

## **DNRC BALDY MOUNTAIN**

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# SUMMARY APPRAISAL REPORT of the

# DNRC MOUNT BALDY PARCELS 679 & 680

# LOCATED WITHIN THE NORTHERN BITTERROOT VALLEY

Missoula County, Montana

Effective Date: April 19th 2012

### 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 10, 2012

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

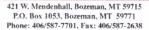
RE: Appraisal of the State of Montana DNRC Parcels 679 and 680

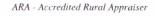
Dear Mr. Grimm:

Pursuant to your authorization and request, I have inspected and appraised the Montana real property ownership associated with two parcels of land (land banking parcels 679 and 680) owned by the State of Montana DNRC. Both parcels are situated in the vicinity of Baldy Mountain on the northeastern tiers of the Bitterroot Valley. Evaluated separately from each other, parcel 679 consists of 120 acres and parcel 680 is 640 acres in size.

Both parcels 679 and 680 are unimproved tracts that consists of recreational timberland. The timber consists predominately of Douglas fir and ponderosa pine. For the most part, both parcels consist of steeper hillsides that exceed 25% slopes. There are however, pockets of level areas on both parcels.

The aesthetics and recreational attributes of each parcel include its timbered setting and on-site habitat for multiple species of wildlife. With a westerly facing slope, parcel 680 does have good views of the Bitterroot Mountains and valley. Although the views are more isolated on parcel 679, they do extend to the Sapphire Mountains and portions of the Bitterroot Valley.





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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 the two parcels are being evaluated separately.

As instructed, the following hypothetical conditions are noted:

- 1.) A hypothetical condition is used that the subject has a legal means of access. The physical access for parcel 680 has been identified by the DNRC and utilizes existing roads and trails. While there are no developed roads to parcel 679, they are near-by and could be extended. Use of this hypothetical condition does impact the conclusions set forth in this report. It's noted that a value for each of the identified subject parcels has also been determined on the basis of their lack of legal access.
- 2.) A hypothetical condition is used that leases/licenses do not exist. Use of this hypothetical condition may have impacted the conclusions set forth in this report.

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 parcels and their identified property interests.

Parcel	With Legal Access	Without Legal Access
679	\$156,000	\$93,600
680	\$768,000	\$384,000

This represents my opinion of value for the ownership rights associated with the properties described and are subject to the conditions and comments appearing in this report.



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,

Paraic David Neibergs, MA, ARA

Accredited Rural Appraiser #1098

General Certified Appraiser, Montana (#248)



### Baldy Mountain Land Banking Parcel 679 and 680

OWNER OF RECORD: State of Montana - DNRC

LEGAL DESCRIPTION: Parcel 679: E2NW, NE4SW4 S22, T11N, R19W

Parcel 680: All S16, T11N, R19W

COUNTY: Missoula

LEGAL ACCESS: None

PHYSICAL ACCESS: Private unimproved dirt road/trail to parcel 680.

There is no road access to parcel 679.

INTENDED USE: Estimate market value of the identified real estate

ownership rights for each of the two parcels

separately.

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: ~5 to 6 air miles southeast of Lolo, Montana in the

vicinity of Baldy Mountain.

EFFECTIVE DATE: April 19, 2012

DATE OF REPORT: May 10, 2012

ZONING: None

COMP. PLAN: Open and Resource

CURRENT USE: Timber

PROPERTY DESCRIPTION:

Parcel 679: This is a 120 acre parcel that consists of timberland with timber on an easterly facing slope. The timber is a mixture of Douglas fir and ponderosa pine with some mortality in the timber due to insects. It has mostly sloping topography. Views are primarily to the south and east towards the Sapphires. It lies adjacent to the Bitterroot Valley Ranches subdivision; which is off the grid.

Parcel 680: This is a 640 acre tract of timberland and open grassland. The timber is a mix of species dominated by Douglas fir with some ponderosa pine. The property consists of a series of westerly running ridges with multiple draws. It affords a sweeping viewshed that encompasses the Bitterroot Mountains, Lolo Peak, the Bitterroot Valley and up north towards the Missions.

HYPOTHETICAL CONDITION:

- 1.) There is legal access for unlimited uses to each of the two parcels. Use of this hypothetical condition may affect the assignment results and conclusions.
- 2.) A hypothetical condition is used that leases/licenses do not exist. Use of this hypothetical condition may affect the assignment results and conclusions.

HIGHEST AND BEST USE:

As Is Without Access: Due to the lack of legal access, assemblage and plottage for each parcel.

Hypothetical With Legal Access: For each parcel, it is recreational timberland. Any home/cabin site would be on a seasonal and primitive basis. Inherent is the potential for assemblage and plottage.

**ESTIMATES OF VALUE:** 

Parcel	With	Without
	Legal Access	Legal Access
679	\$156,000	\$93,600
680	\$768,000	\$384,000

#### I. PROPERTY IDENTIFICATION & PRESENT OWNERSHIP

This appraisal assignment entails the evaluation of two non-contiguous tracts that will be valued separately from each other. The appraised properties include a 120 acre tract of timberland and a 640 acre tract that is a mixture of timberland and grassland. Both parcels are situated in the vicinity of Baldy Mountain (elevation 6,015') on the northeastern tiers of the Bitterroot Valley southeast of Lolo and south of Missoula. With the exception of pockets of level areas along ridges, both properties are dominated by steeper topography with slopes that exceed 25%.

It's noted that there is no legal access to either parcel and physical access varies. There is a developed road system to the 640 acre tract with walk-in access from roads in the area (which could be extended) to the 120 acre tract. Overall, access to both parcels is seasonal in nature. For purposes of this valuation, a hypothetical condition is used that the properties have legal access.



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

#### II. LEGAL DESCRIPTION

The legal description for the properties to be appraised is as per information provided. A parcel map is included on the following page.

Parcel 679: E2NW, NE4SW4 S22, T11N, R19W

Parcel 680: All of S16, T11N, R19W

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

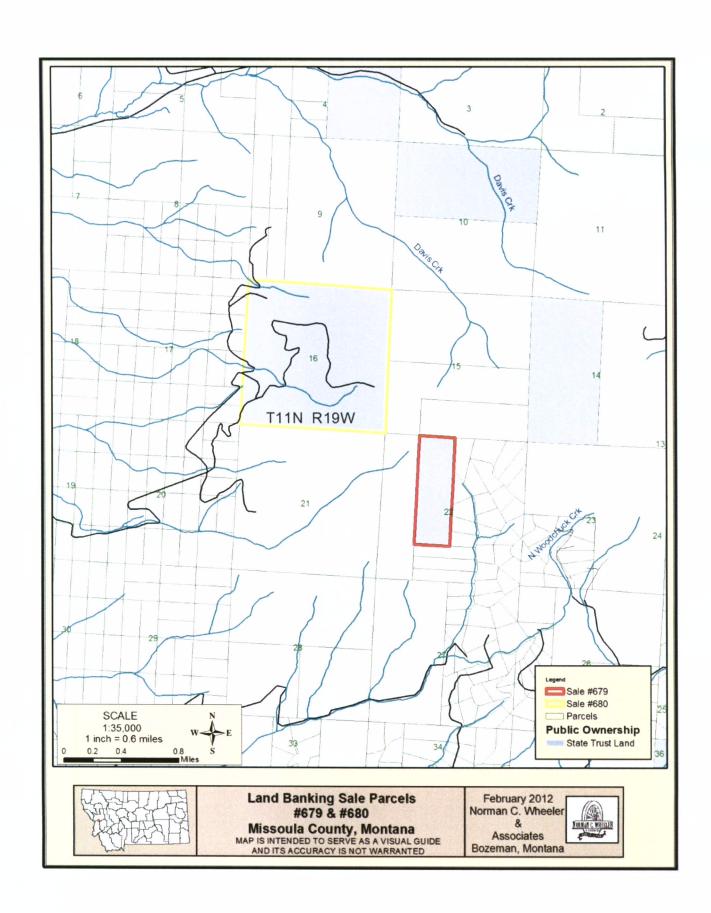
**A. Authorization:** I was authorized to complete an appraisal of the identified subject property (two parcels) by the State of Montana DNRC. The appraisal is being completed in accordance with the State of Montana Land Banking program.

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, trails, drainage systems, culverts, 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 18 months is reasonable.

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

An inspection of the subject properties was made on April 19, 2012 with Mr. Paul Moore of the State of Montana DNRC. The property was inspected on the ground from private trails or by foot 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 Mr. Paul. Moore 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 and the DNRC.

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 each of the identified parcels. There is a water right for stock purposes appurtenant to parcel 679.

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 neither of the subject parcels have 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.

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 April 19, 2012 which coincides with the date of the most recent property inspection. This appraisal was completed on May 10, 2012.

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

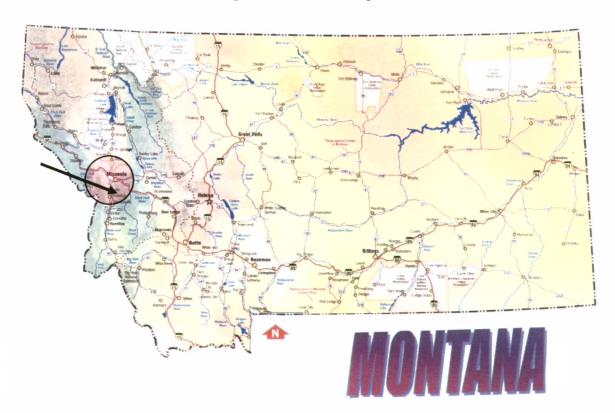
- 1. Ownership: The subject property is owned by the State of Montana DNRC.
- **2. Sales History:** USPAP standards require that any previous sales within a three year period be reported. The subject property has been owned by the State for multiple decades and is proposed to be sold as part of the DNRC Land Banking program.

#### XIII. PRESENT AND HISTORICAL USE

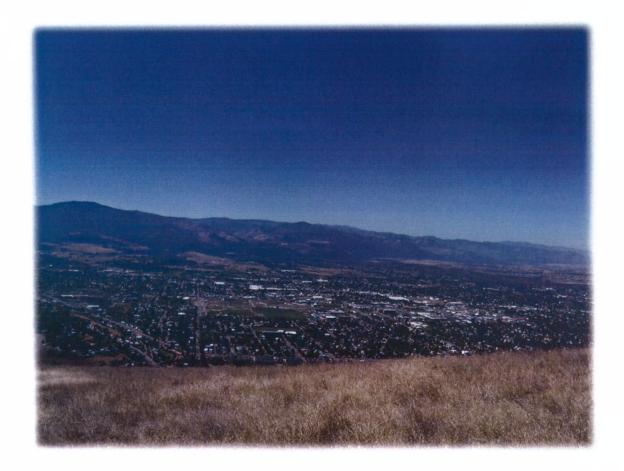
The present and historical use of the subject has been for timberland and livestock grazing with inherent recreational uses.

#### XIV. AREA - REGIONAL ANALYSIS

The subject property is located south of Missoula on the northeastern tiers of the Bitterroot Valley within Missoula County. For purposes of this analysis, only a summary description of the Missoula area 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.

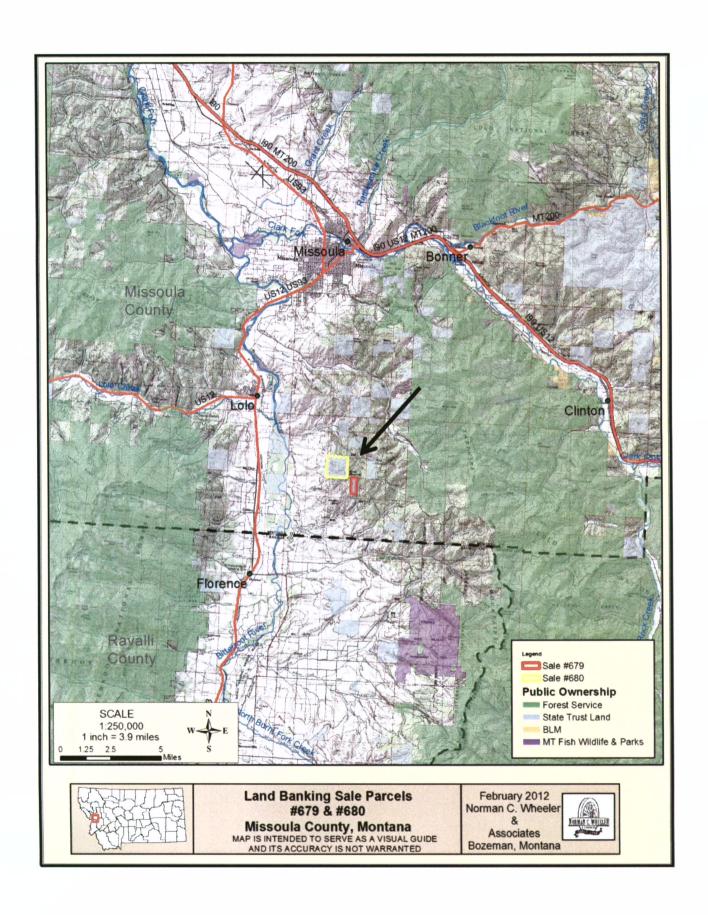
Since the early 90's, the Missoula area has experienced an increasing growth in population with many people moving from outside the state. Missoula County has been one of the fastest growing areas in the State of Montana. As of 2000, the population of the City of Missoula is estimated at approximately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

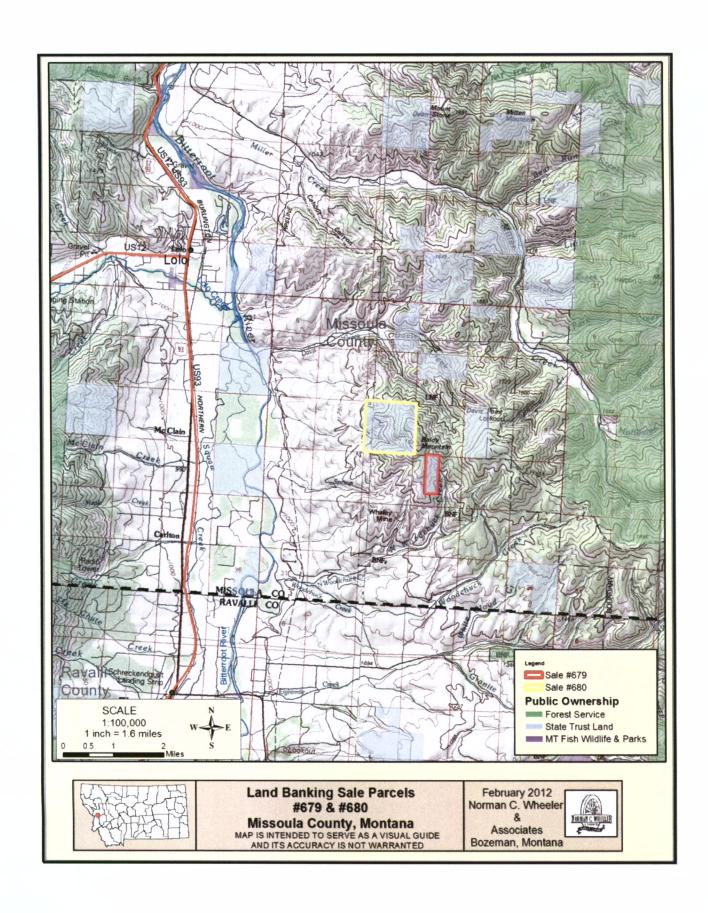
Over the last decade, this growth has translated into numerous developments in all facets of the real estate market; especially in the retail and residential segments. Significant expansion within the retail and commercial sectors has occurred with the Reserve Street corridor and the development park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

<u>Governmental Influences:</u> 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:** Parcels 679 and 680 are both located in the northeastern tiers of the Bitterroot Valley at the edge of the Sapphire Mountains in the vicinity of Baldy Mountain. They are located ~4 to 5 miles southeast of Lolo. While neither parcel has legal access, the physical access varies. The access to each of the parcels is described as follow:

Parcel 679: There is no legal access to this 120 acre parcel. Although there are roads in the immediate area of the subject parcel from the Woodchuck area, there is no developed road access at this time. From an existing road near the northern boundary, this would need to be extended about 100" to reach the northwestern portions of the property. The interior portions are accessible from various trails. Access to this parcel is seasonal in nature.

Parcel 680: There is no legal access to this 640 acre parcel. For purposes of this analysis, the physical access is assumed to be via existing roads and trails through the adjoining MPG Ranch (aka Schroeder Ranch). These roads travel from the valley floor easterly to the mountainous areas of the MPG Ranch where the subject is located. The road enters the southwestern boundary of the property and extends within its interior portions to the upper tiers. It's noted that there is additional access north of the subject that utilizes a network of roads coming in from the Miller Creek area. Overall, access to parcel 680 would be considered seasonal.

**Land Description:** The two parcels being evaluated for purposes of this assignment are non-contiguous to each other and will be described separately.

Parcel 679: This is a 120 acre tract that measures ¼ mile east-to-west and ¾ of a mile north-to-south. It lies adjacent to private land which includes the Bitterroot Valley Ranches subdivision; which is a timbered development that is off the grid.

This parcel is a timbered tract with an easterly facing slope that runs from the edge of a south running ridge easterly to the North Wood Chuck Creek drainage. There is a smaller ridge with some level areas near the southern third of the property. The forest includes a mixture of Douglas-fir and ponderosa pine. It's noted that there is mortality in the pine and spruce bud worm in the fir.

Elevations run from 4,980' to 5,530'. Based on a slope map, 111 acres of the subject (93%) is situated on a slope that exceeds 25%.

Parcel 680 is a mile square and consists of 640 acres that adjoins private land. It includes a series of westerly running ridges with multiple draws. It's noted that the northern most ridge does have road access and is an aesthetically appealing part of the property.

This is a diverse property with a mixture of forested areas and open grassland. While it does vary, the open grassland is situated mostly on the south facing slopes with some open areas with sagebrush on the westerly facing slope within the lower evaluations.

The timber is a mixture of Douglas fir with some ponderosa pine – with some mortality in pockets. While there are some cutover areas with regen, other forested areas are well stocked with some mature timber.

Elevations range from 4,320' to 5,990'. Approximately 592 acres (92%) of the property is situated on a slope that exceeds 25%.

**Aesthetic and Recreational Amenities:** With a forested setting, the amenities for each of the two parcels varies. Complemented by area properties, the subject parcels provides habitat for various species of wildlife but dominated by deer and elk and other predators. Both parcels adjoin lands that are encumbered with a conservation easement.<sup>1</sup>

The views between the two parcels do vary. While the viewshed of parcel 679 is more enclosed, there are views of the valley to the south and easterly towards the Sapphires – but also the neighboring subdivision.

From parcel 680, it has an expansive viewshed that includes the Bitterroot Mountains, the Bitterroot Valley and its river bottoms.

**Water Rights**: There is a water right appurtenant to parcel 679 for a spring (water right #76H 2349400). It's noted that there is an intermittent stream on parcel 680 but no water right.

<sup>&</sup>lt;sup>1</sup> This is former Plum Creek land that was part of the legacy project and sold to MPG Ranch. The terms of the conservation easement do not allow for public access.

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.

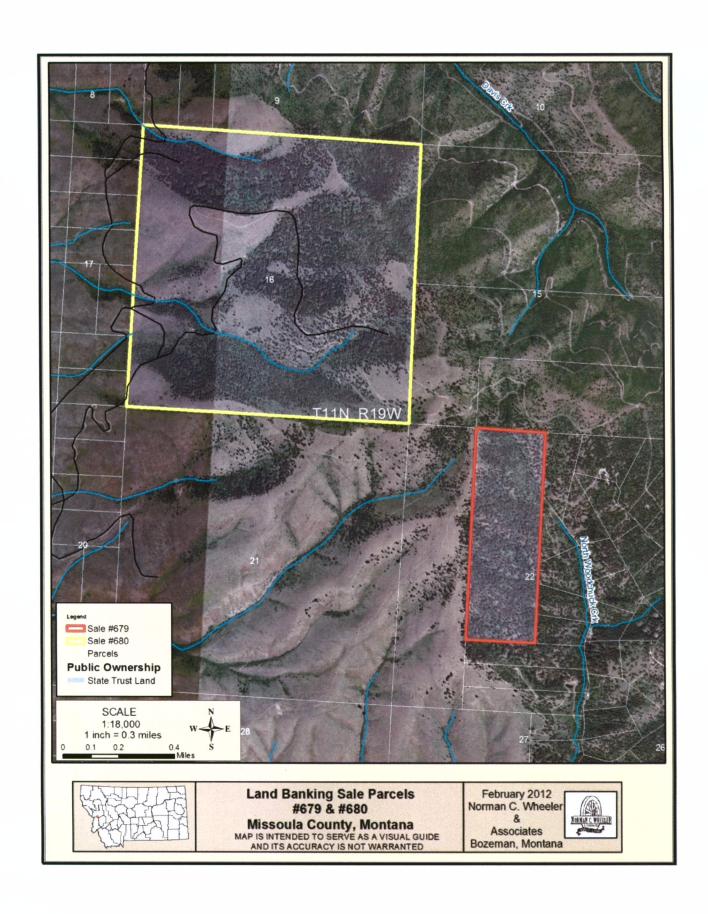
**Zoning:** The subject parcels are unzoned. The comprehensive plan designates the subject as *open and resource* land.

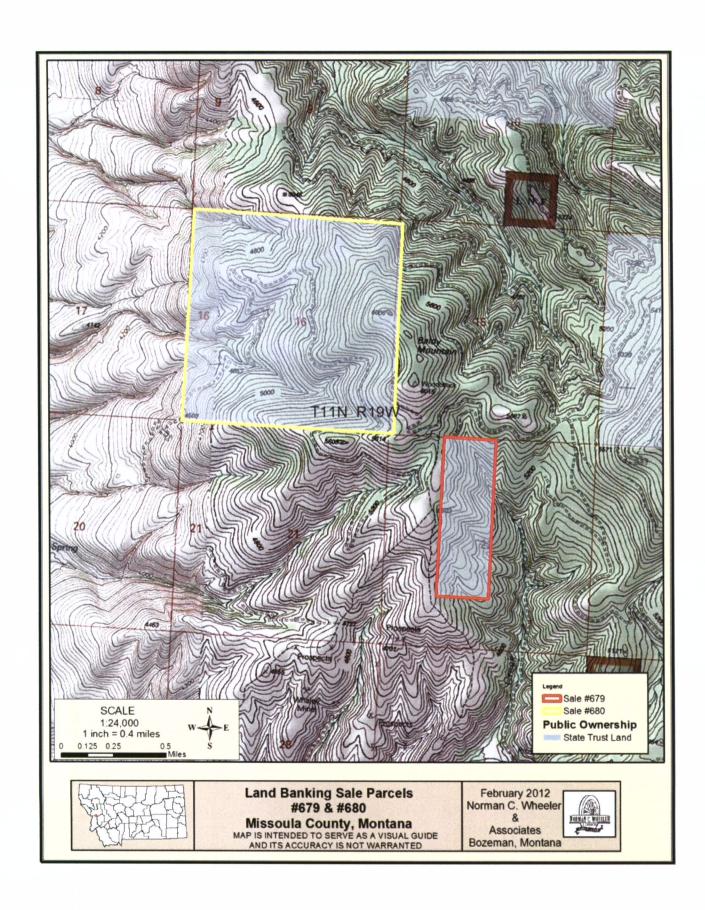
**Easements:** While a title commitment was not provided, there are no easements or encroachments that I am aware of.

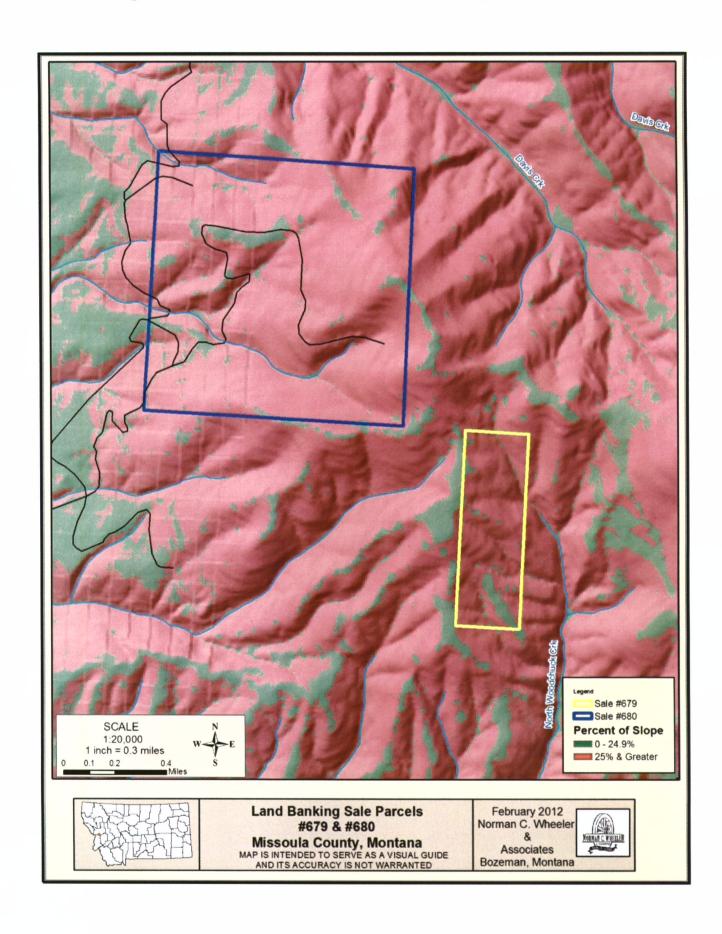
**Improvements:** With the exception of some fencing, the subject is unimproved. There are no utilities on-site.

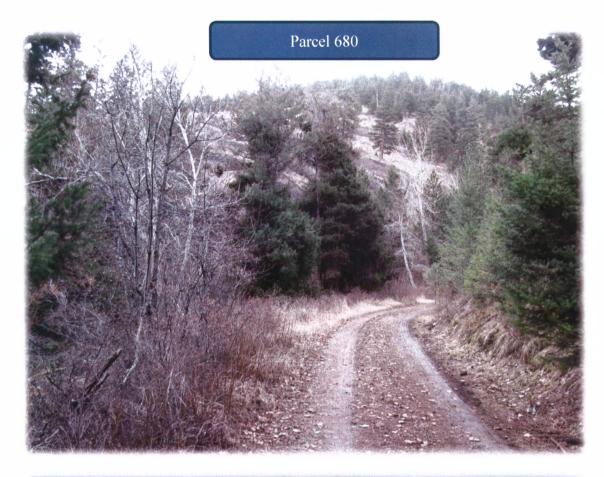
**Timber:** The subject is a timbered property that consists predominately of ponderosa pine with some Douglas fir. There are pockets of nice yellow pine that enhance the appeal of the property. At the same time however, there is some dead pine with bug and some evidence of the spruce bud worm in the fir.

The DNRC did have plans to harvest about 500 mbf from parcel 680 and 250 mbf from parcel 679 – these harvests never occurred. It was estimated that the DNRC would've received about \$62,665 for the timber or \$83/mbf – which was before the condition of the pine deteriorated.



































#### 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 social economic governmental environmental

-Specific Data site & improvements sales & listings cost & depreciation 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>11<sup>th</sup> 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 for each of the two parcels will be determined with AND without legal access as unimproved properties. Given the lack of improvements, an analysis of the subject parcels as improved is not necessary.

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

While the appraised parcels are located relatively close to Missoula and Lolo, they are situated off the valley floor in a more mountainous setting. Within the vicinity of the subject, typical uses of land in the area include timber, agricultural, recreational and rural/recreational residential within the adjoining subdivision – which is an off the grid development of smaller tracts. With respect to any traditional commercial or industrial uses, this would not be typical for this area due to the remote location and will not be discussed any further in this analysis.

In determining the highest and best use of the subject parcels 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? Each of the two parcels are unzoned and there are no deed restrictions affecting any permissible uses of each property. The parcels are not surveyed nor platted into smaller tracts. With respect to parcel 680, it is entitled to four 160 acre parcels. As a 120 acre tract, parcel 679 is a single tract. Thus, any subdividing of the parcels beyond 160 acres would have to comply with the Montana Platting and Subdivision Act. It's noted that boundary adjustments with adjoining ownerships is possible and noted given the subdivided nature of some adjacent private land.

Overall, there are multiple legally permissible uses for each of the two parcels. The most typical and probable would be for rural recreational, residential, agriculture/timber and investment purposes which may include further subdivision.

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:

- •Access to each of the two parcels is seasonal in nature. A road would have to be extended and constructed (~100') to get vehicular access to parcel 679.
- •There are no *utilities* in the area. It's noted that there are owners within the adjacent subdivision that occupy their properties year-round.
- •The *recreational* aspects of the two parcels are associated with their timbered setting, wildlife resources, and some views; with more dramatic views from parcel 680. Given neither parcel adjoins any public lands, *extended* recreational opportunities to adjacent property is not feasible.
- •From an agricultural standpoint, each parcel has limited grazing resources.
- *Topography* is predominately steeper slopes. Over 92% of each parcel is associated with slopes that exceed 25%. Coupled with access and lack of utilities, neither parcel is conducive to residential development. This does not however preclude the opportunity to do boundary adjustments with adjoining owners.
- •The subject parcels are *forested properties* with some merchantable timber. It's noted that there are insects in the timber with evidence of MPB in the pine and spruce budworm in some of the fir. There remains some nice yellow pine on parcel 679 but the property as a whole needs treatment.
- •Any *homesites* would be on a primitive basis and would have to utilize an area with gentler slopes.

With respect to the legally permissible uses that are physically possible, the dominant use of each parcel is as recreational timberland. Any recreational homesite would be on a primitive basis. Given the dominating steep slopes, lack of utilities, and access, neither parcel is 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.

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.

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 in the past indicated rates of appreciation from say 8% to 12% per annum. With respect to appreciation in the market over the last say 54 months however, it is non-existent. Thus, appreciation on a short-term basis is removed from the investment matrix of the property.

The subject is an income producing property from the standpoint it does have some merchantable timber. While this resource does provide income on a stumpage basis (<\$100/mbf) the market is not motivated to acquire property (land and timber) for the purpose of harvesting timber. The timber market is weak, the potential re-sale as cutover elevates the risk tolerance of this type of participant, and there is mortality in the timber that may affect quality and this further burdens management considerations where treatment often results in reduced revenue.

Given the subject parcels adjoins the Bitterroot Valley Ranches subdivision and the adjoining Schroeder Ranch is subdivided (aliquot 20's) the subdivision potential of the subject parcels is addressed. The Bitterroot Valley Ranches development is a lower quality subdivision of smaller tracts that are typically under 20 acres in size. Given their access, lack of utilities, and overall desirability, this subdivision represents the lower spectrum of the market. Recognizing all the constraints of the subject, there is no way a subdivision would be approved. And, it would not be reasonable to expect that someone would acquire either of the subject parcels in anticipation of obtaining entitlements for re-sale in smaller tracts. This is not to say that boundary adjustments and the occasional sale of a portion (of the whole) would not be possible.

With consideration to each parcel as a whole (land and timber) the dominant use of each parcel that is financially feasible and also maximally productive is as recreational tracts of timberland. This recognizes the limitations associated with topography, physical access, and lack of utilities.

CONCLUSION WITH LEGAL ACCESS: Given the funneling process, I conclude that that the highest and best use of each parcel is as recreational timberland. Any residential use would be on a primitive and seasonal basis.

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

In this section of the appraisal, the highest and best use of the subject property without legal access will be discussed. As noted, each of the appraised parcels are landlocked and there is no right to cross any private lands that lead off from a public road. As noted, the subject parcels are 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, timber 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 and management 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 the card providing access.
- •Limited marketability with a reduced pool of potential buyers and diminished competition. It's recognized that there is a segment of the market that speculates on acquiring property without access and perfecting this right. The acquisition however is at a discount.

- •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>2</sup> There is also an element of speculation in which a non-adjacent owner may purchase the property as well.

<sup>&</sup>lt;sup>2</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, intrinsic factors, 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 the market is not motivated in acquiring land and timber 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 each of the parcels 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 each of the subject parcels, I have researched the market for sales of properties which are most similar in terms of their land use, size, means of access, and utility as a recreational property. For the most part, the sales were located in Missoula County and are representative of the current conditions in the market occurring from 2010 to 2012.<sup>3</sup> All the sales referenced in this report are forested properties that were unimproved.

For parcel 679, five sales that were more similar in size were selected. Six sales were selected to value parcel 680. Some of the same sales were referenced for each parcel.

 $<sup>^{3}</sup>$  For ancillary purposes some older data may be referenced for additional information.

**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. Typical quantitative adjustments would include consideration for time and buildings. With respect to the sales data, it is all unimproved and occurred post 2009 when there was a shift from peak values that were realized at the end of 2007.

Recognizing the date of the sales and given they are unimproved, no quantitative adjustments were applied. Thus, this analysis is completed on the basis of a qualitative analysis.

Qualitative Adjustments: 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.

**Property Interest:** Sale 3 is encumbered with a conservation easement and is therefore restricted in use. In comparison to the subject (and the other data) sale 3 is at a market disadvantage when compared to a fee simple interest.

**Size:** The subject parcels are 120 and 640 acres in size and are bracketed by the sales.

With respect to size, there is an inverse relationship in value when the extremes are considered. This difference is also more apparent when one considers the smaller tracts such as sale 9. The difference in the larger tracts becomes less distinguishable and there is evidence of inconsistency relative to this factor within the context of the overall market. Overall, size is a factor of consideration and is more of an emphasis when the extremes are considered.

**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.

In terms of market location, their proximity to Missoula is a consideration. With the exception of sale 8, all the sales are similar in terms of location and market/influences. Sale 8 is in a remote and less desirable location up Brewster Creek.

**Access:** The type of access, its quality and its seasonality of use are acknowledged as a factor of value. This is one of the more significant factors of consideration.

**Primary Land Use:** The subject parcels and all the sales are forested parcels with pockets or areas of open grassland. They are all for the most part equal with respect to this factor.

**Timber:** The subject does have areas of merchantable timber that would be in excess of those sales that are just cutover or heavily cutover. The fact a property has merchantable timber however is softened when one recognizes the value of the timber on a net mbf basis and the overall state of the timber market. The quality/condition of the timber is also a consideration. The subject does have evidence of insects; which elevates the management and treatment options for the dead trees. This is less of a factor on those lands that had historic timber harvest which coincides with Plum Creek lands. Thus, there are some offsetting factors to consider with respect to timber (volume versus condition).

**Topography/Slope:** Those lands with gentler topography would be more desirable than a property with steep sloping hillsides.

**Utilities:** The availability of utilities facilitates use of the respective property for residential homesite purposes. With the exception of sales 2 and 9, all the other sales lack utilities on site.

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>Views:</u> Properties with mountainous views are desired.

<u>-Water Resources</u>: The quantity and quality of water resources is a consideration.

-<u>Diversity</u>: Diversity may be in terms of land uses, habitats, and/or topography.

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.

# **DNRC Parcel 679**

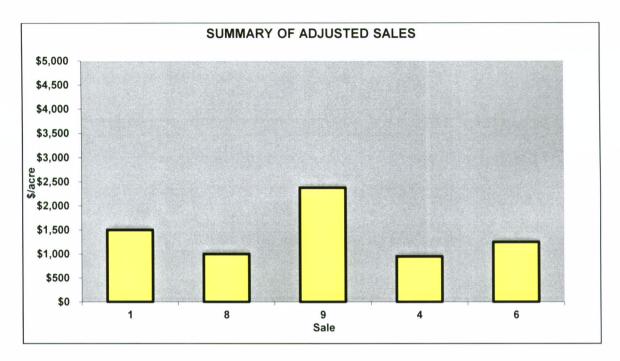
Summary of Sales Data - Qualitative and Quantitative Adjustments

Summary of Sales Dala	Zadindir	Zuamman Zuam Zuamman Z			•	,	
Sale Id	Subject	1	8	9	+	0	
Reference		G. Creek	Kamps	Deep Creek	Davis/R	YT	
Date		4/2012	4/2010	7/2011	1/2011	2/2011	
Sales Price		\$236,235	\$92,000	\$95,000	\$152,000	\$150,000	
Buildings		80	80	80	\$0	80	
Land Value		\$236,235	\$92,000	\$95,000	\$152,000	\$150,000	
Size (Acres)		157.5	92	40	160	120	
\$/Acre Land Value		\$1,500	\$1,000	\$2,375	\$950	\$1,250	
Market Conditions		N/A	N/A	Offset	N/A	N/A	
Market IS		\$1,500	\$1,000	\$2,375	\$950	\$1,250	
			Qual	Qualitative Adjustment	nent		
Property Interests	Fee	Fee (0)	Fee (0)	Fee (0)	Fee (0)	Fee (0)	
Size	120 Ac	Sl. Larger	SI. Smaller	Smaller	Sl. Larger	Equal	
		$\tilde{O}(0)$	(0)	()	(0)	(0)	
Location	SE Lolo	E. Missoula	B. Creek	W. Missoula (0)	E. Missoula (0)	W. Lolo (0)	
Access	Seasonal	FS/Seasonal	FS/Seasonal (++)	Year Round	Seasonal (0 to +)	Seasonal (0 to +)	
Primary Land Use	Timber	Timber	Timber	Timber	Timber	Timber	
	;	(0)	(0)	(0)	(0)	(0)	
Timber	Some Merch	Cutover (offsetting)	Some Merch (0)	Some Merch (0 to -)	H. Cutover (0 to +)	H. Cutover (0 to +)	
Topography	Sloping	Variable (-)	Variable (0 to -)	Variable (0 to -)	Sloping (0)	Sloping (0)	
Utilities	None	None (0)	None (0)	Yes (-)	None (0)	None (0)	
Amenities/Recr	Views/Wldlf	(0)	Inholding (-)	(0)	(0)	(0)	
Water Resources	Drainage	Sm Crk (0 to -)	Minimal (0)	None (0)	Limited (0)	Limited (0)	
Utility as a Homesite	Limited	Better (-)	Remote (+)	Better ()	Limited (0)	Limited (0)	
Overall Indication/Acre		<\$1,500	>\$1,000	<\$2,375	>8950	SI> \$1,250	
N/A = Non-applicable							

Sale and subject are equivalent to each other. Sale is better than the subject which implies a negative adjustment Sale is inferior to the subject which implies a positive adjustment

Means slightly negative or positive.

#### D. Comparability of Sales and Conclusion of Land Value - Parcel 679



The sales indicate a bracketed range in value from \$1,250 to \$2,375 per acre with four of the five sales showing a tighter range from \$950 to \$1,500 per acre. The comparability of the sales is further discussed.

-Sale 9 (\$2,375/acre) is the highest valued sale and is superior in almost all facets to the subject. It is a smaller forested tract that is located in the Deep Creek area west of Missoula. It has superior access suitable for year round use and has utilities on site. While having variable topography, sale 9 does have a level area situated on the valley floor that would accommodate a nice homesite. Emphasizing the smaller size (the subject being 3x's larger), access, and utility as a homesite, sale 9 would be a far superior property and would support a value significantly less than \$2,375 per acre.<sup>4</sup>

<sup>&</sup>lt;sup>4</sup> There is an older 2008 sale of 58.58 acres just south of the subject that sold for \$2,543 per acre. There was also a 40 acre tract that sold on contract in 20009 for \$2,487/acre. These both have steep topography with some level areas. In comparison to sale 9, these tracts would be inferior on a physical basis. Current market conditions would not support such a value for this size of tract.

-Sale 1 (\$1,500/acre) is located in the Gold Creek area of the Blackfoot east of Bonner. While slightly larger, sale 1 consists of recreational timberland with good timber resources and regen in good condition. It does have a small creek. Although sale 1 does have somewhat seasonal access, the access is via a major Forest Service road and it could be kept open during the winter – thus being superior to the subject. While having variable topography, sale 1 has more gentle slopes. Sale 1 is comparable on a land use basis and it does lack utilities. Overall however, sale 1 would be superior to the subject and would indicate a value less than \$1,500 per acre.

-Sale 8 (\$1,000/acre) is a slightly smaller property that is located in the Brewster Creek area up Rock Creek. This is a remote timbered tract that consists of multiple mining claims that lies adjacent to public lands. While being inclusive of merchantable timber, it was economically challenging to harvest and deliver. Topography is variable but has more gentle slopes in comparison to the subject. The access to sale 8 is very cumbersome on a physical basis. While there is some uncertainty with legal access, it has been accessed via forest service roads. Thus, access is inferior to that of the subject. While sale 8 does consist of multiple mining claims, has areas with more favorable topography and lies adjacent to public lands, all these factors do not overcome its remote location and access limitations. Thus, sale 8 would support a value greater than \$1,000 per acre.

-Sale 4 (\$950/acre) is a somewhat isolated tract of heavily cutover timberland. It is located in the lower Blackfoot south of Highway 200. Access to the property is via an easement and it would be seasonal. Topography is mostly steeper with the exception of an upper ridge. Recognizing the timber resources of sale 4, being less accessible and its overall desirability, sale 4 would warrant a value greater than \$950 per acre for the subject.

-Sale 6 (\$1,250/acre) is a similar sized tract of heavily cutover timberland located west of Lolo and north of Highway 12. While close to the highway, the access to this tract is via a cumbersome route coming up from the Bear Creek side. Topography is variable with level areas along the ridges. The property has a commanding view of Lolo Peak. While having some similarities, sale 6 is inferior in terms of timber resources and access. Sale 6 would indicate a value slightly greater than \$1,250/acre.

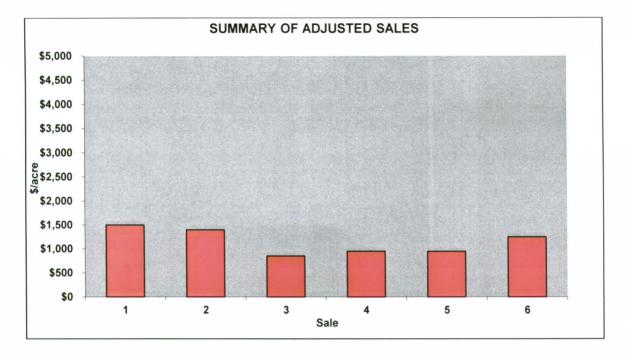
Conclusion of Value with Access – Parcel 679: The upper end of market for this parcel was represented by sale 9. Exclusive of sale 9, the four remaining sales indicate a range from \$950 to \$1,500 per acre. Further bracketing by sale 8 would indicate a range from \$1,000 to \$1,500 per acre or a mid-range of \$1,250 per acre – which would also coincide with the indicated value of sale 6. With consideration to the mid-range, the subject would be weighted slightly towards sale 1 and sale 6 would support a slightly higher value than \$1,250 per acre. Based on this bracketing, a value of \$1,300 per acre is concluded for parcel 679 or \$156,000.

120 Acres @ \$1,300/acre = \$156,000 \$156,000

## **DNRC Parcel 680**

Sale Id Subject 1 2	Subject	and gadminail	2	3	4	5	9	
Reference		G. Creek	Cascio	Davis C	Davis/R	Conf.	YT	
Date		4/2012	8/2011	8/2010	1/2011	11/2010	2/2011	
Sales Price		\$236,235	\$900,000	\$1,224,000	\$152,000	\$500,000	\$150,000	
Buildings		80	\$0	80	80	80	80	
Land Value		\$236,235	\$900,000	\$1,224,000	\$152,000	\$500,000	\$150,000	
Size (Acres)		157.5	643.20	1,440	160	527.11	120	
\$/Acre Land Value		\$1,500	\$1,399	\$850	\$950	\$948	\$1,250	
Market Conditions		80	N/A	N/A	N/A	N/A	N/A	
Market IS		\$1,500	\$1,399	\$850	\$950	\$948	\$1,250	
			Qual	Qualitative Adjustment	nent			
Property Interests	Fee	Fee (0)	Fee (0)	C. Easement (++)	Fee (0)	Fee (0)	Fee (0)	
Size	640 Ac	Smaller (-)	Similar (0)	Larger (+)	Smaller (-)	Similar (0)	Smaller (-)	
Location	SE Lolo	E. Missoula (0)	W. Lolo (0)	SE. Lolo (0)	E. Missoula (0)	W. Missoula (0)	W. Lolo (0)	
Access	Seasonal	FS/Seasonal (-)	Year-round ()	Seasonal (0)	Seasonal (0 to +)	S. Side (0 to -)	Seasonal (0 to +)	
Primary Land Use	Timber	Timber (0)	Timber (0)	Timber (0)	Timber (0)	Timber (0)	Timber (0)	
Timber	Some Merch	Cutover (0 to SI+)	Cutover (0 to SI+)	Cutover (0 to SI+)	H. Cutover (0 to +)	Cutover (0 to SI+)	Cutover (0 to +)	
Topography	Sloping	Variable (-)	Variable (-)	Sloping (0)	Sloping (0)	Gentler (-)	Sloping (0)	
Utilities	None	None (0)	Yes (-)	None (0)	None (0)	None (0)	None (0)	
Amenities/Recr		(0)	(0)	(0)	(0  to  +)	(0 to +)	(0)	
Water Resources	Interm	Sm Crk (0 to -)	Mill Ck ()	Davis Ck (-)	Limited (0)	Creek (-)	Limited (0)	
Utility as a Homesite	Limited	Better (-)	Better ()	Inferior (+)	Limited (0)	Better (-)	Limited (0)	
Overall Indication/Acre		<\$1,500	<\$1,399	>\$850	>\$950	8948	\$1,250	
<ul> <li>N/A = Non-applicable</li> <li>(0) Sale and subject are equivalent to each other.</li> <li>(-) Sale is better than the subject which implies a negative adjustment</li> <li>(+) Sale is inferior to the subject which implies a positive adjustment</li> <li>(/) Means slightly negative or positive.</li> </ul>	on-applicable Sale and subject are equivalent to es Sale is better than the subject which Sale is inferior to the subject which Means slightly negative or positive.	each other. ch implies a neg ch implies a posi	gative adjustme itive adjustmen	nt it				

#### E. Comparability of Sales and Conclusion of Land Value – Parcel 680



The sales indicate a bracketed range in value from \$850 to \$1,500 per acre. The comparability of the sales is discussed as follows:

-Sale 1 (\$1,500/acre) is located in the Gold Creek area of the Blackfoot east of Bonner. It is a smaller property that consists of recreational timberland with good timber resources and regen in good condition. It does have a small creek. Although sale 1 does have somewhat seasonal access, the access is via a major Forest Service road and it could be kept open during the winter – thus being superior to the subject. While having variable topography, sale 1 has more gentle slopes. Sale 1 is comparable on a land use basis and it does lack utilities. Emphasizing the smaller size and topography, sale 1 is superior to the subject and would warrant a value less than \$1,500 per acre.

-Sale 2 (\$1,399/acre) is a similar size tract of recreational oriented timberland located west of Lolo and south of Highway 12. Sale 2 has year-round access from the Mill Creek road and utilities are on site. Sale 2 also has a high proportion of favorable topography. With Mill Creek complementing views of Lolo Peak and bordering public lands, sale 2 would also have superior recreational attributes. One drawback to sale 2 is that it does have a public trail through it that provides the public a means of non-vehicular access to public lands. Overall, sale 2 would be superior to the subject in almost all facets and a value less than \$1,399 per acre would be supported.

-Sale 3 (\$850/acre) is a larger property that adjoins the eastern and a portion of the subject's northern boundaries. It includes the peak of Baldy Mountain (6,015'). Access would be similar. This property takes in the Davis Creek drainage and consists predominately of cutover timberland with some areas of open grassland. Topography is mostly steeper slopes. While an expansive viewshed, there are only certain areas of the property with views of the Bitterroots. Besides being a larger tract, sale 3 sold encumbered with a restrictive conservation easement. Emphasizing the larger size and encumbrances associated with sale 3, it would be indicative of the market floor for the subject.

-Sale 4 (\$950/acre) is a smaller tract of heavily cutover timberland. It is located in the lower Blackfoot south of Highway 200. Access to the property is via an easement and it would be seasonal. Topography is mostly steeper with the exception of an upper ridge. It would not have the expansive viewshed that is apparent throughout the subject. With the exception of size, sale 4 is inferior to the subject in all other aspects and would indicate a value greater than \$950 per acre.

-Sale 5 (\$948/acre) is a recreational tract of timberland located west of Missoula and south of the Clark Fork River. It was purchased as an add-on parcel to a larger ownership. The price paid was similar to larger acquisitions and is an influence to the indicated value. The sale is superior to the subject in terms of topography, water attributes and it could be accessed year-round but a somewhat cumbersome route. Although acknowledged, I have not placed a lot of influence on sale 5 given the other sales and prior transactions that this was predicated on.

-Sale 6 (\$1,250/acre) is a smaller sized tract of heavily cutover timberland located west of Lolo and north of Highway 12. While close to the highway, the access to this tract is via a cumbersome route coming up from the Bear Creek side. Topography is variable with level areas along the ridges. The property has a commanding view of Lolo Peak. Although there are many offsetting factors that would indicate a value of \$1,250 per acre, it's acknowledged that the subject is over 5 times larger. Thus, the indicated value of \$1,250 per acre would be more indicative of the upper threshold.

Conclusion of Value with Access – Parcel 680: The lower end of the market for subject parcel 680 is represented by sales 3 and 4 with values of \$850 and \$950 per acre, respectively. Sales 1 and 2 would bracket the upper extremes with values of \$1,500 and \$1,399 per acre. Thus, an initial bracketed range in value from \$950 to \$1,399 per acre is represented for the subject or a mid-range value of \$1,175 per acre.

To facilitate the analysis, I've made reference to some ancillary confidential information.

In March 2008 when the market was at a peak, a 572 acre tract of recreational timberland sold for \$1,400 per acre. The sale located east of Missoula consisted predominately of steeper heavily cutover timberland. It did encompass a nice level bench situated on the valley floor and included frontage along the Clark Fork River. Access was however, via a cumbersome route. Without consideration for time, there are offsetting factors relative to this sale and the subject. Recognizing that this sale occurred during peak values, it would not be indicative of value today. With consideration to changes in highest and best use and as supported by the market, a 15% discount would be reasonable to account for shifts in the market – which would suggest a value of \$1,190 per acre for the subject.

With consideration to the bracketing of the subject, ancillary sales information and the mid-range as indicated by sales 2 and 4, a value of \$1,200 per acre is concluded for parcel 680.

640 Acres @ \$1,200/acre = \$768,000 \$768,000

#### E. Determination of Value Without Legal Access

In the previous analyses, values were concluded for the identified parcels on the basis of a hypothetical condition that they had 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.) I considered sales and listings on the basis of a direct comparison to arrive at a per acre value. Due to the limited data in the area, this will be used moreso as support and a test for reasonableness.

<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.

-A 145 acre isolated property in the Rock Creek area sold without access for \$220 per acre. Comparing that to sale 4 with a value of \$950 per acre, a discount of 76% is indicated. Part of this discount would be attributed to the condition of the property including the fact it was part of the 2007 *Mile Marker* 124 fire.

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 tracts are landlocked and surrounded by private landowners, the market would recognize a discount for lack of legal access and inability to attain its potential highest and best use.

With respect to the two parcels, it's recognized that parcel 680 is surrounded by one land owner and they could dictate control of this land and there would be no other competition relative to acquiring this parcel. Conversely, parcel 679 adjoins multiple parcels and owners associated with the Bitterroot Valley Ranches subdivision; which may create added competition for this parcel or other opportunities including curing the access limitation; thus warranting a lower discount.

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%.

Based on the data presented, a discount of 50% is assigned to parcel 680 and 40% to parcel 679. This would therefore indicate the following values:

Parcel 679: \$156,000 less \$62,400 =\$93,600 or \$780/acre

Parcel 680: \$768,000 less \$384,000 = \$384,000 or \$600/acre

<u>Direct Comparison:</u> For purposes of this analysis, I am making reference to the direct comparison as additional support to the concluded discounted values set forth on the previous page. This is due to the limited data to reference within the Bitterroot Valley or in the vicinity of Missoula for that matter. Thus, the following listings are noted:

-A 160 acre parcel in the Blackfoot without access and with covenants for timber only is listed for \$354 per acre. Another restricted 160 acre parcel in the same area is listed at \$400 per acre. With respect to these two properties, the use limitations become a factor.

-A 160 acre timbered parcel located on the west side of the Bitterroot Valley is listed for sale at \$96,000 or \$600 per acre. This tract is being sold without an assignable easement.

-The 120 acre tract of cutover timberland without legal access in the Blackfoot sold for \$708 per acre in 2007.

With consideration to the listing in the Bitterroot and the bracketing of the other data, the indicated value of \$600 and \$780 per acre for the two parcels is reasonable.

Conclusion of Values Without Legal Access: On the basis of a percentage discount analysis, a value of \$93,600 is indicated for parcel 679 and \$384,000 for parcel 680.

#### 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 properties are as follows:

#### Sales Comparison Approach:

Parcel	With Access	Without Access
679	\$156,000	\$93,600
680	\$768,000	\$384,000

**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 parcels under the hypothetical condition that they had access was based on multiple recent sales that allowed for the bracketing 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 data on a direct comparison basis.

Overall, the value of the subject property, with and without legal access, coincides with the sales comparison approach.

#### 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. Use of this hypothetical condition may have impacted the conclusions set forth in this report.
- 2.) A hypothetical condition is used that leases/licenses do not exist. Use of this hypothetical condition may have impacted the conclusions set forth in this report.

#### **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.

araic David Neibergs, MA, ARA

Accredited Rural Appraise

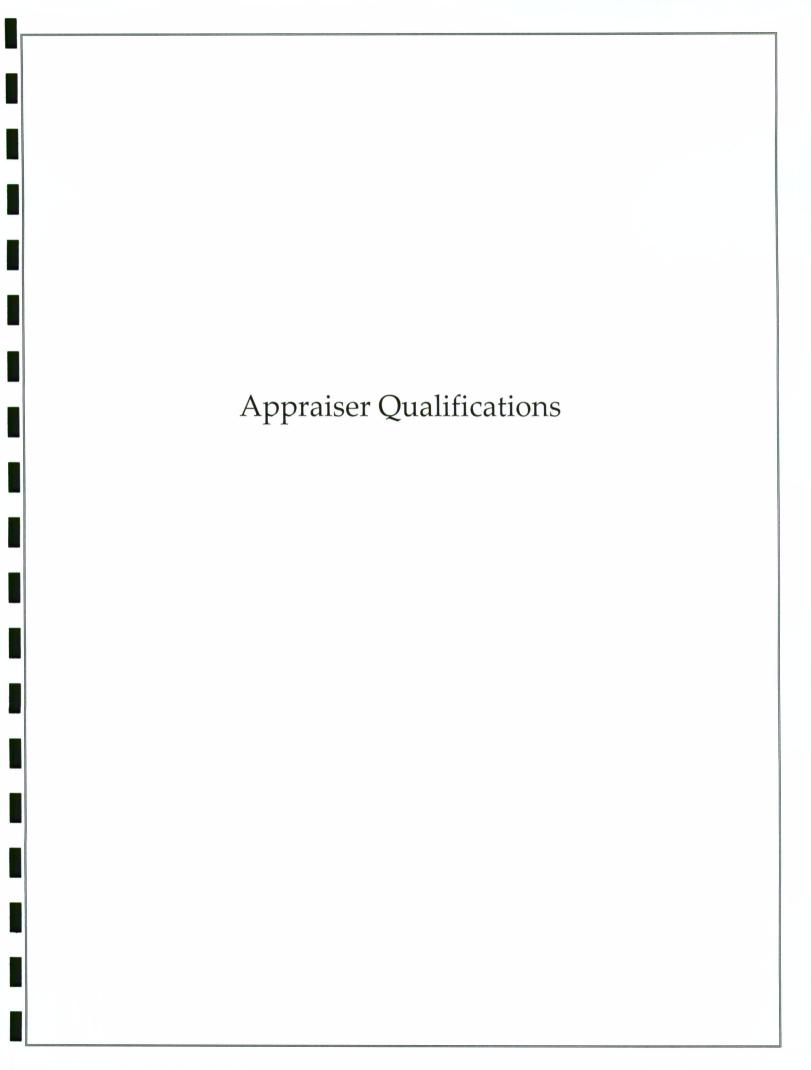
Montana General Certified Appraiser # 248

### **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, the Washington State ASFMRA Chapter Meeting, and the Montana Association of Land Trust Seminar in November 2011.

#### 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 purchases, sales, and management. Own and manage ~525 acres of rural and recreational land consisting of multiple parcels in western Montana.

#### **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
AI310	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, Past President of Montana Chapter.
- -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

#### 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

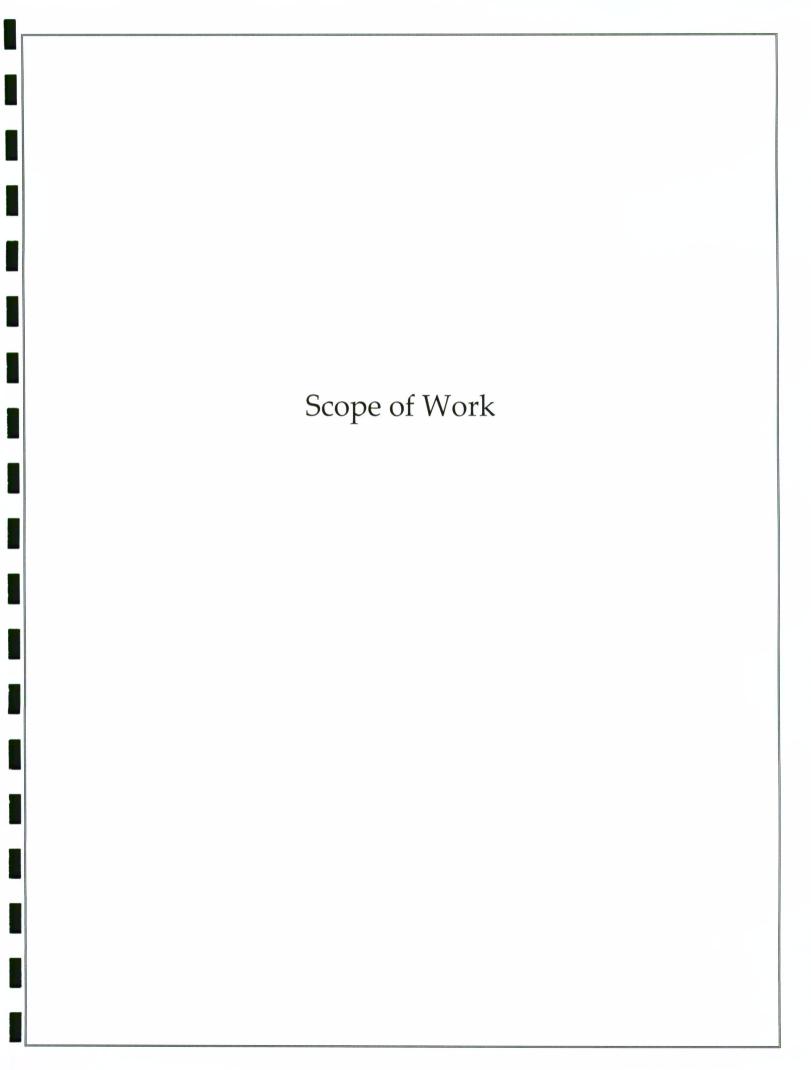
- -United States Department of Agriculture
- -United States Forest Service
- -Natural Resources and Conservation Service
- -State of Montana Fish, Wildlife, and Parks
- -United States Fish and Wildlife Service
- -Appraisal Services Directorate, National Business Center
- -Bureau of Land Management
- -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
- -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 properties at a level that will allow the appraiser to render a credible opinion of value about the properties. 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.)

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 Properties (Located in Missoula County):**

Sale # 679, 120 acres; E½NW¼, NE¼SW¼, Section 22, T11N-R19W Sale # 680, 640 acres; ALL, Section 16, T11N-R19W

#### 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

Or:

Paul Moore – Unit Manager Direct Line: 406/363-1585

Lessees:

MPG Holdings LLC

Ranch Manager: Philip Ramsey

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

Each parcel, as identified, is to be valued separately. However, when applicable, the parcels while valued separately can be combined into one report. 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.

The definition of market value is that as defined in 70-30-313 M.C.A.

The DNRC will provide access to each state parcel record, as maintained by the land offices, including but not limited to aerial photos, land improvements, current lease data (lease #, name of lessee, AUMs, acres, costs, etc.), property issues, surveys (if any), and production history. The local land office will provide the contact information to the appraiser in order for the appraiser to obtain access to the proponent's property.

