison. Sales of vacant land similar to the subject parcel are gathered and analyzed. The sale prices of the comparables are adjusted for the differences in market conditions, location, and physical attributes between the subject and the comparable because there are very few properties (if any) that will have the same characteristics as the subject. Also, if any premium was paid for atypical financing, the sale price of the comparable must be adjusted downward. After considering the reliability and applicability of each adjusted sale price, the appraiser selects a final value indication for the subject property.

Typically, the *Income Approach* in a subdivision appraisal is called the *Development Approach, or the Subdivision Approach* to value. This development or subdivision approach is a valuation technique that computes market value by calculating the proceeds to be earned by a potential subdivision, subtracting out development costs and discounting the remainder as of the effective date of value. In general, the subdivision analysis has seven steps:

1. prepare subdivision layout to determine number, size and shape of typical lots
2. estimate retail value of lots
3. estimate direct development costs
4. estimate indirect development costs
5. compute income residual to developer's profit and land (Step 2 minus Steps 3 and 4)
6. deduct developer's profits from Step 5
7. estimate the amount of time required to develop and sell out the subdivision
8. discount the anticipated income stream into a current indicated raw land value

The appraiser will utilize the Income or Subdivision approach to value in this appraisal with only the R-7000R and R-6000 zoned properties only as a test for reasonableness against the results of the Sales Comparison Approach. It is impossible to tell how a developer would configure and ultimately subdivide lots within any of the blocks for retail sale and/or buildout. The appraiser is not then, in any real sense appraising the subject subdivision *exactly* as depicted in the Master Plan – Zoning Exhibit; the block configurations are considered to be inviolable, but the lots within them are not considered so. Accordingly, the estimated value for the subject property was arrived at by the inclusion of several components of the *Cost and Income Approaches,* but mostly by the application of the *Sales Comparison Approach*.

TRACT AND SITE VALUATION

Description of Future Subject Site Characteristics at a Glance

Item	Yes / No	Typical	Atypical	Comments
Depth	Varies	☒	☐	Uniformity noted throughout.
Pavement	☒ / ☐	☒	☐	Asphalt as per city codes and SIA agreement.
Curb & Gutter	☒ / ☐	☒	☐	As per city codes and SIA agreement.
Sidewalks	☒ / ☐	☒	☐	As per city codes and SIA agreement.
Lighting	☒ / ☐	☒	☐	As per city codes and SIA agreement.
Access	☒ / ☐	☒	☐	As per city codes and SIA agreement.
Signalized Stop	☒ / ☐	☒	☐	As per city codes and SIA agreement.
Alleyways	☒ / ☐	☒	☐	None depicted on preliminary zoning plan.
VPD Count	2,100 to 8,500	☒	☐	Wicks Lane arterial traffic to increase substantially. This will be primary access.
Zoning	☒ / ☐	☒	☐	Varies – Six different zonings (three commercial and three residential).
Utilities	☒ / ☐	☒	☐	City service lines.
Site Drainage	☒ / ☐	☒	☐	As per city codes and SIA agreement.
Landscaping	☐ / ☒	☒	☐	By landowners – parks are natural.
Encumbrances	☐ / ☒	☒	☐	None expected at completion.
Encroachments	☐ / ☒	☒	☐	None expected at completion – no title report was reviewed.
Easements	☐ / ☒	☒	☐	None other than powerlines and gas lines in area.
Size		☒	☒	Varies according to zoning.
Configuration		☒	☐	Functional and utilitarian for varied uses.
Topography		☒	☐	Some slope to southeast.
Soils		☒	☒	Soils tests indicate large rocks in northern portion of the preliminary subdivision.
Land Use to:				
North	Single & multi-family uses	☒	☐	R-9600 (single-family) and CC (commercial) zoned across Wicks Lane.
South	Single family and parklands	☒	☐	R-9600 (single-family) and dedicated city parklands.
East	Single-family	☒	☐	R-9600 (single-family)
West	Single-family	☒	☐	Not yet platted or designated.

MARKET ANALYSIS AND CONCLUSIONS

The subject tracts are valued as if vacant and available for development to their highest and best use. This is accomplished by making a direct comparison to comparable commercial and residential land sales that have taken place in the Billings Heights real estate market.

In analyzing comparable sales data, there are several generalities that can typically be applied:

- Value per unit of comparison tends to increase as the size of the parcel decreases
- Value tends to increase with zoning density
- Value tends to increase as the distance to the main commercial center decreases
- Value tends to increase with amenities, such as view amenity, desirable frontage, etc.
- Value tends to increase as off-site improvements increase

While the search for comparable land sales should ideally be focused on sales of land parcels within the city limits with similar zoning and similar locational influences, the availability of contemporary comparable land sales in the subject neighborhood – and citywide – was limited.

The Billings Heights neighborhood was researched for sales data that could be used to estimate the value of the parcels on this project. After reviewing available sales information, it was determined that the sales summarized in the Sales Catalog (not included within this appraisal) provided the most reliable indication of the subject tracts' current market value.

The appraisal of real property relies on making comparisons between the sales and the appraised property. However, since no two properties are identical, adjustments are required to arrive at an indication of value for the appraised parcels. Adjustments for different characteristics are best shown by an analysis of sales within the market area. It is rare when differences can be pinpointed with mathematical precision – optimally a reasonably narrow range of indicated values can be obtained. Most commonly, bracketing is used to arrive at a final conclusion of value.

Real Property Rights Conveyed

All the sales in the compendium sold with fee simple property rights transferring. No adjustments were necessary.

Financing Terms

Few, if any of the sales in the compendium sold with contract financing; most consideration was cash to seller financing, so no adjustments were necessary. In the rare occasions where non-cash financing was involved (as in an option on land) there could be an adjustment – but only if the appraiser felt that it was atypical of the marketplace and had an affect on the overall purchase price.

Conditions of Sale

In each sale, the motivations of the buyer and seller were considered to be fairly typical. Where applicable, some sales are noted to have comments that reflect a seller or buyer's instincts regarding a sale – it does not automatically signify that these conditions significantly affected the transaction price. Unless otherwise noted, no adjustments were considered necessary for conditions of sale.

Expenditures Made Immediately After Purchase

Some of the sales in the compendium sold with the buyer having to raze older improvements, or incur additional costs to pay for portions of a subdivision, etc.; in these cases the adjustment is usually the cost outlay for these items and they are referenced in the body of the sales write-up.

Market Conditions (Time)

Billings Heights, like many other communities in Montana during the last several years, experienced periods of growth and development that resulted in significant rates of appreciation during certain segments of time. Property values in general have appreciated since most of their original transaction dates, indicating that investor's perception of the market has changed over time in the Heights. This item of adjustment measures market conditions for the time elapsed between the date of a sale and the effective date of valuation in this report.

The sales and re-sales depicted on the following page were examined for indications of a market adjustment. All market calculations are made on an annual compounded-percentage-increase basis.

Market Conditions Adjustment Basis – Billings Heights Land Sales

1	Sale/Resale	Date	Size (sq.ft.)	Price	$/Sq.Ft.	% Change
	SWC Wicks & Lake Elmo	28 Dec 90	35,644	$ 62,000	$1.74	
	SWC Wicks & Lake Elmo	01 Aug 98	35,644	$138,500	$3.89	
	Time elapsed	2,773 days, or 7.60 years | RMF zoning				11.16%
2	**Sale/Resale**	**Date**	**Size (sq.ft.)**	**Price**	**$/Sq.Ft.**	**% Change**
	2033 Lincoln Lane	01 Nov 05	142,877	$200,000	$1.40	
	2033 Lincoln Lane	02 Aug 07	142,877	$300,000	$2.10	
	Time elapsed	639 days, or 1.75 years | R-7000 zoning				26.06%
3	**Sale/Resale**	**Date**	**Size (sq.ft.)**	**Price**	**$/Sq.Ft.**	**% Change**
	1432 Bench Boulevard	12 Dec 02	41,164	$ 70,500	$1.71	
	1432 Bench Boulevard	16 May 07	41,164	$130,000	$3.16	
	Time elapsed	1,616 days, or 4.43 years | R-6000 zoning				14.82%
4	**Sale/Resale**	**Date**	**Size (sq.ft.)**	**Price**	**$/Sq.Ft.**	**% Change**
	21A & 22A Pemberton Sub.	01 Nov 05	80,925	$165,000	$2.04	
	22A Pemberton Sub.	28 Jun 06	61,486	$135,000	$2.20	
	Time elapsed	239 days, or 0.65 years | R-6000 zoning				12.22%

The sales and re-sales depicted above reflect a period from 1990 through the second quarter of 2007; appreciation rates range from 11.16% to 26.06% per year, compounded.

From discussions with Realtors and developers, there is support in the marketplace for general appreciation to have occurred on a "sporadic" basis in the Billings area during the time frame from the late 1990's through approximately second quarter 2007 for residentially-zoned properties – commercially-zoned properties may have enjoyed a longer period of appreciation. Appreciation in the Heights area for residential properties specifically appeared to have been fairly steady from the mid-1990's through the first several years of the 2000's; from that point on to approximately the second quarter of 2007 the rate of appreciation was increased somewhat.

Every reliable source queried indicates that the market softened considerably from the second quarter of 2008 to the effective date of value in this report – particularly so after the presidential election. The appraiser has made a diligent effort to track evidence of changing market conditions, particularly because the issue is so central to the valuation of the different zoning classifications in this report.

General conclusions for residentially zoned land.

The sales dates for residentially-zoned land in the compendium range from the second quarter of 2004 to the second quarter of 2008 – a span of four years. From the second quarter of 2008 to the effective date of this report there have been no new sales information regarding single or multi-family land purchases. This reflects the fact that the risks of owning residential development land outweigh the benefits at the prices that are currently listed. Accordingly, a time adjustment will only be carried to the second quarter of 2008. During this time study multi-family zoned properties had the most dramatic increases in construction numbers and in appreciation; sales prices on all RMF and R-6000 zoned properties indicate a conclusion of a 20%/annum appreciation adjustment, reflecting a position near the top end of the range. Single-family construction was healthy, but competition had slowed its rate of appreciation somewhat; all single-family zoned sales will accordingly receive an adjustment near the lower end of the range at 10%/annum to the second quarter of 2008. Sales of raw land that were essentially not zoned for their highest and best use at the time of sale are thought to have increased by the lowest amount; this reflects appropriate entrepreneurial rewards that would apply for an ensuing developer. These two sales are given an 8%/annum adjustment similar to the commercial properties.

Continuing on, the appraiser feels that the period from the second quarter of 2008 to the effective date of appraisal is critical to understanding the value of any residentially-zoned properties. Most of the developers that were interviewed expressed in no uncertain terms that they would not pay as much for raw land (during the time span around the effective date of value) as they would have several years previously. They cited the slowdown in sales and demand for new construction as being the main factor; other factors included the burden of holding costs during a recession (real estate taxes, weed control, and the cost of financing) where no monetary return is forthcoming. Most of the developers seemed to suggest the price for raw land would have to reflect discounts from 30% to 50% for them to have significant interest in a purchase.

It bears repeating that there are no market transactions that the appraiser is aware of that would indicate a market slide of this magnitude – but the consensus among Realtors and developers is so pervasive that the appraiser is inclined to agree: there is every indication that in order for a larger tract of residential raw land to sell on the open market, the price point must reflect market realities. These market realities are: strong competition for tracts in the area, holding costs in a recessionary market, slack demand for new homes, tightening credit markets, reluctance of bankers to lend money like they did in the 1990's through the mid-2000's, and the relative lack of capital that homeowners have for a down payment.

Sixty-one subdivisions of 10 lots or more were platted in the Billings area between 2005 and 2008. Those subdivisions had a total of 3,155 platted lots, but as of the end of 2008, less than a third of those lots – 991 – had houses built on them. This indicates an absorption rate of approximately 3.1%/yr. over a 10 year period.[17] Multiple listing data show the following statistics: residential sales during the month of April 2008 and April 2009 are contrasted – the number of residential sales is down 22.6%; year to date (April 2009) the number of residential sales compared to 2008 is down 26.6%. There were 1,098 homes available for sale as of April, 2009, which is indicative of 7.46 months worth of supply. Lots and land listings reflect a more significant downturn: lot and land sales during the month of April 2008 and April 2009 are contrasted – the number of lot and land sales is down 59.1%; year to date (April 2009) the number of lot and land sales compared to 2008 is down 55.9%.[18] Broken down more specifically, in the Heights alone single-family sales from $225K-$300K numbered 72 sales in 2007 and 71 sales in 2008, which would reflect an line average of six sales per month; from January to end of March, 2009, there have been only eight total sales, which suggests 2.67 sales per month – a decline of 55.5%.[19]

Accordingly, the appraiser will introduce a <u>negative market adjustment from the second quarter of 2008.</u> The effect of this adjustment will reduce the values of all residentially-zoned land by a significant degree: the R-9600 zoned land will likely be reduced the most, since demand for homes on larger lots are down significantly citywide. The relative dearth of sales in this zoning category is a testament to their appeal at this time. A negative market adjustment of 40% is applied to R-9600 zoned land. The R-7000 R zoned land is somewhat more practicable for the developer since density is greater and more units may be constructed on the land. A negative market adjustment of 30% is applied to R-7000 R zoned land. Lastly, the R-6000 zoned land is

[17] *Lots of undeveloped Lots*, <u>*op.cit*</u>., page 1A.
[18] MLS data, April, 2009 (Areas 1-20 only), Billings Association of Realtors, Inc.

considered to have the most tenable case for stability in residential land pricing because of its potential for greater density. A negative market adjustment of 20% is applied to R-6000 zoned land.

General conclusions for commercially zoned land.

Commercially zoned properties are thought to have appreciated at a lower overall rate during this time-frame study, but the biggest difference between the residentially zoned sales is that the rate of appreciation does not appear to have been eroded since the second quarter of 2008. A study of Sale 6 was made wherein its last sales price was analyzed against its current listing price, and a rate of approximately 5.19% per annum was calculated from the last sale (@ $6.52/sq.ft.) to the current listing price of $7.50/sq.ft. Sale 6 may have been a "high" sale at the time – especially considering its corner location. Since it is typical in the current marketplace to have a sales price be slightly below a full-price offer it is reasonable to assume that the rate of appreciation would be below 8.40%/annum. Accordingly, after additional factors were considered, the commercially zoned properties will be given an appreciation rate of 8.0%/annum, *except* in instances where those properties are known to be valued or listed at below what the time adjustment would calculate to, e.g., sale 6's time adjustment calculation would compute to $8.07/sq.ft. This cannot be correct, since it is currently listed at $7.50/sq.ft.

<u>Location</u>

As mentioned previously, all sales were chosen from the Heights area and the reasoning is straightforward: the Heights area is relatively homogeneous and large adjustments would not have to be taken when comparing sales from different areas, e.g., the City's west end, with its higher land values, and its more dynamically driven development record. Locational differences are noted within the Heights area, and these will be centered on specific zoning criteria.

Commercially zoned differences.

Sales 16 and 17 are considered to be inferior to the other commercially zoned sales with respect to neighborhood build-up and other salient market factors. A location adjustment is based on a comparison between the already time and expense adjusted sales.

[19] Information obtained from Myles Egan, Best Realty, Billings, MT.

Location Adjustment Grid

Sale No.	Comparison	Time Adj. $ per sq.ft.	Location Adj. Indicated	Mean
13	Similar to subject	$4.73		
16	Inferior to subject	$2.60	82%	
				51%
20	Similar to subject	$3.10		
16	Inferior to subject	$2.60	19%	
13	Similar to subject	$4.73		
17	Inferior to subject	$2.30	106%	
				72%
20	Similar to subject	$3.18		
17	Inferior to subject	$2.30	38%	

The location adjustment for Sale 16 ranges from +19% to +82%, with a mean of +51%. In the appraiser's opinion the location adjustment should fall in the lower half of the indicated range at +45%.

The location adjustment for Sale 17 ranges from +38% to +106%, with a mean of +72%. In the appraiser's opinion the location adjustment should fall in the lower half of the indicated range at +65%.

Other factors may apply in the marketplace, such as an adjustment for a corner influence. Comparing time-adjusted Sale 6 with Sale 5 nets an adjustment for corner location of 124%.

Valuation of Community Commercial (CC) zoned properties.

Four CC zoned properties front along Wicks Lane; together they have an average of 1.383 acres of area. Total acreage is 5.53 acres or 240,887 sq.ft. It appears that access will be afforded from Wicks Lane in two areas between lot lines. The lot lines could ostensibly be relocated; if a single developer purchases the whole of the four lots he/she may decide to change the lot lines to accommodate slightly different land uses. For this reason, the lots are appraised as though they average 1.383 acres in size, which is considered to be "typical" of commercial lots in the neighborhood. Sales 5, 6, 7, and 11 were used for the analysis of CC zoned lots, since they are appropriately sized to the 1.383 acre "typical" commercial subject lot. Sales 6 and 7 are the sales of corner lots, sales 5 and 11 are interior lots.

Property Rights: No distinction was noted in the market between fee simple and leased fee ownership; no adjustment was taken.

Time – All sales were given a market time adjustment.

Location/Site Prominence – Sales 5 and 11 were adjusted to reflect inferior site prominences because of their respective location along a non-arterial side street (Sale 5) and a location along an arterial street, but not near a signalized intersection (Sale 11).

Size – There tends to be an inverse relationship between the size of a parcel and its unit price. In this case no specific size adjustment was identified.

On-Off-site Improvements – All sales were adjusted by infrastructure and off-site development costs to put the subject into a similar position as the sales.

Topography – A small adjustment was made to each sale to reflect the rocks on the subject lots and the increased likely costs to remove them.

Economic Characteristics – A financing adjustment was made to each sale to account for the cost of financing a large project like the subject; this equates the sales to the subject by acknowledging that a developer would have to properly account for this expense.

Gov't./Zoning/Utility – No differences were noted and no adjustments were taken.

Coordination Factor – Lastly, a "coordination factor" cost is charged to the subject to account for the expense of dealing with other developers and various entities on infrastructure and off-site costs; this was not present on any of the sales and would be recognized as an adjustment factor.

Before adjustment, the interior lots ranged from $2.50 - $2.77 per sq.ft. After adjustments, the interior lots ranged from $2.89 to $3.48 per sq.ft. with a mean of $3.19 per sq.ft. A sale price near the upper end of the range is warranted because of the site prominence along Wicks Lane. The final indicated value for the interior lots is considered to be $3.45 per sq.ft., and when the cost for development is added at $1.91 per sq.ft., the resultant value is $6.59 per sq.ft., which is above the time-adjusted range for the interior lots, but is also considered correct, because the subject lots are located along an arterial street and near a signalized intersection, which enhance their site prominence, and therefore their value.

Before adjustment, the corner lot sales ranged from $4.12 - $6.52 per sq.ft. After adjustments, the corner lots ranged from $3.76 - $5.04 per sq.ft. with a mean of $4.41 per sq.ft. A sale price in the middle of the range is warranted because of the site prominence along Wicks Lane, and the entrance into the Skyview Ridge Subdivision, which should generate a significant amount of future traffic – the final concluded value is $5.00 per sq.ft. When the cost for development is added at $1.91 per sq.ft., the resultant value is $6.91 per sq.ft., which is near the top of the range of the time-adjusted corner lot sales (at $4.97 to $7.25 per sq.ft).

Accordingly, the four lots that comprise the whole of the CC zoned land in Block One are concluded to have the following values:

Lot 1: Corner Lot	$5.00 per sq.ft. x 56,628 sq.ft. =	$283,140
Lot 2: Interior Lot	$3.45 per sq.ft. x 55,757 sq.ft. =	$192,362
Lot 3: Interior Lot	$3.45 per sq.ft. x 55,757 sq.ft. =	$192,362
Lot 4: Interior Lot	$3.45 per sq.ft. x 72,745 sq.ft. =	$250,970
Total Value of CC-zoned Lots	=	$918,834, say $920,000 (r)

If these lots are sold as part of one sale to one investor/developer there is the potential for a "bulk sale" discount. No sales of lots purchased in a bulk sale situation were noted in the subject's marketplace, but reasonable estimates indicate a potential discount of 10%-12%, and this would reflect entrepreneurial reward and some holding costs. A likely range for a bulk sale of the lots would be:

from $809,600 ($920,000 x .88) to $828,000 ($920,000 x .90) *insert worksheet for CC zoned property*

Valuation of Neighborhood Commercial (NC) zoned property.

The only NC zoned property within this preliminary plat is located west across proposed Fantan Street from the CC zoned properties. NC zoning is slightly more restrictive than CC zoned properties. The lot is 3.46 acres in size and it appears that access will be afforded from Wicks Lane and from proposed Fantan Street. It is possible that the lot could be divided again if a developer decided to have more than one development located in this area.

Sale 9, Listing 14, and Sales 17 and 20 were used for the valuation of this parcel; they are zoned either HC or NC zoned commercial lots and are sized so as to bracket the subject. Sale 9 is a corner lot – the rest are interior lots.

Adjustments:

Property Rights: No distinction was noted in the market between fee simple and leased fee ownership; no adjustment was taken.

Time – All sales were given a market time adjustment.

Location/Site Prominence – All sales and the listing were given an adjustment for inferior location; Sale 20 also had inferior site prominence.

Size – There tends to be an inverse relationship between the size of a parcel and its unit price. Sales 9 and 14 were given a size adjustment for being significantly smaller than the subject property – the adjustment is qualitative in nature and was made based on interviews with developers.

Configuration – Listing 14 was given a qualitative adjustment for inferior shape (a long and narrow tract of land). The adjustment is admittedly subjective, but was based on interviews with developers.

On-Off-site Improvements – Each sale was slightly different with respect to infrastructure improvements; Sales 9 and 17 had partial improvements and were adjusted roughly one-half of the amount of Listing 14 and Sale 17.

Topography – Sales 9, 17, and 20 were all adjusted for superior topography and no rocks. Listing 17 has a steeper topography, which is considered to offset the subject's presence of rocks.

Economic Characteristics – None of the other buyers on the sales had to finance their projects to the extent of the subject; an adjustment for interest expense was taken from each comp/listing.

Gov't./Zoning/Utility – Sale 9 was given an adjustment for being within the county.

Coordination Factor – All sales were adjusted for the lack of needing to coordinate with other developers and various entities when developing their property.

Before adjustment, the sales ranged from $2.20 to $3.77 per sq.ft., with the listing at $4.13 per sq.ft. After adjustments, the indicated range for the sales was from $2.06 to $3.53 per sq.ft., and the listing was adjusted to $4.07 per sq.ft. The mean of the sales plus the listing is $3.29 per sq.ft., and the median is $3.51 per sq.ft. After consideration, a weighted value of the sales only is concluded at $2.78 per sq.ft.

Accordingly, the lot that comprises the whole of the NC zoned land in Block Two is concluded to have the following value:

Lot 1: Corner Lot $2.78 per sq.ft. x 150,718 sq.ft. = $418,996, say $420,000 (r)

Insert worksheet for NC zoned property

Valuation of Residential Professional (RP) zoned property.

There were no sales of RP land found during the sales search in the Billings Heights area. The RP zoning allows for office buildings and is zoned to be more restrictive than NC zoning. The use of commercially zoned sales will provide adequate sales data to conclude a value for this parcel. The lot is 2.33 acres in size and it appears that access will be afforded from Fantan Street, and from Tarchee Avenue; the lot is not fronted by Wicks Lane. It is possible that the lot could be divided again if a developer decided to have more than one development located in this area.

Sales 9, 13, 16, and 20 were used to value the RP zoned land. Sale 9 is a corner lot, while sales 13, 16, and 20 are interior lots.

Adjustments:

Property Rights: No distinction was noted in the market between fee simple and leased fee ownership; no adjustment was taken.

Time – Sales 9, 16, and 20 were given a market time adjustment.

Location/Site Prominence – Sale 13 is a sale that is considered to have offsetting qualities and was not adjusted. Sale 20 was given an adjustment for being an interior lot as opposed to being a corner lot. Sale 16 was given an adjustment for inferior location.

Size – There tends to be an inverse relationship between the size of a parcel and its unit price. In this case the size of the subject is similar enough to the sales to consider it marginally affected; still, it is noted that generally smaller lots are superior and larger lots are inferior with respect to price.

Configuration – All lots were considered to be generally similar and no adjustment was taken.

On-Off-site Improvements – Each sale was slightly different with respect to infrastructure improvements; Sales 9 and 20 had partial improvements and were adjusted roughly one-half of the amount of Sales 13, and Sale 16.

Topography – All sales were generally equal with respect to having similar topography (Sale 13 had slightly sloping topography but did not merit an adjustment). No adjustment was taken to any of the sales.

Economic Characteristics – None of the other buyers on the sales had to finance their projects to the extent of the subject; an adjustment for interest expense was taken from each comp/listing.

Gov't./Zoning/Utility – Sale 9 was located within the county, and normally would have merited an upward adjustment, but it is considered to be offset by having superior zoning. All other sales were adjusted downward for superior zoning (less restrictive).

Coordination Factor – All sales were adjusted for the lack of needing to coordinate with other developers and various entities when developing their property.

Before adjustment, the sales indicated a range from $2.10 to $4.73 per sq.ft. After adjustment, the sales ranged from $1.29 to $3.19 per sq.ft. The only corner sale adjusted to $2.76 per sq.ft. The mean of the sales is calculated to be $2.34 per sq.ft., and the median is $2.45 per sq.ft. After consideration, it is concluded that the best evidence of value is near the mean. Final value conclusion is at $2.45 per sq.ft. Accordingly, the lot that comprises the whole of the RP zoned land in Block Two is concluded to have the following value:

Lot 1: Corner Lot $2.45 per sq.ft. x 101,495 sq.ft. = $248,663, say $250,000 (r)

Insert worksheet for RP zoned property

Valuation of Residential 6000 (R-6000) zoned property.

Three sales and one listing of R-6000 zoned land were found during the sales search in the Billings Heights area. The R-6000 zoning allows for multiple dwellings and is one of the highest density zonings within the city. There are five lots platted in this zoning in Phase 1, and the cumulative total of the area is 281,833 sq.ft., or approximately 6.47 acres (+/-). It appears that access to each individual lot will be afforded from Tarchee Avenue. It is possible that the lots could be configured differently if a developer decided to optimize them for a different land use.

Sales 3, 8, Listing 12, 18, and 19 were used to value the R-6000 zoned land. All sales are tracts or portions of interior tracts that were either purchased outright and developed, or purchased and consolidated with other adjacent lots and developed for residential use. Sale 19 is zoned RMF-R, but is used to help determine value because it is larger than the other R-6000 sales and similar in zoning in that it allows multiple units.

Adjustments:

Time – All sales were given a market time adjustment in accordance with the previously analyzed market condition statement.

Location – Some differences were noted with the sales on Bench Boulevard as compared to the subject's location; a qualitative adjustment was taken to recognize the difference in the upside potential between the two areas. The adjustment was based on comparisons and perceptions of the mix of commercial land uses and housing in each area.

Size – There tends to be an inverse relationship between the size of a parcel and its unit price. In this case each sale was smaller than the subject so the subject could not be bracketed with comparative data – it is noted, however, that generally smaller lots are superior and larger lots are inferior with respect to price. A qualitative adjustment was therefore made to each sale to reflect this size relationship. The adjustment was made based on interviews with developers.

Configuration – Three sales had differing configurations in plats, but none were considered to be so dissimilar as to be unacceptable in the marketplace – consequently no adjustment was taken.

On-Off-site Improvements – Each developer essentially had to pay for some infrastructure improvements on their respective sales – however, there was no way to practicably ascertain the exact amount of each sale's improvement costs. By not taking an adjustment, it is essentially recognized that each sale contained components of these costs that were borne by the developer – the same as the subject situation.

Topography – All sales were generally equal with respect to having similar topography. No adjustment was taken to any of the sales.

Economic Characteristics – It is typical that bank financing is used to develop infrastructure improvements. No adjustment is warranted in this respect since this situation is equal to the subject's condition.

Gov't./Zoning/Utility – All sales were of tracts that are within the city limits and of the same general utility as the subject tract. No adjustment was deemed warranted.

Coordination Factor – All sales were adjusted for the lack of needing to coordinate with other developers and various entities when developing their property.

Before adjustment, the sales indicated a range from $1.78 to $3.60 per sq.ft. After adjustment, the sales ranged from $1.11 to $2.58 per sq.ft. The mean of the sales is calculated to be $1.50 per sq.ft., and the median is $1.42 per sq.ft. After consideration, it is concluded that the best evidence of value is the mean, which is just above the median at $1.50 per sq.ft.

<u>Developmental Method – Income Approach</u>
A Discounted Cash Flow (DCF) was not developed for the subject R-6000 zoned land because the land is not required to be split into separate lots to achieve their full building potential and highest and best use.
<u>Reconciliation:</u>

The sales comparison approach was the only approach used in the preceding analysis – the developmental method was not used because the number of units a developer can construct on the land is not tied to individual lot sales.

Accordingly, the sales comparison approach indicates that the lots that comprise the whole of the R-6000 zoned land in Block One are concluded to have the following value:

Lots 5-9, Block 1: $1.50 per sq.ft. x 281,833 sq.ft. = $422,750, say $425,000 (r)

Insert worksheet for R6000 zoned property

Valuation of Residential 7000 - Restricted (R-7000R) zoned property.

No sales of R-7000 Restricted zoned land were found during the sales search in the Billings Heights area. The R-7000 Restricted zoning allows for only single-family housing, but unlike the R-9600 zoning, it allows the dwellings to be sited on a 7,000 sq.ft. lot. It is a zoning that has most application and demand in areas that have predominantly middle-income wage earners – the dwellings are usually smaller and density is relatively high. There are a total of 77 platted lots to be considered for appraisal in this zoning in Phase Two; the cumulative total of the area is 744,005 sq.ft., or approximately 17.08 acres (+/-). It appears that perimeter access to each tract will be afforded from Tarchee, Keno, and Fantan Avenues – access to interior lots would have to be accessed from developer constructed streets. It is possible that the lots could be configured differently if a developer decided to optimize them for a different land use.

Although there were no sales of R-7000 – R land noted the subject property can be appraised using R-7000, R-9600, and the unzoned sales information. Sales 24 – 29 were used to value the R-7000 – R zoned land. All sales are tracts or portions of interior tracts that were either purchased outright and developed, or purchased and consolidated with other adjacent lots and developed for residential use.

Adjustments:

> **Time –** All sales were given a market time adjustment in accordance with the previously analyzed market condition statement.
>
> **Location** – S24 is located in Lockwood section near East Billings; it is considered to have inferior locational attributes and was given a qualitative adjustment. The adjustment is based on comparisons and perceptions of the mix of commercial land uses and housing in each area.
>
> **Size** – There tends to be an inverse relationship between the size of a parcel and its unit price. In this case two sales were smaller than the subject, two were larger, and two were similar in size. The inverse relationship was not noted in the sales array – so the

comparative data did not suggest that an appropriate size adjustment should be taken. It is noted, however, that generally smaller lots are superior and larger lots are inferior with respect to price.

Configuration – Three sales had differing configurations in plats, but none were considered to be so dissimilar as to be unacceptable in the marketplace – consequently no adjustment was taken.

On-Off-site Improvements – Each developer essentially had to pay for some infrastructure improvements on their respective sales – however, there was no way to practicably ascertain the exact amount of each sale's improvement costs. By not taking an adjustment, it is essentially recognized that each sale contained components of these costs that were borne by the developer – the same as the subject situation.

Topography – All sales were generally equal with respect to having similar topography. No adjustment was taken to any of the sales.

Economic Characteristics – It is typical that bank financing is used to develop infrastructure improvements. No adjustment is warranted in this respect since this situation is equal to the subject's condition.

Gov't./Zoning/Utility – All sales were considered to be of tracts that are within the city limits. S24, S25, S28, and S29 are of R-9600 zoning or an equivalent and are considered inferior, so an upward qualitative adjustment was applied. S26 and S27 are sales of standard R7000 zoning, which is considered to be superior, so a downward qualitative adjustment was applied. The basis of the adjustments was inferred from previously verified sales information.

Coordination Factor – All sales were adjusted for the lack of needing to coordinate with other developers and various entities when developing their property.

Before adjustment, the sales indicated a range from $0.32 to $1.70 per sq.ft. After adjustments, the sales ranged from $0.30 to $0.74 per sq.ft. The mean of the sales is calculated to be $0.49

per sq.ft., and the median is $0.47 per sq.ft. After consideration, it is concluded that the best evidence of value is above the median and near the mean at $0.49 per sq.ft.

<u>Developmental Method – Income Approach</u>

A Discounted Cash Flow (DCF) was developed for the subject R-7000 – R zoned land. This approach assumed a 77 lot subdivision with lot values of $30,000 based on surrounding lot sales and listings, and a sellout period of six years – calculated at 14 sales per year. Expenses were taken for subdivision development costs, marketing costs and sales commissions, title insurance, appraisal fees, administrative overhead and legal expenses, maintenance, and real estate taxes. The cash flows were discounted by 25%, which is at the higher end of the range suggested by leading industry standards. The value suggested by this approach is $19,154 per acre, or $0.44 per sq.ft.

<u>Reconciliation:</u>

The sales comparison approach was accorded most emphasis in the preceding analysis – the developmental method was used only as a test for reasonableness due to the sensitivity of the assumptions in the income model. The correlation between the two approaches is fairly good and accordingly, the lots that comprise the whole of the R-7000-R zoned land in Blocks 5, 6, 9, and 12 are concluded to have the following value:

$0.49 per sq.ft. x 744,005 sq.ft. = $364,562, say $365,000 (r)

Insert worksheet for R-7000R zoned property *insert DCF for R-7000R zoned property*

Valuation of Residential 9600 (R-9600) zoned property.

Only two sales of R-9600 zoned land plus two sales that were ultimately to be zoned R-9600 were found during the sales search in the Billings Heights area. The R-9600 zoning allows for only single-family housing on lots sized 9,600 sq.ft. or more. It is a zoning that has most application and demand in areas that have predominantly middle-income to upper-income wage earners – the dwellings are usually larger and density is relatively low. There are a total of 24 platted lots to be considered for appraisal in this zoning in Phase Two; the cumulative total of the area is 335,412 sq.ft., or approximately 7.07 acres (+/-). It appears that perimeter access to each tract will be afforded from Gibbons, Tarchee, Keno, and Swift Current Avenues – some access to interior lots would have to be accessed from developer constructed cul-de-sac street stubs. It is possible that the lots could be configured differently if a developer decided to optimize them for a different land use.

Sales 24, 25, 28, and 29 were used to value the R-9600 zoned land. All sales are tracts or portions of interior tracts that were either purchased outright and developed, or purchased and consolidated with other adjacent lots and developed for residential use.

Adjustments:

Time – All sales were given a market time adjustment in accordance with the previously analyzed market condition statement.

Location – S24 is located in Lockwood section near East Billings; it is considered to have inferior locational attributes and was given a qualitative adjustment. The adjustment is based on comparisons and perceptions of the mix of commercial land uses and housing in each area.

Size – There tends to be an inverse relationship between the size of a parcel and its unit price. In this case two sales were smaller than the subject and two were larger in size. The inverse relationship was not completely noted in the sales array – so the comparative data did not suggest that an appropriate size adjustment should be taken. It is noted, however, that generally smaller lots are superior and larger lots are inferior with respect to price.

Configuration – Three sales had differing configurations in plats, but none were considered to be so dissimilar as to be unacceptable in the marketplace – consequently no adjustment was taken.

On-Off-site Improvements – Each developer essentially had to pay for some infrastructure improvements on their respective sales – however, there was no way to practicably ascertain the exact amount of each sale's improvement costs. By not taking an adjustment, it is essentially recognized that each sale contained components of these costs that were borne by the developer – the same as the subject situation.

Topography – All sales were generally equal with respect to having similar topography. No adjustment was taken to any of the sales.

Economic Characteristics – It is typical that bank financing is used to develop infrastructure improvements. No adjustment is warranted in this respect since this situation is equal to the subject's condition.

Gov't./Zoning/Utility – All sales were considered to be of tracts that are within the city limits. S24, S25, S28, and S29 are of R-9600 zoning or an equivalent and are considered superior to the subject's R-9600 zoning because of the subject's proximity to the high-voltage power lines; these power-lines could negatively affect marketing and pricing levels for the lots. Downward qualitative adjustments were taken for this consideration. The basis of the adjustments was inferred from previously verified sales information.

Coordination Factor – All sales were adjusted for the lack of needing to coordinate with other developers and various entities when developing their property.

Before adjustment, the sales indicated a range from $0.30 to $0.58 per sq.ft. After adjustments, the sales ranged from $0.20 to $0.33 per sq.ft. The mean of the sales is calculated to be $0.26 per sq.ft., and the median is only slightly lower at $0.25 per sq.ft. After consideration, it is concluded that the best evidence of value is the mean - at $0.26 per sq.ft.

Developmental Method – Income Approach

A Discounted Cash Flow (DCF) was developed for the subject R-9600 zoned land. This approach assumed a 24 lot subdivision with lot values of $40,000 based on surrounding lot sales and listings, and a sellout period of two years – calculated at 12 sales per year. Expenses were taken for subdivision development costs, marketing costs and sales commissions, title insurance, appraisal fees, administrative overhead and legal expenses, maintenance, and real estate taxes. The cash flows were discounted by 25%, which is at the higher end of the range suggested by leading industry standards. The value suggested by this approach is $13,692 per acre, or $0.31 per sq.ft.

Reconciliation:

The sales comparison approach was accorded most emphasis in the preceding analysis – the developmental method was used only as a test for reasonableness due to the sensitivity of the assumptions in the income model. The correlation between the two approaches is fairly good and accordingly, the lots that comprise the whole of the R-9600 zoned land in Blocks 3 and 4 are concluded to have the following value:

$0.26 per sq.ft. x 335,412 sq.ft. = $87,207, say $85,000 (r)

Insert worksheet for R-9600 zoned property insert DCF for R-9600 zoned property

Valuation of Lot 45, Block 34, of Continental Divide Subdivision, 1st Filing.

The lot size is 14,497 sq.ft., and the lot is zoned R-9600. There are significant impediments to value on this lot: a 20 foot wide easement for a high voltage power line goes through the center of the lot, the topography is such that it affords no practical building site near the cul-de-sac, and there is no other access to the lot save for the small area adjacent to the cul-de-sac. For all practical purposes there seems to be no market for the property except as an “add-on” or assemblage for the adjacent owners for plottage value. The market was researched for sales of properties that are similarly affected; with little utility or desirability due to certain inherent features of the property.

The sales selected for this comparison are as follows:

Sale	Size	Zoning	$/Sq.Ft.	Comments
30	13,741 sf	R-9600	$0.14	Considered to be unbuildable.
31	21,165 sf	R-9600	$0.24	Considered to be unbuildable, or difficult to build on.
32	9,024 sf	R-9600	$0.28	Considered to be difficult to build on.

These sale indications are from $0.14 to $0.28 per sq.ft., and reflect a lower level of value for this type of limited market property, which is not unexpected.

No sales of any "regular" lots were found in the same subdivisions as these three sales from which to calculate a discount to value range for the sales. One could reasonably expect that a person assembling land would want a discount so that he creates *plottage value.* When he then sells his assembled land, he will receive a "bonus" for the land that he assembled and a reward for his entrepreneurial efforts. A significant magnitude of discount is not thought to be uncommon; it is akin in thinking to properties that are "land-locked" and are purchased by surrounding landowners (mostly ranchers) who then convert the purchased land into their own ownership.

Adjustments:

Time – Three sales were found – although these sales took place during March-April of 2004 and 2005, they are non-adjusted for time, since there is no indication from the broader real estate market that property values have appreciated for this property type.

These are limited-market properties and would appeal to only a certain segment of the broader market.

Location – An adjustment was taken for location due to the differences in lot values noted in each market area. A sale of a vacant lot was noted in the subject's subdivision that sold for $52,500 on 28 Mar 06 (Lot 42, Block 34, Continental Divide Subdivision). According to sales data, similar lots sold in the area of the sales might reasonably sell for one-half of this amount – therefore the adjustment is roughly twice what the prices would indicate on the comparable sales.

Size – There tends to be an inverse relationship between the size of a parcel and its unit price. In this case the subject lot was bracketed by the sales, but S31 sold for more per sq.ft. than S30 so the relationship is not foolproof. Consequently, no specific size adjustment was identified and no size adjustment was taken. It is noted, however, that generally smaller lots are superior and larger lots are inferior with respect to price.

Configuration – Three sales had differing configurations in plats, but none were considered to be so dissimilar as to be unacceptable in the marketplace – consequently no adjustment was taken.

On-Off-site Improvements – Each sale had infrastructure improvements in place similar to the subject and therefore no adjustment was made for infrastructure improvements.

Topography – All sales were generally equal with respect to having similar topography. No adjustment was taken to any of the sales.

Economic Characteristics – Economic characteristics on all sales reflect similar arrangements as the subject faces – consequently no adjustments were made.

Gov't./Zoning/Utility – S30 and S31 are sales of tracts that are within the city limits. S32 is located in the county, and an adjustment was made to reflect the additional cost to develop private septic service.

Coordination Factor – The sale of the subject tract assumes no additional capital outlay for infrastructure improvements – consequently, no adjustment is considered to be necessary.

Before adjustment, the sales indicated a range from $0.14 to $0.28 per sq.ft. After adjustments, the sales ranged from $0.28 to $0.63 per sq.ft. The mean of the sales is calculated to be $0.46 per sq.ft., and the median is $0.48 per sq.ft. After consideration, it is concluded that the best evidence of value is at the mean at $0.46 per sq.ft.

Accordingly, Lot 45, Block 34, Continental Divide Sub, First Filing is concluded to have the following value:

$0.46 per sq.ft. x 14,497 sq.ft. = $6,669, say $6,500 (rnd. nearest $500)

Insert worksheet for SFR lot

RECONCILIATION OF VALUES

The various approaches to value utilized in this report result in the following indications of value for the subject property:

Commercial Zoning	Area (Sq.Ft.) Interior Lots	Area (Sq.Ft.) Corner Lots	Price/Sq.Ft.	Relative Positioning
CC	56K-72K		$3.45	
		57K	$5.00	
CC (lots as grouped together)			$3.82	Value of 100%
NC		150,718	$2.95	-22.78%
RP		101,495	$2.45	-35.86%

Residential Zoning	Area (Acres)	Price/Acre	Price/Resdnl. Unit	Relative Positioning
R-6000	6.47	$65,688	$3,036	Value of 100%
R-7000R	17.08	$21,370	$4,740	-67.47
R-9600	7.70	$11,040	$3,541	-83.19

The Cost Approach is a good indicator of value when the improvements are relatively new and reflect the highest and best use of the land; the approach is not utilized in this report, however, because the land value is unknown. This report does utilize some estimates of engineering-generated subdivision infrastructure costs however – these estimates are for both off-site and on-site costs.

The Sales Comparison Approach is a good indicator of value in an active market where there is sufficient market data to result in a reliable value indication for the subject. The quantity and quality of market information available for this appraisal was limited – there were few sales of development properties that exhibited similar characteristics. Typically, all sales had large adjustments – most of which were qualitative instead of quantitative – and these necessitated much subjective judgment. Still, this approach is the most commonly used and accepted for the value of land in the locale – even though the available data is subject to many interpretations.

Typically, the *Income Approach* in a subdivision appraisal is called the *Development Approach, or the Subdivision Approach* to value. This development or subdivision approach is a valuation technique that computes market value by calculating the proceeds to be earned by a potential subdivision, subtracting out development costs and discounting the remainder as of the effective date of value. The Income or Subdivision approach to value in this appraisal was utilized with only the R-7000R and R-6000 zoned properties as a test for reasonableness against the results of the Sales Comparison Approach. There is good separation in logic in the commercial zoning values noted above: the CC zoned land is the most valuable, followed by the NC zoned land, and in turn followed by the RP zoned land. The residential values likewise have similar logical separation with the R6000 zoned property having the most value, followed by the R7000R zoned property, and lastly the R-9600 zoned property tracts.

In conclusion, the market value of the subject properties in their "as is" condition as of the effective date of value in this report is estimated to be:

Legal Description	Zoning Class	Estimated Value
Lots 1-4, Block 1	Community Commercial	$920,000
Lots 5-9, Block 1	R-6000	$425,000
Lot 1, Block 2	Neighborhood Commercial	$420,000
Lot 2, Block 2	Residential Professional	$250,000
Lots 1, Blocks 3 & 4	R-9600	$ 85,000
Lots 1, Blocks 5, 6, 9, & 12	R-7000R	$365,000
of the Preliminary Plat of Skyview Ridge Subdivision,		
1st Filing, located in Yellowstone County, Montana.		
Sub-Total		$2,465,000
Lot 45, Block 34	R-9600	$ 6,500
of Continental Divide Subdivision, 1st Filing,		
located in Yellowstone County, Montana.		
Grand Total		$2,471,500

CERTIFICATION

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- I have made an internal and external inspection of the properties that are the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this certification.

Respectfully submitted,

________________________________ Date ___________________

Steven M. Repac
Certified General Appraiser
MT #058
SSN: 517-70-1313