APPRAISAL OF THE GARCIA RANCH IN SAN LUIS OBISPO, CA

Presented to the
Faculty of the Agribusiness Department
California Polytechnic State University

In Partial Fulfillment
of the Requirements for the Degree
Bachelor of Science

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March 2010
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Chapter One

INTRODUCTION

Property appraisals are important for many reasons. Uses for appraisals include: tax purposes, to obtain financing, to buy or sell a property, and business mergers/dissolutions. An appraisal is an estimation/opinion of the value of a property resulting from an analysis of facts taking into consideration experience and judgment. People who usually hire appraisers are banks, lawyers, government tax assessors and individual people. The types of values that can be estimated are: insurable value, market value, salvage value, liquidation value, historical value, developmental value, and agricultural value (The Appraisal of Rural Property). The purpose of this appraisal is to estimate the value of a potential conservation easement agreement for the subject property, to do that the market value of the property must be estimated.

When doing an appraisal, the appraiser must first identify what type of value they are assessing and what type of ownership the owner has. The highest type of ownership is fee simple ownership, in which the owner of the real estate also owns the bundle of rights. The bundle of rights includes the rights to enter, use, sell, encumber, lease and give away the property. There are three approaches to estimating value; they are the cost approach, the income approach, and the comparison approach. They all use some form of substitution to come up with an estimate; that is comparing the property to be appraised with other property that are similar. For agricultural properties, the income approach is the most important analysis to consider when making the estimate.

There are other aspects that affect property value that are not physical aspects of the property; these include social, economic, environmental, political issues. However with
agricultural properties, these things are less important. With agricultural properties, it is important to know soil types, topography, climate, etc.; elements that would affect growth of crops, grass, and the livestock.

Before an appraiser even looks at the property, they must determine what type of value they are estimating. They also must know what type of ownership the owner has. Then the appraiser must look at the county recorder’s office to obtain any information about the property that they can. Then the appraiser “walks” the property to get all the additional information needed to determine the estimate. The final estimate is written up in a formal appraisal that follows.

The property that I will be appraising is the Garcia Ranch, APN #067-161-003. It is located in San Luis Obispo in the foothills off of Los Osos Valley Road. The property is 435 acres and used for cattle operations; it has an unpermitted building on it as well a cattle corral. The property’s unique appraisal aspect is that it has the potential to become a conservation easement. Most of the adjacent properties to the subject property are under Williamson Act Contracts, which restricts the use of those properties to agricultural use only for at least ten years, in exchange for a tax break. An alternative to the Williamson Act is selling your development rights under a conservation easement. A conservation easement is a voluntary contract that last into perpetuity. The contract gives up certain rights to the property while still remaining privately owned by the original owner; these rights might include developmental rights and the right to subdivide. Since the central coast is also a prime location for development, if the developmental rights were given up in a conservation easement then the value of the property would probably be lowered but the owner would receive compensation for the easement.
Problem Statement
What is the value of a potential conservation easement for the Garcia Ranch in San Luis Obispo, California and how will a conservation easement affect market value.

Hypothesis
If the subject property was to become a conservation easement, the market value of the property would be lowered.

Objectives
1. To make an educated estimate of the market value for the property
2. To determine the value of a conservation easement for the property
3. To follow the Uniform Standards of Professional Appraisal Practices to the best of my ability

Justification
Conservation easements let ranch owners continue to own and use their property for ranching while preserving it for future generations and getting compensated for giving up their developmental rights. This appraisal can also be useful to the owner and other parties (including government agencies) in the following situations:

- Sale of the property
- Valuing the property for financing or lending purposes
- Taxation
- Conservation Easements
- Insurance Purposes
Chapter Two

LITURATURE REVIEW

A conservation easement is “voluntary, legally binding agreement that limits certain types of uses or prevents development from taking place on a piece of property now and in the future, while protecting the property’s ecological or open-space values” (Nature Conservancy). It is a way for ranchers to keep their land in ranching while saving money on taxes, however they are giving up the rights to develop and subdivide the land in perpetuity. The tax break can sometimes help a family stay in their business, such as ranching, because they can afford the taxes on the land. Some families, who don’t have a conservation easement, have had to subdivide their land in order to pay the high estate taxes. For example, if they were to sell the land, the conservation easement would stay with the land no matter who buys it. Each conservation agreement is different and is set up to meet the needs of the landowner as well as the needs of the conservationists. Conservation easements have been growing in popularity over the years; in 2000 there was 2.6 million acres in conservation easements (The Nature Conservancy). For families who want to continue ranching and keep the land undeveloped it is a good way to make sure that the land is preserved while being compensated in return.

The Land Conservancy of San Luis Obispo is a non-profit organization that buys land for conservation and also buys conservation easements. They say that usually conservation easements are sold for 25 to 60 % of the fair market value. Another entity that buys conservation easements is the United States Department of Agriculture who has a Farm and Ranchland Protection Program (FRPP). That agency has a policy that it can only buy a conservation...
easement for 50% of the appraised value. However Todd Murphy, and Accredited Rural Appraiser (ARA) in San Luis Obispo says that conservation easements can be donated or sold for less than 25% of the fair market value. Some families or individuals might choose to donate their property or just their developmental rights as a conservation easement to preserve the land and make sure that future generations are able to enjoy that same property as it is currently. When a conservation easement is donated it is hard to find a record of those transactions. Conservation easements are acquired by different entities so it is difficult to find records of all the conservation easements in an area because they may be held by a few different firms. Properties that are adjacent to existing conservation easement might be more attractive to entities looking to expand on those existing easements and therefore the subject family might be able to receive more compensation. That is one example of the many aspects that affect the price of a conservation easements.

The owners currently preserve the land by using it as a cattle ranch. The lifestyle that comes with being in the ranching business is not always a glamorous one, but it is one that cattlemen are not willing to give up easily. In a report called “Conserving Monterey County’s Ranchland: Trends and Strategies” (Crous, 2007) they describe the mentality that the ranchers in the Monterey and surrounding areas have towards there ranching lifestyles. The majority of these ranchers (68%) do not want to sell their land or change it to a different commodity, even if they would make more money if they did. These ranchers want to keep their ranchland exactly that, ranchland. They will give up the extra profit in return for the lifestyle that they have as ranchers. For ranchers such as these a conservation easement would be a great solution; they can keep their land as ranchland and at the same time they can save money on taxes.
Other seniors’ projects that are rural appraisals have had differences in the methods they use to evaluate their properties. In Todd Comb’s project, “Appraisal of Lion Rock Ranch, Morro Bay, California” 2008, he used only the cost and sales approach, he did not do the income approach because the property did not have an income producing commodity. Another project done by Lawerence Atkins called “Appraisals of Martin Ranch” 2006, used the following four powers as the main aspects for appraising that property; they were: utility, scarcity, desire, and effective purchasing power. It also did not have any income producing commodity. A third senior project, “Appraisal of Rock Creek Ranch” 2006, done by John Paul Orlando highly focused on the social, political, environmental, and economic forces that affected the value of that particular property. All these methods are necessary to valuating a property, however they should all be used together to come up with the most accurate estimate possible.
Chapter Three

DEVELOPMENT OF STUDY

Selection of Subject

The subject property is interesting because it is surrounded by lands under the Williamson Act, but it is not under any contracts itself (Figure 2). This provides a unique appraisal aspect because it has the potential to be made into a conservation easement and therefore change the value of the property. A conservation easement could lower the price of the property while taking away some of the owners rights to property. The job of the appraiser is to estimate the difference in market value of the property before the conservation easement and after. In theory, the difference between the before and after market values would be the value of a conservation easement, however it is more practical to decide what percent of the property’s market value would an entity pay for the conservation easement. The property is unique because it is a rural zoning while most of the adjacent properties are agricultural zoning (Figure 5).

Procedures in Collection of Data

All kinds of data are collected in the appraisal process to determine the value. Some of the data that is collected determines area and neighborhood analysis, real estate trends in the area, and information to determine highest and best use for the property. Appraisers first start looking for data in their own personal records. Usually appraisers have been working in the same area for a long period of time and will have records and previous appraisals relevant to the subject property and the area analysis; including economic, social and demographic data for the region. I used data collected for a previous appraisal project done completed for AGB 326 that
was relevant to the subject property. I also contacted a rural appraiser in San Luis Obispo, Todd Murphy, ARA and MAI who helped me gather information such as sales comparables and land rent values for the area that was essential in the appraisal process.

The next place to look for data is national, state, and county sources. These include the county recorder’s office and the county assessors’ office; there they have maps of the region and parcel maps. At the recorder’s office they have records of property transfers and the property tax paid. This information is used to find ownership history of the property and the original sale value.

An important resource for appraisers is the Multiple Listing Service (MLS); this shows other properties that are listed for sale and their listing price. Other agencies that are good for collecting data on a ranch property are the Farm Service Agency (FSA), The National Resource Conservation Service (NRCS), the Agricultural Marketing Service (AMS) and the National Agricultural Statistics Service (NASS), part of the United States Department of Agriculture (USDA). Since this particular property is on the coastal boundary other agencies that can be used as data sources are California Coastal Commission (CCC), the Bureau of Land Management (BLM), and Agricultural Extension Services (AES). Some of the data collected from these agencies are soil and topography information for the property, rights and laws associated with the property and data pertaining to the laws and regulations.

Information that is specific to the property help to determine the cost approach usually comes from a book by Marshall and Swift, who have a unit in place system that helps you to estimate the cost for reproducing an improvement and the property. The appraiser also collects income receipts from the property to determine the income production on the property.
The process of data collection for an appraisal is ongoing. An appraiser is always collecting data relevant to the area in which they appraise, including information for sales comparables, economic, social, political, and environmental data that affects property.

**Analysis of Data/ Techniques**

There are three approaches to estimate the market value, cost approach, income approach, and sales comparison approach. The cost approach is the cost it would be to replace this property; the cost to replace the two homes, the barn, corrals, arena, etc. Information from the Marshall and Swift book is added together to determine a unit-in-place cost for each of the improvements on the property.

The income approach is the summation of all income sources for the property. To determine the income approach, receipts from all the income producing operations on the property will be collected to evaluate income. Income for this property comes from cattle sale and rent from a rental house on the property.

As part of the sales comparison approach, at least four similar properties will be identified to compare to the subject property in the same area as this property. For the sales comparison approach, the comparable properties need to be adjusted for differences in the property compared to the subject property. If there are a lot of adjustments made on a property, it might not be a good comparable.

Once there are three estimates for the property (one from each: sales, cost and income), the appraiser’s job is to evaluate the three values and come up with one market value for the property: what could this property sell for on the market at the time of the appraisal. All the information collected needs to be considered when making the final estimate.
Chapter Four

THE APPRAISAL REPORT

Of

The Garcia Ranch
San Luis Obispo, CA

Submitted To
Agribusiness Department
California Polytechnic State University
San Luis Obispo, CA 93407

Prepared by:
Ashley Ogden

Date of Appraisal
March 08, 2010
Dear Faculty of the Agribusiness Department,

I have conducted an appraisal on the 435 acre ranch owned by the Garcia Family located at 3993 Clark Valley Rd, San Luis Obispo, CA 93405. This rural zoned property has an assessor’s parcel number of 067-161-003 and is primarily used to raise roping steers for sale.

The purpose of this appraisal is to estimate the market value of the subject property and to value a potential conservation easement for the property. This report is based on the contingent and limiting conditions, certification, and market value definition as defined in this appraisal report.

Three different techniques were used to estimate the value of the property. These techniques are the cost approach, income approach, and sales comparison approach to value. By utilizing all three methods I am able to ensure the most accurate estimate of market value for the subject property. The property was walked and inspected on February 21, 2010. The effective date of the appraisal is March 08, 2010.

This appraisal is only good for as long as the conditions in the economy remain the same as they currently are. The appraisal is based on current market conditions and different market conditions will change the value of the property.
Attached is a prepared appraisal report for the Garcia Ranch that gives the most accurate and thorough estimate of value that was possible to be determined based on my knowledge, skill, and experience. I conclude that all my statements and opinions to be true and came up with the estimate to the best of my ability. I, as an appraiser, have concluded that the subject property be valued at $1,659,499 and that a potential conservation easement be estimated at $663,799.60.

Sincerely,

Ashley Jane Ogden
Summary of Salient Facts and Conclusions

A. Property Identification:
   APN# 067-161-003

B. Effective Date of the Appraisal
   March 08, 2010

C. Property Ownership and Rights Appraised
   Current Owner: Eileen M Damon Tre Etal (Survivor’s Trust)

D. Physical Address
   3993 Clark Valley Rd, San Luis Obispo, CA 93405

E. Property Location
   The property is located in the areas of Ranchos Canada de Los Osos and La Laguna, on
   the southwest side of San Luis Obispo on the central coast of California.

F. Acreage Breakdown:
   435 acres

G. Zoning:
   Rural

H. Highest and Best Use
   Grazing land with a conservation easement

I. Value Indicated by Cost Approach
   $1,659,499

J. Value Indicated by Income Approach
   $69,600

K. Value Indicated by the Sale Comparison Approach
   $1,620,353.25
L. Final Value Estimate

$1,659,499

M. Value of Conservation Easement:

$663,799.60
Assumptions and Limiting Conditions

The appraiser’s certification that appears in the appraisal report is subject to the following conditions:

1. The appraiser will not be responsible for matters of a legal nature that affect either the property being appraised or the title to it. The appraiser assumes that the title is good and marketable and, therefore, will not render any opinions about the title. The property is appraised on the basis of it being under responsible ownership.

2. The appraiser has provided a sketch in the appraisal report to show approximate dimensions of the improvements and the sketch is included only to assist the reader of the report in visualizing the property and understanding the appraiser’s determination of its size.

3. The appraiser has examined the available flood maps that are provided by the Federal Emergency Management Agency (or other data sources) and has noted in the appraisal report whether the subject site is located in an identified Special Flood Hazard Area. Because the appraiser is not a surveyor, he or she makes no guarantees, express or implied, regarding this determination.

4. The appraiser will not give testimony or appear in court because he or she made an appraisal of the property in question, unless specific arrangements to do so have been made beforehand.

5. The appraiser has estimated the value of land in the cost approach at its highest and best use and the improvements at their contributory value. These separate valuations of the land and improvements must not be used in conjunction with any other appraisal and are invalid if they are so used.
6. The appraiser has noted in the appraisal report any adverse conditions (such as, needed repairs, depreciation, the presence of hazardous wastes, toxic substances, etc.) observed during the inspection of the subject property or that he or she became aware of during the normal research involved in performing the appraisal. Unless otherwise stated in the appraisal report, the appraiser has no knowledge of any hidden or unapparent conditions of the property or adverse environmental conditions (including the presence of hazardous wastes, toxic substances, etc.) that would make the property more or less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, express or implied, regarding the condition of the property. The appraiser will not be responsible for any such conditions that do not exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, the appraisal report must not be considered as an environmental assessment of the property.

7. The appraiser obtained the information, estimates, and opinions that were expressed in the appraisal report from sources that he or she considers to be reliable and believes them to be true and correct. The appraiser does not assume responsibility for the accuracy of such items that were furnished by other parties.

8. The appraiser will not disclose the contents of the appraisal report except as provided for in the Uniform Standards of Professional Appraisal Practice.

9. The appraiser has based his or her appraisal report and valuation conclusion for an appraisal that is subject to satisfactory completion, repairs, or alterations on the assumption that completion of the improvements will be performed in a workmanlike manner.

10. The appraiser must provide his or her prior written consent before the lender/client specified in the appraisal report can distribute the appraisal report (including conclusions about
the property value, the appraiser’s identity and professional designations, and references to any professional appraisal organizations or the firm with which the appraiser is associated) to anyone other than the borrower; the mortgage or its successors and assigns; the mortgage insurer; consultants; professional appraisal organizations; any state or federally approved financial institution; or any department, agency, or instrumentality of the United States or any state or the District of Columbia; except that the lender/client may distribute the property description section of the report only to data collection or reporting service(s) without having to obtain the appraiser’s prior written consent. The appraiser’s written consent and approval must be obtained before the appraisal can be conveyed by anyone to the public through advertising, public relations, news, sales, or other media.*

*This information was extracted from Freddie Mac Form 439 6-93.

This appraisal assumes that the appraiser is USPAP certified and that means the appraiser has also had years of appraisal experience, although this appraisal was done by a college student with minimal appraisal experience.
Factual Data

I. Identification of Property

The property is located in the areas of Ranchos Canada de Los Osos and La Laguna, on the southwest side of San Luis Obispo on the central coast of California. Access to the property is through an easement off of Los Osos Valley Rd. Perfumia Canyon Road (east) and Clark Valley Road (west) connect to the property on opposite sides.

A. Zoning

The subject property is rural zoning. Most of the surrounding properties are zoned for agriculture which makes the subject property more valuable. The reason for this is that the surrounded properties can’t be developed making the subject property more desired by buyers that would want privacy and unobstructed views.

B. Hazards

i. The entire property is in a Very High Fire Zone

ii. The property is just outside of the Costal Boundary

iii. The property is in a landslide risk and geological study area

iv. The property is slightly in a “sensitive resource area”

v. The property is not in a flood area

II. Legal Description of Property

RHO LS OSOS & LL PTN LT 73
Rancho Los Osos & Laguna Lake, Portion of Lot 73
III. Appraisal Objective

A. Purpose of the Appraisal –

The subject property is currently not under a conservation easement contract. All the adjacent properties are under conservation easements. The purpose is to find the difference in value if the subject property was to become a conservation easement.

B. Function of the Appraisal-

This appraisal was done to fill the requirements for the Senior Project requirement for The Cal Poly Agribusiness Department.

IV. Definition of Market Value

The most probable price which a property should bring in a competitive open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently and knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised and each acting in what they consider their best interests; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U.S, dollars or in terms of financial arrangements comparable there to; and (5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions* granted by anyone associated with the sale.

*Adjustments to the comparables must be made for special or creative financing or sales concession. No adjustments are necessary for those costs which are normally paid by
sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparison to financing terms offered by a third party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of financing or concession but the dollar amount of any adjustment should approximate the market’s reaction to the financing or concessions based on the Appraiser’s judgment.

V. Scope

The appraisal process involves obtaining information from the San Luis Obispo County Records and Assessor’s Office and also from the property owners directly. The value that is to be determined by the appraisal was determined, and in this case is market value. The neighborhood analysis was performed to determine the effect that the surrounding area has on the value of the property. After all preliminary information was found the property was walked and dimensions of the buildings were measured. Detailed notes were taken as to certain features that were found on the property such as plumbing fixtures, wells, tanks, etc. After this research was done the Marshal and Swift handbooks were used to determine the reproduction cost of the unpermitted building and the corral on the property; these numbers were used for the cost approach. Todd Murphy, ARA was helpful in getting me sales comparables in the area so that the sales comparable portion of the valuation process could be done. These values from comparables were also used to determine the bare land value for the subject property. The income approach was determined by gathering information on the land rent values of similar ranches in the area. Reconciliation was the final step of the
appraisal process to conclude an estimate of value based on the findings from the cost, income, and sales comparison approaches. From the market value determined, the price of a potential conservation easement was estimated.

VI. Property Rights Appraised

The Eileen M Damon, Trustee of the Damon Family Estate, Survivor’s Trust has a Grant Deed to the property with no Deed of Trust as the property is fully paid for. There is an agreement that states that the owners of this property have easement rights over three adjacent properties to the east to access the subject property. The owners of the subject property are the dominant tenements. The zoning on the subject property is rural.

VII. Effective Date of Appraisal

a. The property was walked on February 21st, 2009
b. The effective date of the appraisal: March 8th, 2010

VIII. Ownership History

The ownership history was found through the records kept at San Luis Obispo County Clerk-Recorder’s Office. The first title on record was George and Clalia Johe who I believe were the first people to own the parcel since it has been divided into its current size. In 1933 the property was bought by Ercole Brughelli, Eileen Damon, Dolly Garcia, and Aurelio Brughelli’s will. The property has since remained within the same family but has legally transferred in respect to the titleholder. In 1992, Ercole Brughelli and the Will of Aurelio Brughelli were taken off the will. Recently in 2009 the property was transferred to the Damon Family Survivor’s Trust, which is the same family but a different trust.
<table>
<thead>
<tr>
<th>Year</th>
<th>Owner(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre 1933</td>
<td>George J. Johe and his wife Clalia D. Johe</td>
</tr>
<tr>
<td>1933-1992</td>
<td>Ercole Brughelli, Eileen Damon, Dolly Garcia, and the Will of Aurelio Brughelli</td>
</tr>
<tr>
<td>1992-2009</td>
<td>Eileen Damon and Dolly Garcia</td>
</tr>
<tr>
<td>2009 -Present</td>
<td>Eileen M. Damon, Trustee of the Damon Family Survivor’s Trust</td>
</tr>
</tbody>
</table>

IX. AREA-REGIONAL AND NEIGHBORHOOD ANALYSIS

A. Physical Considerations

The property located at 3993 Clark Valley Road in San Luis Obispo is legally accessible by easement rights that connect off of Los Osos Valley Rd. The easement goes across three different properties before connecting to the subject property on the east end of the parcel. The easement roads are all dirt roads that need regular maintenance throughout the year especially during the rainy season. There are some nice views from certain sites on the property of the Morro Bay Rock and the Pacific Ocean. These views will be protected because the adjacent properties are under the Williamson Act and cannot be developed while under those restrictions. Properties under the Williamson Act sign a 10 year contract that restricts the development rights of the owners. In return they receive a tax break.

San Luis Obispo has a Regional Airport, which is commercial and private. There is an Amtrak Train that runs north to San Francisco, Portland, and Seattle. The Amtrak line also runs south to Los Angeles. There is the SLO Transit that is for local transportation. There is also the Regional transit that travels to other nearby cities.
The climate in San Luis Obispo is a moderate climate with August being the warmest month on average with a temperature of 82°F. December is the coolest month on average with a temperature of 66 °F. The warmest temperature recorded was in 1987 with 112°F. The coolest temperature recorded was in 1971 of 12°F. With respect to the property, there is coastal breeze coming from Los Osos. There are also nice views from the property of the Morro Bay Rock and the Pacific Ocean.

B. Social Considerations

There are 265,297 people in San Luis Obispo County as of 2008, with 43,636 people within the city limits of San Luis Obispo. San Luis Obispo has Spanish heritage. About five miles from the property, in the downtown area, is an old mission founded by Father Junipero Serra in September 1772. The mission was named after Saint Louis Bishop of Toulouse, France. It is now officially named San Louis Obispo de Tolosa. About three miles southeast from the property is the Laguna Village Shopping Center. This includes twenty-five different stores ranging from dinning to dry cleaning. There is Spencer’s Market, Subway, Upper Crust, Eurotan, Jenny Craig, Law office of John and many more stores. Costco, Home Depot, Old Navy, and Trader Joes are located within a 5 mile radius. Also, to the southeast about two and half miles is the bank, Sesloc. Then continuing down the street is Chase Bank or Heritage Oaks Bank.

The property is in the San Luis Obispo Coastal Unified School District. There are many schools within a 6 mile radius of the property. There is Bellevue-Santa Fe Charter School, Bishop’s Peak/Teach Elementary School, Los Ranchos Elementary School, Baywood Elementary, Hawthorne Elementary, Sinsheimer Elementary, Sunnyside
Elementary, Bishop’s Peak Elementary School, Laguna Middle School, San Luis Obispo High School, Mission Prep and Pacific Beach High School. Not to mention Cal Poly State University and Cuesta College; which is a junior college.

There are three movie theaters in San Luis Obispo, one being an independent theater. Additionally, Cal Poly has a Performing Arts Center with a wide array of performances. There is the San Luis Obispo Little Theatre, not to mention other little theaters such as The Great Melodrama located nearby in the town of Oceano, about 18 miles south.

There are many different churches from which to choose: First Baptist, Church of Nazarene, United Methodist, Grace, Presbyterian, Seventh Day Adventist, and Lutheran Church.

With respect to the property, there are multiple parks such as Emerson, French, Johnson, Lauguna Hills, Islay Hill, Mitchell, Jack House Gardens, Laguna Lake, Meadow, Santa Rosa, and Sinsheimer Park, all of which are located in San Luis Obispo.

Additionally, there is a nearby state beach called Montano De Oro. Many people go there for surfing and hiking. There is also Pismo Beach located about 16 miles away, which consists of small shops and restaurants as well as a wealth of beaches to enjoy, and sand dunes for ATV riders.

Property Maintenance Standards of the City Municipal Code states that the premises should be neat and clean. There should not be any boxes, furniture, auto parts, appliances, or personal belongings on the exterior of the house or garage (including porches) visible from a public right-of-way. Also, there should not be anything placed on the roof, shed, garage, or carport.
C. Economic Considerations

In the San Luis Obispo County, there are several outlets to dispense of agricultural products. There are nine different operational farmer’s market locations with the closest to the property being in San Luis Obispo City and Morro Bay.

The area surrounding the property offers an adequate amount of agricultural support. The city of San Luis Obispo offers a farm bureau and has a Farm Supply store within 10 miles of the subject property. The surrounding cities also have additional specialty services with available highways for ease of transportation. The subject property is within 10 miles of two major highways.

D. Infrastructure

U.S. 101 links San Luis Obispo to Los Angeles and San Jose. Highway 1 follows the California coastline. San Luis Obispo is 80 miles from Interstate 5. State highways 41, 46, 58 and 166 provide access to central and eastern California.

The surrounding agricultural properties of the county vary in both size and products produced. Ranging from 10 – 1000 acres across a variety of terrains, but are mainly family-owned operations. This offers a variety of comparable properties with a wealth of expertise and labor pools. The subject is also within 10 miles of California Polytechnic University, a valuable resource of agricultural information and experts in the field, equipped with equine, dairy, poultry, and other agricultural related fields of study.

E. Population:

<table>
<thead>
<tr>
<th>Census</th>
<th>San Luis Obispo City</th>
<th>San Luis Obispo County</th>
<th>California</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>44,750</td>
<td>270,429</td>
<td>36,144,000</td>
</tr>
</tbody>
</table>
F. Governmental Considerations

The subject property is located within the city of San Luis Obispo and falls under the SLO Planning Area. It is currently zoned for agricultural use and also falls under jurisdiction of the newly passed proposition 8. Proposition 8 is a form of assessment relief that may be applied when a property’s taxable value exceeds the current market value. The San Luis Obispo County Assessor has applied the Proposition 8 reduction to 18,427 properties in the amount of $732,795,867, which will result in a countywide decrease of $7,327,958 in property tax revenues for the 2008-2009 fiscal-year.

G. Tax Considerations

- The Sales and Use tax rate: 8.75%
- Property tax: 1.1% of taxable value
- Personal income tax: 9.3%

H. Fire Safety

Since the property is in a high fire zone, fire safety is a key factor. There are currently four city fire stations serving the city and county properties (during the day time hours). CDF takes over county properties after nightfall. An important consideration is that the property has limited access to it and fire engines would have limited access to the property as well.
X. Property Description and Agricultural Use

1. Site Analysis

   a. Description

      The property is located on the southwest side of San Luis Obispo. Access to the property is through an easement that goes across three neighboring properties to the east side of the subject property. The easement comes out at Los Osos Valley Road, just west of where it intersects with Foothill Rd. The easement road is a dirt road that needs some maintenance throughout the year. The entrance to the property is where the easement meets the property on the east side of the property. There are two other entrances to the property that go through the adjacent neighbors’ properties, but they are not considered legal because there are no documents stating their right. However, the current owners use them regularly. One of these entrances is through Clark Valley Rd and the other through an adjacent property to the south. There are nice views of Morro Bay rock and the Pacific Ocean from certain sites on the property. The property is completely fenced in as one parcel; the fences and gates are in good condition.

      Soils include Diablo and Cibo clays, Gazo-Lodo clay loams, Lodo clay loam, and some Salinas silty clay loam (Figure 7). The Diablo/ Cibo clays are located on slopes ranging from 9 percent to 50 percent. In the coastal San Luis Obispo area they represent 5.7 percent of the total soils. Diablo clay is “deep [and] well-drained soil is on hills. It formed in material weathered from sandstone or shale. Slopes are generally complex. Elevation ranges from 25 to 1,400 feet. The mean annual
precipitation is about 28 inches, and the mean annual air temperature is about 58° F. The frost-free season ranges from 245 to 270 days” (NRCS). “The Cibo series consists of moderately deep, well drained soils that formed in material weathered from basic igneous rocks. Cibo soils are on foothills and mountainous uplands and have slopes of 2 to 75 percent. The mean precipitation is about 16 inches and the mean annual air temperature is about 61 degrees F” (NRCS). The Gazolodo clay loams are located on 15 to 75 percent slopes and represent 3.8 percent of the San Luis Obispo coastal area. The lido clay loams also are located on slopes ranging from 15 to 75 percent slopes and represent 2.6 percent of the subject area. “The Lodo series consists of shallow, somewhat excessively drained soils that formed in material weathered from hard shale and fine grained sandstone. Lodo soils are on uplands and have slopes of 5 to 75 percent. The mean annual precipitation is about 20 inches and the mean annual air temperature is about 62 degrees F” (NRCS). Salinas-silty clay loams are on 0 to 9 percent slopes and represent only 1.6 percent of the San Luis Obispo coastal area. “The Salinas series consists of deep, well drained soils that formed in alluvium weathered from sandstone and shale. Salinas soils re on alluvial plains, fans, and terraces and have slopes of 0 to 9 percent. The mean annual precipitation is about 16 inches and the mean annual air temperature is about 59 degrees F” (NRCS). Total slopes on the property range from 0 percent to 75 percent slopes, the property is hilly with some flat valleys in between (Figure 6). The general topography is steep with some flat areas in between (Web Soil Survey).

There are a variety of mushrooms that grow on the property including Chanterelle mushrooms. Theses mushrooms can only grow in very wet conditions indicating the
high rainfall that this property gets. Current owners use the property to run roping steers that they use for personal use.

![Figure 1- Outline of Subject Property](image)

b. Utilities

There is one well on the property that is electricity powered and that is used to provide water for the structure on the house only. The cattle get all their water from a creek that runs through the property. There is also electricity going to the structure on the property, which is located on the very west end of the property.

2. Improvement Analysis

   a. Description

   The property is completely fenced in as one parcel; the fences and gates are in good condition. There is a corral on the west side of the property that is 80 feet by 90
feet with a smaller pen in the corner about 10 feet by 10 feet; the square footage is 2700 sq. ft. One side of the corral is the back side of the neighbor’s barn (Figure 4). The property also has a non-permitted structure on it that is 600 square feet and is one story tall with a loft (Figure 3). Located outside the structure is an outhouse because the structure doesn’t have plumbing.

XI. Unique Appraisal Aspect

The Garcia Ranch is an interesting property because it is adjacent to a few properties that are under Williamson Act agreements which restrict the developmental rights of the owners by agreeing that they will keep the property in Agricultural Use for at least three years. An alternative to the Williamson Act is selling the developmental rights to the property under a conservation easement. A conservation easement restricts the use of the property to whatever the agreement is in perpetuity. A property with a conservation easement is sold with the conservation easement and the easement stays with the property forever. If the Garcia family was to get a conservation easement, they would be giving up the rights to develop their property, in exchange for compensation from whatever entity decided to buy it. I will estimate the value of that conservation easement by finding the market value of the property and deciding to the best of my ability what a conservation easement would be worth. Resources say that conservation easements are worth between 25% and 60%. The owners might require compensation on the higher end, because they do have rural zoning so they have some rights to development. However the entity might argue that because the property is so isolated, the value of a conservation easement would be on the lower end.
Figure 2- Land under Conservation Contracts
XII. Data Analysis and Conclusions

A. Highest and Best Use Analysis

According to the 11th Edition of *The Appraisal of Real Estate* the definition for the highest and best use is: “The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value.” In other words, the highest and best use is the most profitable use of the land that is physically possible and legally permissible.

The highest and best use of the property would be to keep it as grazing land and to sell the development rights under a conservation easement.

“As if Vacant”:

1. Physically Possible-
   Since the property is surrounded by properties under the Williamson Act and is not itself developed, it is a prime location to become a conservation easement. If sold under a conservation easement, the property would still remain in private ownership, under the same owner. The conservation easement would restrict the use of the property to agricultural production, which is the current use.

2. Legally Permissible-
   The property is under rural zoning so it is very feasible to sell the property’s developmental rights under a conservation easement agreement.

3. Financially Feasible-
If the current owners were to sell their developmental rights under a conservation easement, they would keep their current operations the same but in addition, they would receive the compensation for the conservation easement.

4. Maximally Productive-

The landscape of the property does not allow many kinds of agricultural production besides their current operation; which is maintaining a small cattle herd. It is also not a prime location for development at the moment because of its remote access. Under the conservation easement they would be able to continue the same operation which is a good use of the land considering the topography.

B. Valuation Process

There are three approaches to estimate the market value: cost approach, income approach, and sales comparison approach. The cost approach is the cost it would be to replace this property. Information from the Marshall and Swift book is added together to determine a unit-in-place cost for each of the improvements on the property.

The income approach is the summation of all income sources for the property. Since the current management doesn’t sell all of their steers that are raised on the ranch, to determine the income approach, I compared the property to what other similar properties rent for. I took the potential rental income for the this property and used it to determine the income approach.
As part of the sales comparison approach, four similar properties will be identified to compare to the subject property in the same area as this property. For the sales comparison approach, the comparable properties need to be adjusted for differences in the property compared to the subject property. If there are a lot of adjustments made on a property, it might not be a good comparable.

Once there are three estimates for the property (one from each: sales, cost and income), the appraisers job is to evaluate the three values and come up with one market value for the property: what could this property sell for on the market at the time of the appraisal. All the information collected needs to be considered when making the final estimate. It should be noted that not all three approaches are appropriate to be used on every piece of property being appraised.

C. Cost Approach

The cost approach is one of the three accepted approaches for valuing real estate. This approach is based on the premise that the informed purchaser would not pay more for a property than the cost of constructing an equally desirable substitute property minus applicable depreciation. This depreciation includes physical deterioration due to age or wear and tear of the buildings, functional and external obsolescence. One problem that may arise when utilizing the cost approach is that it tends to set an upper limit; the other approaches should also be performed and compared to the value found by the cost approach. As with all the approaches to value, the cost approach is only as good as the data available and the appraiser’s ability to analyze the data.
The improvement on the land is not permitted, therefore for lending or other banking purposes it would not be considered into the value of the property. However for the realistic purpose of this property I have included the value of the structure because it would affect the value if the property was sold.

i. Bare Land Valuation

When the property was transferred into the Garcia Family in 1933, it was transferred “in consideration of $10” (County Clerk-Recorder). Since that information is obsolete. I used Sales Comparables obtained from Todd Murphy, ARA to estimate bare land value.

Using the information from the Sales Comparables, I was able to estimate a bare land value of: $1,620,353.25

ii. Improvement Valuation

The unpermitted structure on the property which is 600 square feet and one and a half stories is valued at $38,472.24

The corral located on the property is valued at $3,283.20

**Total Improvement Reproduction New Cost: $41,755.44**

iii. Depreciation

Total Useable Life/Economic Life: 80 years

Total Effective Life: 5 years

Remaining Life: 75 years

Cumulative Depreciation: 5/80 = 6.25%

Remaining Value: 100-6.25= 93.75%

**Depreciated Value of Improvements = 41,755.44 *93.75= $39,145.75**
iv. Total Value using Cost Approach

The format used to arrive at the indicated value by the cost approach can be summarized as:

\[
\text{Cost New of Improvements} - \text{Depreciation} + \text{Bare Land Value Estimate} = \text{Indicated Value from the Cost Approach}
\]

**Value Determined By Cost Approach: (1,620,353.25+39,145.75) = $1,659,499**

D. Income Approach

Income approach is based on the principle of anticipation, which holds that the present value is indicated by the expectation of future benefits. The appraiser’s job is to estimate the potential gross income of the subject property. This involves using market rates for calculating rental income and any other sources of generating income. This amount, as well as compensating for vacancy and collection losses, will give the property’s effective gross income. Deducting operating expenses will derive the net operating income and then selecting the appropriate capitalization rate will yield an income-based estimated value.

i. Subject Property Operating Statement

Currently the property is used to raise roping steers for the owner’s personal use. After the roping steers are exhausted, they are sold or traded. The income receipts from the cattle operation are variable and not consistent. There is potential for renting the property and that is a more consistent method
to valuing the income potential. Land rent values for this type of ranch range from $5/acre per year to $20/acre per year (Todd Murphy). Factors that affect the rent value are the grass production, water availability, and road access. The subject property would be on the lower rent of the rent spectrum because of the limited road access and because the majority of the property has moderate to steep slopes not flat, so grazing potential is lowered. The best estimate of the rental value would be $8/acre per year based on the previous conditions.

\[ 8 \times 435 = 3480 \text{/ year} \]

ii. The Capitalization Process

The Capitalization rate will convert a single year’s of income into a value of what the investment is worth. By dividing the income that is estimate by an income rate (capitalization rate) will result in the total value/return of the investment. The capitalization rate is estimated to be 5%, so the value of the property would be $69,600.

iii. Value Determined by Income Approach: $69,600
E. Sales Comparison Approach

The sales comparison approach is a set of procedures in which the appraiser derives a value by comparing the property being appraised to similar properties that have recently been sold, applying appropriate units of comparison, and making adjustments to the sale prices of the comparable sales.

The process follows a five step format to arrive at a single value. Steps one and two involve obtaining market research on similar comparable properties to the subject and then verifying that the information found is accurate. The sales comparable information was obtained through Todd Murphy. Step three takes into account the differing units of measure and makes each unit comparable to the subject. Step four adjusts the sales price of each comparable to arrive at step five, the final value as derived from the comparables.

### Sales comparables

<table>
<thead>
<tr>
<th>Sale #</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales Date</strong></td>
<td>06/2006</td>
<td>9/2006</td>
<td>1/08</td>
<td>1/2008</td>
<td>7/2009</td>
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<tr>
<td><strong>Location</strong></td>
<td>Cambria</td>
<td>Cayucos</td>
<td>Cayucos</td>
<td>SLO</td>
<td>Cayucos</td>
</tr>
<tr>
<td><strong>Sales Price</strong></td>
<td>$2,000,000</td>
<td>$3,900,000</td>
<td>$18,075,000</td>
<td>$3,500,000</td>
<td>$3,473,000</td>
</tr>
<tr>
<td><strong>Acreage</strong></td>
<td>885</td>
<td>834.6</td>
<td>2,672.92</td>
<td>1,205</td>
<td>371.62</td>
</tr>
<tr>
<td><strong>Price/Acre (Land Only)</strong></td>
<td>$2,260</td>
<td>$4,433</td>
<td>$6,295</td>
<td>$2,905</td>
<td>$9,346</td>
</tr>
<tr>
<td><strong>Topography</strong></td>
<td>Rolling/Steep</td>
<td>Mostly Steep</td>
<td>Sloping to Level</td>
<td>Gentle to steep slopes</td>
<td>Level/rolling</td>
</tr>
<tr>
<td><strong>Zoning</strong></td>
<td>AG</td>
<td>AG</td>
<td>AG</td>
<td>AG</td>
<td>AG</td>
</tr>
<tr>
<td><strong>Notes</strong></td>
<td>Limited easement</td>
<td>Owner has adj. prop</td>
<td>Remote access</td>
<td>Owner had adj. prop</td>
<td></td>
</tr>
</tbody>
</table>
**Ranch Sale #1**- 06/06; $2,000,000; 885 acres; Rolling to steep slopes; Ag zoning; 9 legal parcels; Thorndyke Ranch, Cinnabar Rock Trail, Cambria (San Luis Obispo County); APN #014-061-015, et al; steeper Santa Lucia Mountain Range ranch; access to Cinnabar Rock Trail is through Santa Rosa Creel Road; marginal, long access road with restrictive access easement affects property; 13 on-site springs; older attractive cabin on posts and piers beside large pond; adjacent land owned by U.S.A.; features good views in all directions, including distant views of the ocean; Ag Preserve Contract.

**Ranch Sale #2**- 09/06; $3,900,000; 834.6 acres; mostly steep slopes; Ag zoning; 6 legal parcels; Ireland Ranch, northern terminus of Thunder Canyon Road, Cayucos (San Luis Obispo County); APN# 046-021-005; scenic, coastal-range ranch with mostly steep terrain; two wells, springs, and small, nicely refurbished cabin, barn, and corrals that contribute about $200,000 leaving $3,700,000 to the land; recent parcel study identified six apparent Certificates of Compliance; listed for $4,400,000 (March 2004); closed escrow September 2006; Ag Preserve Contract

**Ranch Sale #3**- 09/2007-01/2008; $18,075,000; 2,672.92 acres; sloping to level topography; Ag Zoning; San Geronimo Ranch Assemblage, 4055 and 4077 Villa Creek Road and 2720 Picachio Road, Cayucos (San Luis Obispo County); APNs 046-101-008 et al; assemblage purchase of four contiguous parcels by a single buyer; the parcel acquired from Doherty was 103+ acres with 50+ acres irrigated and useable(currently under a Williamson Act Contract); 653.07 acre, vacant property acquired from Caballero; the rest of the ranch comprises San Geronimo Ranch; improvements include main residence and other structures; $1,250,000 total improvement contributory value
Ranch Sale #4- 01/08; $3,500,000; 1,205 acres; gentle to steeply sloping rolling hills; Ag Zoning; 2 legal parcels; Marian Hanson Ranch, off Righetti Road, San Luis Obispo (San Luis Obispo County); APN# 044-021-001 through -004; remote ranch with access gate; located east of Edna Valley, 1 mile beyond locked gate at the end of Righetti Road; access via unpaved easement road crossing a neighboring ranch; stock water provided by year-round and creeks; mostly sloping terrain with several canyons that feed Corral de Piedra Creek; vegetation is open grass with thick oak tree shrub areas; site improvements include partial perimeter fencing and an old set of corrals; historically used for grazing; Ag Preserve Contract

Ranch Sale #5- 07/09; $3,473,000; 371.62 acres; level to rolling with creek slopes; Ag zoning; 1 legal parcel; 3750 Villa Creek Road, Cayucos (San Luis Obispo County); APN# 046-072-003; located 4+ miles northeast of Cayucos; hillside, irrigated farmland, creek corridor vegetation; improvements include single-family residence and corrals of nominal value; bisected by Villa Creek and Villa Creek Road.

Adjustments:
Ranch Sale #4 is most like the subject property, it is in San Luis Obispo and it has access to the ranch through an easement crossing over the neighboring property. The vegetation is also the same with open grass areas and thick oak tree shrub areas. Adjustments however need to be made for size (1,205 acres vs. 435 acres) and market conditions (2008 vs. 2010).
To adjust for size I compared Ranch Sales # 3 and #5; they are adjacent properties that have similar characteristics. The difference is the size of each of the properties. I calculated that for each acre of difference the price per acre goes up $1.32. Ranch prices have been steadily decreasing from 2007, slower than residence prices have been (Murphy). Looking at the trends in the sales comparables, the best estimate is that prices will decrease 5% in 2010. However some indicators say that the market is getting better.

Adjust for Size:

\[
\text{Price per acre} = \left(\frac{2905}{\text{acre}}\right) \times [1.32 \times (1205 - 435)] = 2905 + 1016 = \frac{3921}{\text{acre}}
\]

\[
3921 \times 435 \text{ acres} = 1,705,635
\]

Adjust for market conditions:

\[
1,705,635 \times .95 = 1,620,353.25
\]

**Value Determined by Sales Comparison Approach: $1,620,353.25**

F. Reconciliation and Final Value Estimate

In reconciliation the appraiser reviews the appraisal for errors, inconsistencies, and omissions and reaches a final value opinion. The process of reconciliation includes reviewing each step in the appraisal process, assessing the quality and quantity of the data available, and presenting the final value opinion. The appraiser’s final step is to analyze the resulting figures from the three approaches and choose the one that best represents the value of the subject property. To determine the most appropriate estimate of value for the subject property, the appraiser reconsiders each of the values in light of:
• The type of property being appraised,
• The purpose of the appraisal, and
• Any other factors that may be unique to the appraisal.

The goal of the analysis is to select the value that is most likely to be an accurate reflection of market value. Based on this definition of reconciliation and how to arrive at the final estimate of value, I decided that our subject property would be given the market value of $1,659,499. I arrived at this conclusion based mainly on the sales comparison approach and the cost approach. I used the sales comparison approach to find the bare land value based mainly on the Ranch Sale #4 because it is extremely similar to the subject property. I then added the cost of the unpermitted structure to get the final market value.
G. Valuation of Potential Conservation Easement

Conservation easements are bought and sold for reasons that are different with every case. It is up to the individual owner(s) and to the entity that is buying the easement to decide on what the restrictions are and therefore what the compensation should be. As mentioned previously, conservations easements are bought by the Land Conservancy of San Luis Obispo for between 25% and 75% of the fair market value. The fair market value for this property was estimated at $1,659,499. This property is special because it is surrounded by properties under the Williamson Act, which restricts their use to only agriculture for at least ten years. Since the subject property is in an agricultural area, but is a rural zoning it might make it marketable to certain entities as a potential conservation easement. The subject property is not in a prime location but a giving up their rights to develop might by substantial because of their rural zoning. Therefore, my recommendation for this property is that a conservation easement be sold for 40% of the fair market value, which is $663,799.60. It would be on the lower end because of the location but not extremely low because they would be giving up their rural zoning rights by forfeiting any development opportunity in the future.
H. Certification

Ashley Ogden has taken Rural Property Appraisal along with Agricultural Property Management and Sales, which has helped in preparing this appraisal report. The appraiser is not state certified or a licensed appraiser. The continuing education requirements for the state and appraisal organization have not been met.

I 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 our personal, unbiased student analyses, opinions, and conclusions.
- I have no present or perspective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- The compensation 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 stipulated results, or the occurrence of a subsequent event.
  - The analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have made a personal inspection of the property that is the subject of this report.
Chapter Five

ADDENDA

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Figure 4- The Corral

Figure 5- Zoning
Figure 6- Topography Map

Figure 7- Soils Map
Figure 8 - Cattle on Subject Property

Figure 9 - View from Property
Chapter Six

REFERENCES CITED


San Luis Obispo Assessor’s Office. 1055 Monterey St. San Luis Obispo, CA. March 1st, 2010