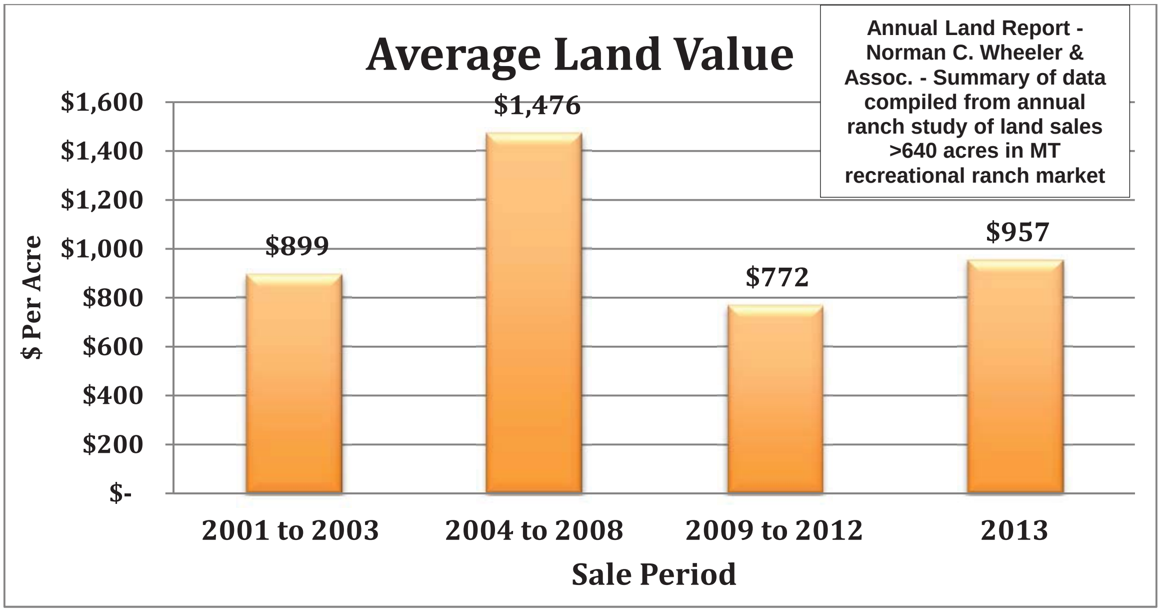
The following chart summarizes the general movement of the market based on the averages referenced and indicates market trends which have been common throughout the country, with initial investment purchasing leading to a high-priced market through 2008. This market subsequently fell by approximately 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 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 uses 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 4 to 8 percent on an annual basis.

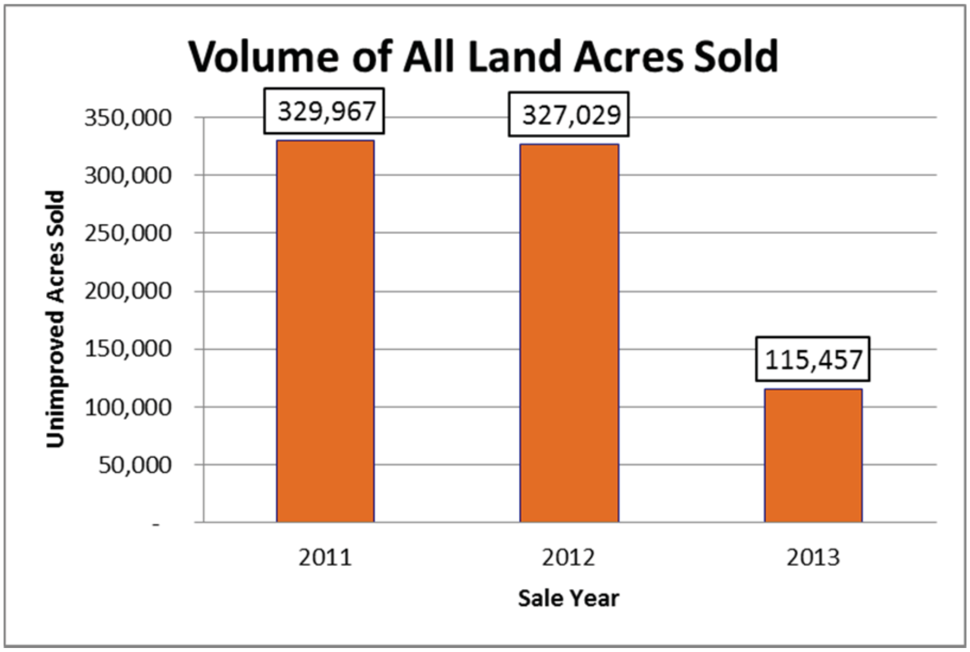
The market is also affected by the fact that a substantial segment of the real estate market related to ranch properties in Montana is controlled by historic Montana family ownerships.

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 of the market, 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 production ranch property, whether it is in the recreational ranch market of western Montana or the more agriculturally-oriented ranch market of eastern Montana.

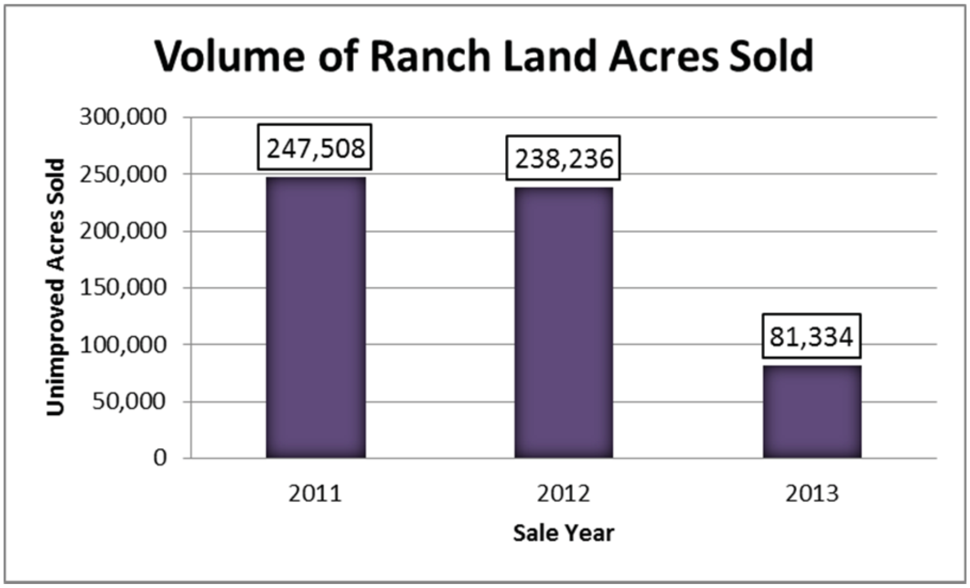
As referenced in the opening comments relative to the current ranch market overall, a notable trend toward differentiation or bifurcation within the western land market has become evident relative to lands that exhibit agricultural productivity verses those lands more strictly recreationally-oriented.

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



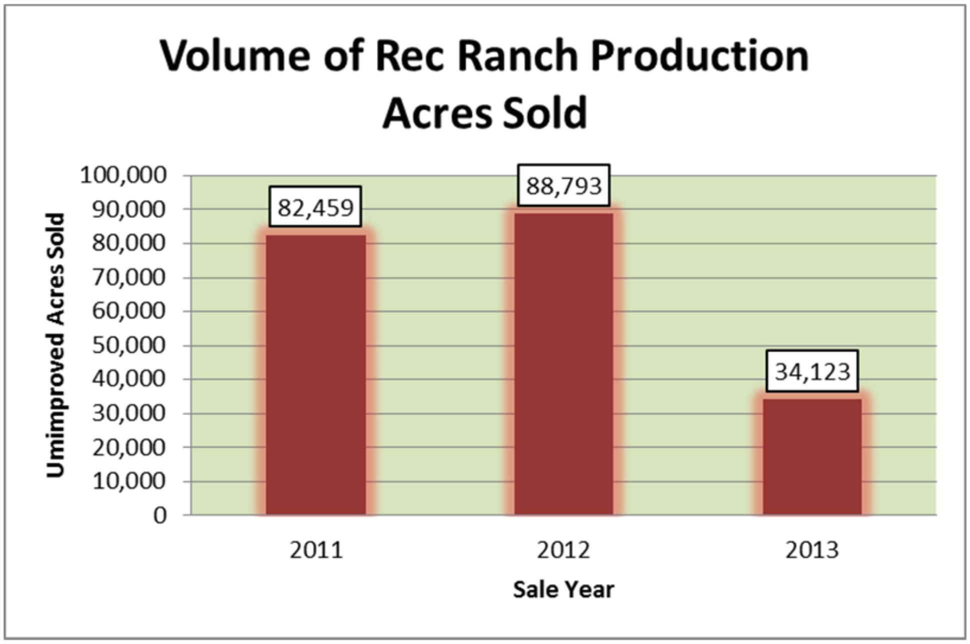
Within the market in 2011, about 75 percent of total market activity was associated with production-oriented lands.

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 productive 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 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 submarket. 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 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 recreation 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 American provide relevant information. In reporting price trends for benchmark farms FCS America reports 5 year land value increases in Iowa, Nebraska and South Dakota running from 98.3% to 142.2%. The data for Wyoming, which more closely replicates our market, was off 3.8% 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% to 332.7%, with Wyoming again lagging at 75.2%.

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 reemerging, and the sales confirmed brokers' reports that the market for small 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 existence 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 analysis 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 with 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. In 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%	71.03%
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 Baken oil field 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. However, these factors do 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 value 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 between Billings and Lewistown, which was the first of several sales to indicate transitional values falling midrange between the western and eastern markets. These sales began to suggest that 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 specific values related to particular submarkets 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, but are selling at 50 to 70% 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 are 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% 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 Timberland:

Specific to the recreational timberland market of western Montana concentrated in the vicinity of the Missoula 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 ~$500 to $800 per acre with values dependent on location, size, and on-site characteristics. Without strategic pricing, it's 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 rivers throughout western Montana, which represent primarily build 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 high bench lands overlooking the river, while others may be associated with lands located primarily in a riparian corridor fronting directly on the river.

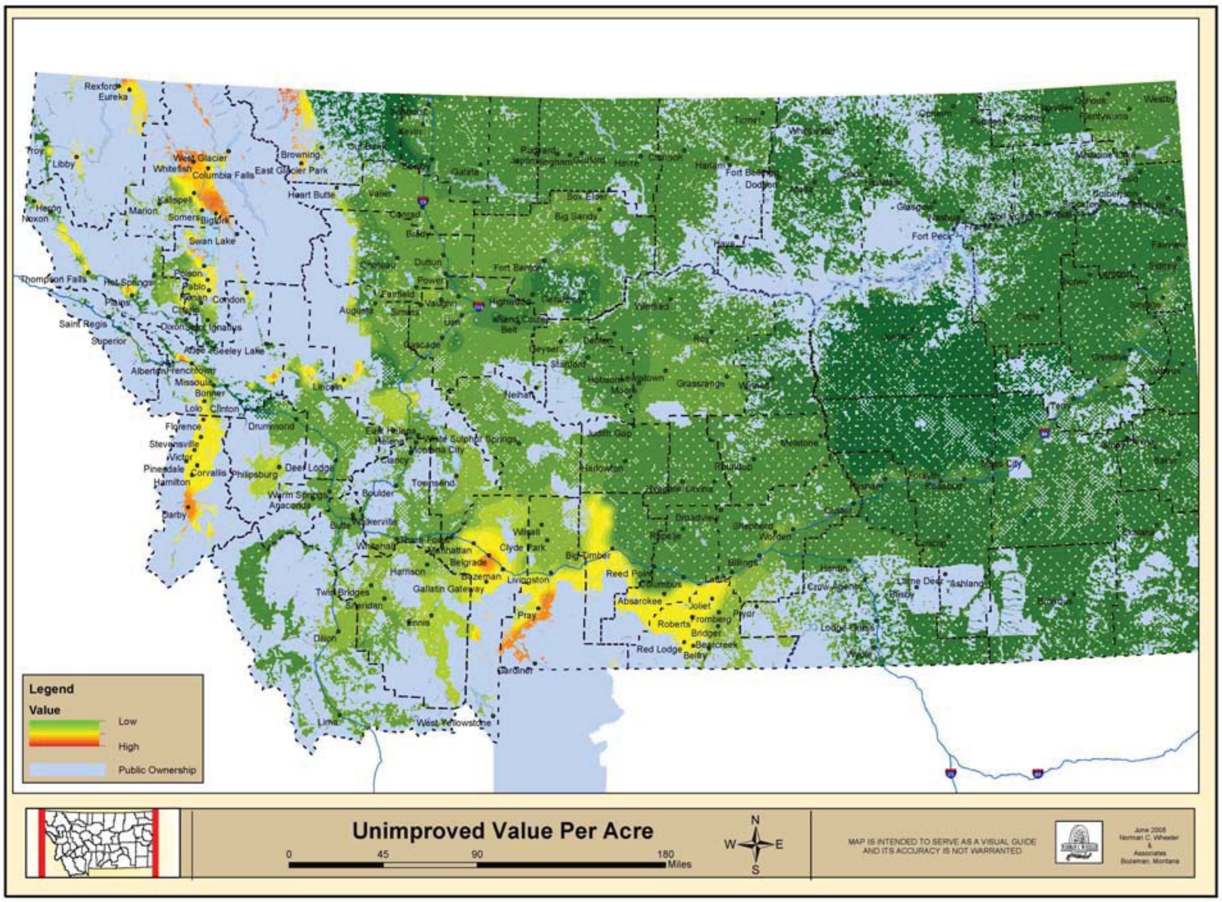
What they do have in common is that they tend to be small sites, which are purchased primarily for the construction of a primary residence. Many are already improved with custom residences. Also, these sites often provide important access to expanded recreational opportunities associated with the river 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, but 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, including 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. It is not necessarily the per acre price which dictates or controls value but rather the appeal and utility of the site within 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 Farm Credit Services. It reflects the basic level of value as we see it spread across the state. As noted, the blue areas on the map represent state or federal ownerships. The map is a representation of relative values spread throughout Montana. The high values are typically associated with the mountain river valleys located throughout western 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 probable 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 Class	Land Values Per Acre Low	High	Mid-point	Northwest FCS 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 Class	Land Values Per Acre Low	High	Mid-Point	Northwest FCS 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 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 in 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 most 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 general 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 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 relative to Midwestern land values 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 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 smaller 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,

N. Clark Wheeler, ARA

Paraic D. Neibergs, M.A. /ARA

Joel Peterson, CGREA, MT

Bruce M. Burger, Economic Consultant - Trainee

Thomas Kingsbury, GIS Specialist

Esther Peterson, Paralegal / Research Assistant