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For Land's Sake

Norman C. Wheeler & Associates has been involved in the real estate business since 1958, with the tradition and reputation of quality appraisal work spanning over six decades. This has enabled us to maintain a solid network of real estate professionals from throughout Montana. Norman C. Wheeler & Associates is grateful for the assistance of many in the real estate community who have assisted in the confirmation of sales and market activity during the year. Just over five hundred transactions from fifty-three counties create the foundation for this report.

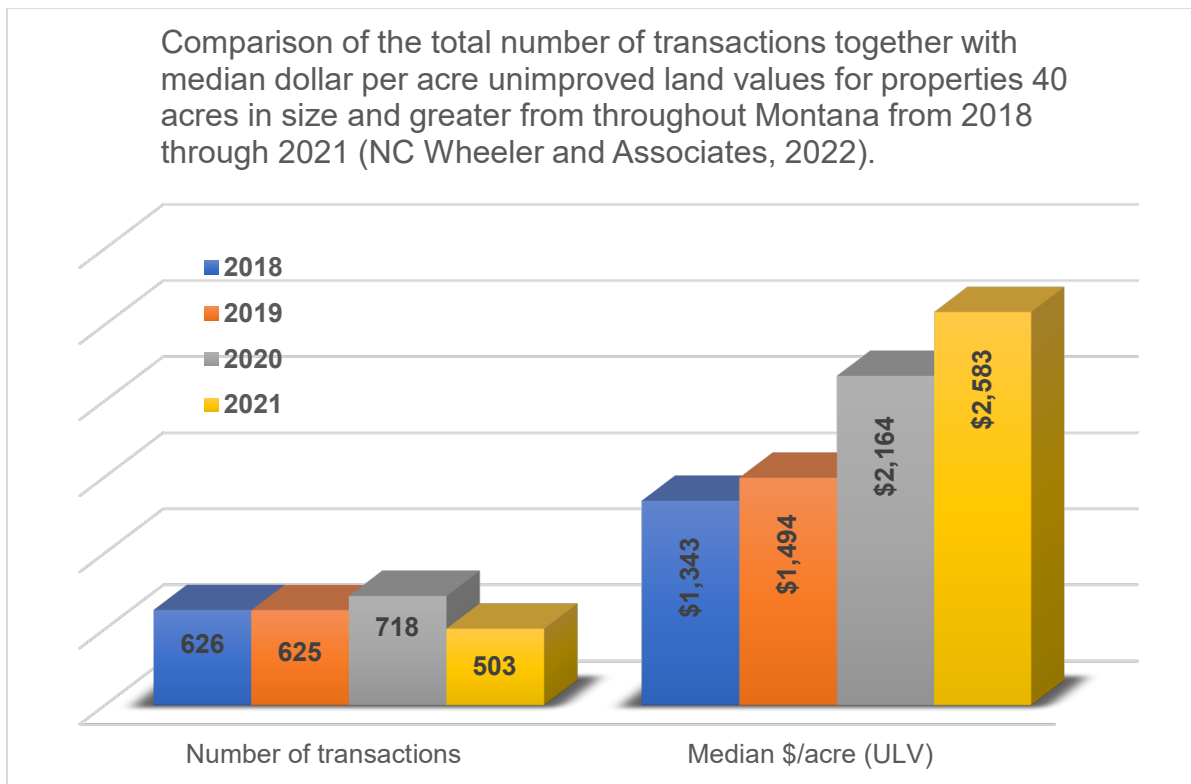


Montana

Driven largely by unforeseen conditions stemming from the COVID-19 pandemic and dramatic shifts in the political atmosphere, the second half of 2020 saw a significant increase in demand. These market dynamics carried through 2021 as robust demand was met by limited supply, creating upward price pressure. Growth in land values in some cases created opportunity for sellers who may have otherwise not entered the market to do so. While a limited supply of quality properties continued to be a common theme, market conditions remain vibrant, with elevated levels of demand.

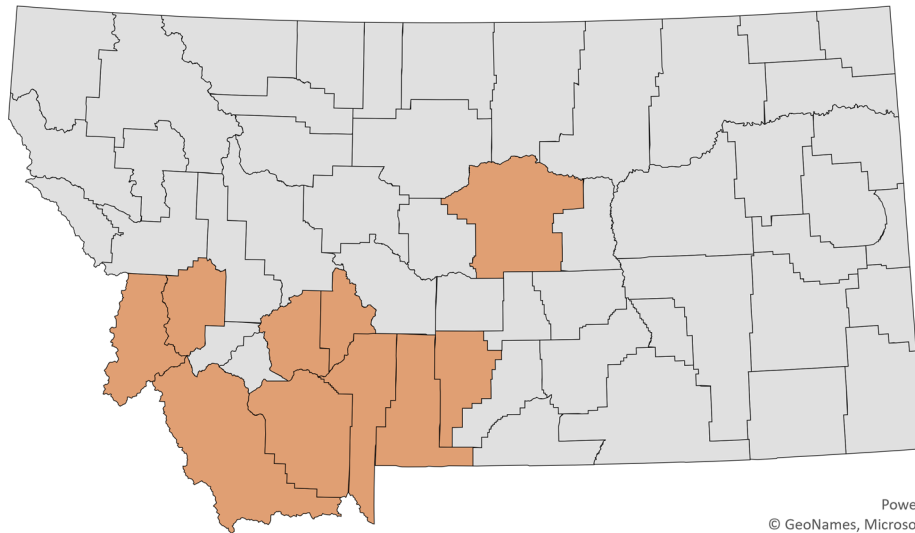
When considering the broad market of properties forty acres in size and greater, the number of sales transactions statewide suggests a downward trend in 2021. This is attributed to the decrease in supply of available properties. Furthermore, sales verification, which by nature is lagged, has become more difficult as pocket listings and non-disclosure agreements have increasingly become more prevalent. This disparity is anticipated to shrink as we continue to add sales to our data base. It is important to note, that while a decline in transactions is shown, total dollar volume grew over forty-three percent in 2021 when compared to 2020. This increase in dollar volume came with a less than sixteen percent increase in total acres sold.

In addition to number of transactions, the figure below shows the median \$/acre unimproved land value (ULV) for properties 40 acres in size and greater from throughout Montana. Considering a time-period spanning 2018 through 2021, this data shows increasing value trends.

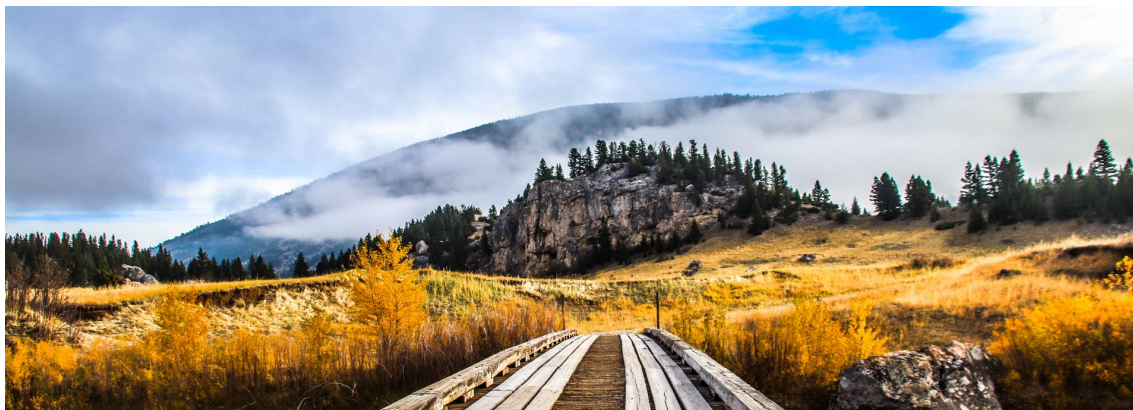


While it would be accurate to say that the market for rural real estate in Montana saw increasing trends in 2021, a great deal of the market activity and corresponding price pressure was experienced in Western Montana. The following figure shows the top ten counties in Montana in terms of dollar volume in 2021. These ten counties account for eighty percent of total dollar volume in Montana in 2021 and fifty percent of sales. The markets in these ten counties are largely amenity driven, experiencing value increases that far outpace most other rural markets in Montana.

Top ten Counties in 2021 accounting for nearly fifty percent of sales and eighty percent of dollar volume.

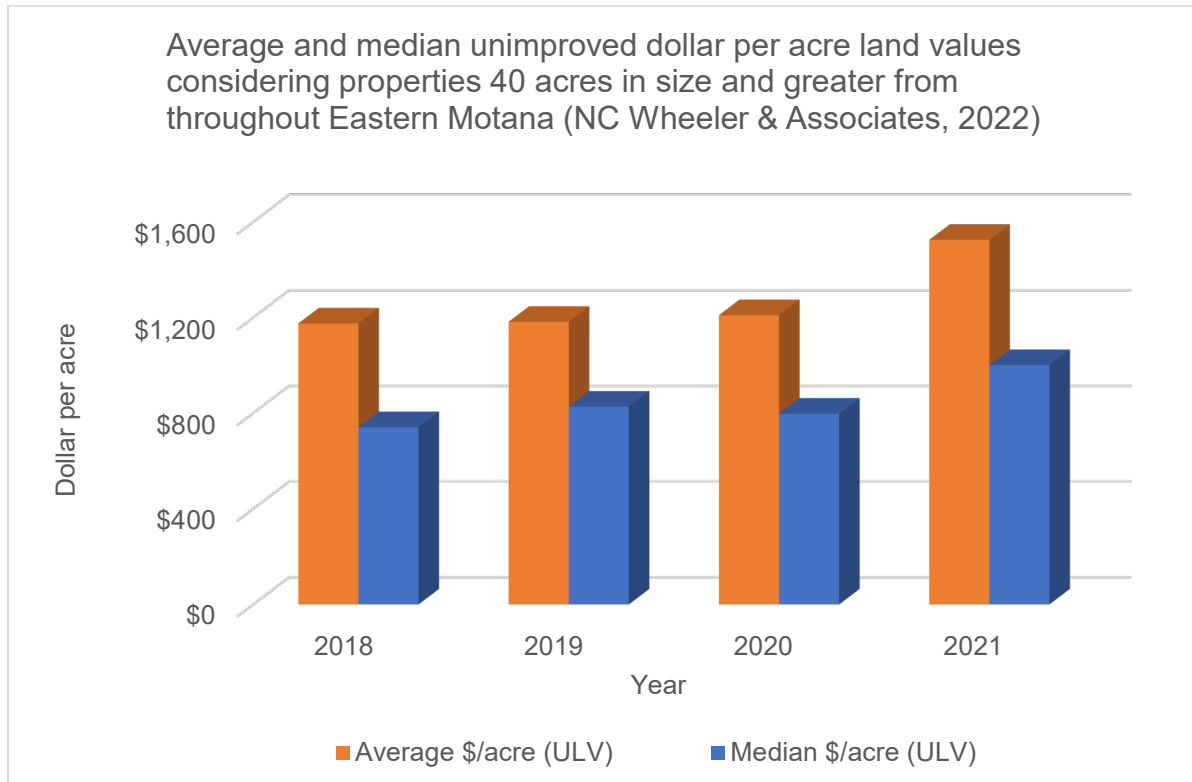


Apart from Fergus County, which represented roughly four percent of sales and two percent of total dollar volume, the most active counties in 2021 were in the southwestern region of Montana. In the previous runup, beginning in 2004 or 2005, many producers who sold high-amenity properties in Southwestern Montana to high-net-worth investors looking to diversify chose to exchange their properties for operations in other areas, where the lower opportunity cost of property did not negate economic returns. This created a ripple effect for agricultural properties with limited recreational amenities that radiated outward impacting values throughout much of the State. These dynamics are not reflective of what we are experiencing in today's market as many sellers, especially those with larger ownerships, have exited the market. In 2021 larger transactions, those with sales prices of \$10 million and greater, accounted for six percent of sales but made up over fifty-three percent of overall dollar volume. All of these larger transactions occurred in the Western/Southwestern Montana market area. Subsequently, the magnitude of these increasing value trends varies by region.



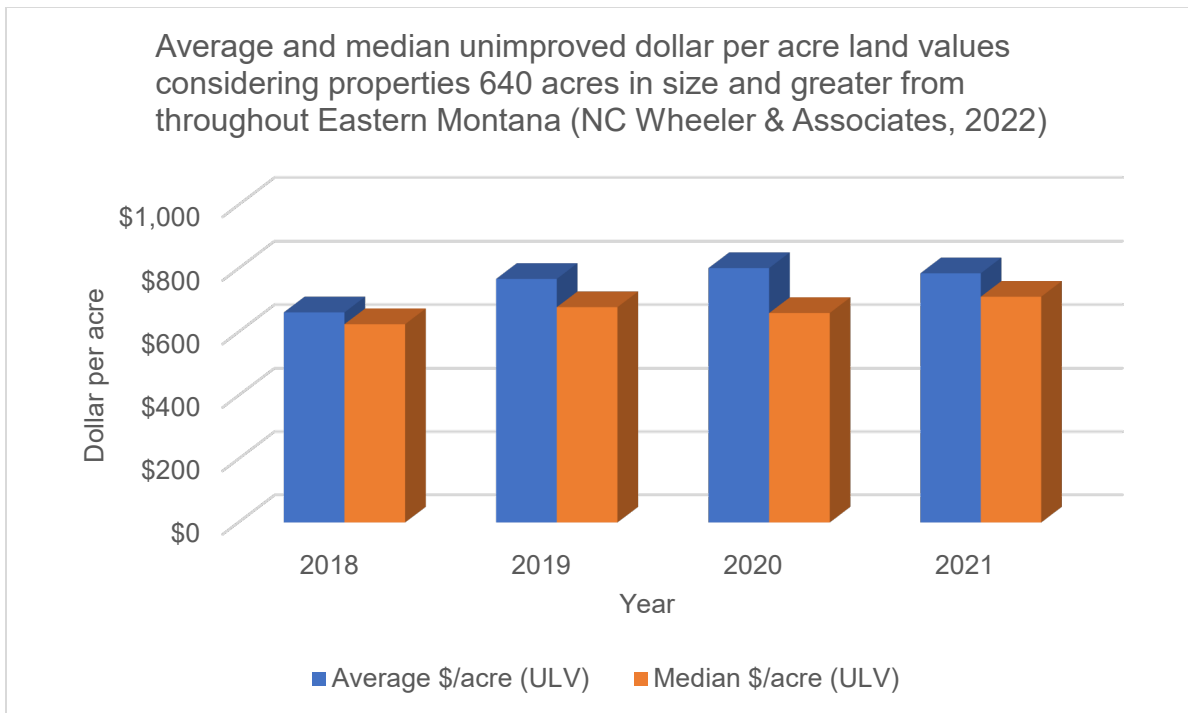
Eastern Montana

Spanning from Wheatland County in the west to the borders with North and South Dakota to the east, Eastern Montana takes in an area of diverse uses, ranging from transitional development in the areas surrounding larger population centers like Billings, to vast sparsely populated landscapes predominantly driven by agricultural demands. When considering properties forty acres in size and larger throughout the broader market area, an increasing value trend is noted.

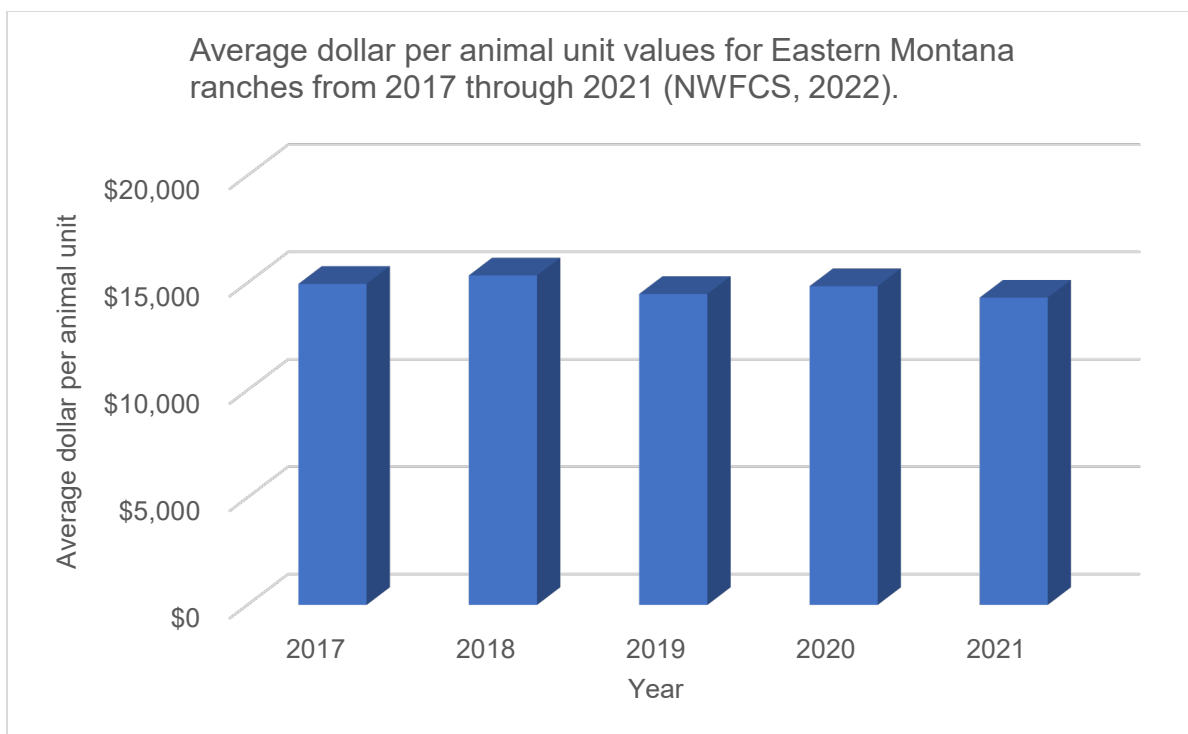


A great deal of the increase in values reflected in the above graph is attributable to smaller rural tracts, or those impacted by transitional influences surrounding the area's larger population centers.

As noted, in the previous runup in Montana land values, beginning in 2004 or 2005, many producers sold high amenity properties in Southwestern Montana and exchanged their properties for operations in other areas, where the lower opportunity cost of property did not negate economic returns. This benefited land value in Eastern Montana during that time-period. These dynamics have not been replicated in 2020 or 2021. Subsequently, much of Eastern Montana has not seen the increases in property values experienced in other regions of the state. This is demonstrated when you bifurcate the market by size. As shown below, when considering sales involving properties 640 acres in size and greater growth in values in 2020 and 2021 was modest at best.



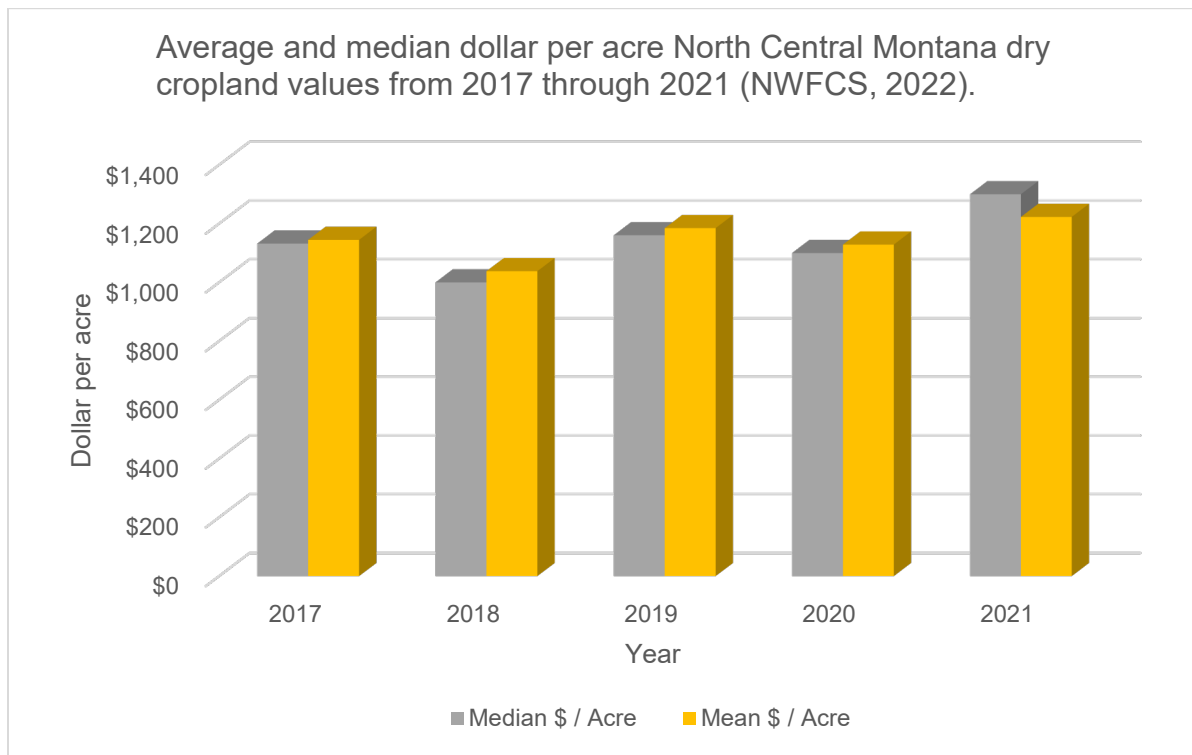
With Eastern Montana often thought to predominantly be driven by factors associated with cattle production, another measure often used to gauge the health of real estate conditions is dollars per animal unit. As shown in the following graph, while fluctuating, dollar per animal unit values for Eastern Montana ranches have shown generally stable values over the five-year time-period depicted in the following graph.



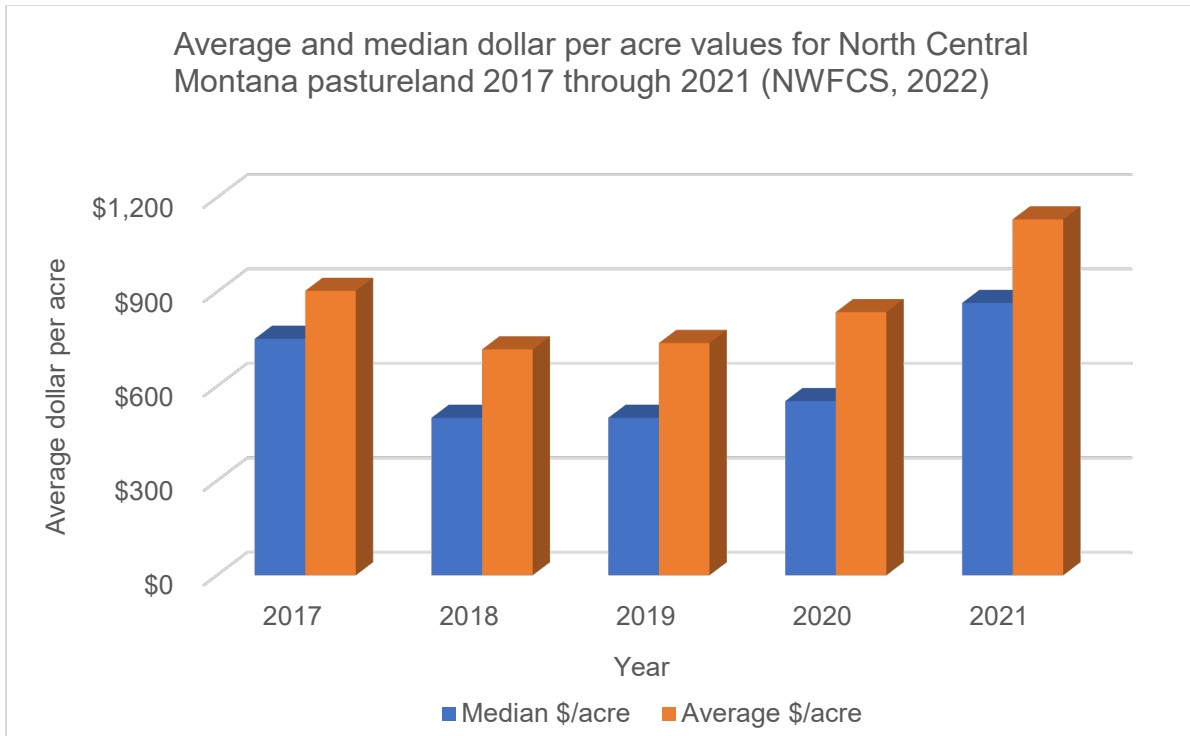
North Central Montana

Comprised of eleven counties including Glacier, Toole, Liberty, Hill, Blaine, Pondera, Chouteau, Teton, Cascade, Judith Basin, and Fergus, North Central Montana takes in the area commonly known as the Golden Triangle. While having strong agricultural attributes the broad area encompasses varying degrees of recreational influences largely associated with the Rocky Mountain Front to the west and Central Montana's "island" mountain ranges.

Throughout the region, values for most types of agricultural lands are stable to modestly increasing. A number of producers have solid financial positions as well as the ability and desire to purchase land if offered at a market supported price. While fluctuating, values for dry cropland in North Central Montana have generally reflected modestly upward trends as much of the benefit associated with rising commodity prices is eroded by increasing input costs.



Similar to dry cropland, values for pastureland over the five-year period depicted below generally shows increasing trends. The elevated values shown 2017 were heavily influenced by a few transactions involving motivated buyers. While lower quality lands were stable, higher quality lands or those with recreational influence showed greater increases in 2021. With limited activity along the Rocky Mountain Front, the majority of the higher pastureland sales involved property near Lewistown and the recreational opportunities associated with the Little Belt, Judith, and Snowy Mountains.



Western Montana

The market in Western Montana was highly influential on statewide trends as five southwestern Montana Counties, Gallatin, Beaverhead, Park, Madison, and Sweet Grass accounted for thirty-four percent of sales transactions and more than seventy percent of total dollar volume. As shown below, while the number of transactions currently reported is down, total dollar volume in Western Montana increased fifty-one percent in 2021. This increase was in part built on momentum spilling over from 2020.

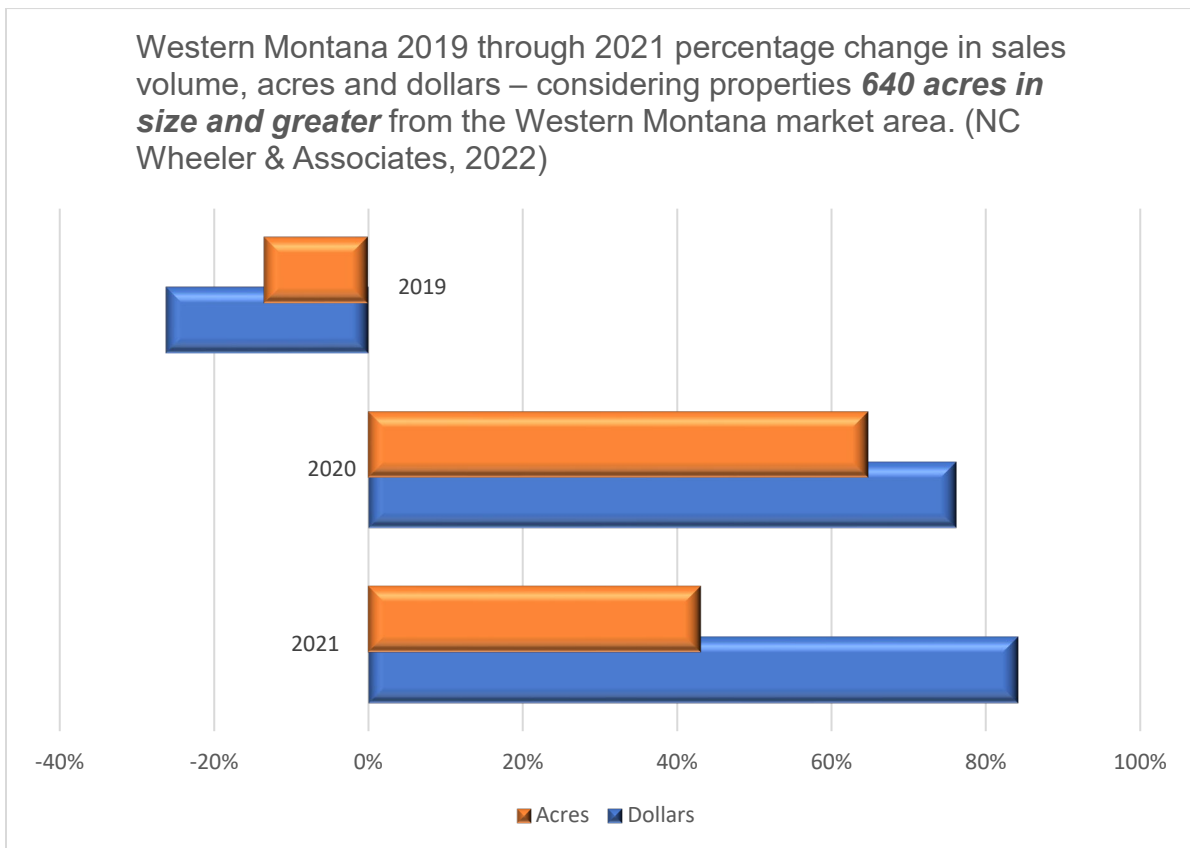
Western Montana 2018 through 2021 Sales Volume – considering properties **forty acres** in size and greater (NC Wheeler & Associates, 2022)

Year	Number of transactions	Volume		Percentage change	
		Dollars	Acres	Dollars	Acres
2019	407	\$656,995,571	280,030	-5%	-7%
2020	529	\$1,038,486,116	411,139	58%	47%
2021	361	\$1,565,571,943	546,646	51%	33%

These smaller properties showed significant increases in both average and median \$/acre values in 2021, forty-eight and thirty-nine percent, respectively. These increases are largely attributable to sales in the Gallatin Valley and Big Sky. While

accounting for roughly seventy five percent of sale transactions, smaller properties, those 40 to less than 640 acres in size, accounted for less than thirty percent of total dollar volume in 2021.

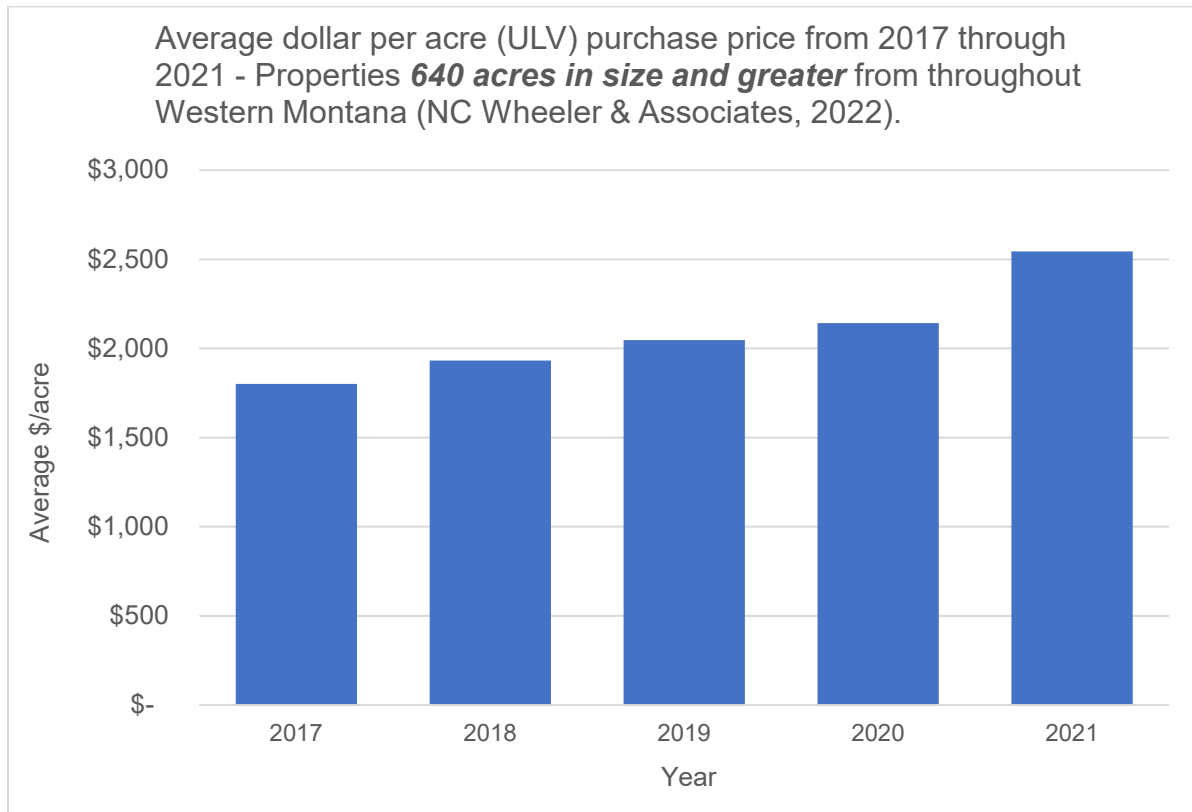
With supply being a limiting factor, larger properties with good recreational and agricultural amenities in Western Montana saw significant demand. As shown below, with demand far exceeding supply, increases in dollar sale volume outpaced the increase in the number of acres sold in 2021. While fluctuating as we continue to add sales to our data base, with robust demand being met by limited supply the disparity between acreage sold and dollar volume is anticipated to remain.



In Western Montana, several large historic ranches sold in 2021. These sales included two transactions that were highly touted as recorded breaking sales. The first was the sale of the Climbing Arrow Ranch, a well-established operation that was widely known for its big game hunting attributes. The Climbing Arrow Ranch sale's reign as the highest priced ranch was short, being trumped by the sale of the Matador Ranch. Neighboring the Matador Ranch, the Selkirk Ranch sold and resold in 2021. The contribution of the sale and subsequent resale of the Selkirk Ranch to 2021 sales volume rivaled that of the Climbing Arrow Ranch. While these properties are not entirely atypical for the market area, large ranch properties are generally long-term holds and rarely exposed to the market. In 2021 the level of activity experienced in the

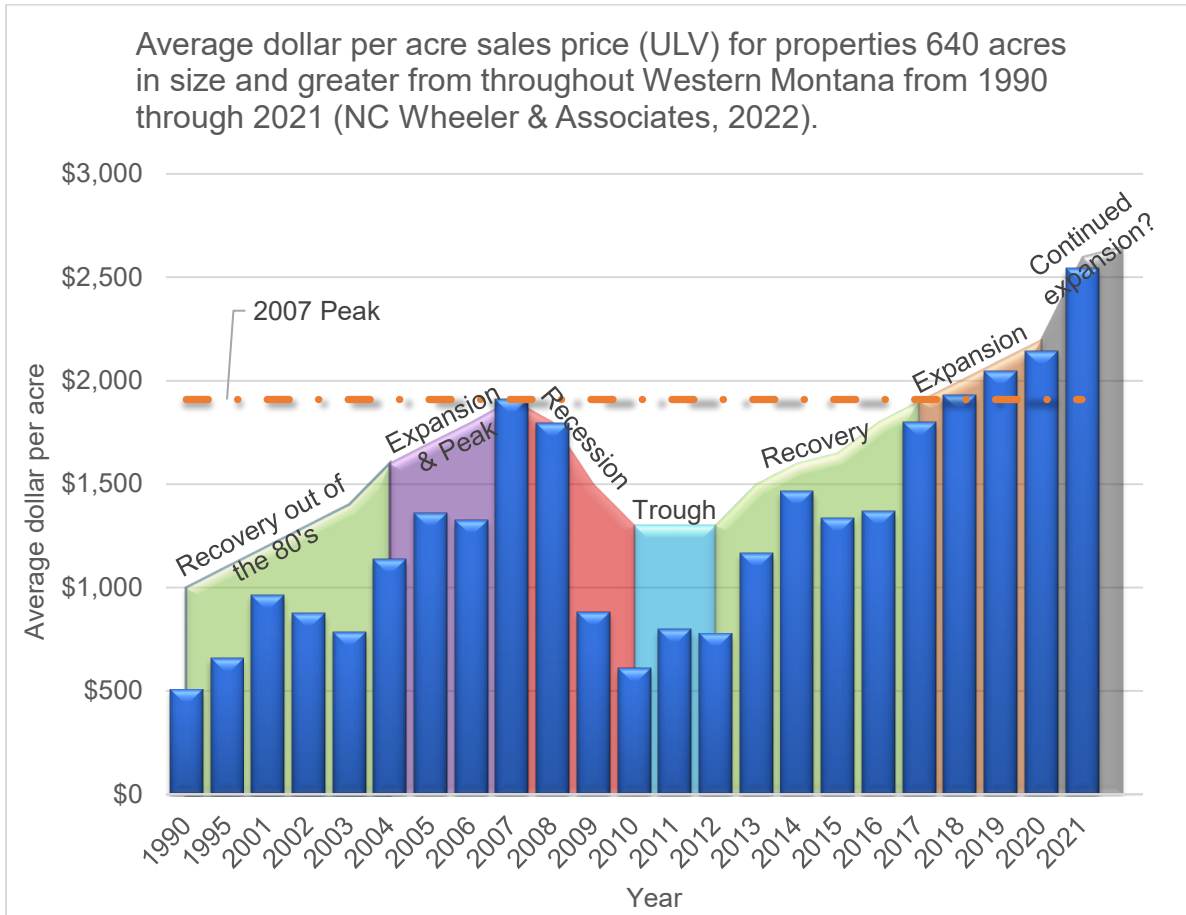
market for large ranch properties was somewhat atypical helping to create the disparity in sales volume relative to prior years.

The imbalance in supply and demand is further reflected by median and average unimproved land values increasing approximately nineteen and twenty percent, respectively, from 2020 in Western Montana. As shown below, when considering the five-year period beginning in 2017, prior to 2021, average \$/acre land values for properties 640 acres in size and greater in the Western Montana market area were growing at a moderate pace in the range of five to seven percent.



Longer-term trends in average unimproved dollar per acre values suggest cyclical activity reminiscent of general business cycles. This relationship is shown in the figure below. Coming out of the 1980's the utility and value of rural real estate in Montana and throughout the Country was strongly tied to agricultural productivity. The combination of strong agricultural influence and historically high interest rates resulted in a slow recovery for rural land values. Beginning in about 2004, rural land values in Western Montana began to be impacted by transitional influences that included speculative development and recreation. These factors created a short-lived expansion that peaked in 2007. Initially land values were slow to react as sellers' inability to accept falling values created friction shoring up land values through much of 2008. However, the combination of state, local, and national economic troubles decreased market activity and impacted land values throughout the Western Montana market area. Values declined significantly reaching a low in 2010. This decrease in

values reflected by the data is somewhat exaggerated as the properties selling during this time-period tended to be highly leveraged and low-amenity properties. The market for high-amenity, more desirable recreational properties entered a holding pattern, with many landowners having the financial wherewithal to withstand these adverse market conditions. Starting in about 2013, improvement in the ag sector pulled producers back into the market marking the beginning of a recovery in land values.



In Western Montana, the recovery turned to expansion in 2018 when the average dollar per acre land value surpassed the peak experienced in 2007. Spurred in part by unforeseen market forces associated with COVID-19, uncertainty in changing federal tax policies, and inflationary concerns, expansionary forces were amplified in 2021 pushing average unimproved dollar per acre prices in Western Montana to record highs.

Outlook

The overall land market associated with Montana has been strong over the past several years. Much of the market area has seen a reemergence of recreational and/or lifestyle buyers looking for properties located in strategic areas along riparian corridors, adjacent to National Forests, and/or within unique ecosystems.



As we move into 2022, we anticipate a continuation of the market dynamics experienced in 2021. Geopolitical uncertainty coupled with inflationary concerns and potential changes to federal tax policies have the potential to pull investors into safe haven investments such as real estate, straining an already limited supply. Limited supply of quality properties will hinder sales activity but should, at a minimum, shore up values in most areas.

Scarce by nature, large ranch sales tend to be infrequent. Most are held in strong, multi-generational ownerships, or owned by outside investors. In either ownership scenario, the properties are not re-exposed to the market on a regular basis. Subsequently, replicating the events of 2021 that drove much of the sales volume associated with large ranch properties will be difficult at best. The typical buyer of larger ranch properties has the financial ability to withstand adverse market conditions. Subsequently, the probability of these landowners liquidating landholdings during economic downturns is low, adding steadiness to an already stable market.

Outside unforeseen shocks, areas surrounding larger population centers will continue to see transitional influences as demand for housing continues to strain supply.

While increasing commodity prices are widely forecasted, input costs are expected to increase eroding profit margins in the ag sector. The Federal Reserve efforts to curb inflation will push interest rates. While cash has been prevalent in the more recreationally influenced market, the combination of increasing interest rates and headwinds associated with rising input costs has the potential to weaken the more agriculturally influenced regions of Montana.

Norman C. Wheeler & Associates

RANCH PROPERTIES ARE LARGE AND DIVERSE, EACH WITH UNIQUE PHYSICAL FEATURES AND CHARACTERISTICS. MANY OF THE FACTORS DRIVING TODAY'S RANCH MARKET ARE NOT EASILY QUANTIFIED. SUCCESSFULLY NAVIGATING A MARKET WHERE FACTORS OF VALUE ARE HIGHLY SUBJECTIVE AND DIFFICULT TO QUANTIFY REQUIRES IN-DEPTH ANALYSIS.

FINDING A PROFESSIONAL WHO NOT ONLY UNDERSTANDS THE NUMBERS BUT ALSO THE DIFFERENCES IN VALUE FROM ONE AREA TO ANOTHER IS A CRITICAL PART OF MAKING AN INFORMED DECISION. STAYING ABREAST OF ANCILLARY MARKET INFLUENCES IN EVER-CHANGING ECONOMIC CONDITIONS REQUIRES A BROAD PROFESSIONAL NETWORK TO TAP INTO. NORMAN C. WHEELER & ASSOCIATES HAS BEEN INVOLVED IN THE REAL ESTATE BUSINESS SINCE 1958, WITH THE TRADITION AND REPUTATION OF QUALITY APPRAISAL, CONSULTING, AND REAL ESTATE WORK SPANNING OVER SIX DECADES. THIS HAS ENABLED NORMAN C. WHEELER & ASSOCIATES TO MAINTAIN A SOLID NETWORK OF REAL ESTATE PROFESSIONALS FROM THROUGHOUT MONTANA. THESE LONG-STANDING RELATIONSHIPS HAVE ALLOWED NORMAN C. WHEELER & ASSOCIATES TO TRACK, COLLECT, AND MAINTAIN A LARGE DATABASE OF SALES IN A NON-DISCLOSURE STATE WHERE DATA IS DIFFICULT TO CONFIRM.

WITH INCREASED INTEREST IN WESTERN RANCH PROPERTIES, WE AT NORMAN C. WHEELER & ASSOCIATES HAVE PROVIDED CONSULTATION TO NEW AND EXISTING CLIENTS RANGING FROM ACQUISITIONS TO STRATEGIC PLANNING. OUR UNIQUE POSITION WITHIN THE MARKET ALLOWS US TO GO BEYOND VALUATION PROVIDING CLIENTS WITH UNBIASED INSIGHT INTO AN OFTEN LARGE AND COMPLEX INVESTMENT DECISION.

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