

# DNRC CAYUSE HILL - 2011

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# SUMMARY APPRAISAL REPORT of the

DNRC CAYUSE HILL PARCEL #517

**Consisting of 160 Deeded Acres** 

# LOCATED WITHIN THE MISSOULA VALLEY

Missoula County, Montana

Effective Date: May 20th 2011

# Prepared for:

Mr. John Grimm
The State of Montana DNRC
Trust Land Management Division
PO Box 201601
Helena, Montana 59620-1601

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May 26, 2011

Mr. John Grimm
The State of Montana DNRC
Trust Land Management Division
PO Box 201601
Helena, Montana 59620-1601

RE: Appraisal of the State of Montana DNRC Cayuse Hill Parcel 517

Dear Mr. Grimm:

Pursuant to your authorization and request, I have inspected and appraised the Montana real property ownership associated with the *Cayuse Hill Parcel #517* owned by the State of Montana DNRC. The property is located west of Frenchtown, Montana and north of Interstate 90. Frenchtown is a bedroom community that is located about 20 miles west of Missoula within the Clark Fork River Valley.

The subject is a 160 acre unimproved parcel that consists of recreational timberland. The timber consists predominately of Ponderosa Pine with some Douglas Fir. With the exception of 25 acres of steep west facing slopes, the topography is level with areas of slight undulations.

The aesthetics and recreational attributes of the property include its timbered setting and on-site habitat for multiple species of wildlife. While most of the viewshed is enclosed, there are areas that afford mountainous views including Stark Mountain.

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The purpose of the appraisal is to provide the clients with a credible opinion of fair market value of the appraised subject property and is intended for use in the decision making process concerning the potential sale of said subject property.

As instructed, a hypothetical condition is used that the subject has a legal means of access. The physical access has been identified by the DNRC and utilizes an existing road/trail. A value of the subject has also been determined on the basis of the subject's lack of legal access.

This appraisal represents a summary appraisal report and was prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP). This report is intended to comply with the reporting requirements set forth under Standards Rule 2-2 of USPAP. It presents only summary discussions of the property features, as well as the data, reasoning, and analyses used in the appraisal process to develop an opinion of value. This summary appraisal report limits the reliance of the report to the clients for its intended use.

Based on the characteristics of the subject property, market conditions, and analysis of the data, I conclude the following values for the subject property and the identified property interests.

With Legal Access:

\$300,000

Without Legal Access:

\$195,000

This represents my opinion of value for the fee simple and partial ownership rights associated with the property described and are subject to the conditions and comments appearing in this report. Value conclusions are based on an analysis of appropriate sale properties in both the "before" and "after" valuations.



If you have any questions or would like to discuss this appraisal report further, please contact me. Thank you for the opportunity to work with you and on behalf of the State of Montana.

Respectfully Submitted,

Taraic David Neibergs, MA, ARA

Accredited Rural Appraiser #1098

General Certified Appraiser Montana (#248)



#### Cayuse Hill Land Banking Parcel Sale #517

OWNER OF RECORD: State of Montana - DNRC

LEGAL DESCRIPTION: SW4 Section 22, Township 15 North, Range 22 West

COUNTY: Missoula

LEGAL ACCESS: None

PHYSICAL ACCESS: Private unimproved dirt road/trail.

INTENDED USE: Estimate market value of the identified real estate

ownership rights.

CLIENT: State of Montana, the Montana Board of Land

Commissioners and the Department of Natural

Resources and Conservation (DNRC).

INTENDED USERS: State of Montana, the Montana Board of Land

Commissioners and the Department of Natural

Resources and Conservation (DNRC).

LOCATION: ~2 air miles west of Huson and 20 miles west of

Missoula, Montana.

EFFECTIVE DATE: May 20, 2011

DATE OF REPORT: May 26, 2011

ZONING: None

COMP. PLAN: Open and Resource

CURRENT USE: Timber

HIGHEST AND BEST USE: As Is Without Access: Due to the lack of legal access,

assemblage and plottage.

Hypothetical With Legal Access: Recreational timberland that is suitable for a cabin/homesite. Inherent is the potential for assemblage and plottage.

PROPERTY DESCRIPTION: The subject property is a 160 acre tract of unimproved

land. The property consists predominately of

timberland on gentle slopes.

HYPOTHETICAL CONDITION: 1.) The property has legal access for unlimited uses.

Legal access is from Remount Road across private lands along an unimproved road/trail. Use of this hypothetical condition may affect the assignment

results and conclusions.

ESTIMATES OF VALUE: With legal access: \$300,000

Without legal access: \$195,000

#### I. PROPERTY IDENTIFICATION & PRESENT OWNERSHIP

The subject is a recreational tract that consists of **160 acres** of timberland. It is located on Cayuse Hill west of Huson within the Clark Fork River Valley west of Missoula and north of I-90. With the exception of the western tiers, the property is situated on level slopes.

It's noted that there is no legal access to the subject property and it is surrounded in its entirety by private land. For purposes of this valuation, a hypothetical condition is used that the property has legal access. The physical access is identified as coming in from Remount road to the west and utilizing an existing private road/trail that reaches the northwestern corner of the property. Access is more seasonal in use given the present state and condition of the road.



The subject is owned by the **State of Montana Department of Natural Resources** and **Conservation – DNRC.** 

#### II. LEGAL DESCRIPTION

The legal description for the property is as per information provided. A parcel map is included on the following page.

Township 15 North, Range 22 West, P.M.M., Missoula County, Montana

Section 22: SW4

#### III. AUTHORIZATION, INTENDED USERS, and CLIENT

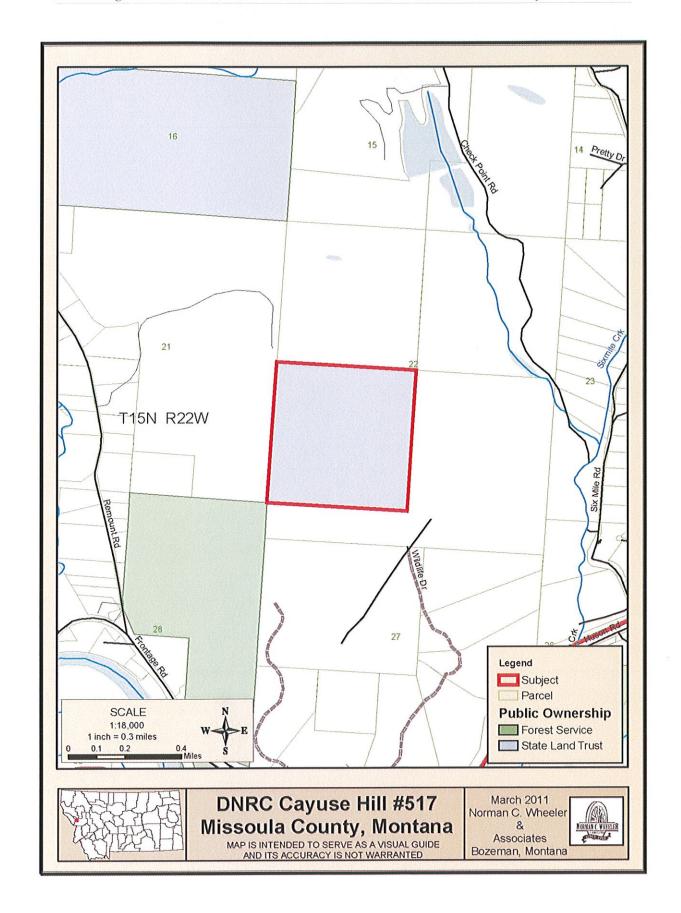
**A. Authorization:** I was authorized to complete an appraisal of the subject property by the State of Montana DNRC. The appraisal is being completed in accordance with the State of Montana Land Banking program.

The appraisal is being completed to comply with the Uniform Standards of Professional Appraisal Practice (USPAP) and the attached Land Banking scope of work.

**B.** Client and Intended Users: The clients and the intended uses include the State of Montana, the Montana Board of Land Commissioners and the Department of Natural Resources and Conservation (DNRC).

#### IV. TYPE OF REPORT

In accordance with Standard 2 of the Uniform Standards of Professional Appraisal Practice (USPAP), a summary report was completed. According to Standard Rule 2-2(b) a summary report contains all information significant and relevant to the solution of the appraisal problem. *Summarize* is the distinguishing term related to the summary appraisal report. It summarizes the rational and analysis used in the appraisal process to conclude an estimate of value. The depth of discussion included in the report is specific to the intended use of the report and the needs of the client(s).



#### V. STATEMENT OF COMPETANCY

The Uniform Standards of Professional Appraisal Practice (USPAP) requires that prior to accepting an assignment or entering into an agreement to perform any assignment, an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently or:

- i. disclose the lack of knowledge and/or experience to the client before accepting the assignment; and
- ii. take all steps necessary or appropriate to complete the assignment competently; and
- iii. describe the lack of knowledge and/or experience and the steps taken to complete the assignment competently in the report.

I have been appraising rural, recreational and investment properties in the States of Montana, Washington, and Idaho since 1987. I am familiar with the geographical area in which the subject is located. Properties, which are physically and economically similar to the subject, have been common appraisal assignments. Appraisal reports have been reviewed and approved by multiple public agencies at all levels including national offices in Washington D.C.

The appropriate steps have been taken to comply with the competency provision as required by USPAP. Requirements have been satisfied based on my experience, applicable education, knowledge of theory and appropriate techniques in appraising rural, transitional, and recreational real estate.

I am a State Certified General Appraiser in the state of Montana with continued education requirements being current. I hold the Accredited Rural Appraiser (ARA) designation which is awarded by the American Society of Farm Managers and Rural Appraisers to those members who have had years of experience, are technically trained, have passed a rigid examination, and subscribe to a high code of ethics. This professional designation is awarded on the basis of demonstrated competency in valuing the type of property considered herein.

#### VI. APPRAISAL PURPOSES

The purpose of the appraisal is to provide the clients with a credible opinion of fair market value of the appraised subject property and is intended for use in the decision making process concerning the potential sale of said subject property.

#### VII. DEFINITION OF VALUE and DISTRIBUTION OF VALUE

For purposes of this report, market value is defined in accordance with MCA 70-30-313.

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 many 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.

Value as assigned in this report applies to the real estate as described. It does not consider the value of forages. As noted herein, a separate contributory value analysis of any existing timber rights is not made. This property right is considered as part of the overall value as assigned to the real estate and the values are reflected by the land values exhibited in the market. Inherent in the land values assigned are basic land improvements including roads and fences.

#### VIII. EXPOSURE TIME

Exposure time is the estimated length of time the property interest being appraised would have been offered on the market *prior* to the hypothetical consummation of a sale at market value on the effective date of the appraisal. Exposure time is always presumed to precede the effective date of the appraisal. Given the attributes of the property, an exposure time of 12 months is reasonable.

#### IX. EXTENT OF PROCESS (SCOPE)

A self inspection of the subject property was made on May 20, 2011. The property was inspected from private trails and within portions of the interior boundaries. In conjunction with the inspection, I have relied upon aerial photographs, topography maps, GPS readings, satellite imagery, plat maps, and discussions with the State of Montana to become familiar with the property. The physical access to the subject for purposes of this valuation was identified by Robert Storer with the State of Montana DNRC.

When applicable, public agencies (Rural Economic and Community Development Services, Montana Fish, Wildlife and Parks, Department of Natural Resources and Conservation, in addition to the Missoula County Courthouse) were contacted for specific information concerning the subject property. Information on soil types, water rights, potential land uses, and wildlife/natural resources were obtained from these agencies. The reported acreage is based on the State of Montana CAMA data.

In addition to data on file, a research for comparable sales was completed. The most comparable and representative sales were used. County records were perused, Multiple Listing Services (MLS) were researched, and active Realtors and appraisers were contacted for market data. All sales were verified with the buyer, seller, agents, or other parties having knowledge of the transaction.

Comparable sales were inspected to the extent possible. Trespass was avoided and owner permission was obtained when feasible. When a property was not accessible and/or was not inspected, aerial photos, maps, and discussions with parties familiar with the property were relied on.

Montana is a nondisclosure state; thus, aside from sale notices or deeds, no sales data is of record. No sale values are reported and sale values must be personally confirmed. I have made a diligent effort to correctly ascertain the circumstances and values surrounding each sale and data provided by professional third parties is considered reliable. The investigation of this appraisal report included confirmation of sales with buyers, sellers or real estate professionals.

Included within this appraisal report are multiple maps. These maps are meant to be a visual aid only as a representation of the property. The maps were prepared by a GIS specialist with Norman C. Wheeler and Associates.

#### X. PROPERTY RIGHTS APPRAISED/BUNDLE OF RIGHTS

This appraisal is of the fee simple ownership of the surface rights associated with the described real estate. Included in the rights appraised are timber rights associated with the property.

Sub-surface mineral rights are not appraised nor has the title to such rights been researched or ascertained. Sub-surface mineral rights do not have a measurable affect on land values in the market for the type of property considered herein.

It's noted that the subject property does not have any legal access. For purposes of this report and as per the Land Banking Appraisal Instructions, a value will be established on an as-is basis without legal access. In addition, an opinion of value based on the hypothetical condition that the subject <u>has</u> legal access will also be estimated.

For purposes of this assignment, the legal access is assumed to be for unlimited purposes across an existing private road/trail that traverses over other privately owned lands that lead from Remount Road to the subject property.

Associated with interest being appraised is the "bundle of rights" theory, which is defined as follows:

"The concept that compares property ownership to a bundle of sticks with each stick representing a distinct and separate right of the property owner.

Various rights are beneficial to a property and have a direct impact on use/utility and ultimately value. With consideration to the lack of legal access, the bundle of rights is diminished.

#### XI. DATE OF VALUE ESTIMATE

The effective date of this report is May 20, 2011 which coincides with the date of the most recent property inspection. This appraisal was completed on May 26, 2011.

#### XII. THREE YEAR OWNERSHIP HISTORY OF APPRAISED PROPERTY

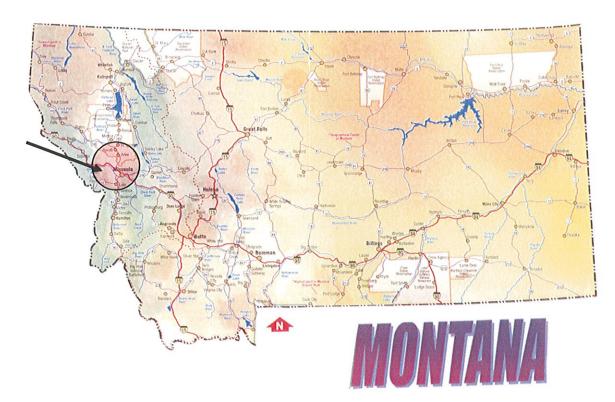
- 1. Ownership: The subject property is owned by the State of Montana DNRC.
- **2. Sales History:** USPAP standards require that any previous sales within a three year period be reported. The subject property has been owned by the State since 1895.

#### XIII. PRESENT AND HISTORICAL USE

The present and historical use of the subject has been for timberland. The most recent harvest occurred approximately 20 to 25 years ago.

#### XIV. AREA - REGIONAL ANALYSIS

The subject property is located west of Missoula in the Huson area near the gateway of the Nine Mile Valley. The area is a bedroom community of Missoula. For purposes of this analysis, only a summary description of Missoula Valley will be provided. Additional details and statistics for the area are available at various sources including the Chamber of Commerce and are thus not provided in this report.



<u>Physical Attributes:</u> Known as the "Garden City" Missoula is the primary service and cultural center for the subject and is the county seat for Missoula County. Missoula is located approximately 150 miles southwest of the State Capital in Helena.



Missoula County is located in the western part of Montana and is part of the Northern Rocky Mountains. The Missoula Valley is approximately 200 square miles with a trade area population of over 150,000 people. It is virtually surrounded by mountains with numerous drainages consisting of Grant Creek, Pattee Canyon, Rattlesnake, Miller Creek, and Butler Creek. Outlying areas include the Jocko Valley to the north and the Seeley-Swan Valley to the east, and the Bitterroot Valley to the south.

<u>Location and Transportation:</u> The area is interspersed with city, county as well as roads administered by the U.S. Forest Service. Major transportation routes into and out of the Missoula area are readily available. I-90 is the primary transportation route serving the State with other major state highways (Highway 93 and 200) providing access to the majority of the outlying areas. The services of commercial airlines, buses, and private charters are also available in Missoula.

Regional Service Center: Missoula is the major commercial, industrial, educational, and medical center for most of western Montana. Trade center activities accounts for approximately 50% of the economic base. Motor Carriers, medical services, the railroad, and public agencies (Federal, State, County, and City) are major components to the local area. The University of Montana is located in Missoula and ranks as the largest single employer. The University is a major contributor to the local economy given its students, faculty and the sponsorship of many sporting, conferences, and cultural events.

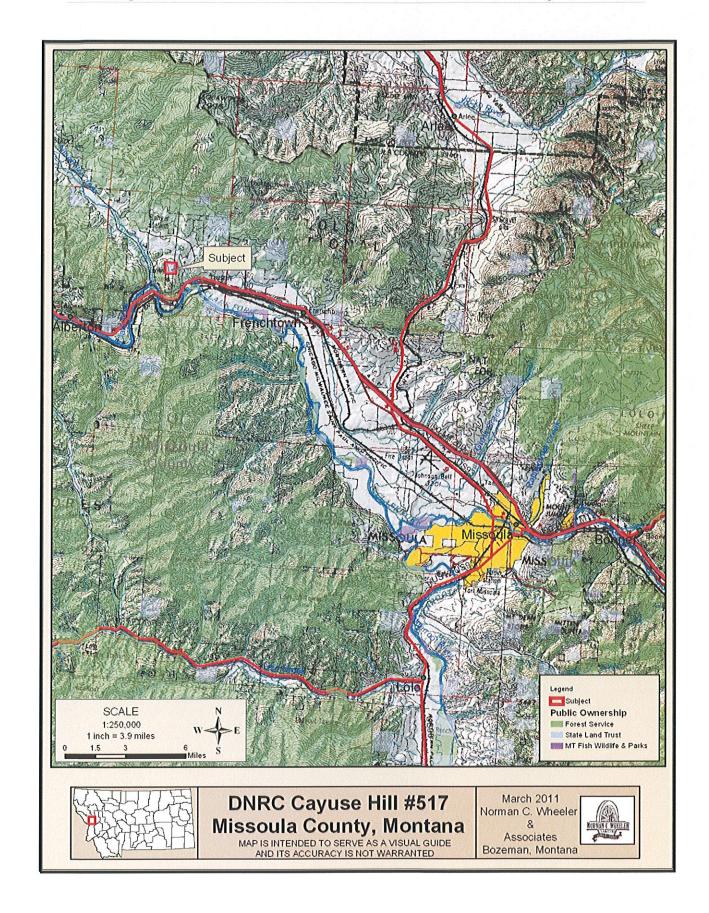
Since the early 90's, the Missoula area has experienced an increasing growth in population with many people moving from outside the state. Missoula County has been one of the fastest growing areas in the State of Montana. As of 2000, the population of the City of Missoula is estimated at approximately 57,000 - this is an increase of ~10% from 1997. The 2008 Census estimate puts the city's metropolitan area population at 107,320.

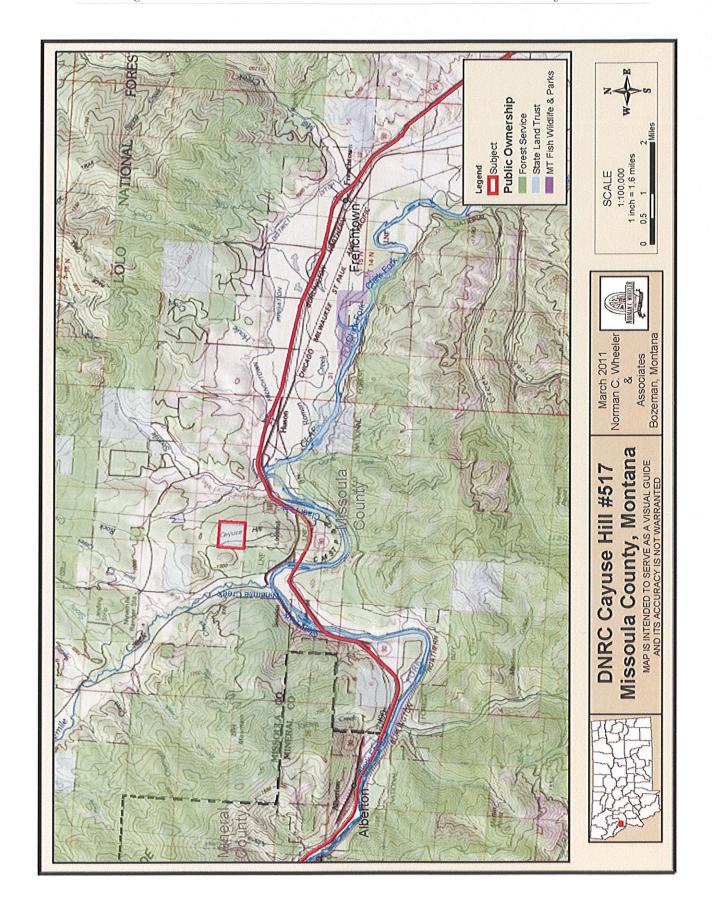
Over the last decade, this growth has translated into numerous developments in all facets of the real estate market; especially in the retail and residential segments. Significant expansion within the retail and commercial sectors has occurred with the Reserve Street corridor and the development park just north of the airport. Over the last three years, the growth has waned.

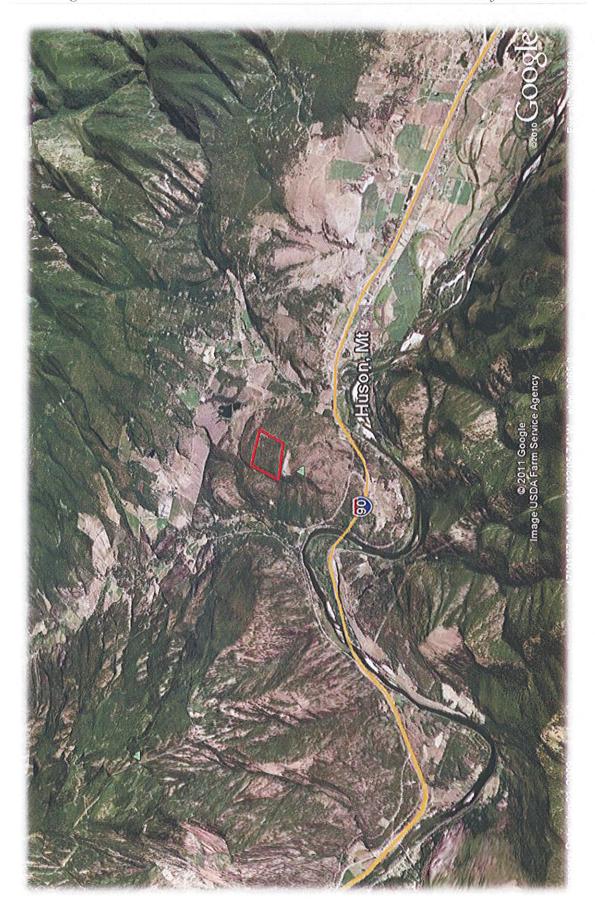
Governmental Influences: The areas around the Missoula proper are zoned while the rural areas of Missoula County are unzoned. State regulation restricts subdividing a parcel of land below 160 acres. Any parcel that is not already subdivided and is smaller than 160 acres must comply with the Montana Subdivision and Platting Act. Depending on the number of tracts to be developed and their size, the subdivision must be reviewed and approved.

Missoula County has a comprehensive plan to "guide" growth and land uses within the county. The rural areas are generally classified as open and resource lands with a recommended minimum lot size of 40 acres for residential use.

<u>Environmental Factors:</u> Environmental forces that influence property values can be both natural and man-made. Environmental forces include the climate, wetlands, soil quality, topography, and contamination (hazardous wastes). Many areas along small streams and rivers are susceptible to flooding, which limits the use of the land.

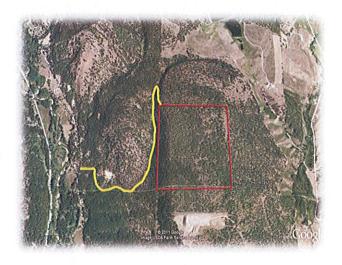






### XV. SUBJECT PROPERTY DESCRIPTION

Location and Access: Consisting of 160 acres, the subject is located in the western Missoula Valley about 2.5 air miles northwest of Huson, Montana and 20 miles west of Missoula. The subject is a landlocked piece of land that does not have any legal access. For purposes of this assignment, a hypothetical condition is used in which the appraisal is completed on the basis that the subject has



legal access for all legally permissible uses across the identified physical means of access.

The physical access to the subject is via a private road/trail that travels easterly and northerly 1.3 miles from Remount Road to the northwestern corner of the subject (route shown in yellow above). The road/trail is ~12′ wide, semi improved and does have areas with a steeper grade where it travels along the hillside. While more seasonal in its present state, it could be improved. The interior of the subject is accessed by private roads and trails.

Land Description: The subject property consists of 160 deeded acres. It is a quarter section of land that is a ½ mile square. It is bordered by private land.

The subject is a homogenous tract of timberland that has various small openings of grassland. Topography consists primarily of gentle slopes with



slight undulations. Approximately 25 acres of the western fringes consists of steep land with a westerly facing slope.

Aesthetic and Recreational Amenities: With a forested setting, the subject's amenities include peek-a-boo views of the area mountains and on-site habitat for multiple species of wildlife.

Views of the area mountains are available on the peripheral edges of the property adjacent to other private land or closer to the



western border of the subject where the land slopes to the west. Otherwise, extended viewsheds from the interior are more limited.

Complemented by other private land in the area, the property is occupied by area wildlife during various periods. Whitetail are common with evidence of elk as well.

**Water Rights and Irrigation Systems**: There are no water rights associated with the property. It's noted that the review of well logs to the south in Section 27 revealed that total depths are fairly deep in excess of 600' but relatively productive.

Hazards/Condition/Environmental Concerns: Based upon my inspection, there are no known environmental concerns that would impact the property or its highest and best use. Given the subject is a timbered property, fire is an inherent risk. Typical for the area/market, there are areas with noxious weeds including knapweed.

**Zoning:** The subject is unzoned. The comprehensive plan designates the subject as *open and resource* land.

**Easements:** While a title commitment was not provided, it is evident that there is a utility easement for a telephone and fiber optic line.

**Improvements:** With the exception of some fencing, the subject is unimproved. While electricity is in the vicinity of the property, it is reported to be not on-site.

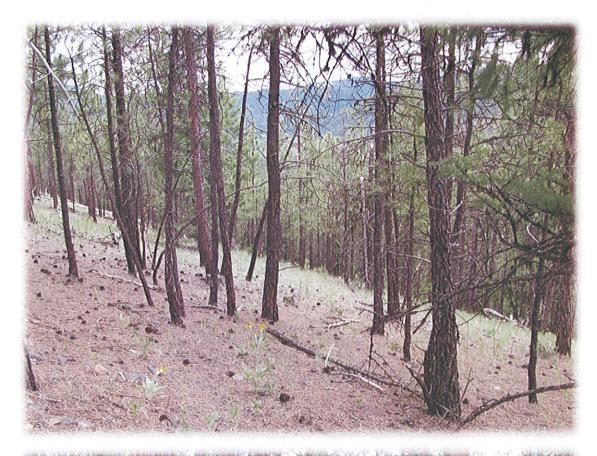
Timber: The subject is a timbered property that is predominately stocked with Ponderosa Pine with some Douglas fir. Based on information provided from the DRNC, there is a net of 634 MBF of Ponderosa Pine and 125 MBF of Douglas Fir or a total of 759 MBF or 4.74 mbf/acre.



With consideration to current market conditions of the timber market and other influences in the market, the subject's timber is more of an amenity resource and any value for the timber is inherent with that of the land.







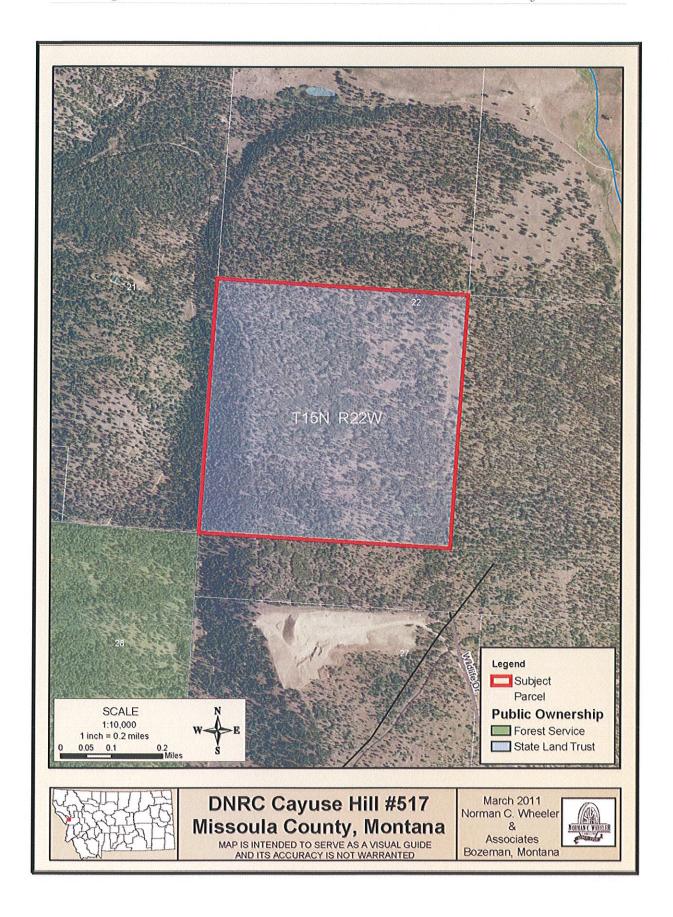


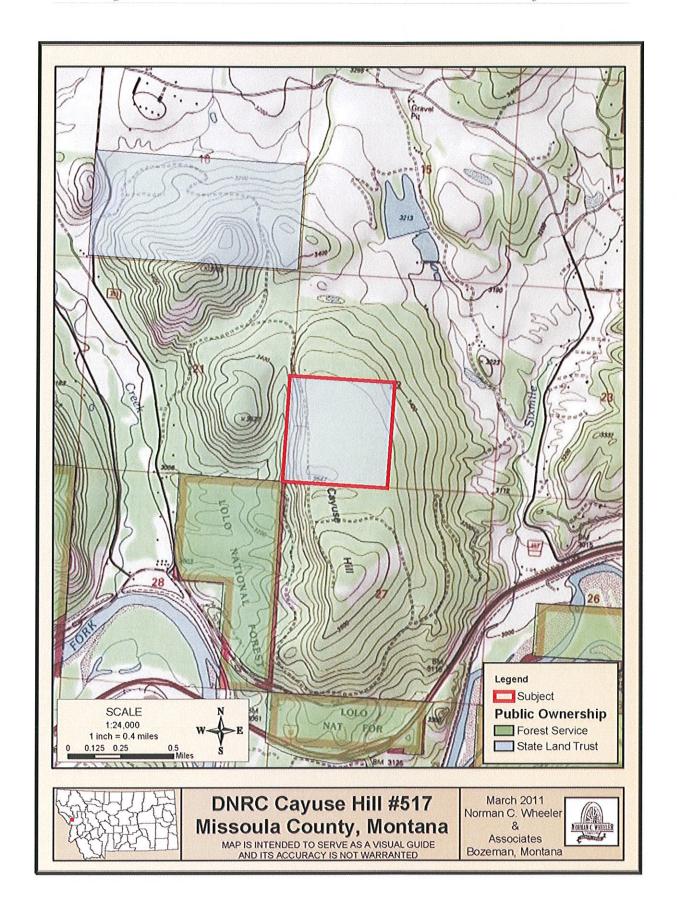












## XIII. APPRAISAL PROCESS

The appraisal process is a methodical procedure leading to a conclusion of value for a specific property. As per the <u>11<sup>th</sup> Edition of the Appraisal of Real Estate</u>, the process encompasses the following steps:

- 1. Definition of the Problem
  - -Identification of real estate
  - -Identification of property rights to be valued
  - -Date of value estimate
  - -Use of appraisal
  - -Definition of value
  - -Other limiting conditions
- 2. Preliminary Analysis and Data Selection and Collection

-General Data -Specific Data social site & improvements economic sales & listings governmental cost & depreciation

environmental income/expense & capitalization rate

- 3. Highest and Best Use Analysis
  - -Land as though vacant
  - -Property as improved
- 4. Application of the Three Approaches
  - -Cost Approach
  - -Sales Comparison Approach
  - -Income Approach
- 5. Reconciliation of Value Indication and Final Value Estimate
- 6. Report of Defined Value

As per the <u>Real Estate Appraisal Terminology</u>, <u>Revised Edition</u> the appraisal process is defined as:

"A systematic analysis of the factors that bear upon the value or utility of real estate. An orderly program by which the problem is defined, the work necessary to solve the problem is planned, and the data involved are acquired, classified, analyzed, and interpreted into a final opinion or conclusion."

Value is based on four independent economic factors: utility, scarcity, desirability, and effective purchasing power. In order for anything to have value it must have utility, be relatively scarce, have desirability, and there must exist a market that has effective purchasing power.

In the appraisal of real estate, appraisal theory indicates that there are three commonly accepted approaches in determining value. These include the Cost Approach, the Income Approach and the Direct Sales Comparison Approach. Each approach to value is based on economic principles that influence value or utility. As outlined in the definition, the appraisal process involves the identification of the appraisal problem including the type of value to be estimated, the property rights to be appraised, and the purpose of the appraisal.

Once the appraisal problem has been defined, the preliminary analysis begins. This involves developing a work plan to gather and analyze pertinent data that will be used in solving the appraisal problem (estimating defined value).

The appraiser considers relevant data, both specific (site) and general (non-site), documenting this data to support the conclusions stated in the appraisal.

When appraising a property, as many of these methods that apply should be used in the valuation process. In some instances, all three approaches are pertinent and provide reliable estimates of value. In other cases, only one or two approaches may be applicable.

For example, in the recreational mountainous area of the Montana ranch market, the income approach may not provide a reliable value estimate as the market is being driven by aesthetics and emotion rather than concern over potential earnings. The direct sales comparison approach may not be applicable for a cattle feedlot in a dry cropland market where there have not been any feedlot sales. The direct sales comparison approach is also difficult to complete when there is a lack of sales data with directly comparable components.

Cost Approach: The cost approach is based upon the proposition that an informed buyer would pay no more for a property than the cost of the land plus the current cost of replacing the improvements less the applicable depreciation from all causes charged to the improvements. This approach can be useful when valuing rural properties that have relatively new improvements or specialized improvements on rural properties when the market is homogeneous and informed.

Current replacement and reproduction costs can be estimated from cost estimation guides, or from builders and contractors depending on which is more applicable to the appraisal problem. The amount of depreciation to apply to the replacement cost new of the improvements is based upon market driven conclusions. The depreciated or market value of the improvements is then added to the land value for a total value estimate.

**Direct Sales Comparison Approach.** This approach is based upon the assumption that an informed purchaser would pay no more for a property than the cost of acquiring an existing one with the same utility.

The appraiser must judge the amount of difference between the selected comparable sales and the subject property.

The appraiser then makes either dollar or percentage adjustments to each comparable sale for each of the factors. If for example, the comparable sale has inferior land, then a positive adjustment to that comparable sale's price would be made. If the comparable sale has a location that is superior to the subject's location, then a negative adjustment would be made to the sale.

**Income Approach.** The income approach is used by the appraiser to convert an expected income stream for the subject property into a value indication. It is based upon the following relationships:

Income ÷ Rate = Value

and

Income x Factor = Value.

The appraiser estimates the rate or factor to use through market research of comparable sales. First the selected comparable sales need to be analyzed to determine the relationship between their estimated income and their sale prices. From this relationship a capitalization rate or an income multiplier factor can be estimated to aid in analyzing the subject. The subject property should then be investigated to determine the quality and quantity of the anticipated income streams. Once the appraiser determines a reasonable income stream for the subject property, either the market derived capitalization rate or the income multiplier factor can be applied to the anticipated income stream to calculate an estimated value for the subject property.

**Reconciliation:** The critical step in the valuation process is where the appraiser reconciles the different value indications from each of the approaches to arrive at a final estimate of value. During the reconciliation process, the appraiser examines why the approaches differ in the value indications and determines the strengths and weaknesses of each approach. The appraiser must then communicate to the reader why one approach might be given primary consideration or why another approach is not emphasized.

The appraisal assignment is completed when the appraiser delivers the estimate of value, subject to the stated assumptions and limiting conditions, to the client. Typically, a written report documenting both the general and specific data that was used in the valuation process is prepared and delivered to the client. This aids the user in understanding how certain conclusions were reached by documenting the reasoning behind these conclusions.

## XIV. HIGHEST AND BEST USE ANALYSIS

The analysis and the conclusion of the highest and best use is the basis of identifying the appropriate use or uses of the subject that will produce the greatest economic benefit for the owners. It is also used in the selection of comparable sales that are influenced by similar market conditions with a highest and best use consistent with the subject property. In arriving at the highest and best use conclusion, trends as indicated by sales, uses of similar properties in the area, economic conditions, in addition to characteristics of the subject property are all considered.

According to the <u>11th Edition of The Appraisal of Real Estate</u> highest and best use is defined as:

"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."

To be at the highest and best use, the property must meet four criteria. It must be:

- 1. Physically Possible
- 2. Legally Permissible
- 3. Financially Feasible
- 4. Maximally Productive

Real estate is valued in terms of its highest and best use. The highest and best use of the land or site, if vacant and available for use, may be different from the highest and best use of the property if improved. This will occur when the improvement is not an appropriate use, but it still makes a contribution that causes the total property value to be greater than the value of the site alone.

For purposes of this analysis, the highest and best use of the subject will be determined with AND without legal access as an unimproved property. Given the lack of improvements, an analysis of the subject as improved is not necessary.

# Highest and Best Use as Unimproved – With Access:

The appraised property is located in a suburban and recreational area of the Missoula Valley. The property is located west of Missoula within the vicinity of Frenchtown and Huson; fringe communities of Missoula. While unzoned, the subject lies within the 1975 comprehensive plan. Within the vicinity of the subject, typical uses of land in the area include residential on various sized parcels, commercial uses closer to Frenchtown, agricultural production, timber, and recreational uses. Inherent with these uses are the investment opportunities of the market.

Overall, this is a multi-faceted area with a dominant use of land for single-family residential uses. Much of the residential development is concentrated in areas with road and utility infrastructure (ie around 6-Mile, Remount Road, etc). There are some larger private ownerships in the area (Ward Ranch, Beaver Creek Ranch, Boyer). While there are some commercial uses of property in the area, this is not probable for the subject given its location and access and will not be discussed any further in this analysis.

Typically, properties such as the subject have what are referred to as "augmenting uses", such as investment, recreational, and/or development. These uses are paired with what are known as "complementing uses". Complementing uses are typically considered to be agricultural, timber, and potential hunting or recreational lease uses. Usually, augmenting uses represent the primary elements of the property that drive value and speculation, while complementary uses are those which provide some income to the owner while the property is held for investment. Complementary uses often represent the physical use of a property.

The value of the subject property as established in this appraisal is based on its current configuration and size. Comparable sales reflective of value for larger parcels such as the subject will be analyzed. Each of these parcels are subject to land use planning and subdivision regulations, as is the subject, and each has inherent characteristics to varying degrees similar to the subject.

In determining the highest and best use of the subject under the hypothetical condition that the property has legal access, I will focus on typical uses indicated by the market, which include rural homesites, investment, agriculture/timber, and recreational purposes. These uses are not necessarily mutually exclusive of each other.

Is it legally permissible? The subject is unzoned and there are no deed restrictions affecting any permissible uses of the property. The subject is not surveyed nor is it platted into smaller tracts. Thus, any subdividing of the subject would have to comply with the Montana Platting and Subdivision Act.

Overall, there are multiple legal permissible uses of the subject property with the most typical being for rural recreational, agriculture/timber and investment purposes which include subdivision and residential development.

Is it physically possible? Typical physical characteristics of any property that would have an impact on highest and best use include soils, topography, access/roads, utilities, flood plain, water table, and sources of domestic water – which would have an effect on the utility of the property from the standpoint of a homesite and/or further development.

With respect to the physical characteristics of the subject and potential uses within the market, the following factors are noted:

- •Although utilities are in the vicinity of the subject, the property does not have utilities (besides fiber optic) on-site. Given the subject is surrounded by public land, extending utilities to the subject would require crossing private land. The lack of utilities impacts the desirability of the subject from a residential homesite and subdivision/development standpoint.
- •The subject has good recreational attributes that emphasizes its timbered setting, wildlife resources, and some views. Given the subject does not adjoin any public lands, *extended* recreational opportunities to adjacent property is not feasible.
- •The identified physical access is via a private road/trail that may be seasonal under its present condition. There is a stretch of road (partially on the subject) that extends up a steep hillside. Overall, the physical access to the subject is not conducive to a residential subdivision.
- •From an agricultural standpoint, the property has limited grazing resources.
- •With the exception of the western 25 acres (which includes part of the access road) the topography is level. On the basis of topography only, the subject is conducive to further subdivision/development.

•The subject is a timbered property with some merchantable timber. As a drier site, it is not necessarily productive for growing timber; especially in comparison to other areas of western Montana. It's noted the market is not motivated for the production and harvesting of timber in the current market.

With respect to the legally permissible uses that are physically possible, the most typical use of the subject would emphasize its recreational uses and potential as a recreational homesite that utilizes a means of alternative energy. Given the subject's access and lack of utilities (or no assurance that utilities could be extended to the property) it is not conducive to a residential subdivision and development. This is not to say however that this use is not possible with a neighboring property. Thus, there is the inherent potential for assemblage and plottage with a neighboring property.

Considering the physical characteristics of the subject, the surrounding area, and trends in the immediate area, the recreational use of the property is a dominant factor of consideration. Use of the property in conjunction with a homesite would be a conforming use.

Is it financially feasible and maximally productive? This test is applied to the uses that have passed the previous criteria. If the revenues exceed the expenses, the use is generally considered to be financially feasible. With commercial or industrial properties, it is generally understood and accepted that for a use to be financially feasible, that the net revenue generated from that use must be sufficient to satisfy the required rate of return on the investment.

Property like the subject is viewed as an investment with returns being generated from income generating sources that are not related to the production of the land. Instead, the returns are made through long-term appreciation, subdivision, and other avenues including the donation/sale of a conservation easement. Buyers also place a degree of intrinsic value on the personal amenities and uses the property may allow them during this ownership. These may be as simple as enjoying the aesthetic quality and features of the property.

It's further noted that while a property may be suitable for a homesite or multiple homesites, this does not necessarily mean that an owner(s) will utilize them for this purpose. The fact a property is capable of a form of residential use contributes to the overall utility and sustains the quality of the property as an investment.

As indicated by trends for property like the subject, returns have been realized through appreciation. Sales:resales over longer-term periods (say 10 years) have indicated rates of appreciation from 10% to 15% per annum. With respect to appreciation in the market over the last say 30 months, it is for the most part non-existent. Thus, appreciation on a short-term basis is therefore removed from the investment matrix of the property.

With consideration to the subject as a whole and the market, the dominant use of the subject that is financially feasible and also maximally productive is as a recreational tract of timberland suitable for homesite purposes. This recognizes the limitations associated with the subject's physical access and also lack of utilities. Inherent with the subject is the assemblage and plottage opportunities with a neighboring owner.

CONCLUSION WITH LEGAL ACCESS: Given the funneling process, I conclude that that the highest and best use of the subject is as a recreational tract of timberland that is suitable for homesite purposes. The quality of the site is impacted by its physical access and lack of utilities. Inherent is the potential for assemblage and plottage with a neighboring property.

# Highest and Best Use as Unimproved - With Out Access:

In this section of this appraisal, the highest and best use of the subject property without legal access will be discussed. As noted, the subject property is landlocked and there is no right to cross any private lands that lead off from a public road (Remount or 6-Mile). As noted, the subject is surrounded by private lands.

In evaluating recreational property in western Montana, access (type and quality) is a factor of consideration. Access is considered by many market participants, as one of the primary property rights that create value. For purposes of this highest and best use analysis, I will discuss the market relative to its lack of legal access. While each specific criterion of highest and best use will not be discussed separately, they are all considered within this analysis.

Properties with access limitations are at a market disadvantage and don't compete at par with those having access. Whether their use is agricultural or recreational, the lack of access hampers their potential use and value. While there are always aberrations in the market, value discounts for lack of legal access are evident in the market. Factors of consideration with property lacking access include the following:

- •Properties lacking legal access cannot attain their potential highest and best use. Without legal access, one cannot get to the subject to physically occupy the property. Thus, any uses such as recreational (hunting, hiking, etc.) or agricultural uses or the harvesting of timber are not possible. Livestock cannot reach the property without trespass. While access by air is a possibility, the market does not acknowledge this as a typical means of access.
- •As a timbered property, the ability to harvest or manage timber is not assured. Often times, the ability to harvest timber is by permission only and how the timber is harvested may be dictated by the party holding access.
- •Limited marketability with a reduced pool of potential buyers. There is a lack of competition between buyers; especially given the property is landlocked. It's recognized that there is a segment of the market that may purchase a landlocked property for speculation.

- •Extended marketing times, which results in opportunity costs. The extended marketing times is typically attributed to the mis-pricing of the property.
- •Inability to occupy and lack of use.
- •Risk of investment; especially if it is of an isolated tract.
- •Cost-to-cure. This could entail costs of litigation, damages, and capital to try to acquire access.
- •Reduced options for obtaining financing.
- •Potential for lack of income resulting in negative returns.
- •Management limitations and lack of control.
- •The lack of access to a rural recreational property adversely impacts the value (and potential qualification) of a conservation easement; either through donation or purchase.

With consideration to the factors considered above, which all are indirectly linked to the criterion of highest and best use, I conclude that the highest and best use for the subject property without legal access is for assemblage and plottage to a neighboring owner.<sup>1</sup> There is also an element of speculation in which a non-adjacent owner may purchase the property as well.

<sup>&</sup>lt;sup>1</sup> Assemblage is the process of assembling two or more sites under a single ownership in such a way that a value increment is derived from greater utility. Plottage is the increase in value or utility resulting from the consolidation (assemblage) of two or more adjacent properties.

## XV. APPROACHES TO VALUE

When practical, the appraiser uses the three recognized approaches to value: the sales comparison approach, the cost approach, and the income approach. In this appraisal, the sales comparison approach will be completed to estimate value. The income and cost approaches are not reliable and/or applicable approaches to estimate value for the subject.

The market for rural and recreational property with non-agricultural or timber influences is not solely motivated by the earning potential of the property in terms of products produced from the land. The market is partially influenced by the potential for other investment opportunities, aesthetics and recreational opportunities. Purchasers consider the income tax benefits, which may include the granting or selling of a conservation easement, to offset other earned income.

The subject is an income producing property from the standpoint it has timber related resources. It's noted however, that there is not a significant amount of timber as part of the whole and the market for timber is weak. Thus, capitalization rates for rural and recreational property like the subject are typically less than say 2%. With low capitalization rates, the reliability of the income approach is adversely affected since small changes in selected capitalization rates results in a significant difference in value. Thus, it is concluded that the income approach is not a reliable approach to estimate value for the subject parcels and it was not completed.

The cost approach is based on the premise that the value of the land plus the depreciated value of the buildings plus any other components of value (timber, grazing leases, etc.) is equal to the value of the property as a whole. Considering that the subject lacks building improvements or multiple components that contribute value, the cost approach is not applicable.

The exclusion of the cost and income approaches does not affect the reliability or credibility of this valuation. These approaches would not typically be completed by other appraiser peers on this type of property in this market area.

#### XVI. SALES COMPARISON APPROACH

**A. Overview of Approach:** The sales comparison approach is based on the premise that the market value of a property is related to the prices of comparable, competitive properties that have sold in the market. This approach is based on the principle of substitution where the value of a property tends to be set by the price that would be paid to acquire a substitute property of similar utility and desirability, or that a knowledgeable buyer would pay no more for a property than they would pay for a substitute of equal utility.

The comparable sales are adjusted for dissimilar factors and a final estimate of value is made. Factors that may have to be accounted for include: conditions of sale, financing, time, land use, differences in improvements, location, development potential and physical characteristics (recreation, size, topography, lay-out, utilities, quality, etc.).

The sales comparison approach uses a direct comparison to other transactions on some common unit of comparison such as number of acres, thousand board feet (MBF) animal units (AU), front foot, etc. For purpose of this analysis, a value on a total \$/acre basis will be utilized.

In this sales comparison approach, a value for the subject property with legal access will initially be determined. A value <u>without</u> legal access will then be estimated. The value without legal access will be determined on the basis of a percentage diminution/discount applied to the value with access.

**B.** Selection of Sales: For purposes of valuing the subject, I have researched the market for sales of properties, which are most similar in terms of their land use, size, means of physical access, and utility as a recreational property. While I emphasized sales with a similar proximity to Missoula, I also considered sales and listings within Mineral County. All the referenced data is located within an hour of Missoula and all are unimproved.

C. Adjustments: In a market driven by non-economic factors (aesthetics, wildlife habitat, personal attractions, buyer/seller motivations, and recreational opportunities, etc.) it is reasonable to expect a significant variance in value between similar properties. With respect to the current state of the market, there is more variability in indicated values – simply on the basis of where the market WAS versus where the market IS today or transitions in value over time.

For purposes of this appraisal, I have considered various factors that may have an influence on value. In some cases, these factors can be measured in the market (*quantitative adjustment*) while others are more subjective that cannot be measured directly through the pairing of sales data but are known to be a consideration by market participants (*qualitative adjustment*).

Quantitative Adjustments: In my research of the market and the analysis of the data, I considered factors that could be measured in the market that were less subjective and variable. Quantitative adjustments that were made to isolate a land value for purposes of this report include consideration for time for an older sale. Other factors of value that were more difficult to isolate and abstract are recognized as a qualitative adjustment.

**Time and Changes in the Market:** With respect to the referenced data, all but one of the sales occurred in 2010 and 2011. These are recent sales and represent current market conditions. While sale 5 is an old sale, this property is located on the south end of Cayuse Hill and is referenced for purposes of this analysis.

In looking back on the market over the last say 10 years, the market has been in a state of change in which values were increasing, to where they stabilized, to where there is evidence of slack/weakening of values. Thus, there are multiple market conditions that should be recognized to give a broader perspective of the market - which includes where the market WAS to where the market IS today.

Recognizing a macro perspective of the market, the market peaked towards the end of 2007. Sales:resales would show normal appreciation rates from about 10% to 15% from say 2000 with some data exceeding these thresholds. Examples of such data include the following:

-For a longer-term rate of appreciation, a 601 acre tract west of Missoula sold in 2001. The property is located on the Clark Fork River but has cumbersome access. Based on the resale of this property in 2009, an 8.2% per annum rate of appreciation is indicated or 10% to the end of 2007.

-In August 2003, a 160 acre tract within the Burnt Fork area sold for \$5,287 per acre. Compared to the 4/2008 sale of 254 acres for \$8,245 per acre, a per annum increase of 10% is indicated.

-The sale:resale of the Whitetail Ranch from 1996 to 2004 would show an increase in value of 11.7% per annum for a property with good recreational characteristics. This property sold in 6/1996 with a land value of \$2850/acre and resold in 9/2004 for \$7100/acre.

-A 99 acre property along Rock Creek of western Montana was purchased in 10/1994 for \$450,000. This property sold in 2/2004 for \$1,100,000. Over 9.3 years, this property shows a 10% per annum rate of appreciation. This resale is a good indication of a typical rate of appreciation over a longer term and would also be a reasonable expectation by most market participants.

-While showing more of a long-term rate of appreciation, the sale:resale of the Rocking K Ranch on Rock Creek from 7/1998 to 8/2007 shows a per annum increase for the land at 11.8%.

Based on the data presented and with additional support by other sale:resale data maintained by Norman C. Wheeler and Associates, older sale 5 was adjusted at a rate of 10% per annum up to the end of 2007 – which would coincide with a peak value.

While there is evidence of stability in values through much of 2008, there was a sharp decline in volume – which carried through for 2009 and in to 2010. While infrequent, sales that occurred between the latter part of 2007 through mid-2008 indicated that values remained stable.

Coinciding with the meltdown in the financial markets, the real estate market essentially came to a standstill in the third quarter of 2008. In comparison to 2009, the market for 2010 has seen more sales and greater volumes with 2011 being similar to 2010.

On a macro perspective, the following market data is referenced to show changes in the market. This data is referenced to determine where the market IS today relative to where it WAS from peak values.

-In February 2002, a 30 acre property on Salmon Prairie sold for \$205,000. This property sold in October 2009 for \$280,000. It's estimated that a peak value of \$375,000 would be indicated for this period. This would then show a discount of 25% from a peak value.

-A 24.7 acre tract in the Swan Valley Glacier Ridge subdivision sold for \$314,000 in October 2010. This is part of a 5 lot subdivision in which three of the lots sold in 2006. Based on the sales of lots 2, 3, and 5 a probable value of \$400,000 is indicated for the 24.7 acre tract in 2006. With respect to additional appreciation, a peak value of \$450,000 would be indicated for this tract. Thus, based on current market conditions, a discount of 30% is shown by this sale.

-In 1/2006 a 2,055 acre recreational ranch west of Cascade sold for \$2,725,000. This same property sold for \$3,000,000 in January 2010. With consideration to building improvements, land values of \$1,212 and \$1,400 per acre are indicated during this period. On the basis of a 12% per annum rate of appreciation to the end of 2007, a peak value of \$1,520 per acre is indicated – which would then show a discount of say 8% from a peak value. One could also interpret this sale to imply that the current market for a recreational ranch is set-back to the latter period of 2006. It's noted that this sale is representative of the lower tiers of the market in terms of per acre values.

-A ranch in Missoula County sold for \$26M during the end of 2007 and resold in December 2009 for \$13.875M. The initial sale was during the peak of the market where there were other sales within this total price range. The property was purchased for purposes of a conservation development that had minimal interest. The discount of ~47% is attributed to a shift in its highest and best use from immediate development to more of a recreational investment.

-In June 2007, 2,260 acres with buildings northwest of Jackson sold for \$4,025,000. The property included two residences and outbuildings. The land was mostly open meadows with riparian areas. This property resold in August of 2010 for \$3,151,500. With consideration to the property as a whole (land and buildings) a discount of 22% is indicated.

As indicated, there are multiple variables that influence how much a market has changed over time or since the market reached its peak value. This may include property types, market areas, initial values, and intensity of highest and best use. It's also dependent on the motivations of the market participants which may include what their original basis is in the property. All these interact to create variability in the market.

In terms of the type of property and the degree of change in highest and best use, the extremes would be representative of an agricultural property/market versus a property that was best suited for intensive and/or immediate development.

With respect to the data set, these sales are a combination of rural development and rural recreational properties. Recognizing the changes in highest and best use, a discount of 30% is applied to sale 5 and recognizes it was influenced partially by its potential for further subdivision.

<u>Qualitative Adjustments:</u> The qualitative factors are ones that are considered by the market but are more subjective and/or difficult to measure and quantify. For purposes of accounting for the qualitative factors, these will be considered when the sales are compared directly to the subject for purposes of establishing or bracketing value.

Some of the factors considered on a qualitative basis vary greatly between market participants. One participant may emphasize views, hunting opportunities, productivity, etc. while others may not place as much consideration on these factors. This is the intricacy of this market, which does account for some of the variability between values. Although a measurable difference in value may not be directly abstracted from the market for the qualitative factors, they are considerations, which will assist in determining a value for the subject.

Market Location: While there are locational differences between each sale and the subject, which may make it more or less desirable, these factors would be considered separately within its aesthetics, access and/or recreational opportunities which will be discussed below. Elements inherent with a property location would include views, adjacent public lands, access, etc.

In terms of market location, their proximity to Missoula is a consideration. With the exception of sale 3, all the sales are located in Missoula County in similar proximity to Missoula. Sale 3 is located in Mineral County.

**Access:** The type of access, its quality and its seasonality of use are acknowledged as a factor of value.

Recreational and Amenities: The recreational opportunities and the aesthetic attributes are factors of value within the market and for the data considered. These factors are more of all encompassing terms that cover a wide segment of features. These are also factors that buyers and sellers place varying emphasis on. It's noted that many of the factors are interrelated and not mutually exclusive of each other. For purposes of this analysis, recreational and amenity factors that would be considered by the market include:

-<u>Public Lands</u>: The availability of adjacent public lands for recreational use is a consideration.

-Views: Properties with mountainous views are desired.

<u>-Timber Resources:</u> The subject includes a healthy stand of timber with some merchantable resources. While the timber is more of an amenity, the condition and quality of the timber is a consideration.

<u>-Diversity</u>: The more diversity inherent in a property, the more appealing it is to the market. Diversity can be in terms of land uses, topography, and/or habitats. Properties with multiple land uses are more desirable as are lands with diverse topography. Tracts that are single dimensional (i.e. level topography and/or a single land use such as open pasture) are inferior to properties that are multi-dimensional with added diversity.

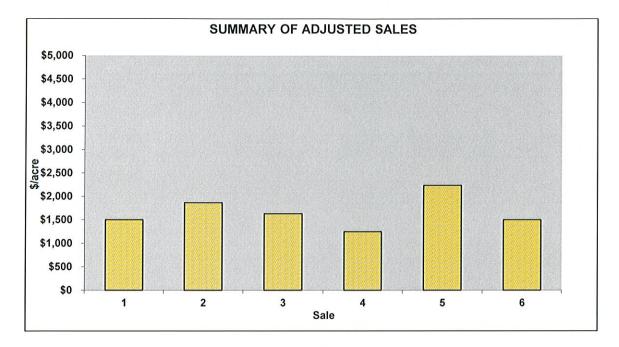
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SUMMARY: When considering each factor individually, an overall comparison of each sale to the subject can be developed. Under this analysis, the market influence or importance of each factor is considered. The significance in terms of effect on market value is analyzed, whereby; more weight or emphasis is placed on certain factors over others. Thus, the overall comparison is not merely a summation of the individual ratings but an overall rating based on the most significant factor or combination of factors.

# Summary of Market Data for Cayuse Hill Property

Sale	Reference	Location	Water	Date	Total Price	Buildings and Other	Land Value	Size (Acres)	Land Value Per Acre - All	Adjusted to Peak Value - Where the Market WAS	Adjusted to Where the Market IS	Comments
-	PC - Hohn	Gold Creek	Small Water	Jun-10	\$241,100	0\$	\$241,100	161	\$1,500	N/A	\$1,500	Located in the Gold Creek area north of Highway 200. Mostly gently slopes with small drainage. No utilities and access would have to be kept open during winter. Area has historically had some public abuse. Adjoins State land.
2	Johnson - Mathews	Huson	None	Mar-11	\$200,000	80	\$200,000	107.38	\$1,863	N/A	\$1,863	Timbered recreational property located in the Houle Creek area. Adjoins Forest Service. Gentle south facing slopes. Access by easement. Utilities in the area.
က	Myers	Keystone	Minimal	Jun-10	\$250,000	8	\$250,000	153.30	\$1,631	N/A	\$1,631	Recreational timberland with meadows located in the Keystone area in Mineral County. While some steeper land, about a third of it has more gentle slopes. No utilities but does adjoin public FS land.
4	Y	Woodman	None	Feb-11	\$150,000	80	\$150,000	120.00	\$1,250	NA	\$1,250	Legal access but very cumbersome physical access. Steeper land but some level areas. Remote. Does have good views of Lolo Peak. Adjoins FS and other PC land.
cs.	McConnel	Cayuse	None	Mar-00	\$235,000	\$	\$235,000	165.23	\$1,422	\$2,978	\$2,085	Old Sale of a portion of Cayuse Hill. Property was purchased with the intent to subdivide. Better access with utilities.
9	PC	Gold Creek	Small Water	Nov-10	\$240,000	0\$	\$240,000	160.00	\$1,500	N/A	\$1,500	Recreational timberland located in the Gold Creek area. Rolling topography with some steeper land in drainages. Access from FS road. Adjoins sale 1.
Listings	Listings PC Listings	W. Missoula		Listings								Lozeau \$1982, W. Twin @ \$1,911, U. Twin @ \$2,187

# D. Comparability of Sales and Conclusion of Land Value



The sales indicate a bracketed range in value from \$1,250 to 2,085 per acre. The comparability of the sales is further discussed.

-Sale 1 (\$1,500/acre) and sale 6 (\$1,500/acre) are both located in the Gold Creek area of the Blackfoot east of Bonner. Both sales 1 and 6 are similar in size and consist of recreational timberland with good timber resources and regen. They have good diversity with respect to topography and are partially bordered by public lands. Access is via a good quality Forest Service Road, which must be kept open. There are no utilities on site. While desirable properties, these tracts are partially bisected by the public road and there is more public use of area lands. Thus, it is less private and exclusive than the subject. On an overall basis, the subject is deemed superior to sales 1 and 6 and would support a value greater than \$1,500 per acre.

-Sale 2 (\$1,863/acre) is located just east of the subject. It consists of a recreational tract of timberland. While more sloping than the subject, sale 2 has a south facing aspect. It lies within an area of subdivided parcels and has utilities in the area but reported not to be on site. Located further north of I-90, access is via an easement. Sale 2 is comparable to the subject on a physical basis, its location, and land uses. While bordered by adjacent FS lands, the subject's overall usability is better superior. With consideration to offsetting factors and emphasizing the location of sale 2, a value of \$1,863 per acre is indicated.

-Sale 3 (\$1,631/acre) is located in a recreational area northwest of Superior – a weaker market area in general. Access is via a good quality public road that is well maintained. It is somewhat of a remote setting and there are no utilities. This is a diverse property with an open meadow and timberland. It does have a bit of steeper land with a lower threshold of utility as part of the whole. Although sale 3 has superior access, it's recognized that the subject is located in a stronger market area and has more useable land relative to topography. Thus, a value greater than \$1,631 per acre is supported for the subject.

-Sale 4 (\$1,250/acre) brackets the low end of the market for the subject. Sale 4 consists of a heavily cutover timberland in the Lolo Creek drainage. Access is seasonal and burdensome across meandering easements. While topography is variable, it has a greater proportion of steeper slopes. Recognizing the physical condition of sale 4 and its access, it is an inferior property to the subject and would support a value significantly greater than \$1,250 per acre.

-Sale 5 (\$2,085/acre) is an older sale located on the south end of Cayuse Hill. It is referenced given it is located in the vicinity of the subject. Sale 5 is superior to the subject given its direct access along a pubic road, possessing utilities, and potential for further subdivision and development. Sale 5 would indicate a value less than \$2,085 per acre.

-Listings: There are multiple listings of Plum Creek land located east and west of the subject. While having some different characteristics, they would be competitive properties. The listings are from say \$1,911 to \$2,187 per acre.

Conclusion of Value with Access: Initially, the extremes of the market indicate a range from \$1,250 to \$2,085 per acre. Sales 1 and 5 would further establish the range of the subject from \$1,500 to \$2,085 per acre. With offsetting factors, sale 2 indicates a value of \$1,863 per acre. Recognizing that sale 2 is a recent sale and located in the vicinity of the subject, it is a persuasive indicator of value. Thus, with an emphasis on sale 2, the bracketing of the subject, and other list prices, a value of \$1,865 per acre is concluded for the subject.

160 Acres @ \$1,865/acre = \$298,400 Rounded to \$300,000

# E. Determination of Value Without Legal Access

In the previous analysis, a value was concluded for the subject property on the basis of a hypothetical condition that it has legal access. In this section of the appraisal, a value for the property without legal access will be estimated. This will be determined by the following methods:

- 1.) I will pair sales with and without access to determine the *effect* on value. In quantifying the *effect* for lack of legal access, a value relationship will be determined. In essence a percentage discount will be established and this discount can be applied to the fee value of the property.
- 2.) While I considered sales on the basis of a direct comparison, these sales are not comparable to the subject in terms of location and would therefore not be comparable in all facets. I did however reference sale 4 from the previous analysis. Sale 4 indicates a value of \$1,250 per acre and has a cumbersome means of access far inferior than any of the referenced sales. Thus, of the data presented, sale 4 would be the most representative of the subject on the basis of a property with low utility. With sale 4 indicating a value of \$1,250 per acre, a value of \$200,000 is indicated.

<u>Percentage Discount Analysis:</u> As discussed in the highest and best use section of this appraisal, there are multiple factors attributed to the lack of access, which has an effect on value. With consideration to the factors discussed herein, there is evidence in the market that there is a discount for lack of legal access. For purposes of this valuation, the following market indicators are discussed and this is a representation of the market. It's noted that due to the confidentiality of this data, minimal details are provided. Additional details and pairings are maintained within the firm's database.

- •A 120 acre parcel in Patterson Prairie sold for \$708 per acre in 2007 without legal access. At the time of sale, the buyer felt a comparable fee value of \$1,200 per acre was reasonable or a 41% discount. This value is supported by other fee sales in the Blackfoot.
- •Within the upper Blackfoot, two sales of recreational timberland were compared. The Glens Gulch property lacked legal access and was purchased for \$625 per acre versus \$1,100 per acre for the Nora Gulch tract that had legal access. This pairing indicates a discount of 43%.

•In 2008, 588 acres along the Rocky Mountain Front sold for \$2,338/acre. In December 2009, the same buyer purchased 362 acres that lacked legal access for \$1,381 per acre. While occurring in different time periods, the 588 acres was a more recreationally intensive property that would offset any corrections in the market. This pairing would then show a 41% discount for a property without legal access.

-In January 2008, a 39.26 acre inholding without legal access and physical access being about a ¼ mile hike sold for \$50,000 or \$1,274 per acre. The property was located in the Windfall Creek drainage south of Superior in Mineral County. This property was paired to the July 2007 sale of a 40 acre parcel in western Mineral County near DeBorgia that sold for \$105,250 or \$2,631/acre. This sale would show a 51% discount.

Based on the information presented, it's reasonable and appropriate to say that the lack of legal access has an adverse impact to the market value of a property. Discounts for lack of access are prevalent and supported in the market. Given that the State DNRC tract is landlocked and surrounded by two landowners, the market would recognize a discount for lack of legal access and inability to attain its potential highest and best use.

Based on the data presented and discussions with market participants, typical discounts from 30% to 60% of the unrestricted value are experienced within the market with most of the sales indicating a discount from say 40% to 50%. Recognizing that the subject's physical access has previously been taken into consideration, a discount on the upper end of the threshold is not justified. Based on the data presented, a discount of 35% is reasonable for the subject or a total value of \$195,000.

Conclusion of Value Without Legal Access: On the basis of a percentage discount analysis, a value of \$195,000 is indicated. This value is supported by sale 4 which indicates a value of \$200,000. This discount is market derived and based on multiple pairings within the market.

Based on the information presented herein, a value of \$195,000 is concluded for the subject property WITHOUT legal access.

# XVII. RECONCILIATION OF CONCLUDED VALUE

The reconciliation process is where the appraiser weighs the value indications and other pertinent data to arrive at a final estimate of value for the appraised property. While all three approaches to value were considered in the analysis, this appraisal is based on the sales comparison approach. The indicated values for the subject property are as follows:

Sales Comparison Approach: \$300,000 With Legal Access

\$195,000 Without Legal Access

Cost Approach: Note Completed

**Income Approach:** Not Completed

In evaluating the strengths and weaknesses within this valuation analysis, recent sales were relied upon and emphasized. The value of the subject under the hypothetical condition that it had access was based on multiple recent sales of like kind property with one recent sale located in the vicinity of the subject.

The value of the subject property without legal access was based on establishing a discount supported by pairings of sales with and without access. This was further supported by analyzing a lower utility sale of recreational timberland.

Overall, the value of the subject property, with and without legal access, coincides with the sales comparison approach. The value for the subject is concluded to be \$300,000 with access and \$195,000 without access.

#### ASSUMPTIONS AND LIMITING CONDITIONS

The certification of the Appraiser appearing in the appraisal report is subject to the following assumption and conditions as set forth in the report.

- 1. The Appraiser assumes no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor does the Appraiser render any opinion as to title, which is assumed to be good and marketable. The property is appraised as though under responsible ownership.
- 2. Sketches in the report may show approximate dimensions and are included only to assist the reader in visualizing the property. The Appraiser has made no survey of the property. Drawings and/or plats are not represented as an engineer's work product, nor are they provided for legal reference.
- 3. The Appraiser is not required to give testimony or appear in court because of having made the appraisal with reference to the property in question, unless arrangements have been previously made.
- 4. Any distribution of the valuation in the report applies only under the existing program of utilization. The separate valuations of components must not be used outside of this appraisal and are invalid if so used.
- 5. The Appraiser has, in the process of exercising due diligence, requested, reviewed, and considered information provided by the ownership of the property and client, and the Appraiser has relied on such information and assumes there are no hidden or unapparent conditions of the property, subsoil, or structures, which would render it more or less valuable. The Appraiser assumes no responsibility for such conditions, for engineering which might be required to discover such factors, or the cost of discovery or correction.
- 6. While the Appraiser has inspected the subject property and has considered the information developed in the course of such inspection together with the information provided by the ownership and client, the Appraiser is not qualified to verify or detect the presence of hazardous substances by visual inspection or otherwise, nor qualified to determine the effect, if any, of known or unknown substances present. Unless otherwise stated, the final value conclusion is based on the subject property being free of hazardous waste contaminations, and it is specifically assumed that present and subsequent ownerships will exercise due diligence to ensure that the property does not become otherwise contaminated.

- 7. Information, estimates, and opinions furnished to the Appraiser, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy of such items furnished the Appraiser can be assumed by the Appraiser.
- 8. The presence of mineral or mineral rights has not been investigated by the Appraiser. It is assumed that influences from mineral, deposits, mineral reservations, and mineral rights are included in the overall market rationale and therefore included in the value conclusion unless otherwise specifically identified. Unless specifically cited, no value has been allocated to mineral rights or deposits.
- 9. Water requirements and information provided has been relied on and, unless otherwise stated, it is assumed that:
  - a.) All water rights to the property have been secured or perfected, that there are no adverse easements or encumbrances, and the property complies with Bureau of Reclamation or other state and federal agencies.
  - b.) Irrigation and domestic water and drainage system components including distribution equipment and piping are real estate fixtures:
  - c.) Any mobile surface piping or equipment essential for water distribution, recovery, or drainage is secured with the title to real estate; and
  - d.) Title to all such property conveys with the land.
- 10. Disclosure of the contents of this report is governed by applicable law and/or by the Bylaws and Regulations of the professional appraisal organization(s) with which the Appraiser is affiliated.
- 11. Neither all nor any part of the report, or copy thereof, shall be used for any purposes by anyone but the client specified in the report without the written consent of the Appraiser. This report was prepared for the client's use at the client's sole discretion within the framework of the function stated in the report and its use for any other purpose is beyond the scope contemplated in the appraisal.
- 12. Where the appraisal conclusions are subject to satisfactory completion, repairs, or alterations, the appraisal report and value conclusion are contingent upon completion of the improvements in a workman like manner consistent with the plans, specifications and/or scope of work relied upon in the appraisal.

- 13. Acreage of land types and measurements of improvements are based on the physical inspection of the subject property unless otherwise noted in this appraisal report.
- 14. EXCLUSIONS. The Appraiser(s) considered and used the three independent approaches to value (cost, income, and sales comparison) where applicable in valuing the resources of the subject property for determining a final value conclusion. Explanation for the exclusion of any of the independent approaches to value in determining a final value conclusion has been disclosed in this report.
- 15. No one provided significant professional assistance to the person signing this report.
- 16. The Appraiser's liability is limited to the fee charged for the report and professional services.
- 17. Acceptance of the report by the client constitutes acceptance of all assumptions and limiting conditions contained in the report.
- 18. This appraisal has been prepared for the sole and specific needs of the identified clients. To the extent any third party relies on or uses this appraisal, the appraiser making this appraisal hereby disclaim any liability for the contents herein and for any changes that may have occurred since the date of the appraisal.

**EXTRAORDINARY ASSUMPTIONS: None** 

HYPOTEHTICAL CONDITIONS: 1.) The subject has legal access.

#### **CERTIFICATE**

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

-The Appraiser has no present or contemplated future interest in the property appraised; and neither the employment for the appraisal or compensation for it is contingent upon the appraised value of the property.

-The Appraiser has no personal interest or bias with respect to the subject of the appraisal report or the participants to the sale or in the property appraised. The "estimate of value" in the appraisal report is not based in whole or in part upon the race, color, or national origin of the prospective owners or occupants of the property appraised, or upon the race, color, or national origin of the owners or occupants of the properties in the vicinity of the property appraised.

-The Appraiser has previously inspected the subject property. No recent inspection of the subject was completed for purposes of this assignment. To the best of the Appraiser's knowledge and belief, all statements and information in this report are true and correct, and the Appraiser has not knowingly withheld any significant information which would have an impact on valuation.

-All contingent and limiting conditions are contained herein (imposed by the terms of the assignment or by the undersigned affecting the analyses, opinions, and conclusions contained in this report).

-The Appraiser's analyses, opinions, & conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.

-This appraisal report has been made in conformity with and is subject to requirements of the Code of Professional Ethics and Standards of Professional Conducts of the appraisal organizations with which the Appraiser is affiliated, and/or State license/certification requirements of the state in which the property appraised is located.

-All conclusions and opinions concerning the real estate are set forth in the appraisal report, along with the analysis of relevant data, were prepared by the Appraiser whose signature appears on the appraisal report and no one provided significant professional assistance. No change of any item in the appraisal report shall be made by anyone other than the Appraiser and the Appraiser shall not be responsible for any such unauthorized changes.

-The Appraiser is a Certified General Appraiser with the State of Montana. All state continuing education requirements have been met. The Appraiser is an Accredited Rural Appraiser with the American Society of Farm Managers and Rural Appraisers.

-Engagement in this assignment was not contingent upon developing or reporting predetermined or specific results.

-Compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value nor is the compensation based on a percentage of the concluded value(s). Neither is compensation based on conclusions 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.

-I declare that I hold myself out to the public as an appraiser or perform appraisals on a regular basis, and that because of my qualification as described in this appraisal, I am qualified to make appraisals of the type of property being valued.

-I have not performed services with respect to the subject property over the three years prior to the date of this valuation.

Paraic David Neibergs, MA, ARA

Accredited Rural Appraiser

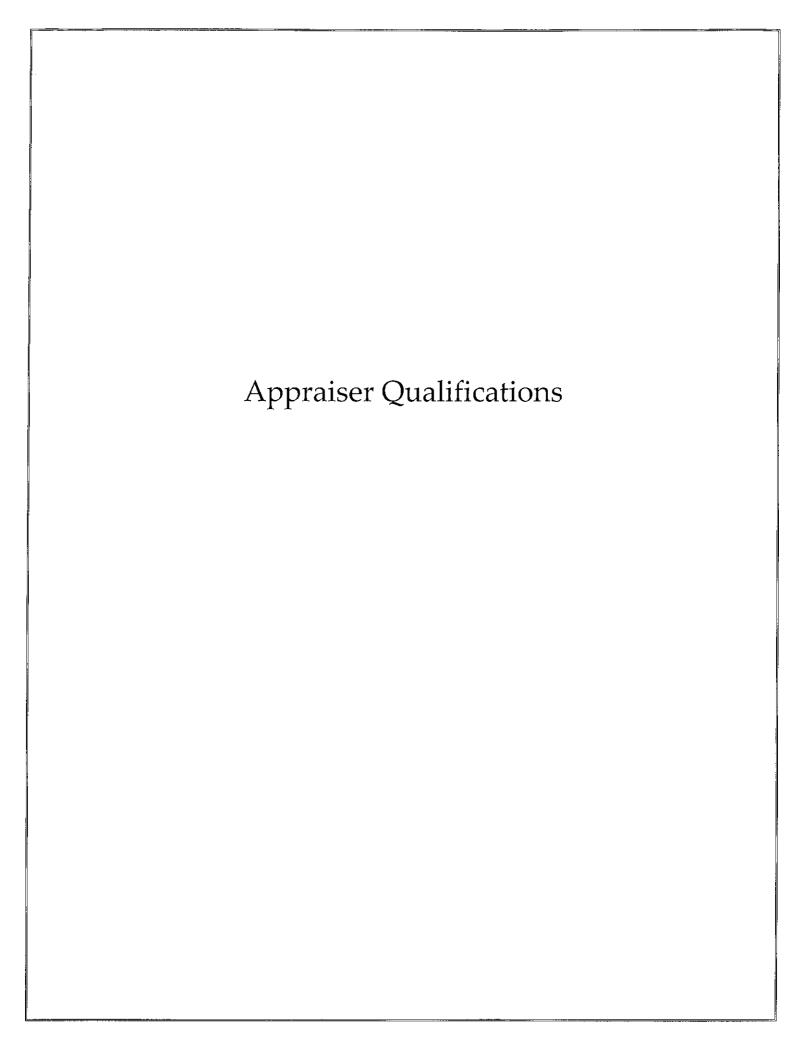
Montana General Certified Appraiser # 248

# **Exhibits**

-Appraiser Qualifications

-Scope of Work

-Comparable Sales



# Paraic David Neibergs, A.R.A., M.A. - Statement of Qualifications

#### **Business Experience:**

2/00 - Present	Independent Appraiser, Norman C. Wheeler & Assoc., Missoula, MT
4/92 - 2/00	Senior Appraiser, Farm Credit Services. Spokane, WA & Missoula, MT
4/91 - 4/92	Assistant Production Manager, Briarwood Farms. Rochester, WA
9/89 - 3/91	Research Assistant, Washington State University. Pullman, WA
5/89 - 9/89	Private Contractor, Farm Credit Services. Missoula, MT
5/87 - 5/89	Credit Officer/Appraiser, Farm Credit Services. Missoula, MT

#### **Appraisal Experience:**

Responsible for completing real estate appraisals and consultations on agricultural, recreational, transitional and rural properties throughout Montana, northern Idaho, and eastern Washington. Specializing in appraising rural/suburban property and conservation easements. Properties appraised consists of ranches, irrigated and dry land farms, conservation easements, islands, WRP easements, special use valuations, recreational tracts, timberland, rural subdivisions, lake frontage, fish hatcheries, rural homes, Superfund sites, and other special purpose properties. Other assignments include consulting analyses, property partitions, partition referee, and fractionalized interest valuations as well as appraisals for purposes of land exchanges. I have been a guest speaker for conservation easement seminars in western Montana, including the LTA Northwest Land Trust Conference in May 2007 and the Washington State ASFMRA 2001 Chapter Meeting.

#### Real Estate Sales Experience:

Prior to becoming a licensed agent, purchased and sold property outside of a real estate company. As a licensed agent specializing in rural property, have been active in property purchases, sales, management and negotiations.

#### **Appraisal Education:**

Successfully completed the following appraisal courses and seminars offered through the American Society of Farm Managers and Rural Appraisers, Appraisal Institute, Northwest Farm Credit Services, and other appraisal education sources. This is exclusive of real estate licensing and associated continuing education.

A-10	Fundamentals of Rural Appraisal	Irrigation/Engineering Workshop
A-12	Standards and Ethics, 2/03, 2/05, 10/06, 10/09	Environmental Risk in Lending
A-15	Report Writing	Timber Valuation Seminar, 2/05
A-20	Principles of Rural Appraisal	Permanent Planting Seminar
A-22	UAAR Computer Training	Conservation Easement Seminar, 11/98
A-25	Eminent Domain	Water Rights/Irrigation Workshop, 3/99
A-29	Highest and Best Use	Rural Land in Transition, 3/06
A-30	Advanced Rural Appraisal	Conservation Easement Seminar, 2/01
A1310	Income Capitalization	Federal Land Acquisitions, 6/02
ΑI	Introduction to GIS Applications 10/02	Residential Construction, 3/03
	Conservation Easement Seminar 4/2006	MT Access Laws & Conservation Easements, 3/06
AI 797	Valuation of Conservation Easements 7/2008	USPAP – 10/2006, 2/2009, 2/2011

#### **Education:**

- -Master of Arts (M.A.) in Agriculture Economics. Washington State University. May 1991
- -Bachelors of Science, in Ag. Economics (Cum Laude). Washington State University. May 1987

# **Professional Achievements and Affiliations:**

- -Accredited Rural Appraiser (A.R.A.) designation with the ASFMRA
- -Certified General Real Appraiser in the State of Montana. Previous certification in Washington & Idaho.
- -Past Director of Inland Northwest Land Trust Spokane, WA
- -Montana Real Estate Licensee
- -Past President of Montana Chapter of American Society of Farm Managers & Rural Appraisers

#### Clients and Users of Services

#### Private Landowners and Professionals

- -Numerous individuals, investors, partnerships, and corporations
- -Attorneys, accountants, and other professionals
- -Land Trusts on the behalf of landowners seeking conservation easements
- -WGM Group

#### Financial Institutions

- -25 Farm Credit Service offices in three Northwestern States (ID, WA, and MT)
- -Farmer Mac
- -First Interstate Bank System
- -NORWEST Bank
- -JP Morgan Chase
- -Rocky Mountain Bank
- -U.S. Bank
- -Mountain West Bank
- -Bank of America
- -Met Life Bank & Metropolitan Life Insurance Company
- -First Security Bank
- -Ravalli County Bank

#### Tribal Entities

- -Kalispel Tribe of Indians
- -Coeur d' Alene Tribe of Indians
- -Kootenai Tribe of Indians
- -Confederated Salish and Kootenai Tribe

#### Public Entities

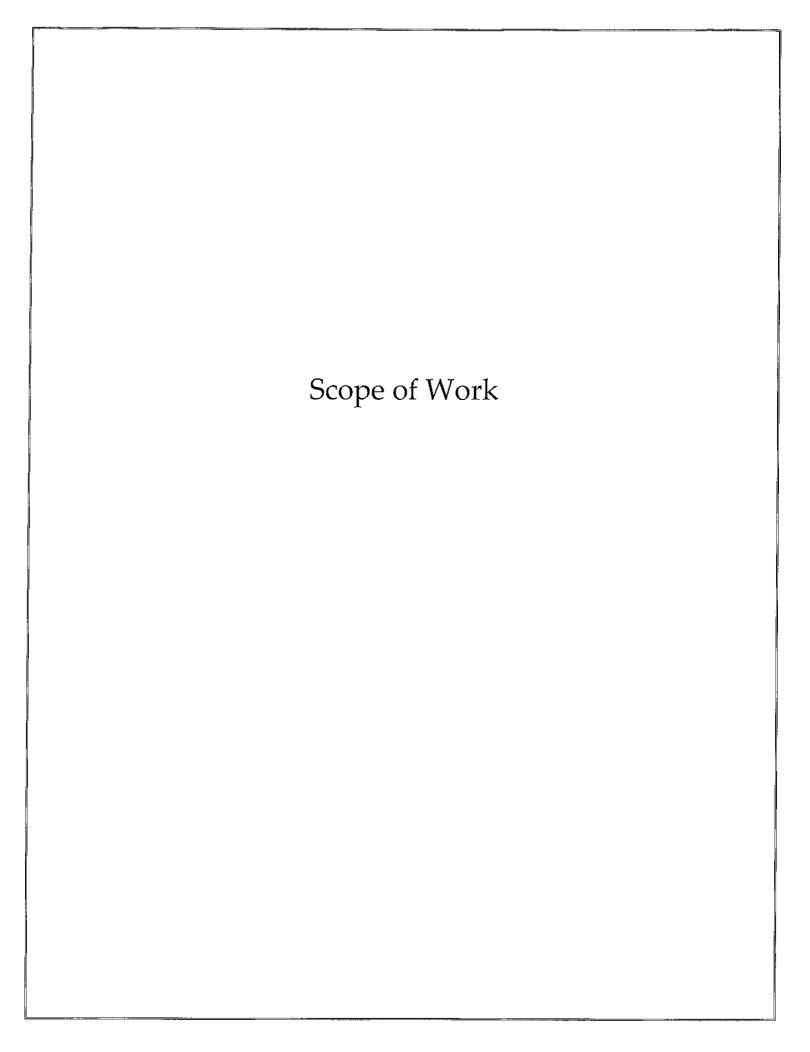
- -United States Department of Agriculture
- -United States Forest Service
- -Natural Resources and Conservation Service
- -State of Montana Fish, Wildlife, and Parks
- -United States Fish and Wildlife Service
- -Appraisal Services Directorate, National Business Center
- -Bureau of Land Management
- -Idaho Department of Fish and Game
- -City of Missoula
- -State of Montana DNRC, NRD/DOJ, Department of Justice
- -Bureau of Indian Affairs
- -Bonneville Power Administration
- -Idaho Department of Lands
- -University of Colorado Foundation
- -Missoula County
- -Ravalli County

#### Others

- -The Nature Conservancy of Montana
- -The Nature Conservancy of Idaho
- -Fourth Judicial District Court
- -Vital Ground Foundation
- -Five Valleys Land Trust
- -Bitter Root Land Trust
- -The Blackfoot Challenge
- -Montana Land Reliance
- -Trout Unlimited
- -Ducks Unlimited
- -Avista Utility Corporation
- -Lawyer Nursery
- -City of Salmon, Idaho
- -Teller Wildlife Refuge
- -Crown Pacific Timber Company
- -Plum Creek (through MTFWP, USFS, and TPL)
- -Various Real Estate Agencies and Consultants
- -The Trust for Public Lands
- -Potlatch Corporation
- -The Bitter Root Stock Farm

- -Nora Bank
- -Alpine Bank
- -CGB
- -Mellon Trust
- -Heritage Bank
- -Rabo AgriFinance

- -The Clark Fork Coalition
- -The Conservation Fund
- -Forest Capital/Patriot Investments
- -American Land Conservancy
- -Southern Pines Plantation
- -The Rocky Mountain Elk Foundation



# Scope of Work for Appraisals of Potential Property Sales through the Land Banking Program

# CLIENT, INTENDED USERS, PURPOSE AND INTENDED USE:

The clients and intended users are the State of Montana, the Montana Board of Land Commissioners and the Department of Natural Resources and Conservation (DNRC). The purpose of the appraisal is to provide the clients with a credible opinion of current fair market value of the appraised subject property and is intended for use in the decision making process concerning the potential sale of said subject property.

# **DEFINITIONS:**

Current fair market value. (MCA 70-30-313) 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.

**Highest and best use.** 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. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.

# PROPERTY RIGHTS APPRAISED:

State of Montana lands are always to be appraised as if they are in private ownership and could be sold on the open market and are to be appraised in Fee Simple interest. For analysis purposes, properties that have leases or licenses on them are to be appraised with the Hypothetical Condition the leases/licenses do not exist.

## EFFECTIVE DATE OF VALUATION AND DATE OF INSPECTION:

The latest date of inspection by the appraiser will be the effective date of the valuation.

## SUBJECT PROPERTY DESCRIPTION & CHARACTERISTICS:

The legal descriptions and other characteristics of the state's property that are known by the state will be provided to the appraiser. However, the appraiser should verify, as best as possible, any information provided. Further, should any adverse conditions be found by the appraiser in the course of inspecting the property and neighborhood, or through researching information about the property, neighborhood and market, those conditions shall be communicated to the clients and may change the scope of work required.

# **ASSIGNMENT CONDITIONS:**

The appraiser must be a Montana certified general appraiser, and be competent to appraise the subject property. The appraisal is to conform to the latest edition of USPAP, and the opinion of value must be credible. The appraiser is to physically inspect the subject property at a level that will allow the appraiser to render a credible opinion of value about the property. For those properties which consist of more than one section, the appraiser must at least view each section. The appraiser must have knowledge of the comparables through either personal inspection or with use of sources the appraiser deems reliable, and must have at least viewed the comparables.

The appraiser will consider the highest and best use of the subject properties. (Note: it may be possible that because of the characteristics of a subject property, or market, there may be different highest and best uses for different components of the property. Again, that will depend on the individual characteristics of the subject property and correlating market. The appraiser must look at what a typical buyer for the property would consider.) Soil classification, surrounding land uses, and the possibility of converting grazing ground to cropland should be considered.

Along with using the sales comparison approach to value in this appraisal, (using comparable sales of like properties in the subject's market or similar markets), the appraiser will also consider the cost and income approaches to value. The appraiser will use those approaches, as applicable, in order to provide a credible opinion of value. Any approaches not used are to be noted, along with a reasonable explanation as to why the approach or approaches were not applicable. The appraisal will be in a Summary Report format, that is, it will describe adequately, the information analyzed, appraisal methods and techniques employed, and reasoning that support the analyses, opinions and conclusions. All hypothetical conditions and extraordinary assumptions must be noted.

Landlocked parcels, (parcels with no legal access), will be appraised with the hypothetical condition of having legal access and should be appraised as the property currently exists, which is without legal access, ("as is"). If evidence through reasonably recent sales of comparable properties is available in the subject's market or similar markets, provide the value of the subject property, as it currently exists without access. Include details of an adjustment in appraised value due to lack of access. If no evidence through reasonably recent sales of comparable properties is found in the subject's market or similar markets, and thus no "as is" value can be properly supported, then state such in the report. As with lack of legal access, adjustments for additional items such as lack of land improvements, etc. will be supported by analysis of the pertinent subject market data through sales pairings or other analytical methodology. In moderately to rapidly changing markets, historic information may not be as relevant as more current market information. (Note: Access typically consists of two parts; legal access and physical accessibility. The above references to access, hypothetical and "as is" are in regards to legal access. The physical accessibility to the subject parcel is to be appraised as it currently exists.) Legally accessible state lands are appraised as accessible only.

The appraisal on the state's lands must include state-owned improvements in the valuation, but exclude lessee-owned or licensee-owned improvements in the valuation. All appraisals are to describe the market value trends, and provide a rate of change, for the markets of each subject property. Comparables sales used should preferably have sales dates within one year of the appraisal and should not be over three years old. The comparable sales must be in reasonable proximity to the subject, preferably within the same county or a neighboring county.

# MONTANA DNRC TRUST LAND MANAGEMENT DIVISION Supplemental Appraisal Instructions

This Scope of Work and Supplemental Appraisal Instructions are to be included in the appraiser's addendum.

# **SUBJECT PROPERTY:**

Sale #	# of Acres	Legal
517	160	SW1/4 Sec. 22, T15N, R22W

#### Area Office Contact Information:

Tony Liane - Southwestern Land Office Area Manager

1401 27th Avenue Missoula, MT 59804 Phone: 406/542-4200 Fax: 406/542-4285

Direct Line: 406/542-4261

Or:

Bob Storer - Lands Program Manager

Direct Line: 406/542-4264

# The following will be located in the body of the contract:

Each appraisal report will be one document containing the parcel data and the analysis, opinions, and conclusions of value(s) for each parcel. If deemed necessary by the contractor rather than including the specific market data in the appraisal report, a separate addendum may be submitted containing the specific market data as a stand-alone document, which must be reviewed and accepted along with the appraisal, and will be returned to the appraiser for retention in his/her files. The appraiser must submit an electronic copy as well as a printed copy of the appraisal report.

