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November 24, 2015

Mr. John Roberts
Executive Director
The Natomas Basin Conservancy
2150 River Plaza Drive, Suite 460
Sacramento, California, 95833

Re: Natomas Basin and Competitive Land Markets

Dear Mr. Roberts:

Pursuant to your request, I offer my opinion of prices that a buyer might expect to pay for agriculturally zoned land in the unincorporated portion of the Natomas Basin during the next year.

I have assembled sales of agriculturally zoned Natomas Basin properties of 37 acres and larger that occurred since January 2000. I have excluded any properties located south of I-80. I have also excluded sales that were found to be other than arms length transactions between buyer and seller. Several sales included were under forced circumstances such as a tax sale or foreclosure sale, but the properties were offered and available to the public and their prices were, therefore, considered to represent market values. Forty two (42) sales were found and are considered in the analysis. All of these sales have been confirmed with the buyer, the seller, a person involved with the transaction, or other reliable data.

Sales activity was modest at two sales per year in 2000 and 2001, increased substantially to a rate of three to nine sales annually in years 2002 through 2005, and then dropped back to a rate of 2 to 3 sales annually from 2007 through 2010. There were no sales in 2006 and 2011. One sale occurred in 2012. The only known sale to occur in 2013 was a purchase of 50% interest in a property located within the Sutter Pointe Specific Plan area. Only one property is known to have sold in 2014, and it sold twice. The first sale was in January 2014 as row crop land, and after planting with walnut trees, the site resold in August 2014 as a young walnut orchard. It is important to note that 22 sales, or 52% of all sales, were transacted during the housing boom years of 2002 through 2005. In addition to the 42 sales included in my analysis, I am aware of two additional sales that occurred in late 2010 and the summer of 2011. However, these sales were not included because it appears that they may not have sold as full arms-length-transactions. Therefore, the reported sale prices are not considered reliable indicators of true arms-length sale prices.

During this same fifteen year period, prices increased at a fairly steady rate from less than \$5,000 per acre, prior to 2000, to an average of approximately \$26,000 in 2005. During the period of 2007 through 2010, prices ranged from \$20,000 to \$35,000, and averaged approximately \$26,000. Variations from these averages exist but are usually explained by unique property characteristics or unique conditions of sale. Land prices in general were declining from approximately 2008 through 2010, however, land prices in the Natomas Basin remained fairly level and in some cases increased.

This situation can be attributed to several factors which are unique to the Basin; 1) most of the land in the Basin is owned by developers or speculators who purchased with the intent of a long-term hold; 2) most were financially prepared to hold and were not placed under undue pressure to sell when financing became difficult to obtain and hold; 3) other owners in the Basin, i.e. other than speculators and developers, are local farmers and most have a low cost basis in the land and are not pressured to sell by recently restricted financing; and 4) owners are aware of the growth in development that occurred in the Basin in the last 20 years and they are aware that planning processes are underway which will likely lead to more development in the future.

Although land prices in the Natomas Basin remained generally stable from 2007 through 2010, land prices decreased in 2012. Two of the four sales that occurred in 2009 and 2010 were purchased based on an older option agreement, and it was reported that the developers wanted major price concessions for future take downs, or they may default on the option agreement and walk away from their planned project. Additionally, the sale that occurred in 2012 consisted of approximately 419 acres at approximately \$15,500 per acre. The property has a superior location when compared to most agricultural zoned properties within the Natomas Basin. The 2012 sale price indicates a -53% decrease from the price that the sellers paid when they purchased the land in 2002. This steep decline in price per acre is supported by a UCLA Economic Letter¹, that summarized the findings from a study of land prices from the mid-or late 1990's through mid-2011. The study included 180,000 sales of commercial or residential parcels in 23 metropolitan areas. Four metro areas in California were included, Los Angeles, San Francisco, San Diego, and Sacramento. In summary, land prices throughout the 23 metropolitan areas across the nation trended at a moderate pace from the mid-1990's through 2002, and then accelerated sharply. From 2003 through 2006 the composite index increased nearly 135 percent for the 23 locations, but was at 150 percent for San Diego and Sacramento. However, the gains decreased steeply in 2008 and the first half of 2009, and by mid-2011 the composite index for the 23 locations had fallen more than 50 percent from its peak.

Recent sales and listing activity in the Natomas Basin are summarized as follows.

◆ Approximately 214 acres located immediately east of Powerline Road, and south and west of the North Drainage Canal, sold at \$23,000 per acre in 2015. The seller reported that it is an actual contracted sale with a three year note. Considering the location, this site is well suited for

¹The Great Land Price Swing, Lenders and Investors Beware: Land is a Very Risky Asset, by Stephen D. Oliner, Senior Fellow, UCLA Ziman Center for Real Estate, and Senior Economist, UCLA Anderson Forecast.

NATOMAS BASIN LAND SALES 2000-2015



Year	No. of Sales	Avg. Price
2000	2	\$4,360
2001	2	\$9,865
2002	5	\$13,306
2003	3	\$10,480
2004	9	\$17,515
2005	5	\$26,140
2007	2	\$23,500
2008	3	\$28,446
2009	2	\$22,036
2010	2	\$30,066
2012	1	\$15,506
2013	1	\$10,000
2014	2	\$17,750
2015	3	\$17,833
	42	\$17,613

conservation land uses.

◆ Approximately 303 acres located east of Power Line Road, and north and south of Elverta Road, were optioned in 2015. This property is located immediately east of land owned by TNBC. The option agreement is effective from April 1, 2015 through May 31, 2022. The reported option price is approximately \$16,000 per acre. Additional details of the option are unknown. This property along with 48.5 acres located immediately north of the Sacramento-Sutter County boundary was listed in 2013 for sale as mitigation land at \$27,500 per acre, and no interest was shown at that price. The listing had expired when the current option agreement was contracted.

◆ Approximately 74 acres located immediately west of the Sacramento International Airport, was listed at \$15,000 per acre from June 2012 until it expired on December 31, 2014. The property sold in June 2015 at approximately \$15,000 per acre. This site is limited for conservation land use due to its proximity to the airport.

◆ Approximately 252 acres located immediately west of the Sacramento International Airport was listed at \$13,500 per acre and closed in January 2014 at approximately \$11,000 per acre. The buyer installed a new well and pump, planted the site as a walnut orchard, and resold the young orchard in August 2014 for approximately \$24,500 per acre. This site is limited for conservation land use due to its proximity to the airport.

◆ Approximately 97 acres listed at \$1,500,000 (\$15,464 per acre), is reported to be optioned for five years at \$46,800 per acre. The site is located within the Sutter Pointe Specific Plan Area and is planned primarily for future medium residential development. Although optioned at \$46,800 per acre, considering that if the option is exercised it will most likely be near the end of the option period, the present value of the property as of 2013 was most likely near the listing price, or approximately \$15,500 per acre.

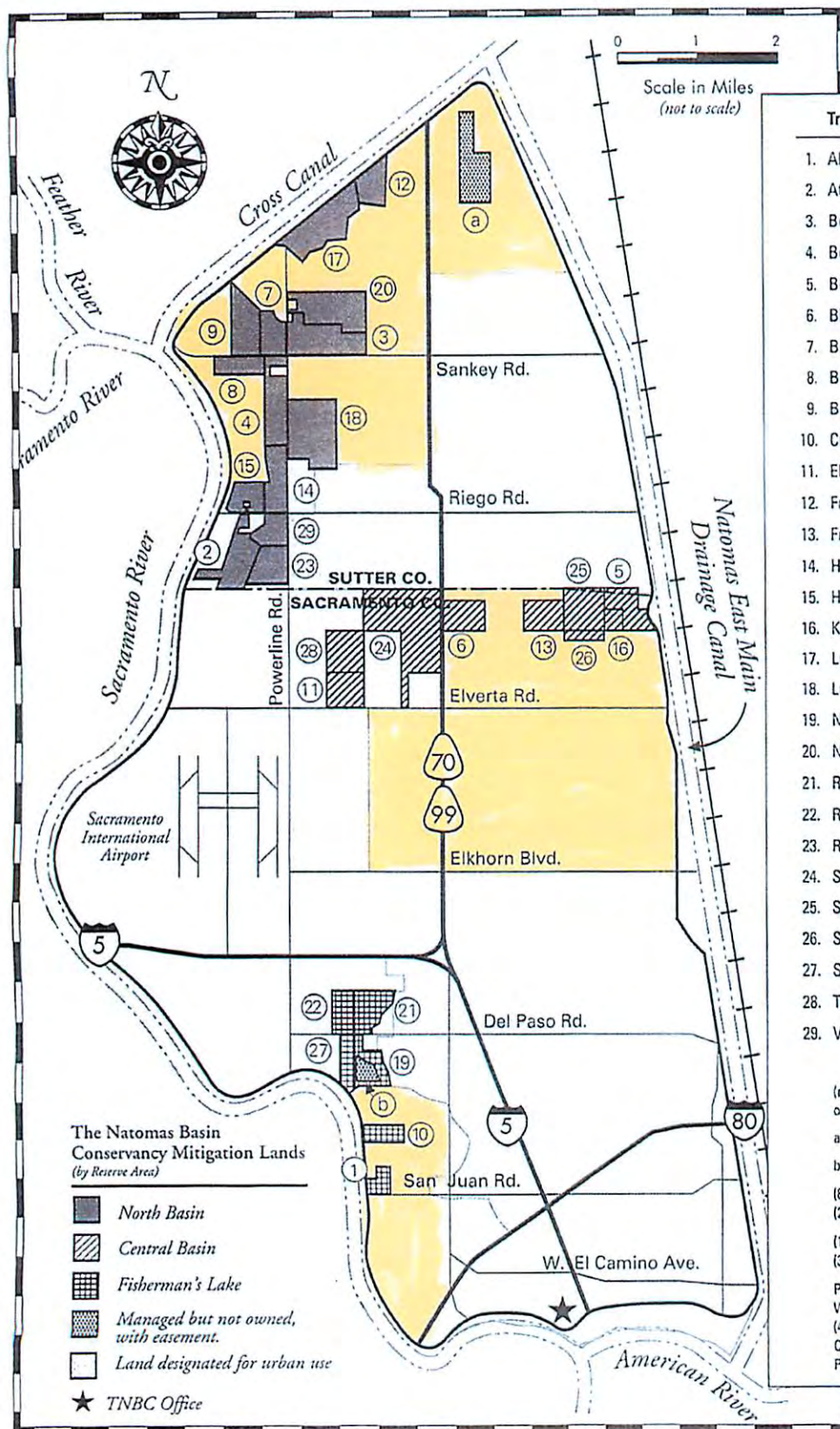
The facing exhibit provides a chart of the 42 land sales tracked in this analysis.

In addition to sale prices for large sites, consideration is also given to the economy, unemployment, and latest trends in home sales. Job growth is a major concern for the economy, and the real estate markets. Unemployment in the Sacramento region was reported in September 2015 to be at approximately 5.2%, a rate that is significantly less than 12.6% at the end of 2010 when the region was deep in an economic slump. Six years after the Great Recession ended, the four county region of the Sacramento Metropolitan Area is close to reaching the pre-recession high of employment in 2007, the year before the recession began. As reported by the Sacramento Bee on August 24, 2015, the four county region had approximately 922,600 jobs, approximately 63,000 jobs below the 2007 peak.

The housing market has steadily improved over the past two years with steady growth. Similar to growth of home sales, sale prices have increased also. New home builders are projecting that 2015 sales will pass the 2008 home sales of 3,136. New home sales in 2014 totaled 2,440, and if sales

2013 BASE MAP

THE NATOMAS BASIN CONSERVANCY



Tract	Acq. Date	Acres
1. Alleghany (14)	11.07.02	50.26
2. Atkinson (16)	06.12.03	199.40
3. Bennett North (4)	05.17.99	226.68
4. Bennett South (5)	05.17.99	132.49
5. Betts (2)	04.05.99	138.99
6. Bianchi West (28)	11.07.06	110.16
7. Bolen North (23)	04.29.05	113.62
8. Bolen South (24)	04.29.05	102.38
9. Bolen West (26)	09.01.06	155.14
10. Cummings (15)	11.07.02	66.83
11. Elsie (29)	11.07.06	158.03
12. Frazer (9)	07.31.00	92.60
13. Frazer South (30)	11.07.06	110.37
14. Huffman East (19)	09.30.03	135.75
15. Huffman West (18)	09.30.03	157.85
16. Kismat (3)	04.16.99	40.46
17. Lucich North (6)	05.18.99	267.99
18. Lucich South (7)	05.18.99	351.89
19. Natomas Farms (11)	07.09.01	55.19
20. Nestor (27)	09.01.06	233.16
21. Rosa East (21)	03.23.05	106.28
22. Rosa Central (22)	03.23.05	100.02
23. Ruby Ranch (17)	06.23.03	91.08
24. Sills (13)	07.15.02	436.41
25. Silva (1)	01.07.99	159.20
26. Silva South 1 (31)	09.28.12	29.12
27. Souza (10)	07.02.01	40.00
28. Tufts (20)	09.29.04	147.95
29. Vestal (25)	09.12.05	94.95
		4,104.25

(n) number in parentheses represents chronological order of acquisition

a. Brookfield/NLIP (180.00 acres)

b. Natomas Farms/NLIP (41.27 acres)

(8) Brennan tract, acquired 6.15.00, exchanged 9.1.06. (242.38 acres)

(12) Ayala tract, acquired 2.20.02, exchanged 11.3.06. (317.37 acres)

Portions of the Atkinson tract (6.76 acres), the Huffman West tract (23.25 acres), and the Natomas Farms tract (41.27 acres) were sold to the Sacramento Area Flood Control Agency for the Natomas Levee Improvement Program (NLIP).

pass 3,000 this year it will show steady progress towards a housing market recovery. It is important to recognize that over most of the past 20 years, an average normal year was approximately 8,000 new home sales. As indicated by the expectation of passing 3,000 sales in 2015, the market is improving but is far from a boom period for new home sales.

The lifting of the building moratorium that had been in affect from 2008 to June of 2015 for the Natomas Basin is considered a significant event for the Natomas area. Planning is underway for development of new homes within the City of Sacramento in the Natomas area, and three land purchases/options for mitigation purposes occurred in 2015. Additionally, the County of Sacramento will hear a formal presentation on a development plan for the 5,700 acre area referred to as "North Precinct" that extends north from Elkhorn Boulevard to the county boundary, and east of Highway 99 to the Natomas East Main Drainage Canal. Planning for future development within the unincorporated area of Sacramento County that is located within the Natomas Basin is primarily limited to the existing Metro Air Park and the "North Precinct". However, it should be noted that these areas will support significant residential, industrial, and commercial development for many future years.

Consideration is also given to the previous discussion regarding the typical land owner of property within the Natomas Basin, and that many have a low cost basis in the land and are prepared to continue with a long term holding period, and are not under financial duress to sell. Additionally, it is also important to recognize that **the primary areas within the Natomas Basin that are best suited for mitigation land are generally limited to the areas highlighted in yellow on the facing map.** The remaining areas are either primarily designated for urban use, are near the airport, or have been previously acquired by The Natomas Basin Conservancy. As the supply of available land for mitigation use decreases, demand for mitigation land is likely to maintain land prices at or greater than land planned for future urban development.

Based on the previous discussion, and giving strong consideration to the recent sales and options that occurred in 2015, it is my opinion that a buyer needing property suitable for conservation uses should be prepared to pay approximately \$16,000 to \$23,000 per acre, for agriculturally zoned land in the unincorporated portion of the Natomas Basin through the year 2016. This price range assumes that the sale is negotiated and closed within a period of 12-months or less.

It must be emphasized that this price range represents a projection of average prices for the market area and does not apply to any particular property. Due to many differences in property characteristics and sale circumstances, prices and values of individual properties may be above or below the projected range.

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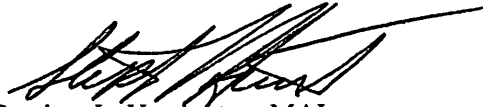


Stephen L. Harrington, MAI
BREA ID# AG004419

Certification

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

1. The statements of fact contained in this letter are true and correct.
2. The analyses, opinions, and conclusions contained in this letter are my personal, unbiased and professional analyses, opinions and conclusions, and are limited only by the reported assumptions and limiting conditions of this letter.
3. I have no present or prospective interest in any property in the Natomas Basin, and I have no personal interest or bias with respect to the client.
4. Compensation for this assignment is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
5. My analyses, opinions, and conclusions were developed, and this letter has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute, which fully incorporate the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation.
6. The use of this letter is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
7. As of the date of this letter, I am in conformance with the requirements of the continuing education program of the Appraisal Institute.
8. I am a Certified General Real Estate Appraiser in the State of California. My certificate number is AG004419, expiring May 4, 2016.
9. This letter does not relate to any specific property and I have not made a personal inspection of any property for purposes of this letter.
10. No one has provided significant professional assistance in the preparation of this report.
11. I have previously provided to the client in 2011, 2012, 2013, and 2014 my opinion of prices that a buyer might expect to pay for agriculturally zoned land in the unincorporated portion of the Natomas Basin.



Stephen L. Harrington, MAI
BREA ID# AG004419