

**SEWELL, VALENTICH, TILLIS & ASSOCIATES**

**LEASED FEE EVALUATION  
182,500± ACRES  
USSC LANDS  
AND  
LANDS OWNED BY SGGC  
  
AS OF  
  
DECEMBER 8, 2008**

## **IDENTIFICATION OF PROBLEM TO BE SOLVED**

These analyses represent a component of a prior appraisal completed for the South Florida Water Management District (SFWMD) and are intended to be used only in conjunction with that prior appraisal. This original appraisal, which is actually the second appraisal performed by the appraisers, and which, by reference, is made part of this appraisal assignment, estimated the current market value of the various component parts of all lands owned by the USSC and the SGGC, in fee simple. No leases, encumbrances or other restrictions were included within that prior appraisal of some 182,561.55± acres of land which were divided into component parts based upon their highest and best use.

This current appraisal assignment is performed at the request of our clients, who have asked that we value the encumbered fee based upon the current proposed lease which has yet to be finalized, but is currently being negotiated. This lease, which is included within this report and made part of this report by reference, was presented in draft form only and is dated November 18, 2008.

This Lease calls for the entire 182,500± acres of land to be leased at a rate of \$50/acre per year, paid quarterly in advance. The term of the Lease is for 7 years, however, annual payments are to be made only for a period of 6 years. There are certain provisions in this Lease which allow portions of the land to be released, therefore, affecting the income stream which would be paid by the USSC.

The purpose of this analysis is to first estimate the current market value of the leased fee estate which is proposed to be purchased by the SFWMD from the USSC and the SGGC. This value estimate relies upon the draft copy of the Lease to specify the terms of the Lease, and adopts, pursuant to the request of our client, the assumption that the reversionary value of all lands will be equal to the appraised value of the lands contained in the final approved appraisal report prepared by this appraisal.

**IDENTIFICATION OF PROBLEM TO BE SOLVED,  
CONT'D.**

Finally, we have also been asked to comment upon and identify our estimate of the current economic rental rate for agricultural lands which will be encumbered by the proposed lease.

This information is intended to be used by the intended users previously identified for the purpose of continuing negotiations to acquire the lands which are the subject of both the prior appraisal and this leased fee evaluation.

**CLIENT**

Ms. Ruth Clements  
Deputy Department Director  
Mr. Ray Palmer  
Chief Appraiser  
Land Resources Department  
South Florida Water Management District  
3301 Gun Club Road  
West Palm Beach, FL 33406

**DATE OF LEASED FEE EVALUATION**

December 8, 2008

**IDENTIFICATION OF SUBJECT PROPERTY**

The subject of this leased fee evaluation is that same subject property identified previously within the attached appraisal report consisting of approximately 182,500± acres of land.

**INTENDED USERS**

The client and intended user of this appraisal report is the South Florida Water Management District, Land Acquisition Department, and all appropriate funding partners.

## **INTENDED USE**

The intended use of this leased fee evaluation is to assist our clients in estimating the possible impact which may be caused to the value of the unencumbered fee should the lease be negotiated based upon the terms and conditions outlined within the draft document provided.

## **PURPOSE OF THE LEASED FEE EVALUATION**

The purpose of this appraisal is to estimate the current market value of the leased fee estate, which is equivalent to the value of the fee simple interest, as encumbered by the proposed Lease. This information will then be used to consider any impact to the purchase price which may result from the Lease.

## **DEFINITION OF LEASED FEE**

Leased Fee or Leased Fee Estate represents: "An ownership interest held by Landlord with the right of use and occupancy conveyed by lease to others; the right of Lessor or the leased fee owner and the leased fee are specified by contract terms contained within the lease." As excerpted from 2<sup>nd</sup> Edition of The Dictionary of Real Estate Appraisal, Page 177.

## **EFFECTIVE DATE OF LEASED FEE EVALUATION**

December 8, 2008

## **DISCUSSION OF PROPOSED DRAFT LEASE**

The draft lease which was provided for the appraisers' review consists of 41 pages which provide specific details, terms, conditions and other information pertaining to proposed leasing of the 182,500± acres of land to the USSC and the SGGC. This document has been relied upon for the purpose of completing this evaluation. A summary of the terms and conditions outlined within that draft lease follows.

## **DISCUSSION OF PROPOSED DRAFT LEASE, CONT'D.**

**Lessor:** South Florida Water Management District

**Lessee:** United States Sugar Corporation  
Southern Gardens Grove Corporation

### **USE OF PREMISES:**

Lessor and Lessee have acknowledged the following:

- 1) All citrus trees and groves are owned by Lessor.
- 2) Lessor shall continue to own all cane stubble until expiration of lease.
- 3) Lessee is entitled only to the fruit, i.e. citrus fruit and sugarcane produced by Lessor.
- 4) Lessee may utilize premises solely for permitted uses.
- 5) Lessee's use of the premises shall be in accordance with best management practices and consistent with industry standards.
- 6) All improvements located upon the land are being leased in their "as is" condition.

### **PERMITTED USES**

As referred to in the Lease, permitted uses shall mean all agricultural operations on premises, including:

- 1) The growing of citrus and sugarcane.
- 2) All incidental or related uses.
- 3) Rock mining under leases existing as of the commencement date of the Lease or as otherwise conducted by Lessee solely for use on the premises and not for sale to a third party in connection with its business operations.
- 4) Tenant farming.
- 5) Any other historical business operations of Lessee related to ancillary agricultural business operations.
- 6) Any other use not otherwise described which is agreed to by both Lessor and Lessee in writing.

## **DISCUSSION OF PROPOSED DRAFT LEASE, CONT'D.**

### **LESSEE REQUIREMENTS**

Lessee is required, to the extent practicable, to prevent the infestation of exotic and invasive pets and plants.

Lessee is required to adhere to all management practices described in Schedule 4 attached to the Lease (Best Management Practices).

Lessee shall at all times during the Lease term continuously commence and continue all applicable planting and cultivation of sugarcane crops and the citrus crops. Lessee is not obligated to plant sugarcane on the premises, or continue applicable cultivation after June 30, 2014.

Lessee shall have the right to collect and retain all rents derived from the premises.

### **LEASE TERMS:**

#### **Commencement Date:**

For the purpose of this analysis, the Leased Fee Evaluation reflects an anticipated commencement date of July 1, 2009.

#### **Expiration Date:**

June 30, 2016

## **DISCUSSION OF PROPOSED DRAFT LEASE, CONT'D.**

### **RIGHT TO TERMINATE**

After January 1, 2011, Lessee shall have the right to terminate the Lease by giving a written termination notice, on or before June 10, 2011.

There are 2 opportunities reflected with this Lease to allow the SFWMD to release the USSC from certain components of the land. These partial releases first allow the release of 13,000± acres of land. In this partial release, which gives no specific timing for the partial release, we have assumed, pursuant to the request of our client, that this partial release will occur in Year 4. The lands released will consist of approximately 3,000± acres located in the Pahokee Northeast area, and 10,000± acres located easterly of Blumberg Road. The second partial release references the opportunity to gain control of 30,000± acres which are anticipated to be located east of Blumberg Road. This second partial release is anticipated to occur, if at all, at the end of Year 6. We have proceeded with this analysis based upon the assumption that this Option to Terminate the lease will be based upon a termination date occurring 3 years subsequent to the assumed date of commencement of July 1, 2009.

### **OPTIONS TO TERMINATE LEASE**

#### **First Partial Release:**

Lessor shall have the right to terminate the Lease for 13,000± acres in aggregate. This option to terminate can apparently be exercised during the term of the lease. For the purpose of this analysis, we have assumed this release to occur at the approximate midpoint of the Lease, say at the beginning of Year 4.

#### **Second Partial Release:**

Lessor shall have the right to terminate this Lease for portions of the property not to exceed 30,000± contiguous acres by providing written notice to Lessee on or before December 15, 2013.

## **DISCUSSION OF PROPOSED DRAFT LEASE, CONT'D.**

### **RENT:**

Lessee shall pay in advance to Lessor in quarterly rental payments \$50/acre/year, multiplied by the acreage comprising the premises which represents 181,000± acres. This analysis has been performed relying upon the actual size and total acres contained within our appraisal report.

Rent shall not be payable during the last 12 months of the Lease, i.e. July 1, 2015 to June 30, 2016.

Additionally, Lessee is required to pay all applicable sales and use taxes, the intent being that this Lease shall be totally and absolutely net to Lessor.

### **ASSIGNMENT AND SUBLETTING:**

Lessee shall not assign, delegate, encumber, mortgage, pledge or otherwise transfer any or all of its rights or obligations as set forth in this Lease without prior written approval of Lessor.

The evaluation of the leased fee interest associated with this property has been accomplished by carefully examining the draft copy of the USSC lease which specifies the basic terms and conditions upon which this lease will be founded. Specifically, this Lease provides the opportunity for the Lessor to occupy and utilize the land for a period of 7 years. The rental rate to be charged for the right to occupy this land is based upon \$50/acre, triple net, to the Lessor for a period of 6 years. There is no rent to be paid in the 7<sup>th</sup> year. For the purpose of this analysis, we have continued with this evaluation employing the actual acreage proposed to be purchased as reflected within the attached appraisal report at 182,561.55± acres. This size is in contrast to the stated size contained within our draft copy of the lease which is 181,000± acres.

## ***DISCUSSION OF PROPOSED DRAFT LEASE, CONT'D.***

### **ASSIGNMENT AND SUBLETTING, CONT'D.**

We have recognized when evaluating the leased fee interest that the property rights retained by the Lessor are limited to the following:

- 1) The right to receive the net income identified within the draft lease; and
- 2) The right to receive the reversion of the land at the termination of the lease.

Collectively, these two rights represent the total interest proposed to be purchased by the SFWMD when acquiring the lands owned by the USSC and the SGGC.

The evaluation of the first component, that is the income which is to be produced by the Lease, has been accomplished by performing a discounted cash flow analysis. In this analysis, the present value of the proposed income stream has been valued by discounting back to present value that income stream. Our analysis recognizes that this income will be paid in advance on a quarterly basis for a period of 6 years. By summing the present value of the income stream for a period of 6 years, an indication of the current market value of the income stream results.

When developing or estimating the appropriate discount rate, we have given strong consideration to typical agricultural rates reflected through the analysis of the selling price of land and net income produced by that same land within the EAA. Traditionally, we have found that overall rates range from 4% to approximately 6%. We have favored a discount rate of 5%, recognizing that sales used for the purpose of extracting this rate were oftentimes consummated during more favorable market conditions when the market may have more strongly anticipated slow and steady appreciation of property values within this agricultural area.

## **DISCUSSION OF PROPOSED DRAFT LEASE, CONT'D.**

### **ASSIGNMENT AND SUBLETTING, CONT'D.**

An overall rate indication may be considered as an indication of the appropriate discount rate when there is no anticipated change in the condition of the asset being leased and when there is no anticipated change in value of the asset during the term of the Lease. For the purpose of our analysis, we are anticipating that the land will be physically similar in condition at the date of the termination of the Lease to that condition of the land at the date of commencement. This anticipates the application of best management practices and obligation of the Lessee to maintain the land and agricultural improvements located thereon.

For the purpose of this analysis, we have also anticipated that the basic value of the land would remain stable during the term of this Lease. This assumption is considered to be appropriate in recognition of the current, somewhat distressed condition of the overall real estate market, even though our analyses suggest that these distressed conditions may have been more dramatically experienced by non-agricultural lands. The general perception of most active market participants, however, suggests that few individuals are purchasing properties or negotiating purchase prices, with consideration given to positive gains caused by real estate appreciation in the market.

We have also given consideration to what we anticipate to be a relatively safe rate as reflected by investments which are perceived to have minimal risk. In the final analysis, we have favored a rate of 5%, once again, recognizing that this is at the lower end of rates currently being received for relatively safe investments of all kinds.

The second component of this Leased Fee Evaluation requires evaluation of the reversionary interest in the land which will be received by the Lessor upon termination of the Lease. This second right is the right to receive the land back in a condition comparable to that condition which was reflected at the commencement date of the Lease. For the purpose of this analysis, we have again given consideration to the current status of the real estate market and projected a reversionary value considered to be stable and equal to the appraised values as if they were summed.

## **DISCUSSION OF PROPOSED DRAFT LEASE, CONT'D.**

### **ASSIGNMENT AND SUBLETTING, CONT'D.**

This reversionary value, where we are reflecting the sum of the parts, is based upon our client's request that, for the purpose of this analysis, those component parts be summed and used as a test for the reversionary value of the lands to be leased.

The discount rate applied to the reversionary interest has been developed by applying reasoning which is similar to that previously described. However, we recognize that there is even less risk associated with an assumption that the land value will remain stable for a period 7 years than the risk associated with the continuation of income pursuant to the Lease. This lesser risk, therefore, has been accounted for by reducing the discount rate by one percentage point and applied for the purpose of discounting back to present value the estimated reversionary value of the land.

Shown on the following pages are worksheets demonstrating our value estimate of the encumbered leased fee estate. These sheets also provide, by extraction, an estimate of the value of the leasehold. This leasehold value is computed by deducting from the sum of the component parts value estimate contained within the appraisal report at \$1,370,000,000, our estimate of value of the leased fee.

The first spreadsheet attached illustrates the value of the leased fee as if no partial releases are utilized and the land remains fully leased during the entire 7-year term. The second worksheet anticipates the partial release of some 13,000± acres during Year 4, with the land reverting back to the SFWMD at that point and in time. This worksheet also anticipates that the Lessor will take advantage of the opportunity to exercise the second partial release, thereby requiring some 30,000± acres of land at the end of Year 6.

**DISCUSSION OF PROPOSED DRAFT LEASE, CONT'D.**

**ESTIMATE OF ECONOMIC RENTAL RATE**

These sheets represent only two examples of tests we have performed when analyzing the value of the leased fee estate. Based upon these analyses, we estimate the current market value of this leased fee estate to be approximately \$1,095,000,000. This would, therefore, indicate a value of the leasehold by extraction in the amount of \$275,000,000.

Value of Leased Fee:	\$1,095,000,000.
Value of Summed Components Above:	<u>\$1,370,000,000.</u>
Difference:	\$275,000,000.

We have also been asked to comment upon and provide an estimate of the current market rental rates for agricultural lands within the subject market area. We have accomplished this stated task by conducting personal interviews, reviewing various leases, and observing testimony offered to the Governing Board where rental rates have been recited.

When completing this estimate of an appropriate market rental rate, we have also given consideration to the proposed "best management practices" procedures which will be imposed upon the lessee under terms and conditions of the Lease.

When considering the economic rental rate for agricultural lands used predominantly for the growing of sugarcane, however, in some instances also used for alternative agricultural crops, rent on a price per acre per year basis ranges from approximately \$175/acre to \$375/acre. The lower range of value was indicated by leases which had been negotiated in years past and was, therefore, not considered to represent the current rental rate as of the date of this analysis. The upper range of rent indicated was produced by a property leased to an organic lettuce farming operation who understood they were paying a significant premium to maintain their crop at a location previously used for cultivation of this specialty agricultural crop.

## **DISCUSSION OF PROPOSED DRAFT LEASE, CONT'D.**

### **ESTIMATE OF ECONOMIC RENTAL RATE, CONT'D.**

Generally speaking, rental rates for typical agricultural land within the EAA predominantly fall in the range of \$200/gross acre to \$250/gross acre. Factors such as soil depth, proximity to roadways, depth of muck and the warming effect of Lake Okeechobee can all have an impact upon the price that active market participants are willing to pay to lease such lands.

The general market rate for the USSC agricultural lands used predominantly for growing sugarcane have been considered on the average and, in our opinion, range from approximately \$200/gross acre to \$225/gross acre. With consideration given to the best management practices which will be imposed upon the tenant/lessor, the lower range of value is favored at \$200/gross acre.

We have also attempted to estimate the economic rental rate which would be appropriate for approximately 32,000± acres of citrus land which will also be made part of this Lease. By reviewing market data and consulting with experts specializing in the evaluation of citrus groves, we have reached the conclusion that citrus properties are not typically leased in the general market. The primary purpose of operating a citrus grove is one of generating income through the sale of the citrus crop. Citrus groves are not typically developed so that income may be generated from the grove through its rental to a third party. We found no relevant examples where producing citrus groves were leased and, therefore, have no evidence to indicate an appropriate economic or market rental rate for the subject citrus grove properties.

We believe it is important to note that with regard to the Southern Gardens Grove, we would not anticipate this grove to be leased on the basis of its utility due to its current relatively poor condition. In addition to its current condition, there is a significant number of acres within this grove which are considered to be non-productive and, therefore, would also not be expected to be leased for agricultural purposes.

## **DISCUSSION OF PROPOSED DRAFT LEASE, CONT'D.**

### **ESTIMATE OF ECONOMIC RENTAL RATE, CONT'D.**

Additional components of our original appraisal included lands which were characterized as "transitional". This label of "transitional" did not intend to imply that these properties are currently in transition to alternative uses. Instead, the term is used to indicate that certain lands owned by the USSC have, in our opinion, future potential for more intensive uses than agricultural. Our inspections of many of these properties revealed that some of the land, but not all, is currently being used for the production of sugarcane. Other lands remain fallow. Additionally, our inspections also revealed that certain areas and parcels which are the subject of the proposed lease appear to be low in elevation and not suitable for conventional agricultural or alternative uses. We would, therefore, anticipate that these low-utility lands also could not be leased to the general market.

For the purposes of this analysis, therefore, we conclude that only portions of the USSC land, if made available to lease to the general public, would be capable of being leased for agricultural uses. Stated more simply, the entire 182,500± acres of land would not be expected to be leased at the indicated market rate of approximately \$200/acre, if made available for lease to the general public.





## CERTIFICATION

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 my personal, impartial and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting pre-determined results.
- my compensation for completing this assignment is not contingent on the development or reporting of a pre-determined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- my analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice* and the *Code of Professional Ethics of the Appraisal Institute*.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this certification.
- I certify that, to the best of my knowledge and belief, the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of professional Appraisal Practice of the Appraisal Institute.
- I certify that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- as of the date of this report, I have completed the requirements under the continuing education program of the Appraisal Institute.



E. LARRY SEWELL, MAI  
State-Certified General Real Estate Appraiser RZ501

12-10-2008  
Date

