

THE HANCOCK McCLOUD
TREE FARM PROPERTY
APPRAISAL REVIEW



REVIEW DATE: AUGUST 13, 2014

PREPARED FOR: THE STATE OF CA - WILDLIFE CONSERVATION BOARD

A P P R A I S A L A S S O C I A T E S
Real Estate Appraisal & Consultation Services

August 13, 2014

Brian Gibson, Project Manager
The State of CA Wildlife Conservation Board
1807 13th Street, Suite 103
Sacramento, CA 95814

Re: Review of The Hancock McCloud Tree Farm Appraisal, Shasta and Siskiyou Counties, RA-1318BG

Dr Mr. Gibson,

At your request, the above referenced property appraisal has been reviewed. The purpose of the appraisal review was to determine compliance with the 2014-15 version of the Uniform Standards of Professional Appraisal Practice (USPAP), California Code of Regulations, Title 2, Section 1880 and the Wildlife Conservation Board's "Appraisal Review Report Contents - Appendix A". The function of this appraisal review is to assist you with decision making concerning acquisition/conservation of the subject property.

This Appraisal Review Report is intended to comply with the review requirements set forth under Standard 3 of the Uniform Standards of Professional Appraisal Practice. As such, it presents summary statements of the data, reasoning, and analyses that were used in the review process to develop the appraiser's conclusions. This appraisal review should not be considered unless accompanied by the original appraisal report prepared by James P. Saake and Philip E. Nemir with a date of value as of March 31, 2014.

After inspection of the subject property, and review of the Narrative Appraisal Report it is my opinion that the Hancock McCloud Tree Farm Appraisal Report meets the minimum requirement of the 2014-15 version of USPAP as well as the Department of General Service's Appraisal Specifications.

I hereby certify that I am familiar with the real estate area and location of the property appraised and the comparable sales, that I have no present or contemplated interest in the property, and that to the best of my knowledge and belief, all statements of fact contained herein are true and correct.

It has been a pleasure to assist you. If I may be of further service to you in the future, please let me know.

Respectfully Submitted,



Chris Bell, MAI
Review Appraiser
California Certified General Appraiser, #AG023519

INTRODUCTION

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CERTIFICATION OF THE APPRAISER

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

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of the work under review, and I have no personal interest with respect to the parties involved.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of the work under review within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of the work under review or to the parties involved with this assignment
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- my compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use.
- my compensation for completing this assignment is not contingent upon the development or reporting of predetermined assignment results, or assignment results that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal review.
- my analyses, opinions, and conclusions were developed, and this review report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- I have made a personal inspection of the subject of the work under review.
- Cliff Kennedy, RPF of High Country Forestry and David Marshall, RPF provided significant real property appraisal assistance to the person signing this certification. Mr. Kennedy and Mr. Marshall provided a review of the timber valuation analysis of the Appraisal Under Review.



Chris Bell, MAI
State of California General Real Estate Appraiser, Number AG 023519.

SCOPE OF WORK - REVIEW REPORT

USPAP VERSION:	2014-2015
APPRAISAL REVIEW PROBLEM:	The main problem in the Appraisal Review of the Hancock McCloud Tree Farm Appraisal Report is the inclusion of the timber valuation analysis within the Appraisal Report, rather than providing a separate valuation of the subject's timber.
REVIEW PROCESS:	Technical review, including site inspection overview and review of the Narrative Appraisal Report Covering the Hancock McCloud Tree Farm Lying East and South of Mount Shasta in the Vicinity of McCloud Shasta and Siskiyou Counties, California
VERIFICATION OF MARKET DATA:	No verification of market data or comparable sales - all information accepted as factual, per scope of work.
RESEARCH FOR ADDITIONAL MARKET DATA:	No research performed for additional market data or additional comparable sales was performed for this assignment.
SUPPLEMENTAL CLIENT STANDARDS:	California Code of Regulations, Title 2, Section 1880 Wildlife Conservation Board Appraisal Review and Disclosure Policy, Appendix A: Appraisal Review Report Contents
EXTRAORDINARY ASSUMPTIONS OF THE APPRAISAL REVIEW:	This appraisal review is made under the extraordinary assumption that the information included in the Appraisal Report under review is consistent with the subject property's actual characteristics.
HYPOTHETICAL CONDITIONS OF THE APPRAISAL REVIEW:	This appraisal review is not made under any hypothetical conditions.

COMMENTS:

The Scope of Work for this Appraisal Assignment includes an inspection of the subject property, review of the Appraisal Report, and preparation of this Appraisal Review Report. This Appraisal Review does not include the review appraiser's development of an opinion of value for the subject property. The timber analysis made within the Appraisal under review was reviewed by Cliff Kennedy, RPF of High Country Forestry and David Marshall, RPF. The Timber Appraisal Review is attached to and made a part of this review.

SUMMARY OF SALIENT FACTS OF APPRAISAL REVIEW

CLIENT: Brian Gibson, Project Manager
Wildlife Conservation Board
1807 13th Street, Suite 103
Sacramento, CA 95814

REVIEW APPRAISER: Chris Bell, MAI
540 Swain Avenue,
Sebastopol, CA 95472
7070 569-8891

REVIEW REPORT DATE: August 13, 2014

INTENDED USE: To assist the client with decision making concerning acquisition/conservation of the subject property

INTENDED USERS: The Wildlife Conservation Board

PURPOSE OF REVIEW: To support decision making by the State of California Wildlife Conservation Board in connection with possible conservation of the Hancock McCloud Tree Farm properties.

DATE OF APPRAISAL REVIEW: August 13, 2014

EXTRAORDINARY ASSUMPTIONS: This appraisal review is made under the extraordinary assumption that the information included in the Appraisal Report under review is consistent with the subject property's actual characteristics.

HYPOTHETICAL CONDITIONS: This appraisal review is not made under any hypothetical conditions.

CONCLUSIONS: After inspection of the subject property, and review of the Narrative Appraisal Report it is my opinion that the Hancock McCloud Tree Farm Appraisal meets the minimum requirement of the 2014-15 version of USPAP and the California Code of Regulations, Title 2, Section 1880, as well as the Department of General Service's Appraisal Specifications.

WORK UNDER REVIEW / APPRAISAL SUMMARY:

APPRAISERS:	James P. Saake and Philip E. Nemir
THE APPRAISAL REPORT:	A Narrative Appraisal Report Covering the Hancock McCloud Tree Farm
THE SUBJECT PROPERTY:	The Hancock McCloud Tree Farm
PROPERTY OWNERSHIP:	John Hancock Life Insurance Company
APPRAISAL DATE:	April 30, 2014
APPRAISAL DATE OF VALUE:	March 31, 2014
REPORT CLIENT:	John Donnelly, Executive Director Wildlife Conservation Board
DATE OF INSPECTION:	December, 2013
VALUE CONCLUSIONS:	Before the Easement: \$47,500,000 After Town Block Encumbered: \$35,800,000 After River Block Encumbered: \$39,200,000
INTENDED USE:	To develop an opinion of the market value of the fee simple estate of the subject property, both before and after the imposition of a draft conservation easement. The appraisal will be used by the client to assist decision making regarding funding of the purchase of the easement rights
INTENDED USER:	The client only
EXTRAORDINARY ASSUMPTIONS:	None
HYPOTHETICAL CONDITIONS:	1. That a Draft Conservation Easement is in effect in the "After" condition 2. Ancillary lease income was ignored because it will not be affected by the easement
PROPERTY LOCATION:	East and southeast of Mt. Shasta, in the vicinity of McCloud, Shasta and Siskiyou Counties, California
PROPERTY DESCRIPTION:	The property is a 19,992 acre property lying in the vicinity of McCloud, California and east and south of Mt. Shasta. It is the remnant of the McCloud River Lumber Co. lands, and varies from solid blocks comprising thousands of acres to isolated parcels as small as 80 acres. For this appraisal the property is defined as two separate blocks - the River Block (approximately 5,572 acres) and the Town Block (approximately 14,420 acres).
IMPROVEMENTS:	The land is generally unimproved, save for roads and gates, and some cell tower sites and radio and cable television repeater sites.
HIGHEST AND BEST USE - BEFORE:	Investment for a timber producing property, with the potential of selling some existing parcels at some future time.

HIGHEST AND BEST USE - AFTER TOWN BLOCK EASEMENT:	Investment for timber producing property
HIGHEST AND BEST USE - AFTER RIVER BLOCK EASEMENT:	Investment for timber producing property with potential for splitting off some of the legal parcels
VALUATION APPROACH	VALUE ESTIMATE BEFORE THE EASEMENT
COST:	\$47,500,000
SALES COMPARISON:	\$47,000,000
INCOME:	\$48,700,000
VALUE CONCLUSION - BEFORE:	\$47,500,000
THE CONSERVATION EASEMENT - TOWN BLOCK	The conservation easement is going to cover all of the Town Block except for 1,744 acres lying immediately north of the town of McCloud. The area assumed to be encumbered by the easement totals 12,644± acres.
THE CONSERVATION EASEMENT - RIVER BLOCK	The conservation easement is going to cover all except 266 acres of the River Block. The area assumed to be encumbered by the easement totals 5,433± acres.
VALUATION APPROACH	VALUE AFTER THE EASEMENT
COST:	Town Block Only - \$35,800,000 River Block Only - \$39,200,000
SALES COMPARISON:	Town Block Only - \$36,000,000 River Block Only - \$39,500,000
INCOME:	Town Block Only - \$36,100,000 River Block Only - \$38,000,000
VALUE CONCLUSION - AFTER:	Town Block Only - \$35,800,000 River Block Only - \$39,200,000

USPAP 2014-15 COMPLIANCE

STANDARD RULE 2-1

- a) The Hancock McCloud Tree Farm Appraisal Report appears to set forth the appraisal in a manner that is not misleading.
- b) The report contains sufficient information to enable the intended users to properly understand the report
- c) The report clearly identifies the appraisal's assumptions, extraordinary assumptions, hypothetical conditions and limiting conditions.

STANDARD RULE 2-2

The Hancock McCloud Tree Farm Appraisal Report includes content and a level of information appropriate for the intended use and the intended users to understand it. The report type is prominently noted and is appropriate for the intended use of the report.

- a-i) The report states that the client and the only intended user of the report is the Wildlife Conservation Board.
- a-ii) The intended use of the appraisal is reported to *"develop an opinion of the market value of the fee simple estate of the subject property, both before and after the imposition of a draft conservation easement"* and that the report is to be used *"to assist decision making regarding funding of the purchase of the easement rights"*.
- a-iii) The Appraisal Report adequately summarizes information identifying the subject property characteristics relevant to the assignment, including a legal description of the subject property, a brief regional and neighborhood analysis and a summary of the property's physical characteristics.
- a-iv) The Hancock McCloud Tree Farm Appraisal Report outlines the property rights being appraised, both before and after the easement and includes exceptions to title that may have an effect on the usage of the property. The report concludes that the exceptions to title are typical in the area and are not considered to affect value.
- a-v) The Report includes a definition of Market Value a cites the source as the California Code of Civil Procedures Section 1263.320.
- a-vi) The Appraisal Report has a report date of April 13, 2014 and an effective date of value as of March 31, 2014. The Report states that the value opinion is "prospective" as the property was visited in December, 2013.
- a-vii) The Appraisal Report adequately summarizes the scope of work in a single page titled "Scope of Assignment", which summarizes steps taken to complete the assignment.
- a-viii) The Appraisal Report includes adequate information to identify the subject property, and includes sufficient information for the client (and intended user) to understand the rationale for the opinions and conclusions made within the appraisal. The Appraisal Report includes all three generally accepted approaches to value both before and after a proposed conservation easement.

The Appraisal Report includes a statement that *“the owners have entered into two option agreements with the Pacific Forest Trust for the purpose of conservation easements covering the subject property”*, which is the purpose of the appraisal. It is reported that the options are confidential and are available *“as needed”*.

- a-ix) Under a paragraph titled *“Land Use”* The Appraisal Report indicates that the property is *“primarily managed for timber”* with associated uses *“including hunting, and two leases that authorize cell towers, cable television towers and easements for electrical transmission lines and phone lines...”*
- a-x) The appraisal defines the term *“Highest and Best Use”* (taken from *The Appraisal of Real Estate, 12th Edition*) and concludes that the highest and best use for the subject property, is *“to be investment for a timber producing property, with the potential of selling some existing legal parcels at some future time.”* The report adequately summarizes the support and rationale for the highest and best use opinion.
- a-xi) The Hancock McCloud Tree Farm Appraisal Report clearly and conspicuously states that the appraisal is made under the hypothetical condition that *“draft conservation easements are in effect in the after condition”* and that *“the leases (for cell towers and other leases) do not exist, since the leases will not be impacted by the conservation easements.”* The report does not include any extraordinary assumptions. **The appraisal report does not state that the use of these hypothetical conditions might have an affect on the assignment results.** However, the condition regarding the draft conservation easement is self-explanatory as part of the appraisal problem, and the report explains that the lease income is not affected by the proposed conservation easements.
- a-xii) The appraisal report includes two signed certifications (one for each appraiser involved in the assignment) in accordance with Standards Rule 2-3.

STANDARD RULE 2-3

The appraisal report includes two signed certifications (one for each appraiser involved in the assignment) in accordance with Standards Rule 2-3.

DGS - CA CODE OF REGULATIONS, TITLE 2, SECTION 1880 COMPLIANCE

- a) The Hancock McCloud Tree Farm Appraisal Report was prepared by James Saake and Philip Nemir. Both authors are Certified General Real Estate Appraisers and Mr. Nemir is also a Registered Professional Forester. Both authors signed the Appraisal Report.
- b) The Hancock McCloud Tree Farm Appraisal Report includes descriptive photographs and maps that sufficiently depict the subject property. Market data sheets include maps of the comparable properties, but no photographs. The comparable sales are large timber holdings, and the maps provided are considered to adequately depict the comparable properties.
- c) The Hancock McCloud Tree Farm Appraisal Report includes an adequate description of the subject property land and site characteristics. The property is generally unimproved timberland. Subdivision/development potential on the property is considered prospective and is not economically feasible at the present time.
- d) The Hancock McCloud Tree Farm Appraisal Report includes a Legal Description of the Property and a discussion of the Property Rights Appraised. A Preliminary Title Report is included in the Addenda of the Report
- e) The Hancock McCloud Tree Farm Appraisal Report includes a brief discussion of Implied Dedication Rights indicating that there was no evidence of any implied dedication rights observed on the property.
- f) The Hancock McCloud Tree Farm property includes significant amounts of timber value. **The Appraisal Report does not include a *separate* valuation of the subject's timber prepared by a Registered Professional Forester.** However, the appraisal report adequately includes a timber valuation as part of the report, and the report is signed by both a Certified General Real Estate Appraiser and a Registered Professional Forester. The timber valuation within the Hancock McCloud Tree Farm Appraisal Report has been reviewed separately by Cliff Kennedy, RPF of High Country Forestry (review report attached).

WCB APPRAISAL SPECIFICATIONS - APPENDIX A

This Appraisal Review is intended to comply with The Wildlife Conservation Board Appraisal Review and Disclosure Policy "Appendix A - Appraisal Review Contents". The following summarizes the Narrative Appraisal Report under review.

IDENTIFICATION OF APPRAISAL PROBLEM

Appraisal Under Review:	Narrative Appraisal Report Covering the Hancock McCloud Tree Farm
Appraisers:	James P. Saake, Certified General Appraiser # AG004439 Philip E. Nemir, Certified General Appraiser # AG009936, Registered Professional Forester #1666
The Subject Property:	McCloud Tree Farm Shasta and Siskiyou Counties: 19,992 acres held in two blocks (the River Block and the Town Block) in the vicinity of the town of McCloud California - east and south of Mt. Shasta.
Subject Property Ownership:	John Hancock Life Insurance Company
Interest Appraised:	Before Value - Fee Simple subject to exceptions shown on Preliminary Title Report After Value - As is encumbered by a draft conservation easement
Date of Report Under Review:	April 30, 2014
Effective Date of Value:	March 31, 2014

REVIEW APPRAISER QUALIFICATIONS

A copy of my qualifications are attached. Over the past twenty years I have performed numerous appraisals of large tracts of timberland throughout the Northern California area, specifically in the Redwood Empire from the San Francisco Bay Area north to the Oregon border. Thus, I am familiar with the specific type of property which is the subject of the report under review, as well as the regional real estate market, the appraisal process required and the required regulations and guidelines to perform such a real estate appraisal. I am not a Registered Professional Forester, and thus, I am not qualified to estimate the value of the subject's timber. Therefore I have contracted with Cliff Kennedy of High Mountain Forestry, located in Dunsuir, to review the timber valuation analysis included within the Hancock McCloud Tree Farm Appraisal Report.

SCOPE OF WORK

The Scope of Work for this Appraisal Assignment includes an inspection of the subject property, careful review of the Narrative Appraisal Report under review, and preparation of this Appraisal Review report to determine whether the appraisal is adequately supported by the information provided in the appraisal. The Appraisal Report under review is intended to meet the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) as well as the CA Department of General Services Appraisal Specifications. This Appraisal Review does not include the review appraiser's development of an opinion of value for the subject property, nor does it attempt to confirm or verify information contained in the Narrative Appraisal Report. No attempt has been made to determine if additional market data may have been available which would either support or refute the appraisers' value conclusions. Cliff Kennedy of High Mountain Forestry has been contracted to review the timber valuation component of the Hancock McCloud Tree Farm Appraisal Report.

APPRAISAL SUMMARY

Extraordinary Assumptions: None

Hypothetical Conditions:

1. *That a Draft Conservation Easement is in effect in the "After" condition*
2. *We have ignored the ancillary lease income because it will not be affected by the easement*

In estimating the Market Value for the subject property, the Hypothetical Conditions are reasonable and acceptable.

The appraisal report does not state that the use of these hypothetical conditions might have an affect on the assignment results (a USPAP requirement). However, the condition regarding the draft conservation easement is self-explanatory as part of the appraisal problem, and the report explains that the lease income is not affected by the proposed conservation easements.

Regional/Neighborhood/
Market Analysis:

The Appraisal Report provides a brief summary of the Siskiyou/Shasta County neighborhood, indicating that the area is sparsely populated, popular for recreation and tourism, and includes a competitive timber industry, producing up to 25% of the timber volume and value in the state (in 2012).

The Subject Property:

The Appraisal adequately describes the subject property as a 19,992-acre managed timber holding (noting that the Assessor's records indicate the property at just 19,964 acres, but stating that the owner's GIS data is more accurate) looked at for this appraisal in two blocks - The River Block and the Town Block. Timber inventory on the subject property is summarized as a total of 263,538 MBF (thousand board feet) as of March 31, 2014. The property is zoned TPZ and is unimproved. The Report includes a brief summary of the ownership history of the property and reports that there are two confidential option agreements with the Pacific Forest Trust for the purchase of conservation easements over the property.

Although this section of the Appraisal Report does not mention the size of the two blocks, it does include maps of the blocks. The size of the two subject blocks are first reported in the Valuation Section under the "Cost Approach" and are indicated to be a total of 14,420 acres in the Town Block and 5,572 acres in the River Block.

Highest and Best Use:

The Appraisal Report defines Highest and Best Use, and provides an adequate discussion of the four elements of Highest and Best Use. The H&B Use of the property is concluded to be *“investment for a timber producing property, with the potential of selling some existing legal parcels at some time in the future.”*

It should be noted that the H&B Use section makes the argument that the market for smaller rural residential parcels is *slow to non-existent* and that residential development of the property is not presently financially feasible

Valuation - Before the Easement:

The Appraisal Report utilizes all three approaches to value - although as the property does not include any structural improvements, the Cost Approach is somewhat mislabeled.

The Valuation Section opens with a summarized discussion of 14 Comparable Timberland Sales. The sales are numbered based on their transaction dates, ranging from July, 2006 to September, 2013. A table summarizes the Comparables, with headings including Sale No. Buyer/Seller, Date, Price, Acres, Volume MBF, and \$/acre. The sales range in price from \$238,000 (for a July 2010 sale of 474 acres) to \$75,000,000 (for a December, 2008 sale of 31,958 acres). The sales range in size from 305 acres to 53,384 acres, and from dollars per acre from \$172/acre to \$2,413/acre.

The Report includes a section titled *“Elements Affecting Value”* which summarizes the ten Elements of Comparison where properties differ and adjustments are typically made when comparing properties within the Sales Comparison Approach.

The Cost Approach:

The Appraisal Report includes a section labeled “*Cost Approach*” but the discussion actually includes a summary of a Timber Appraisal’s Summation Approach that indicates a “*conclusion of value by estimating the value of the immediately harvestable timber and adding it to the land value as if cut over*”. The Report describes how this analysis is “*accomplished by estimating the amount of harvestable timber, and the probable log price and deducting all costs of getting it to the mill, both logging and hauling costs as well as THP preparation, road use fees and yield tax.*” The summation approach is a variation of the Cost Approach which is specific to the valuation of forest products, and is considered appropriate for this assignment.

The Report proceeds to discuss the *Subject Timber* inventory, the *Timber Market Data*, *Appraised Delivered Log Values*, *Logging Costs and Forester Costs*, *Yield Taxes*, a *Determination of Harvestable Volume*, a *Determination of Harvestable Timber Value*, the *Value of Land as if Cut-over* and the *Summation and Discount*.

The land value is estimated through direct comparison with six of the comparable sales (of cutover land) and allocation of the timber and land value on another seven of the comparables. A very brief discussion of the analysis is included. The land value is concluded to contribute \$500 per acre to the subject property. This value is used later in the Sales Comparison Approach when allocations of value are made and adjusted for through direct comparison, and again in the “After” analysis within the Cost Approach.

The discussion and conclusions of the timber value made within the Cost Approach are considered by Cliff Kennedy, RPF to indicate a reasonable range of value.

The “Cost Approach” section indicates a range of value between \$47.1 million and \$48.0 million and concludes with a value of \$47,500,000.

The “Cost Approach” utilized within the Report is an approach to estimating the value of timberland commonly utilized by Registered Professional Foresters. Cliff Kennedy, RPF was separately contracted to review the value of the subject’s timber (see Appraisal Review Report attached), and concludes that the analysis is considered reasonable.

The Sales Comparison Approach:

The “*Comparable Sales Approach*” (as labeled in the Appraisal Report) includes seven of the 14 Comparables, determined to be “*the most similar sales*”. The seven sales, along with the subject are arranged in a table indicating the acres, the Price, the MBF included in the sale, the MBF per acre, the amount of harvestable timber, the amount of harvestable timber per acre, and the sales price per acre, per MBF and per harvestable acre. The majority of the calculations are accurate, but there are noted to be three minor discrepancies in the reported sales price per acre and sales price per MBF columns.

Adjustments are made to the comparables for a variety of factors and the comparables are compared with the subject on both the

The Income Approach:

The Income Approach utilizes a discounted cash flow to indicate the value for the subject property. The DCF uses the recent sale of Comparable No. 13 to support a discount rate reported by investors and lenders to be within the range of 5 to 6%. Comparable No. 13 indicated a discount rate of 5.0% for a ten-years DCF and 5.6% for a seven- year DCF. Comparable No. 13 also is used to provide support for a reversion value at the end of the DCF of \$150/mbf/ acre. The report includes a table illustrating the seven-year DCF for the subject property that indicates a value in the amount of \$48,890,898. Although not included in the Report, it is stated that *a ten-year scenario indicated a value of \$48,500,000*. The Income Approach concludes with a value indication of \$48,700,000.

Conclusions - Before the Easement:

Greatest reliance is placed on the Cost Approach, which “*is a detailed look at the timber stand*” and “*also feeds assumptions about the income approach and the sales comparison approach.*” The value conclusion before the easement matches the Cost Approach and is in the amount of \$47,500,000.

Valuation After the Easement: A descriptive discussion of the *Conservation Easement Encumbrances* is provided, and the Appraisal Report indicates the value of the subject property under two easement scenarios: as though the Conservation Easement encumbers the Town Block only, and as though the Conservation Easement covers the River Block only.

Again the Appraisal Report utilizes all three approaches, stating that *“the cost approach, a “limited” Sales Comparison Approach, and the income approach will be used in the after condition”*.

One additional sale is summarized, but no sales were included of properties encumbered with a conservation easement similar to that proposed for the subject property. The report does include a brief discussion of two recent conservation easements in the neighborhood, indicating the impact of restricted forest management. The additional sale is located in Klamath County, OR and is under *“an easement that restricts timber harvest for the next one hundred years.”* The additional sale is used to help support the *“minimum amount of the land value of the subject property in the after condition.”*

The Cost Approach - After the Easement:

The Report summarizes the Cost (Summation) Approach for the property as though the conservation easement covered the Town Block in four steps: 1. *Determination of the Harvestable Volume*; 2. *Value of the Harvestable Timber*; 3. *Value of land as if cutover*; and 4. *Summation and Discount*. The report then summarizes the same analysis as though the River Block was encumbered with the conservation easement.

Although not stated, the “After” analysis relies on the conclusion of land value made in the “Before” analysis, and makes adjustments for the different categories of land due to the easement.

The Cost Approach indicates a value of the subject property under the Town Block Conservation Easement in the amount of \$35,800,000.

The Cost Approach indicates a value of the subject property under the River Block Conservation Easement is in the amount of \$39,200,000.

The Sales Comparison Approach - After the Easement:

The Appraisal Report utilizes the Sales Comparison Approach for the “after “ value, again as though the conservation easement only covered the Town Block first, and then as though the Conservation Easement only covered the River Block. An adjustment chart is displayed for each scenario, which compares the subject to the same seven comparables used in the “before” analysis. There is very little explanation of the adjustments made. Total adjusted values for the subject as though the Town Block was under the easement ranged from \$1,530 per acre to \$1,942 per acre, and the final value was estimated to be \$1,800 per acre, or \$36,000,000.

Total adjusted values for the subject as though the River Block was under the easement ranged from \$1,683 per acre to \$2,138 per acre, and the final value was estimated to be roughly \$1,975 per acre, or \$39,500,000.

The Income Approach - After the Easement

The Appraisal Report utilizes a Discounted Cash Flow analysis within the Income Approach for the “after “ value, again as though the conservation easement only covered the Town Block first, and then as though the Conservation Easement only covered the River Block.

Two DCF tables are displayed for each easement scenario. The first table uses a seven-year period with 5.6% discount rate, and the second table uses a 10-year period with a 5.0% discount rate. Both DCF’s “assumes a stumpage value of \$250/mbf and a harvestable volume of 116,345 mbf.” There is very little explanation of the DCF analysis.

The Income Approach indicates a value of the subject property under the Town Block Conservation Easement in the amount of \$36,100,000.

The Cost Approach indicates a value of the subject property under the River Block Conservation Easement is in the amount of \$38,000,000.

Conclusions - After the Easement

Greatest reliance is again placed on the Cost Approach, while least reliance is placed on the Income Approach which “is very sensitive to discount rates and reversion values”

The value conclusion after the easement on the Town Block matches the Cost Approach and is in the amount of \$35,800,000.

The value conclusion after the easement on the River Block also matches the Cost Approach and is in the amount of \$39,200,000.

The report ends with a “Before Value Minus After Value” summary, indicating the affect on value that the easement has on the two subject blocks.

Addendum

The Addendum of the Hancock McCloud Tree Farm Appraisal Report includes:

Photos of the subject property, including its physical features (access roads, forest operations, views, stream courses, right-of-ways etc.)

Preliminary Title Report for the subject property

The Draft Conservation Easements between the property owners and the Pacific Forest Trust (one for each subject block)

Comparable Sales - market data sheets for the fourteen sales used in the report, plus the one CE sale used to help support the land value in the “after” condition

Qualifications of the Appraisers - for both Phillip Nemir and James Saake

COMPLIANCE WITH STANDARDS

USPAP: It is my opinion that the Hancock McCloud Tree Farm Appraisal Report meets the minimum requirement of the 2014-15 version of USPAP (see USPAP Compliance - page 9)

DGS Appraisal Specifications: It is my opinion that the Hancock McCloud Tree Farm Appraisal Report adequately contains the minimum requirements of the DGS Appraisal Specifications under Ca Code of Regulations, Title 2, Section 1880 (see page 11)

APPRAISER’S ANALYSIS

The Hancock McCloud Tree Farm Appraisal Report includes sufficient information to conclude that appraisers properly identified and inspected the subject property, researched sufficient relevant data, and analyzed and applied the data to arrive at credible and reasonable opinions and conclusions

APPRAISAL METHODS

The subject property includes a large timber component. The Hancock McCloud Tree Farm Appraisal Report includes the three generally accepted approaches to value, both before and after proposed conservation easements. The Appraisal Report incorporates a timber valuation into the appraisal report, which is considered reasonable for the property type.

ADEQUACY AND QUALITY OF THE APPRAISAL

The Hancock McCloud Tree Farm Appraisal Report is considered to adequately support the value conclusions made within the report. The quality of the appraisal is somewhat lacking in some of the descriptions and analyses (specifically the descriptions of the adjustments made in the Sales Comparison Approach and the explanation of the process of the Discounted Cash Flow used in the Income Approach). However, the intended users of the report are consid-

ered to be familiar with appraisal terminology and procedures, and considering that the Cost (“Summation”) Approach is given the greatest weight throughout the report, the limited descriptive analysis is considered adequate.

SPECIALTY INTERESTS

The subject Hancock McCloud Tree Farm includes a large component of timber value. Mr Cliff Kennedy, RPF was contracted to review the timber component of the subject property (see attached). Mr. Kennedy generally agrees that the overall timber value in the McCloud Tree Farm Appraisal Report is within the range of reasonableness.

DATA QUALITY

The Hancock McCloud Tree Farm Appraisal Report includes an adequate amount of market data (Comparable Sales) to support the value conclusions. Although there were several minor mathematical errors in the report, the errors did not significantly affect the value conclusions and are likely due (at least in part) to rounding.

BASIS OF VALUE

The majority of the Hancock McCloud Tree Farm Property’s value is in the timber included on the property. Statement of the basis on which the value of land was established, including conclusion of Highest and Best Use, and the actual comparable sales data (include range of sales prices and acreages and other info applicable or necessary)

APPRAISAL CREDIBILITY

In my opinion the Hancock McCloud Tree Farm Appraisal Report provides sufficient data and analysis to appropriately and reasonably estimate the value for the subject property. After review of the Appraisal Report along with the Timber Valuation Review provided by Cliff Kennedy, RPF the analysis, opinions and conclusions within the Hancock McCloud Tree Farm Appraisal Report are considered credible.

AREAS OF DISAGREEMENT

There are no significant areas of disagreement found in the appraisal. As mentioned in the DGS - Ca Code of Regulations, Title 2, Section 1880 Compliance Section of this review (see page 11) the Appraisal Report does not include a *separate* valuation of the subject’s timber prepared by a Registered Professional Forester. However, the appraisal report adequately includes a timber valuation as part of the report, and the report is signed by both a Certified General Real Estate Appraiser and a Registered Professional Forester.

CONTACT WITH APPRAISER

The appraisers were contacted at the onset of this review assignment to provide timber inventory data for the the timber valuation review.

CHANGED CIRCUMSTANCES

To my knowledge there are no changed circumstances on the subject property since the date of value.

ADDENDUM

EXHIBIT A

TIMBER VALUATION REVIEW REPORT

provided by Cliff Kennedy, RPF High Country Forestry

EXHIBIT B

QUALIFICATIONS OF THE APPRAISER

QUALIFICATIONS OF

Chris Bell, MAI

540 Swain Avenue,
Sebastopol, California, 95472
Phone: (707) 569-8891

Educational Background

University of Portland, B.S. Communication-Business Management, May, 1990

State of California Certified General Real Estate Appraiser #AG 023519

Licensed to appraise all types of real estate in the State of California

Designated Member of the Appraisal Institute (MAI designation), January, 2001

I have completed the requirements of the continuing education program of the Appraisal Institute

Appraisal Institute Courses Completed:

Advanced Applications	October, 1997
Report Writing & Valuation Analysis	August, 1996
Advanced Sales Comparison & Cost Approaches	August, 1995
Highest & Best Use and Market Analysis	April, 1995
Standards of Professional Practice A & B	April, 1994
Advanced Income Capitalization	July, 1993
Basic Income Capitalization	April, 1993
Basic Valuation Procedures	September, 1992
Appraisal Principles	February, 1992

Experience

Actively engaged in real property appraisal and analysis throughout Northern California since December 1991. Properties appraised include agricultural, commercial, industrial, ranch, rural residential, conservation easements and special-use properties throughout the Redwood Empire, Shasta-Trinity and North Coast areas of California.

April 2000 – Present: Owner/Sole Proprietor, Appraisal Associates

November 1998 – March 2000: Manager, Real Property Solutions/ Appraisal Solutions

December 1991 – October 1998: Vice President, Harding Appraisal Co., Inc.