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2013 Annual Montana Land Study

Norman C. Wheeler & Associates

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Norman C. Wheeler & Associates, with offices in Bozeman and Missoula, Montana, has completed their annual land study related to agricultural and recreational land values within the State of Montana. The study, as summarized herein, incorporates information derived from a variety of sale sources cataloged by the firm on an annual basis. Specific subsets or analyses of this data as reported herein are offered in a summary format, and are not intended to convey appraised values relative to any specific land class or property. These values are not provided for appraisal purposes. They are offered as basic trending data to help users understand the movements and functions of the market on a year-to-year basis.

We are grateful to the brokers, attorneys, accountants and other professionals who provide information and insight relative to these market transactions. Montana is a non-disclosure state relative to the sale price of rural real property. As such, we follow a rigorous confirmation process through which we verify the validity and accuracy of the information reported herein. The sale and value data summarized is not intended to incorporate, nor is it considered to be, an inclusive sampling of all transactions which have occurred within the market areas studied. It is a representative sample of the overall market which has been found to be relatively consistent on a year-to-year basis. In reviewing annual sales volumes and totals, we find that the values and acreages reported within the context of each annual study are typically within 5 to 10 percent of the overall volume found to exist as we continue to move into subsequent years and sales are added or backfilled into the database.

The value information reported herein is derived from a matrix of sale properties which include various land mixes. The reader is cautioned that values set forth herein are not indicative or representative of any specific property. The sales database of Norman C. Wheeler & Associates spans a 50-year period and information provided herein between 1990 and the present is derived from our internal datasets.

The firm is active in the appraisal and consulting of real property throughout the State of Montana and completes numerous and varied appraisal assignments which provide insight and exposure to all primary segments of the market. The emphasis of the firm is typically on the appraisal of what are considered to be larger parcels – those greater than 80 acres in size. The

firm specializes in the appraisal of rural, ranch, transitional and recreational properties within appraisal assignments for estate, financing, conservation easement, acquisition, exchange, due-diligence and other general reporting purposes. The firm provides an extensive amount of consulting related to large transactions, and value related information is incorporated and utilized through an integrated geo-database supported by full-time, in-house GIS specialists.

Over the past year the firm has been active in the development of integrated geo-referenced valuation models. This includes a valuation study completed for the State of Montana DNRC. This study and product have been developed in concert with Northwest Farm Credit Services and is representative of analytical products being rapidly integrated and utilized by various user entities. It will allow the State of Montana DNRC instantaneous access to representative market data for the analysis of over 30,000 tracts of State land encompassing over 5 million acres spread throughout Montana.

The following chart summarizes sale and value information derived from the market in 2013. During 2013, our data indicates the transfer of 231,896 deeded acres within the State of Montana in parcels larger than 80 acres in size. The total sales volume associated with these transactions, as per reported prices, was nearly $285 million. The overall average per-acre value associated with these transactions was $1,227 per acre. This per-acre value encompasses land, buildings, leases and other real property assets which were associated with the individual sales.

Norman C. Wheeler & Associates - 2013 Land Study Summary				
All Land Sales cataloged and confirmed above 80 deeded acres -- 123 Sales total	**Total Deeded Acres**	**Total Sale Volume**	**Average Land Value Per Deeded Acre**	
Total Study	231,896	$ 284,640,083	$ 1,227	
	Land assets only	$ 269,385,056	$ 1,162	
Western Ranch Market Data- Sales 640 Deeded Acres or Greater -- 36 Sales	118,246	$ 143,582,510	$ 1,214	
	Land assets only	$ 128,178,664	$ 1,084	
Western Ranch Market Data- Sales 80 to 639 Deeded Acres -- 76 Sales	19,880	$ 94,539,573	$ 4,756	
	Land assets only	$ 74,220,133	$ 3,733	
Eastern Montana Ranch Sales Greater Than 640 Deeded Acres -- 11 Sales				
	93,770	$ 46,518,000	$ 496	
	231,896	$ 284,640,083		

Often the largest variable between sale properties is the amount and contributory value of structural building improvements located on these properties. In consideration of this factor, we adjusted the overall sale data to what is considered to be the contributory value of the land assets only. In 2013, land asset value embedded within the sales was approximately $270 million. Thus, the overall average land value for these sales is $1,162 per acre.

As set forth in the chart, what is referred to as the western ranch market – including sales greater than 640 acres in size – encompassed approximately 50 percent of the sale data volume within the overall dataset.

Smaller sales in this market, which varied between 80 and 639 acres in size, encompassed approximately 20,000 acres.

Sales in eastern Montana constituted approximately 94,000 acres within the overall acreage studied and reported.

The segregation of the overall data into the three sale categories represents how the data is analyzed within the context of the land study. Our primary annual study is typically related to larger ranch property sales greater than 640 deeded acres in size. Regarding tracts greater than 640 deeded acres, what has historically been exhibited is that there are two different markets associated with ranch lands and larger properties in Montana. These are typically referred to as the eastern Montana and western Montana markets. While there is not a specific boundary which necessarily delineates these two markets, what has been evidenced over the years is that ranches located in western Montana have been substantially affected by recreational attributes and locational factors which have increased their overall market value well beyond underlying considerations of the agricultural attributes of the property.

Conversely, properties in eastern Montana have typically been valued in a manner that has been more consistent with their underlying agricultural highest and best use. While recreational factors have influenced values in eastern Montana, this influence has been limited, as demonstrated by lower prices generally associated with the eastern Montana market.

In the western third of the state there are large concentrations of contiguous federal lands. The amount of deeded land in this part of the state is limited and typically aggregated within elongated mountain and river valleys. Lands located in these valleys along river courses and between adjoining mountain ranges reflect higher values which are influenced by highest and best use considerations related not only to agriculture, but also to aesthetics and recreational amenities such as hunting and fishing. Western Montana sales may often be influenced by investment considerations associated with potential development or subdivision, the granting of conservation easements, and generally higher rates of appreciation. Over the past 15 years what is referenced as the western Montana ranch market has reflected values that historically have run three to five times the value of ranch properties located in eastern Montana.

Beginning with the re-emergence of recreational and agricultural land investment markets in 2010, there was a substantial lessening of value related to a broad cross-section of rural recreational ranches in western Montana. As reported previously, this was due to the diminished viability of alternative uses particularly related to subdivision or development. Also, the underlying value of the majority of properties sold within western Montana between 2010 and 2012 was more strongly related to their underlying agricultural attributes. As such a general

decrease in value associated with western Montana ranches was evidenced as sale values retreated or moved downward toward more base agricultural considerations.

Meanwhile, the eastern Montana market, where value has historically been related to agricultural production, began to evidence increasing values in 2010 due to strong agricultural commodity markets and factors impacting agricultural land values nationwide. While the western Montana ranch market fell, the eastern Montana ranch market continued to advance. We have seen nearly a doubling of value related to land assets in many eastern Montana markets over the past three to four years, particularly for livestock ranch operations.

Within the eastern and western ranch markets the value differences between base agricultural properties have begun to narrow. In the past, prior to the market turnaround resulting from the reset of the recreational ranch market in 2009 and 2010, the underlying agricultural attributes associated with western Montana ranches took a back seat, and the underlying income or economic viability of these properties was not considered to be as important within the overall valuation equation. At the high point in the market, buyers purchasing western Montana ranches did not expect the underlying income potential of the property to even cover basic operating expenses, as appreciation time horizons were viewed as relatively short and seemed to apply equally to all properties. This was the opposite of typical buyers in the eastern Montana ranch market during this time.

In studying the market as it has re-emerged since 2010, we find that within western Montana there are now two primary classes of value related to the western recreational ranch market. One exhibits a lower range of market value associated with properties considered to have important agricultural production components. While buyers still express a willingness to pay a premium for these western agricultural ranch properties, when compared to base agricultural values seen in eastern Montana this premium has narrowed substantially on large operating ranch properties over the past four years.

The second category we see within the western recreational ranch market is of sales influenced by unique recreational amenities or locational attributes with more limited income considerations or potential. Often these are large landscape purchases with limited agricultural enterprises. They tend to be foothill or mountain properties with a high percentage of timbered or forested rangeland. They are often adjacent to federal lands that afford additional recreational access. On an overall operational basis, many of these mountain ranches experience high annual operating costs due to heavy snowfall and longer feeding periods relative to livestock operations.

In many areas we have seen these types of properties move away from core agricultural use on a year-round basis. The properties are now being utilized more for their recreational attributes and for annual grazing during the summer months. These properties do not host intensive agricultural operations; whereas properties in the lower category within the western market often have fully functioning, well-supported agricultural enterprises located on or within them.

Relative to the general land market associated with western Montana for smaller properties (those being sales less than 640 acres in size), the data indicates that this market, too, requires a certain degree of bifurcation in order to gain a more complete perspective when considered in a review format.

Sales that have strong riparian characteristics are segregated away from general land sales to provide information related to two primary classes of lands. The sales with strong riparian characteristics are a sub-market that reflects substantial premiums in many instances.

In addition, the analysis of smaller sales on a general basis is often complicated by the existence of buildings and structural improvements. The specific contributory value of improvements on Montana lands is a difficult element to abstract from the market with a high degree of certainty. We continue to see substantial custom improvements being added to rural properties. With infrequent sales, it is difficult to ascertain beyond general or broad value considerations how these buildings specifically contribute to the sales.

In most instances, buyers searching for property in Montana are interested primarily in land assets. Building improvements are not considered to be as important a factor. Many buildings placed on properties over the past ten years are custom in nature and do not necessarily appeal to subsequent buyers. For buyers seeking production agricultural property, the existence of extensive improvements is considered to be a detriment. In general, market participants view buildings as a depreciating asset; whereas they consider the land to be an appreciating asset. Thus, primary emphasis as to the investment quality of the property falls to the land, as reported herein.

Western Ranch Study - 2013

The following chart represents an initial presentation of the data relative to the overall western ranch market, which is incorporated and has been updated to include information related to 2013. As evidenced, 2013 shows diminished sales volume from 2012 and is reflective of a trend that can be best attributed to a lack of supply rather than a lack of demand. The 2012 sales included significantly more legacy ranch transactions that exceeded 20,000 deeded acres; some of which were spurred by anticipation of changes to federal tax codes. There were no sales in this category in 2013, with the largest sale being slightly more than 10,000 acres.

Larger Ranch Sales Annually - Western Market

Rural Land Sales 640 acres or greater in deeded acres within primary recreationally influenced markets - Volume of Confirmed Sales - Land Value expressed as Unimproved

Overview

Norman C. Wheeler & Associates - 2013 Land Survey

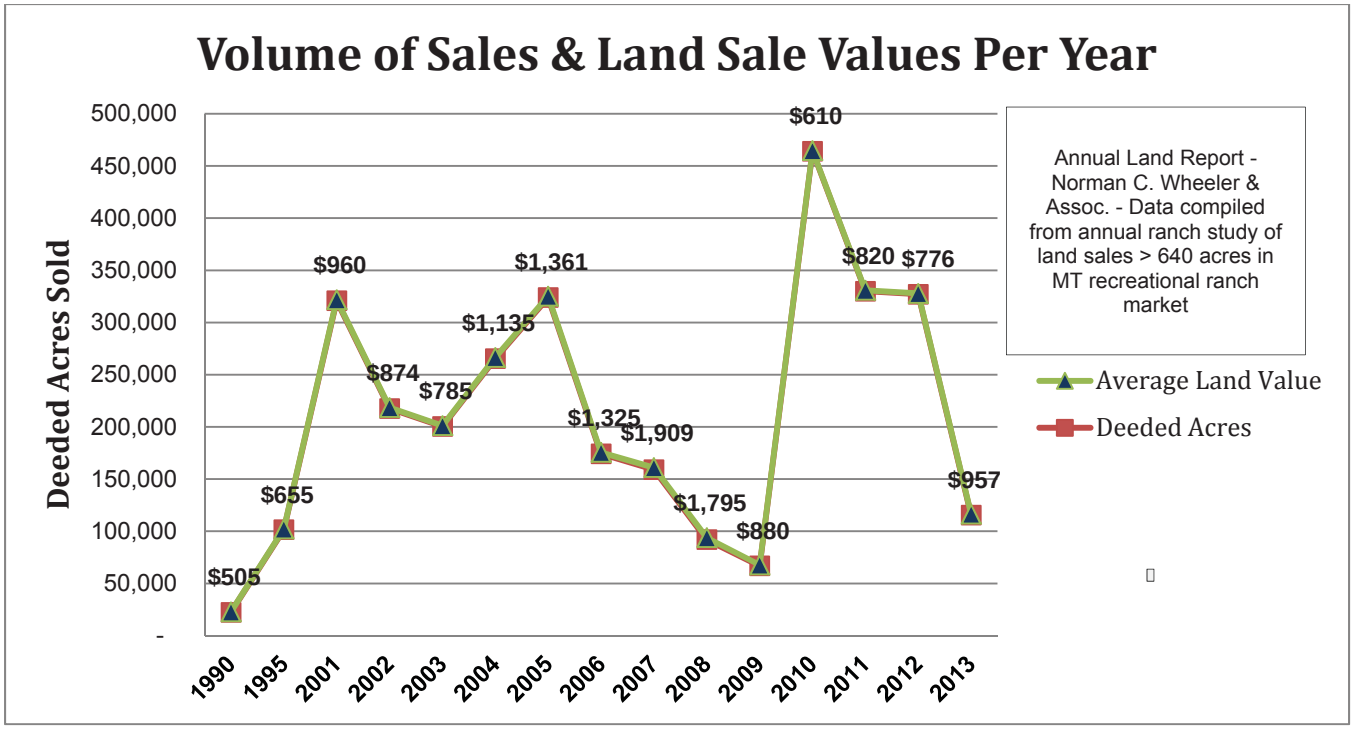
Year	Sales	Deeded Acres	Sale Value	Average Acres	Average Land Value
1990	10	22,300	$11,053,890	2,230	$505
1995	33	101,541	$68,032,470	3,077	$655
2001	61	320,861	$313,160,336	5,260	$960
2002	51	217,546	$192,310,664	4,266	$874
2003	52	200,379	$159,100,926	3,853	$785
2004	54	265,394	$309,184,010	4,915	$1,135
2005	83	323,895	$459,283,110	3,902	$1,361
2006	53	174,229	$237,996,000	3,287	$1,325
2007	46	159,061	$319,715,000	3,458	$1,909
2008	31	91,999	$172,040,000	2,968	$1,795
2009	17	66,822	$60,125,004	3,931	$880
2010	41	464,074	$291,405,710	11,319	$610
2011	51	329,967	$283,796,611	6,470	$820
2012	46	327,029	$258,632,689	7,109	$776
2013	36	118,246	$128,178,664	3,285	$1,084
2013 Sub-Classification less three sales					
2013	33	115,457	$110,475,131	3,499	$957

Overall Ranch Data in 2013 was skewed by three sales that were highly improved and reflected unimproved land values over $6,000 per acre - Sub Classification less these three sales is considered a more accurate representation of the general market

On average, the market value of land assets associated with sales in the western Montana ranch market peaked in 2007 at approximately $1,900 per acre. The market began to soften in 2008, and by 2009 it was apparent that the market was in a downward trend. The lowest volume of sales associated with the market over the past ten years occurred in 2009. By 2010, substantial amounts of buying activity re-emerged, with 2010 representing the highest volume of

deeded acres sold within the western market over the last ten years.

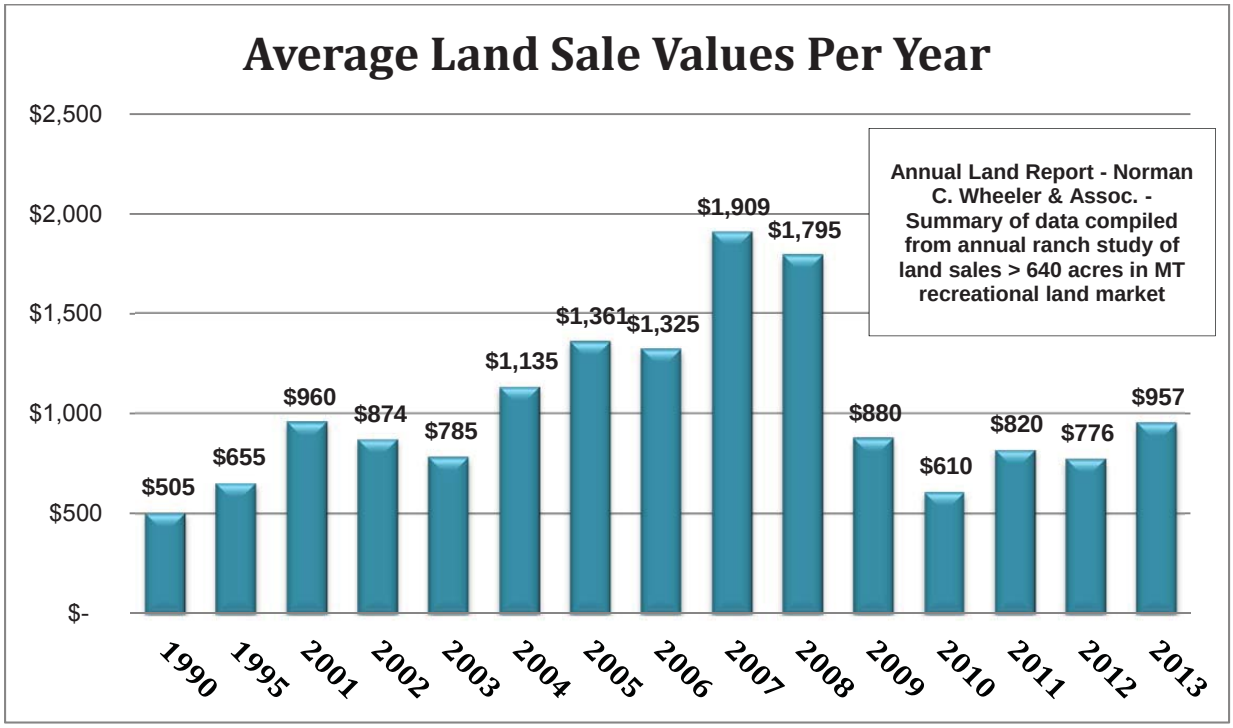
The market in 2010, relative to volume, peaked at approximately 465 million acres. In 2010, individual land transactions tended to be larger and the overall per-acre value associated with the western Montana land market fell to an historic low of $610 per acre.



We continued to see strong buying activity relative to volume in 2011 and 2012. The overall market values associated with land assets fluctuated from $820 per acre on average in 2011 to $776 per acre in 2012.

In 2013, a substantial decrease in market volume is indicated; however, overall, sales reflected a strong increase in the average per-acre value to $1,084 per acre. As noted there were three sales within the market this past year that were highly improved mountain recreational properties. Two of these sales contained between $4 million and $5 million in contributed building values, and all three of the sales reflected per-acre values greater than $6,000 per acre on an unimproved basis. These sales varied from approximately 600 to 1,100 acres in size.

In analyzing the data, we have concluded that while these sales meet the basic parameters of the study, being 640 acres or larger and located in western Montana, they must be considered to be a subset indicating specific values applicable to highly improved properties in more urban-influenced areas. This data substantially skews the overall average. Therefore, as shown on the chart a sub-classification of the 2013 data, excluding these three sales provides what we consider to be a more accurate indication of the average land value associated with ranch properties selling in the western ranch market at $957 per acre.



The removal of these types of sales from the primary database for the year 2013 is considered to be appropriate, as these types of high amenity sales had not been found within the database between 2009 and 2012. Should such sales continue to appear in subsequent years, we will re-analyze the necessity of perhaps re-incorporating these sales. However, within the context of the 2013 sales, an overall sale value of $957 per acre is considered to be reliable for reporting purposes relative to land values overall within the general market.

To gain a perspective of the historic movement of the market, the information set forth in the initial ranch summary chart is re-allocated in a secondary chart as follows. This bifurcated chart groups sales within general historical periods in which market conditions were considered to be relatively consistent.

Larger Ranch Sales Annually - Western Market Rural Land Sales 640 acres or greater in deeded acres within primary recreationally influenced markets - Volume of Confirmed Sales - Land Value expressed as Unimproved				Bifurcated Norman C. Wheeler & Associates - 2013 Land Survey		
Year	**Sales**	**Deeded Acres**	**Sale Value**	**Average Acres**	**Average Land Value**	
1990	10	22,300	$11,053,890	2,230	$505	
1995	33	101,541	$68,032,470	3,077	$655	
2001	61	320,861	$313,160,336	5,260	$960	Average Per Acre
2002	51	217,546	$192,310,664	4,266	$874	**$899**
2003	52	200,379	$159,100,926	3,853	$785	
2004	54	265,394	$309,184,010	4,915	$1,135	
2005	83	323,895	$459,283,110	3,902	$1,361	Average Per Acre
2006	53	174,229	$237,996,000	3,287	$1,325	**$1,476**
2007	46	159,061	$319,715,000	3,458	$1,909	
2008	31	91,999	$172,040,000	2,968	$1,795	
2009	17	66,822	$60,125,004	3,931	$880	Average Per Acre
2010	41	464,074	$291,405,710	11,319	$610	**$772**
2011	51	329,967	$283,796,611	6,470	$820	
2012	46	327,029	$258,632,689	7,109	$776	
						Average Per Acre
Sub 2013	33	115,457	$110,475,131	3,499	$957	**$957**

The base year set forth in the chart is 1990, which was the year in which we began to see strong outside investment and upside value influences in the ranch market. These began in 1988 with the purchase of the Flying D Ranch by Ted Turner. Through 1995 we saw the sale of several large properties in western Montana that began to suggest recreational or alternative investment considerations. The market through the '90s, as indicated, was moving at approximately $500 to $650 per acre in western Montana; while in eastern Montana the ranch market was moving at approximately $150 to $200 per acre.

The market, as reported in the past, was more strongly directed by non-resident buying after 1990 and these trends have continued. Aside from 2009 and 2010, nonresident buyers have generally constituted over 75% of the market based on the sales reported.

The grouped data shows that in the pre run-up of the market occurring between 2001 and 2003 overall land values ran at approximately $899 per acre on average. This was up approximately 37 percent above the average land values indicated in 1995. Ranches at this time had similar highest and best use considerations to the market today, with more emphasis on agricultural attributes.

As demand and values began to heat up beginning in 2004 and waning in 2008, a very active market period over approximately five years reflects an average per-acre value of about $1,476 per acre within the recreational ranch market of western Montana. This indicates approximately a 64 percent increase on average over the 2001 to 2003 data, as shown on the chart. Through this market period, agricultural attributes fell in importance as the potential for appreciation drove values.

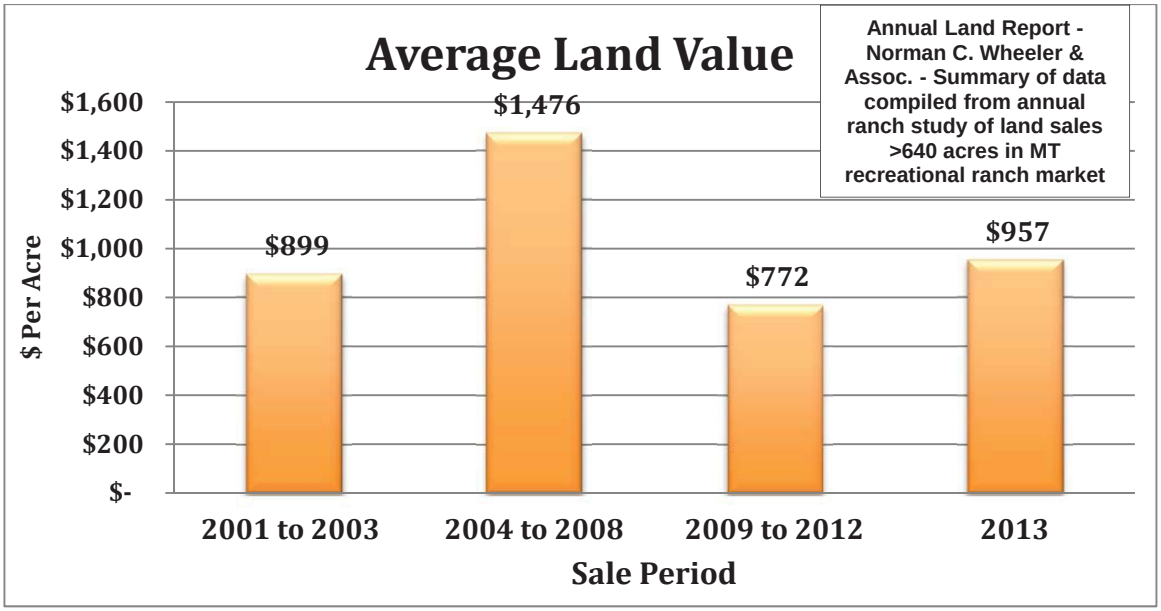
As the market reset and readjusted between 2009 and 2012, we saw lower sale values running from $610 to $880 per acre and an average value of approximately $772 per acre was suggested during this market period. This was down 48 percent from the average indicated during the peak years and agriculture features began to re-emerge in importance.

The market moving into 2013 reflects upward growth and overall it suggests average price movement of 24 percent from the average indicated from the re-emerging market. Most professionals believe that the market in 2012 began to reflect stability, which continued into 2013; however the data in our judgment indicates specific sub-markets forming within the western ranch market.

The data in the current study is reflective of a differentiation of buyers in the market. The sophistication of buyers relative to their knowledge of the market as well as data which they expect to receive from brokers has increased substantially over the past four to five years. Value in the market at its peak was often based on popular rhetoric and typical buyers had a relatively short-term outlook. They were purchasing assets for wealth creation.

Within the context of the current market, buyers have a longer term investment perspective relative to ranch property and many are seeking quality land class assets for long-term value protection; thus, the emphasis on cash flow and production capability has increased.

The following chart summarizes the general movement of the market based on the averages referenced and indicates market trends which have been common throughout the country, with initial investment purchasing leading to a high-priced market through 2008. This market subsequently fell by approximately 50 percent on average before re-emergence of the current market, which is now beginning to reflect value growth.



It is important to recall that during the downturn in the market the amount of value decrease seen was often related to properties being sold under distressed sale conditions, or properties who's highest and best use had substantially changed.

Many properties purchased prior to 2005 were more strongly influenced by a long-term perspective and many of these properties traded into financially strong hands. Few of these properties were re-exposed to the market during the larger fluctuations seen between 2006 and 2010 and many continue to be held in long-term ownerships.

The properties purchased in the run-up and subsequently re-sold in the trough were reflective of different buyers and different highest and best use considerations. However, throughout the turmoil that is indicated by the data, there remained a fairly consistent and strong underlying value base related to the recreational ranch market, if one considers the indications of the market over the long term.

Values today are somewhat above the average indicated between 2001 and 2003. Many brokers and other professionals today believe that market values are equal or similar to those found to exist in the market prior to the run-up. Property sales of long-term ownerships that are reselling within the current market, which were bought before 2005, typically do reflect long-term appreciation rates running at from 4 to 8 percent on an annual basis.

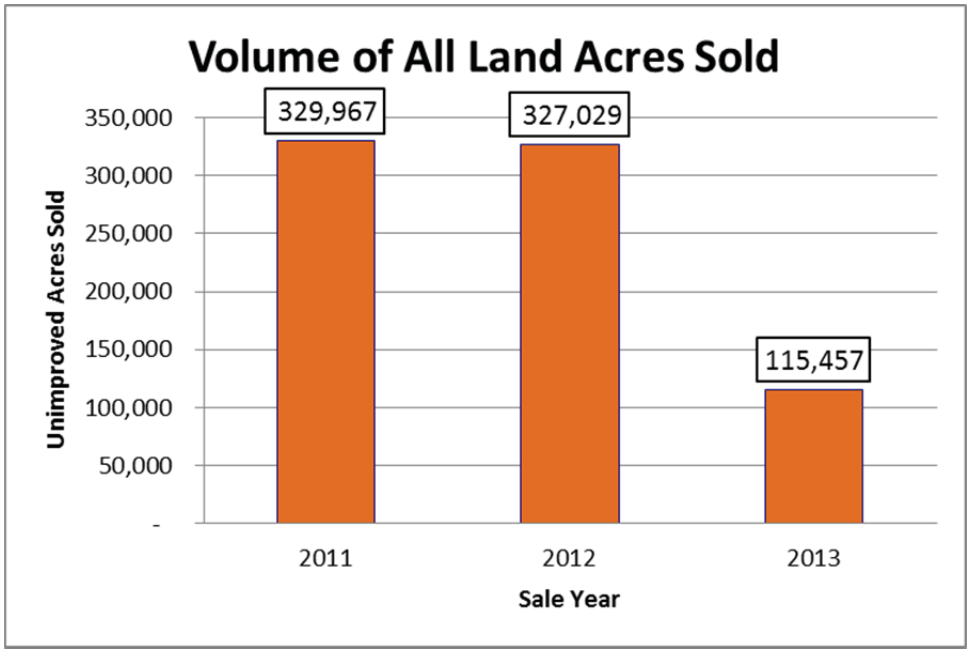
The market is also affected by the fact that a substantial segment of the real estate market related to ranch properties in Montana is controlled by historic Montana family ownerships.

These ranches typically carry little debt and are multi-generational operations rarely seen on the market. While a few may have been exposed during the downturn, in general these lands were also held outside of the market at that time.

Within the context of the current market, we see an extremely limited supply of high quality, productive ranch property, whether it is in the recreational ranch market of western Montana or the more agriculturally-oriented ranch market of eastern Montana.

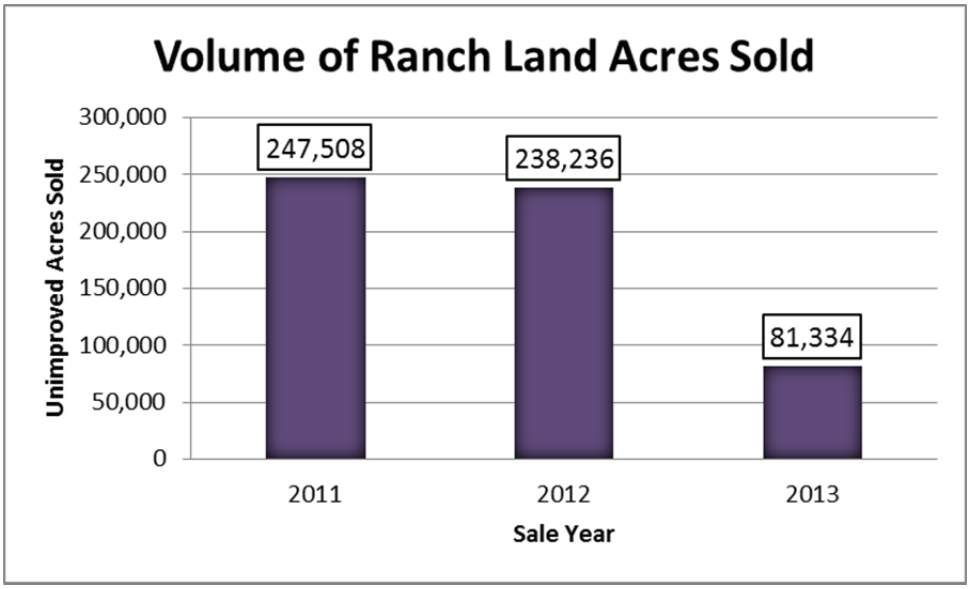
As referenced in the opening comments relative to the current ranch market overall, a notable trend toward differentiation or bifurcation within the western land market has become evident relative to lands that exhibit agricultural productivity verses those lands that are more strictly recreationally-oriented.

The following chart illustrates total deeded acres sold in 2011, 2012, and 2013.



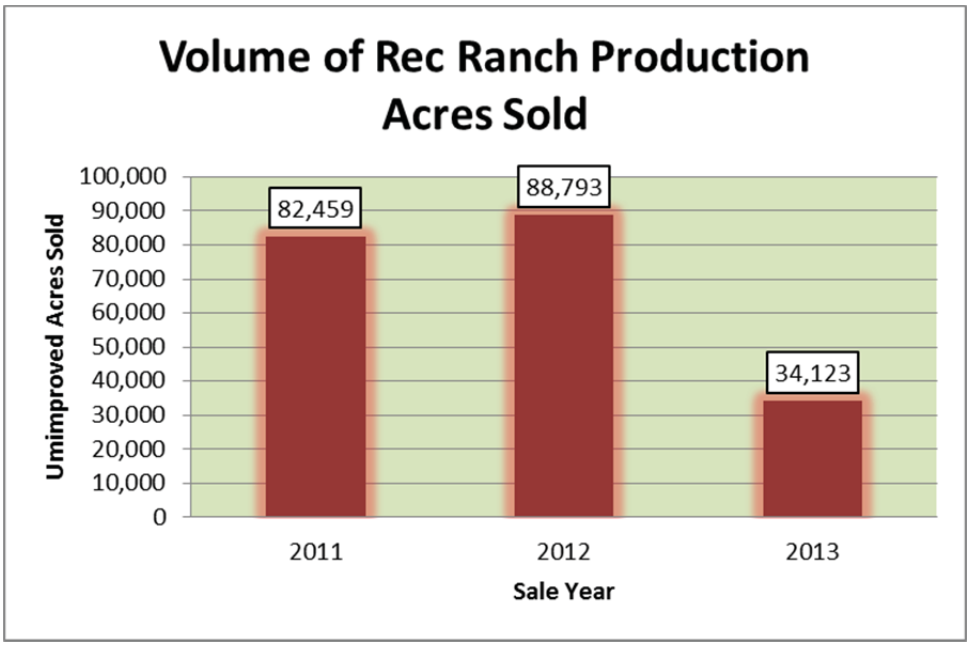
Within the market in 2011, about 75 percent of total market activity was associated with production-oriented lands.

Moving into 2012, we saw a similar transfer of overall acreage at about 327,000 total acres within the western land study. Within the overall acreage sold, there were approximately 89,000 acres of recreational land. This constituted about 27 percent of the volume with 73 percent of the purchases being made in 2012 directed to properties that had underlying productivity.



Volume of production-oriented lands sold

As we moved into 2013, the overall volume associated with the western ranch market fell substantially to approximately 115,000 acres. Within this acreage, approximately 70 percent of the sales were production-based with about 34,000 acres being recreationally-oriented.



Volume of land sold considered recreationally-oriented-with less productivity consideration

The data indicates that the majority of sale demand over the past three years has focused on production ranches. The 2013 data suggests a substantial decrease in volume in both categories, but as noted, this can attributed more to a lack of supply than a lack of demand.

Within the western area market there are numerous listings at the current time of ranch properties; but few of those are considered to fall within the productive category. Most of the ranch listings we see within the western market at this time are related to properties with more recreationally-oriented land character. Also, pricing associated with those properties appears to be substantially above market when one analyzes the list prices associated with these offerings. In a quick study of major listings currently on the market, there are over of 200,000 acres of land currently listed in parcels greater than 640 acres in size. These would typically fall within the context of the Western Ranch Study. The overall ask price associated with these acres, based on the listings, falls at approximately $1,920 per acre on average.

Within these offerings there is one 60,000 acre ranch that does have substantial underlying agricultural productivity associated with it. Absent that ranch, there are over 135,000 acres of larger recreational land parcels listed at about $2,300 per acre on average. Referring back to the average land value indicated within the 2013 land study at $957 per acre, it would appear that the majority of these listings would struggle in the market going forward. The lack of supply which has been previously referenced in this report is weighted more towards productivity-based properties as well as properties that are listed within the reality of what appears to be the current market.

A recent article in the Billings Gazette quotes Hall and Hall's Jim Taylor's opinion that in the current market sellers' and buyers' expectations are often far apart. Taylor said, "Everyone who has stuff on the market has raised the ante 25 to 50%."

As reported in the 2012 land market study, of the 46 sales found that year there were five large sales, which constituted 73 percent of the total land volume sold in 2012. These sales began to illustrate the emerging division of the western market between production-oriented recreational ranches and less productive recreational ranches. The following information bifurcates the sale data from 2011, 2012, and 2013 into these two primary asset classes.

The summary shows acreages and overall values associated with what are considered to be recreational highest and best use properties versus recreational properties with underlying productivity. As shown, the underlying value of properties with productivity appears to be increasing from 2011 at $568 per acre, to 2012 at $640 per acre, to 2013 at $798 per acre.

Summary Western Montana Ranch Study Data - Unimproved Land Values

Year	Sub Class	Acres	Sale Volume - Land Assets	Land Per Acre - Unimproved	Sale Sample
2011	All lands	329,967	$270,660,126	$820	51
2011	**Rec Ranch**	82,459	$130,090,586	$1,578	28
2011	**Production Ranch**	247,508	140,569,540	$568	23
Year	**Sub Class**	**Acres**	**Sale Volume - Land Assets**	**Land Per Acre - Unimproved**	**Sale Sample**
2012	All lands	327,029	$250,824,894	$767	42
2012	**Rec Ranch**	88,793	$98,254,689	$1,107	37
2012	**Production Ranch**	238,236	$152,570,205	$640	5

Norman C. Wheeler & Associates

2013	**All lands**	115,457	$110,475,131	$957	33
2013	**Rec Ranch**	34,123	$45,591,516	$1,336	13
2013	**Production Ranch**	81,334	$64,883,615	$798	20

The value attributed to recreational properties has fallen since 2011, most substantially in 2012 as average values moved from $1,578 per acre to $1,107 per acre. As we move to 2013, there appears to be an increase in value associated with these properties with averages moving up to $1,336 per acre. However, one will note that the amount of volume associated with these lands decreased substantially in 2013. Thus, supply and demand issues may be at play within the context of this sub-market. Several sales set to close in early 2014 suggest the recreational segment may be poised for marked increases set against tightening inventory.

Many of the properties sold in 2011 that were recreationally-oriented in highest and best use were very high amenity large ownerships that had been priced relatively high at the downturn of the market. They were not subsequently re-priced in the downturn. However, as the market re-emerged and moved upward in 2010 and 2011, some of these higher amenity properties sold. Relative to the quality of the asset, the highest and best use recreational ranches that sold in 2011 were generally superior to those sold in 2012 and 2013.

In closing, it is important to acknowledge that values in our market are driven primarily by "ranchland demand" which is tied to intrinsic values often related to recreational and aesthetic amenities. Primary demand and sales are to non-resident investors and our market is subject to greater fluctuations influenced by national real estate trends and economic conditions. Often ranch and land sales in our market are based on the availability of discretionary income, as the underlying investment quality of the lands is limited on an economic basis.

Appraisal studies for 2013 recently released by Farm Credit Services of America provide relevant information. In reporting price trends for benchmark farms, FCS America reports five year land value increases in Iowa, Nebraska and South Dakota running from 98.3 percent to 143.2 percent. The data for Wyoming, which more closely replicates our market, was off 3.8 percent over the same five year period. Looking back ten years, the trends for Iowa, Nebraska and South Dakota showed land value increases from 282.1 percent to 332.7 percent, with Wyoming again lagging at 75.2 percent.

Small Recreational Property Ownerships

Within the 2013 database there were approximately 20,000 acres transferred in tracts between 80 and 639 deeded acres. In total, we saw 76 sales and a considerable amount of activity within this segment of the market. This area of the market appeared to be strongly re-emerging, and the sales confirmed brokers' reports that the market for these smaller-sized recreational tracts running in a price range of $500,000 to $3,000,000 was increasing.

This subset of the market indicates an average land value of $4,756 per acre as applicable to these properties overall. When one separates out the buildings, the specific per-acre value indicated for these lands as unimproved land assets only, averaged $3,733 per acre in 2013.

As with the Western Ranch Study, the sales involved in this segment of the market comprise a matrix of different types of properties that have varying features. The largest variable associated with these properties -- absent building improvements -- appears to be the presence of primary riparian resources. Properties with rivers, creeks or signature riparian features reflect higher market values on average.

About 30 percent of the sales in the smaller lands market were sales with primary riparian characteristics. When one reviews these sales, what is seen is that on an overall per-acre basis, the riparian sales average approximately $6,277 per acre overall, inclusive of buildings. Absent building improvements, they reflect an overall land value of $5,855 per acre.

A few of the river sales in 2013 were encumbered by non-development conservation easements. When these sales are separated out, the non-encumbered sales rise to about $6,500 per acre with the encumbered sales averaging about $4,000 per acre.

The smaller land sales without notable riparian features reflect an overall land value of $2,918 per acre.

In this market segment, the overall average indicated for unimproved lands without riparian features has moved up over the past several years relative to market value. There have been more sales of smaller properties in the re-emerging market. In specific sale analyses, values associated with river properties are continuing an upward value trend which has been evidenced in the market for the past ten years. The slight decrease indicated for 2013 riparian sales on average was a result of quality, as fewer high amenity units were exposed in 2013.

Small Tract Market - 80 to 639 Deeded Acres				
Year	Acres Sold	Land Value Per Acre - All Lands	Bifurcated - Non Riparian Sales - Land Value Per Acre	Bifurcated - Riparian Sales - Land Value Per Acre
2011	11,000	$ 2,915	$ 2,500	$ 6,000
2012	9,000	$ 3,216	$ 2,700	$ 7,200
2013	20,000	$ 3,773	$ 2,918	$ 6,500

River properties have reflected greater stability in the market overall. During the downturn few were sold, as prices remained high and buyers moved to alternative properties that had been discounted. As demand has returned for better amenity properties river sales have increased. Few river or primary riparian properties were exposed to the market during the downturn as these types of properties were generally held in stronger financial ownerships.

Eastern Montana

As reported earlier, eastern Montana has seen a steady rise in real property values which has been consistent for the past ten years. Over the past three to four years, there have been significant value increases associated with lands in eastern Montana. The following chart references average values from the sale database for 2010, 2011, 2012, and 2013. As indicated, average values incorporating all productive land classes have moved up approximately 71 percent on average between 2010 and 2013.

Eastern Montana

Year	Deeded Acres sold in Study	Unimproved Value Per Acre		
2010	158,364	$290	Gain	
2011	81,889	$322	11%	2010 thru 2013 --
2012	138,042	$377	17%	up 71.03% overall
2013	93,770	$496	32%	

As noted earlier, this market is strongly driven by agricultural production and commodity prices. The influence of increasing dry cropland values as well as improved cattle prices are reflected in the upward movement of this market. We are beginning to see some influence from the Bakken oil fields related to landowners in North Dakota moving into the eastern portions of Montana. These buyers tend to be topping the market at the current time.

We have also seen a strong increase in the value attributed to leased AUMs associated with state and federal leases in this area. In concert with deeded land values, it appears that lease values have approximately doubled over the past four years, as well -- moving from $50 to $75 per AUM in contributory value to upwards of $150 to $200 per AUM in contributory value.

Within the context of the current eastern Montana market, as average values reach approximately $500 per acre overall, many feel that this market is approaching its ceiling relative to base agricultural value. Cattle markets continue to show strength; however aggregate commodity prices are not expected to substantially increase over the next several years. In fact, grain prices have decreased. As such, additional upward value movement in this market will have to be generated from recreational or speculative influences; such factors do not appear to be at play within the market on any significant basis at this time.

Within the bifurcation of the western Montana ranch market, the values associated with production lands as conditions have stabilized after the 2009 market reset now more closely approximate the increasing values associated with eastern Montana ranches. It appears that

there is somewhat of a melding taking place within the current market between the eastern and western Montana agricultural segments. While historically these markets have been considered to be distinctly separate in their respective indications of value, there now appear to be observable trends which suggest that the gap between these markets may in fact be closing.

Such trends were influenced by the 2010 purchase of the N Bar Ranch located between Billings and Lewistown, which was the first of several sales to indicate transitional values falling mid-range between the western and eastern markets. These sales began to suggest that the lines that had historically defined value were beginning to blur, particularly related to lands in western Montana with strong production attributes.

Mountain / River Valley Markets

In past newsletters, we have reported on values related to particular sub-markets within the larger recreational ranch market. Typically, these have been related to the higher amenity recreational markets associated with primary river valleys. In 2013, we saw substantially increased activity and value increases related to several prominent river valleys in western Montana.

The following illustrates 2013 sale volumes and average values associated with larger land sales in the Gallatin, Paradise and Bitterroot Valleys. The sales indicate relative similarity in values on an unimproved basis running at approximately $6,000 to $7,000 per acre between these primary valleys. Sale properties in the Gallatin Valley tend to be smaller, and these sales may be strongly influenced by speculative exurban development. The 2013 sales in the Gallatin Valley have good development potential based on expected growth trends for the Gallatin Valley area, but are selling at 50 to 70 percent below market highs witnessed in 2006 and 2007.

County	Acres	Volume	Land Value Avg		
Gallatin	1,592	$11,855,000	$7,447	8	Sales
		Unimproved	$7,384	199	Avg Size
Paradise	3,082	$23,900,000	$7,755	4	Sales
		Unimproved	$6,328	770.50	Avg Size
Bitterroot	1,688	$19,875,000	$11,774	3	Sales
		Unimproved	$6,120	562.67	Avg Size

Lands in the Paradise and Bitterroot Valleys include properties being bought ostensibly as large recreational ownerships with limited influence from subdivision or development. The value of these properties appears to be related to the quality or class of the land asset as a whole. These 2013 sales are reflecting market values perhaps 20 to 30 percent below 2006 and 2007 highs.

The Bitterroot sales are properties that host a greater degree of building improvements located onsite when compared to the Paradise Valley.

Recreational Timberlands

Specific to the recreational timberland market of western Montana concentrated in the vicinity of the Missoula area and adjacent counties, there is an abundance of land currently available through Plum Creek and Stimson Lumber with other land owned by the Nature Conservancy through the Montana Legacy project. In addition, lands that were previously acquired from Plum Creek or Stimson have also been re-introduced to the market. In excess of 70,000 acres of this type of land has been exposed to the market. Sales activity over the 2013 season was sporadic for this type of property and indicated values of approximately $500 to $800 per acre with values dependent on location, size, and on-site characteristics. Without strategic pricing, it is anticipated that there will be little activity within this category for 2014.

River Sites

Relative to riparian sales or river properties, there is an additional sub-market which we also study related to river sites. "River sites" are small tracts located along primary river courses throughout western Montana,which represent primarily building sites associated with a riparian amenity feature. These properties are not necessarily comparable on a physical basis. Some may be comprised of river front view lands associated with a high bench overlooking the river, while others may be associated with lands located primarily in a riparian bottomland corridor fronting directly on the river.

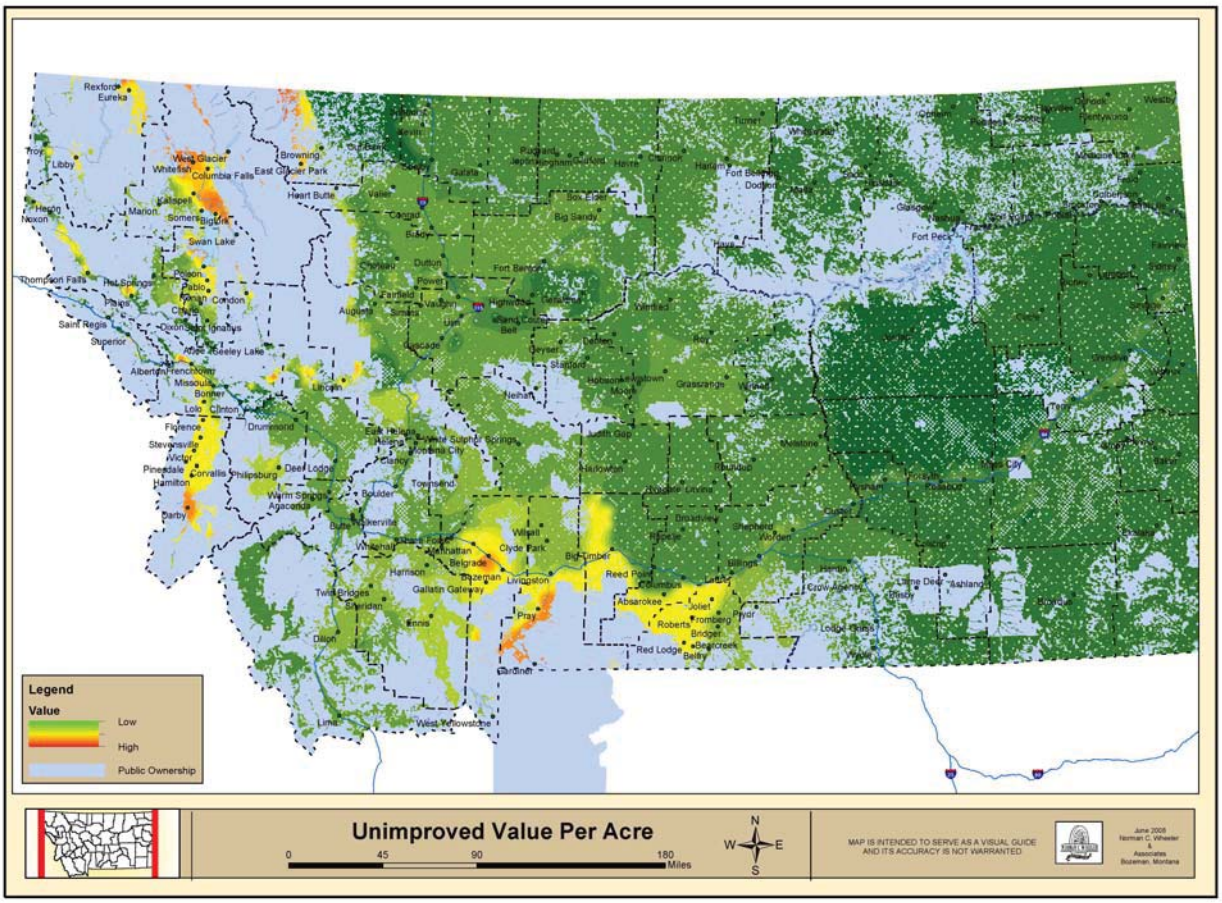
What they do have in common is that they tend to be smaller acreage sites purchased primarily for the construction of a primary residence or second home. Many are already improved with custom residences. Also, these sites often provide important access to expanded recreational opportunities associated with the river or waterway which they have joined.

In 2013, we studied 15 such sales which encompass approximately 1,427 total acres. On average the sites were about 95 acres in size, but they varied individually from as small as 50 acres to as large as 200 acres. In looking at these properties, it does not appear possible in many instances to make a direct comparison or determination of value on a per-acre basis; rather one must look to the site indication as the most probably reflection of market value.

The sites studied averaged $1,370,000 per site, which equates to approximately $14,400 per acre overall, inclusive of buildings. When one considers the unimproved value of these sites, they fall to an average site value of $960,000 per site for the land only. This equates to a per-acre land value of approximately $10,000 per acre. Again, on an individual basis, if one studies these properties they may reflect per-acre values that vary from $8,000 to $20,000 per acre. However it is not necessarily the per-acre price which dictates or controls value, but rather the appeal and utility of the site within an overall consideration of the property as a primary river build site.

Other Noted Trends

The following map is a representation of our most recent land study conducted for the State of Montana in conjunction with Northwest Farm Credit Services. It reflects the basic level of value as we see it spread across the state. As noted, blue areas on the map represent state or federal land ownerships. The map is a representation of relative values spread throughout Montana. The higher values are more typically associated with the recognized mountain and river valleys located throughout western and southwestern Montana.



The following summarizes information which has been derived from the land studies and from our appraisal practice in 2013, relative to basic land classifications within larger ranch properties.

The first chart references general ranges of value associated with broad categories of land within the western Montana ranch market.

General Value Ranges - Land Classes - Western Ranch Study
Norman C. Wheeler & Associates - 2013 Annual Land Study

	Land Values Per Acre			Northwest FCS
Land Class	Low	High	**Mid-Point**	**Median**
Sprinkler Irrigated	$2,250	$4,500	**$3,375**	**All Irrigated**
Flood Irrigated Crop	$1,500	$3,000	**$2,250**	**$3,000**
Flood Irrigated Meadow/Pasture	$1,000	$1,800	**$1,400**	
CRP/Dry Cropland	$550	$900	**$725**	**$715**
Open Pasture	$475	$650	**$563**	**All Pasture**
Foothill Pasture	$600	$850	**$725**	**$700**
Recreational Pasture	$800	$1,000	**$900**	
Riparian Lands	$3,000	$11,000	**$7,000**	

A mid-point for each land class is indicated as are recent median land values released by Northwest Farm Credit Services related to western Montana lands.

The next chart reflects information derived from eastern Montana property sales and again, an indication of value from Northwestern Farm Credit Services has also been provided.

Norman C Wheeler & Associates - 2013 Annual Land Study
General Value Ranges - Land Classes - Eastern Ranch Study

	Land Values Per Acre			Northwest FCS
Land Class	Low	High	**Mid-Point**	**Median**
Sprinkler Irrigated	$2,250	$3,500	**$2,875**	**$3,200**
Flood Irrigated Crop	$750	$3,000	**$1,875**	
Flood Irrigated Meadow/Pasture	$600	$1,000	**$800**	
CRP/ Dry Cropland	$550	$900	**$725**	**$715**
Open Pasture	$350	$500	**$425**	**$494**
Recreational Pasture	$450	$700	**$575**	

The third chart indicates average reported land values for Montana overall as provided by the State of Montana and by Northwest Farm Credit Services. The values identified are general in nature and as referenced earlier, they can be strongly influenced based on locational attributes and/or on underlying productivity. The quality of irrigation equipment and water rights affects values, as do specific neighborhood factors.

2013 Reported Average Land Values
State of Montana- All

Land Class	Land Value	Average Cash Rent
All Land	$790	
Irrigated	$2,800	$86
Dry Crop	$710	$24
Dry Pasture	$580	$6

2013 Reported Average Land Values
Northwest Farm Credit- All

Land Class	Land Value
Irrigated	$3,150
Dry Crop	$715
Dry Pasture	$475

As initially referenced in this report, these values are not intended to be representative of appraised values or values specific to any one property. They are provided as basic reference points relative to the market and the information available, which has been studied and reported for 2013.

Conservation Easements

Relative to conservation easements, the market in 2013 continues to indicate that there are limited donations of conservation easements being made on rural properties within the study area. Organizations such as The Nature Conservancy and the United States Fish and Wildlife Service continue to fund easement purchases in some rural locales, but most of these are project-specific to limited geographic areas. We also see activity related to purchases utilizing county funding and NRCS (USDA Natural Resource Conservation Service) monies in several counties including Missoula, Lake, Ravalli, Lewis and Clark and Gallatin County.

Typically, in the easement purchase transactions the amount of cash paid into the easement project is equal to approximately 20 to 40 percent of the market value of the ownership rights surrendered or extinguished through the application of the conservation easement. In these instances, typically the balance of the market value associated with the easement is claimed through charitable donation within the context of IRS valuations.

Regulations specific to IRS appraisals relative to conservation easement donation complicate the overall appraisal process. In some instances, values attributed to conservation easements within the context of USPAP or federal appraisals based on UASFLA Yellow Book requirements are not replicated in appraisals prepared specifically for the IRS.

Often this revolves around the IRS requirement to incorporate the valuation of other family lands not being placed under conservation easement. In a more specific appraisal for USPAP or Yellow Book, typically the ownership entity is considered to be the larger parcel. In most instances, the overall larger parcel owned by the individual is being encumbered.

In an IRS appraisal, the appraiser often has to value not only the property being placed under easement, but also any adjoining properties which are owned by family members, heirs, or descendants. This can lead to difficult appraisal issues.

As an example, if one individual owns 640 acres, which they wish to place under conservation easement, the IRS would require that the consideration of the effect of the easement must be made against all lands owned by family members, which are adjacent or contiguous. This can include several thousand additional acres in many instances. Therefore, the appraisal becomes an appraisal of 2,600 acres, for example, instead of the 640 acres encumbered by the specific conservation easement. These factors have diminished the economic opportunity associated with conservation easement donation.

The decreased amount of activity seen in the easement market is also a function of general market trends in which the overall highest and best use of many rural lands no longer has a significant component related to speculative development. The speculative development component within the overall equation of value is often that which is most strongly affected or altered by the placement of a conservation easement. Lands which have highest and best uses related to agricultural or non-speculative development do continue to reflect discounts or losses at sale as a result of conservation easement encumbrances. However, the overall magnitude of property rights adjustment evident has diminished in concert with the general trend in land values over the past four to five years.

Summary

We anticipate that values associated with all land classes will continue rise in 2014, but that the overall volume of sales activity will most likely continue to stagnate or decrease relative to the recreational ranch market of western Montana as well as the primary agricultural ranch market of eastern Montana.

Ask prices associated with larger listings currently on the market appear to have risen rapidly. It also appears that the gap between seller expectations and the reality that buyers perceive will be problematic within the context of the market moving forward.

Many reports addressing Midwestern land markets suggest that declines relative to farmland values may be imminent within the next two to five years. However, market movements in the Midwest have typically not had a strong direct effect, or been specifically replicated, in the movement of the market in Montana relative to the land classes reported and studied herein.

We expect continued demand and emphasis on properties with good underlying agricultural potential and properties with strong riparian characteristics. That said, we do not expect to see price increases or premiums offered for productive agricultural lands. Early sale closings in 2014 indicate this may not be the case with recreational lands. This is attributed to limited supply and stronger demand from buyers, bearing in mind that many of these sales are of smaller acreages and reflective of a smaller capital expenditure overall, as they are within the $1,000,000 to $3,000,000 segment of the market. Riparian land values are expected to strengthen through 2014, again due to a limited supply of high quality assets.

Again, we take the opportunity to thank all of those who have assisted us with data relative to the study and for our client's continued consideration. May you find success in your real estate endeavors in 2014.

Thank You,

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