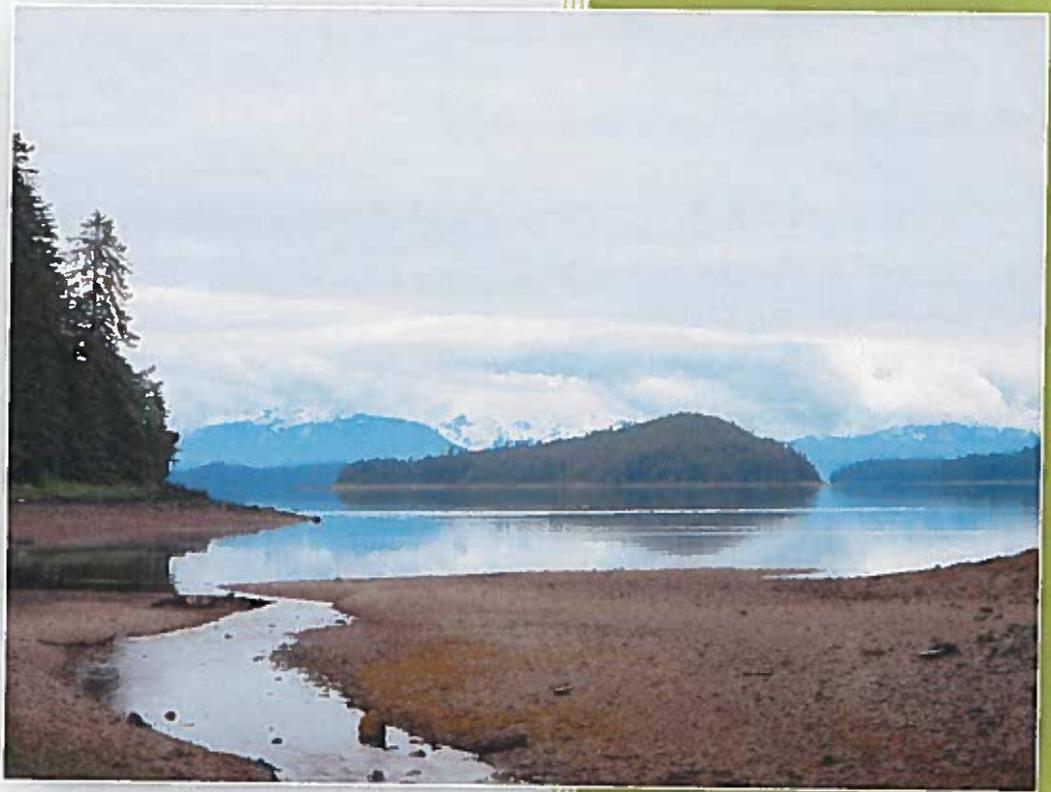


MARKET VALUE APPRAISAL
Of
Freshwater Bay Subdivision
Parcels
For 2015 Auction

Appraisal Report No. 4221



STATE OF ALASKA

Department of Natural Resources
Division of Mining, Land and Water
550 West 7th Avenue, Suite 650
Anchorage, AK 99501-3576

MEMORANDUM

State of Alaska

Department of Natural Resources

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Division of Mining, Land and Water

550 West 7th Avenue, Suite 650

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DATE: December 15, 2014

TO: Kevin Hindmarch
Review Appraiser

FROM: Brandon Simpson 

SUBJECT: Appraisal of 10 parcels of land located on Chichagof Island. The parcels are being appraised to establish minimum bid price for sale at auction.

As requested, I have completed an appraisal of the referenced parcels. I understand that this appraisal will be used to determine the minimum purchase price for the above referenced parcels. I am submitting this report for your review and approval.

The appraisal was completed in accordance with the "Uniform Standards of Professional Appraisal Practice" of the Appraisal foundation and in accordance with the Special Appraisal Instructions (DNR Land Disposal), DNR. This Appraisal Report based on the General Assumptions and Limiting Conditions, Hypothetical Condition and Extraordinary Assumption (see Page 7) stated in the report, as well as the facts, analyses, and reasoning leading to the opinions of value.

I have inspected the subject area and most of the comparable sales used in this report. Physical descriptions of the subject parcels are based on physical inspections, soil maps, aerial photography and topographic maps. Based on my observations and analysis of all available data, I have formed an opinion of market value as of the effective date of value.

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ADDENDA

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| Subject Parcels Survey | |
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APPRAISAL SUMMARY

Location

| Subdivision Name | Location | Lot Size |
|----------------------------|--|--------------------|
| Freshwater Bay Subdivision | Located adjacent to Freshwater Bay on Chichagof Island, Southeast Alaska | 3.73 to 5.51 acres |



Value Summary

| Subdivision | ADL | Survey | Lot | Block | Size (acres) | Value (RND) |
|----------------|--------|---------|-----|-------|--------------|-------------|
| Freshwater Bay | 108179 | 2010-44 | 1 | 8 | 4.84 | \$62,200 |
| Freshwater Bay | 108183 | 2010-44 | 1 | 9 | 5.51 | \$71,600 |
| Freshwater Bay | 108184 | 2010-44 | 2 | 9 | 5.45 | \$70,900 |
| Freshwater Bay | 108185 | 2010-44 | 3 | 9 | 5.35 | \$69,600 |
| Freshwater Bay | 108186 | 2010-44 | 4 | 9 | 5.44 | \$70,700 |
| Freshwater Bay | 108187 | 2010-44 | 5 | 9 | 5.43 | \$70,600 |
| Freshwater Bay | 108188 | 2010-44 | 6 | 9 | 4.63 | \$63,800 |
| Freshwater Bay | 108189 | 2010-44 | 2 | 8 | 5.36 | \$66,200 |
| Freshwater Bay | 108193 | 2010-44 | 2 | 1 | 3.73 | \$44,800 |
| Freshwater Bay | 108194 | 2010-44 | 1 | 2 | 4.52 | \$51,000 |

PREMISES OF THE APPRAISAL

Type of Appraisal and Report

This appraisal is an Appraisal Report prepared in accordance with Standards Rule 1 and 2 of the current edition of **Uniform Standards of Professional Appraisal Practice** (USPAP), and in accordance with DNR's Special Appraisal Instructions – DNR Land Disposal.

Purpose of Appraisal

The purpose of this appraisal is to estimate current market value.

User and Client Identity

This appraisal is prepared for the State of Alaska, Department of Natural Resources and the general public.

Intended Use of Appraisal

The appraisal will be used by DNR to establish the minimum price for a sealed bid auction and will be used by the general public for guidance in determining actual bid prices.

Property Rights Appraised

Rights appraised are fee simple estate less mineral rights reserved to the State of Alaska under **AS 38.05.125(a)**.

Fee simple estate is defined as¹:

"Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."

AS 38.05.125(a) states²:

Reservation. (a) Each contract for the sale, lease or grant of state land...is subject to the following reservations: "[sic] the party of the first part, Alaska, hereby expressly saves, excepts and reserves... unto itself, its lessees, successors, and assigns forever, all oils, gases, coal, ores, minerals, fissionable materials, geothermal resources, and fossils of every name, kind or

¹ The Dictionary of Real Estate Appraisal, Fifth Edition, Appraisal Institute, 2010, p.79

² Alaska Statutes Title 38, Public Land Article 5, accessed 16 November 2012.

<Codes.lp.findlaw.com/akstatutes/38/38.05./05./38.05.125>

description, and with may be in or upon said land...[and the right] to occupy as much of said land as may be necessary or convenient... to render beneficial and efficient the complete enjoyment of the property and rights hereby expressly reserved."

Definition of Market Value³

"The most probable price, as of a specified date, in cash, or terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress."

Effective Date of Value

The subject properties were inspected previously inspected June 18th and 19th, 2012. Many of the comparable sales were inspected June 18, 2012. The effective date of value is October 14, 2014.

Date of Report

December 15, 2014

Exposure Time

Exposure time is defined as⁴:

"...the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal."

Freshwater Bay Subdivision Parcels

The Freshwater Bay Subdivision parcels are recreational properties located on Chichagof Island. The subdivision was first offered at auction by DNR in 2013. In total, DNR has offered twenty Freshwater Bay Subdivision parcels for sale. All but one of these has sold at auction or over-the-counter. An exposure time of up to one year is reasonable.

Sale History

ADL 108179 (Lot 1, Block 8) sold at auction during the summer of 2013 for \$63,604. The contract was terminated in April 2014.

Prior Appraisal History

I have previously appraised the subject parcels. The results of that appraisal can be found in Appraisal 3635-0 which has an effective date of February 8, 2013.

³ The Appraisal of Real Estate, Fourteenth Edition, Appraisal Institute, 2013, p.58

⁴ Uniform Standards of Professional Appraisal Practice 2014-2015, Appraisal Foundation, accessed January 8, 2014 <www.uspap.org/#/24/>

SCOPE OF WORK

Property and Comparable Sales Inspection

As part of a previous assignment I inspected the Freshwater Bay parcels by air on June 18, 2012. The road accessible Freshwater Bay parcels were inspected on June 19, 2012. The comparable sales that were practical to inspect were inspected by air on June 19, 2012.

Research and Analysis Conducted

Interviews were conducted with local real estate agents, appraisers, and other individuals familiar with the area who provided information about trends in values, supply and demand. DNR records were searched for recent comparable sales and information about parcels currently available. Current listings were also searched. The recorders office was searched to identify any recent sales. Sellers and buyers or other knowledgeable market participants were contacted to verify recent sale prices and other transaction details. Alaska shorezone imagery provided by NOAA was utilized to see the physical characteristics of the oceanfront parcels. In addition, parcel descriptions and photographs provided by the surveyor were utilized.

After analysis of all available data, appropriate comparable sales were selected. The market value estimate was derived from this process and is based on the following assumptions and limiting conditions.

Assumptions and Limiting Conditions

1. The property is appraised as vacant land without structural or site improvements.
2. The appraiser assumes no responsibility for legal matters. The subject lots are assumed to be free and clear of encumbrances, except as otherwise noted, and title is assumed to be marketable.
3. All engineering studies are assumed to be accurate. Plats and illustrative material included in the report are intended to help the reader in visualizing the properties.
4. Information furnished by others and included in the report is believed to be reliable but the appraiser does not warrant the accuracy of such information.
5. Unless otherwise noted in the report, the appraiser did not find any evidence that hazardous materials exist on these properties. The estimate of value is based on the assumption that there are no such materials on the property. The appraiser is not qualified to detect these substances. No responsibility is assumed for any such conditions or for any expertise or engineering knowledge that is required to discover these substances.
6. The appraiser, by reason of this appraisal, is not required to give further consultation or testimony, or be in attendance in court with reference to the property in question unless arrangements have been made in advance.
7. The data and conclusions in this report are a part of the whole valuation. Each part of this report is only part of the evidence upon which the final judgment is based. Therefore, no part should be used out of context and by itself alone.
8. It is assumed that there are no hidden or apparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for any such conditions, or for arranging engineering studies to discover them.
9. The estimate of value in this report is not based in whole or in part upon the race, color, or national origin of the present owners or occupants of the properties in the vicinity of the property appraised.
10. Some parcels may contain saw timber, but not necessarily in commercial quantities. The estimated market value does not include that value of commercial timber, if any.
11. Some of the appraised parcels were inspected from the air. Due to the lack of on-site inspections (aerial only) some physical features are assumed based on conversations with those knowledgeable about the area, photographs and parcel descriptions provided by the surveyors and interpretation of existing maps and aerials. The appraiser reserves the right to modify the value conclusions if an on-site inspection reveals a variation in site features from those assumed in this report.

Extraordinary Assumption

The Freshwater Bay parcels were inspected on June 18th and 19th, 2012. It is an extraordinary assumption that the physical condition of the subject parcels has not changed since they were inspected. The appraiser reserves the right to amend the appraisal should information detailing a change in physical conditions become known.

PRESENTATION OF DATA

Property Identification

| Subdivision | ADL | Survey | Lot | Block | Size (acres) |
|----------------|--------|---------|-----|-------|--------------|
| Freshwater Bay | 108179 | 2010-44 | 1 | 8 | 4.84 |
| Freshwater Bay | 108183 | 2010-44 | 1 | 9 | 5.51 |
| Freshwater Bay | 108184 | 2010-44 | 2 | 9 | 5.45 |
| Freshwater Bay | 108185 | 2010-44 | 3 | 9 | 5.35 |
| Freshwater Bay | 108186 | 2010-44 | 4 | 9 | 5.44 |
| Freshwater Bay | 108187 | 2010-44 | 5 | 9 | 5.43 |
| Freshwater Bay | 108188 | 2010-44 | 6 | 9 | 4.63 |
| Freshwater Bay | 108189 | 2010-44 | 2 | 8 | 5.36 |
| Freshwater Bay | 108193 | 2010-44 | 2 | 1 | 3.73 |
| Freshwater Bay | 108194 | 2010-44 | 1 | 2 | 4.52 |

Personal Property

There is no personal property involved with the appraisal of these properties.

MARKET AREA

Freshwater Bay Subdivision

Freshwater Bay Subdivision is located on Chichagof Island, about 17 miles southeast of Hoonah and 35 miles west of Juneau. The subdivision features oceanfront lots with frontage on Freshwater Bay and interior lots with frontage on a gravel Forest Service Road. The oceanfront lots are accessible by floatplane or skiff. The gravel road was in good condition at the time of inspection. The road allows seasonal access from Hoonah. In the winter, snowmachine access is possible.

Juneau

| | |
|-------------------------------------|--|
| Current Population: | 33,064 (2013 DCCED certified estimate) |
| Incorporation Type: | Unified Home Rule Borough |
| Borough Located In: | City and Borough of Juneau |
| School District: | Juneau School District |
| Regional Native Corporation: | Sealaska Corporation |

Located on the mainland of Southeast Alaska, opposite Douglas Island, Juneau was built at the heart of the Inside Passage along the Gastineau Channel. It lies 900 air miles northwest of Seattle and 577 air miles southeast of Anchorage. It lies at approximately 58.301940 North Latitude and -134.419720 West Longitude. (Sec. 23, T041S, R067E, Copper River Meridian.) Juneau is located in the Juneau Recording District. The area encompasses 2,716.7 sq. miles of land and 538.3 sq. miles of water.

State, local, and federal agencies provide most of the local jobs. Juneau is home to state legislators and their staff during the legislative session between January and April. In 2011, 259 Coast Guard personnel were stationed in Juneau. Tourism is a significant contributor to the private sector economy during the summer months. Most cruise ship make it a port of call. The Mendenhall Glacier, Juneau Icefield air tours, Tracy Arm Fjord Glacier, state museum, and Mount Roberts Tramway are local attractions. Support services for fish processing contribute to the Juneau economy. In 2013, 323 residents held commercial fishing permits. DIPAC, a private non-profit organization, operates a fish hatchery that increases the local salmon population. The close-by Kennecott Green's Creek Mine produces gold, silver, lead, and zinc and is the largest silver mine in North America.

The municipal water supply is obtained from the Last Chance Basin well field on Gold Creek and the Salmon Creek Reservoir and is treated and piped to over 90% of Juneau households. Juneau's water demand is 5 million gallons per day. The borough's piped sewage system serves almost 80% of residents and receives secondary treatment. Sludge is incinerated. Refuse collection and the landfill are owned and operated by private firms. Juneau has a sludge site and hazardous waste collection facility, and local organizations also provide recycling programs. Alaska Electric Light & Power Company receives the majority of its power from the state-owned Snettisham Hydroelectric Facility south of town. AEL&P owns the Annex Creek, Upper Salmon Creek, and Lower Salmon Creek Hydro Plants and the Gold Creek, Lemon Creek, and Auke Bay diesel back-up systems.

Juneau is accessible only by air and sea. Scheduled jet flights and air taxis are available at the municipally-owned Juneau International Airport. The airport has a paved 8,457' long by 150' wide runway and a seaplane landing area. Marine facilities include a seaplane landing area at Juneau Harbor, two deep draft docks, five small boat harbors, and a state ferry terminal. The Alaska Marine Highway System and cargo barges provide year-round services.

Hoonah

| | |
|-------------------------------------|-------------------------------------|
| Current Population: | 798 (2013 DCCED certified estimate) |
| Incorporation Type: | 1 st Class City |
| Borough Located In: | Hoonah-Angoon Census Area |
| School District: | Hoonah City School District |
| Regional Native Corporation: | Sealaska Corporation |

Hoonah is a Tlingit community located on the northeast shore of Chichagof Island, 40 air miles west of Juneau. It lies at approximately 58.110000 North Latitude and -135.443610 West Longitude. (Sec. 28, T043S, R061E, Copper River Meridian.) Hoonah is located in the Sitka Recording District. The area encompasses 6.6 sq. miles of land and 2.1 sq. miles of water.

Fishing and local government are mainstays of the economy. In 2011, 70 residents held commercial fishing permits. The city and school district are the main public sector employers. Tourism, as a private sector economic stimulant, has developed into a major industry. Subsistence activities remain important components of the lifestyle. Salmon, halibut, shellfish, deer, waterfowl, and berries are harvested.

The 2006-2010 American Community Survey (ACS) estimated 330¹ residents as employed. The public sector employed 32.1%¹ of all workers. The local unemployment rate was 8.1%¹. The percentage of workers not in labor force was 37.7%¹. The ACS surveys established that average median household income (in 2010 inflation-adjusted dollars) was \$50,511 (MOE +/- \$14,015)¹. The per capita income (in 2010 inflation-adjusted dollars) was \$24,426 (MOE +/- \$4,057)¹. About 12.2%¹ of all residents had incomes below the poverty level.

Water is derived from Gartina Creek, treated, and piped to all homes and facilities. A water treatment facility was completed in October 1998. Piped sewage is processed in a sewage treatment plant. Ninety-eight percent of homes are fully plumbed. The city provides garbage collection services once a week. Inside Passage Electrical Company operates three diesel-fueled generators in Hoonah.

Hoonah is dependent on air and water transportation for movement of small freight and passengers. The state owns and operates an airport with a 2,997' long by 75' wide asphalt runway and a seaplane base that are both served by scheduled small aircraft from Juneau. A state ferry terminal and harbor/dock area are available. Freight arrives by barge or plane. There is a widespread logging road system on northwest Chichagof Island.

Hoonah's maritime climate is characterized by cool summers and mild winters. The airport is closed 20 to 30 days a year due to poor weather, usually during foggy periods in the spring and fall. Summer temperatures average 52 to 63 °F; winter temperatures average 26 to 39 °F. Temperature extremes have been recorded from -25 to 87 °F. Precipitation averages 100 inches annually, with 71 inches of snowfall.⁵

⁵ Alaska DCCED 'Community Database Online', accessed 9 October 2014.
http://www.commerce.state.ak.us/dca/CF_BLOCK.htm.

DATA ANALYSIS AND CONCLUSION

Valuation Analysis

Three approaches are considered to determine the market value estimate.

Income Approach

The income approach for valuation is used primarily for income producing properties. It utilizes the capitalization process to discount future anticipated net income to a present value. It is not common to lease vacant land for a residential or recreational use; therefore, data that supports this approach is not available.

Cost Approach

The cost approach is based on the assumption that an informed buyer would pay no more than the cost of producing a substitute property with the same utility as the subject property. This approach will separate the value of the land from the value of the improvements to determine the cost of reproducing the improvements. The cost approach is most effective for appraising properties that have newer improvements. The appraised parcels lack any improvements; therefore, the cost approach will not be used.

Sales Comparison Approach

The sales comparison approach considers actual sales or prices asked for properties that have similar characteristics of the subject properties. Adjustments are made to the comparison properties so as to determine a price at which they would have sold if they had identical characteristics as the subject properties. This derived price then indicates a value for the subject properties. Some of the characteristics considered include general market conditions, sales terms, location, highest and best use and physical features. Only the sales comparison approach is applicable for valuation of the subject parcels.

Key Parcel Method

In appraising more than one similar parcel, it is an accepted practice to appraise a key parcel that is most representative of the other parcels being appraised. The key parcel may be a hypothetical parcel or an actual parcel. The value of the remaining parcels is then based on a comparison to the key parcel. This methodology replicates typical developer thinking.

Explanation of Adjustments

DNR appraisal instructions state that the appraiser may develop and use quantitative or qualitative adjustments. Ideally, the value differences for any price adjustment is measured by comparing prices of paired sales that are very similar except for the feature of comparison to be measured. When market sales do not support quantifiable adjustments for differences in the comparable sales, the appraiser must use personal knowledge of overall trends, opinion surveys, and/or judgment in making adjustments. These qualitative adjustments indicate if the feature being adjusted for is superior, or inferior to the *Key Lot*. The conventional sequence of adjustments is property rights conveyed, financing terms, conditions of sale, time, location, and physical features.

For quantitative adjustments, an adjustment of less than 1.00 means the sale feature is superior to that appraised property and requires a downward adjustment to indicate the value of the key parcel. An adjustment greater than 1.00 means that the sale feature is inferior to the subject, requiring an upward adjustment to indicate the value of the key parcel. An adjustment of 1.00 means the sale feature is similar to the key parcel, and no adjustment is necessary. The adjustments are multiplied to obtain a total adjustment, which is then multiplied by the sale price to indicate the value of a key parcel.

The same adjustments and procedures are applied to the key parcel value to indicate the market value of a parcel being appraised, except the direction of adjustment is reversed when comparing appraised parcels to the key parcel. Superior features require a positive adjustment compared with the appraised parcel; inferior features require a negative adjustment. Detailed information about the comparable sales is contained in this report and Addenda. The parcels to be appraised will be grouped as follows:

Interior Lots
Oceanfront Lots

INTERIOR LOTS

There are two interior parcels within the Freshwater Bay Subdivision. These lots have frontage on Forest Service Road 8508 that provides access to the area from Hoonah. At the time of the inspection, the gravel access road was in good shape. The road provides vehicle access in the summer and snowmachine access in the winter. The area has rolling topography with some steep areas present on most lots. Most lots are forested with thick growth typical of Southeast Alaska. Some of the lots have previously been logged. The new trees in the previously logged areas were around twenty feet tall at time of inspection. Sporadic old growth trees can be found on some lots. A reserved tract within the subdivision, Tract F, provides access to Freshwater Bay. The access was unimproved and covered with natural vegetation during the inspection.

The Interior Key Lot is ADL 108193, Lot 2, Block 1, ASLS 2010-44, a 3.73-acre parcel.

| Key Lot | Legal Description | Size (acres) |
|------------|--|--------------|
| ADL 108193 | Lot 2, Block 1, ASLS 2010-44, Plat 2012-13 | 3.73 |

The remaining interior parcel included in this analysis is summarized below:

| ADL | ASLS | Lot | Block | Size (acres) | Access | Frontage | Note |
|--------|---------|-----|-------|--------------|--------|--------------|---|
| 108194 | 2010-44 | 1 | 2 | 4.52 | Gravel | FS Road 8508 | Road access from Hoonah May to Nov, snowmachine in winter. Small area of forested wetlands at NW corner of lot. Gentle/moderate slope at front of lot, steeper toward rear. About 30% of lot is considered steep. No utilities are available. |

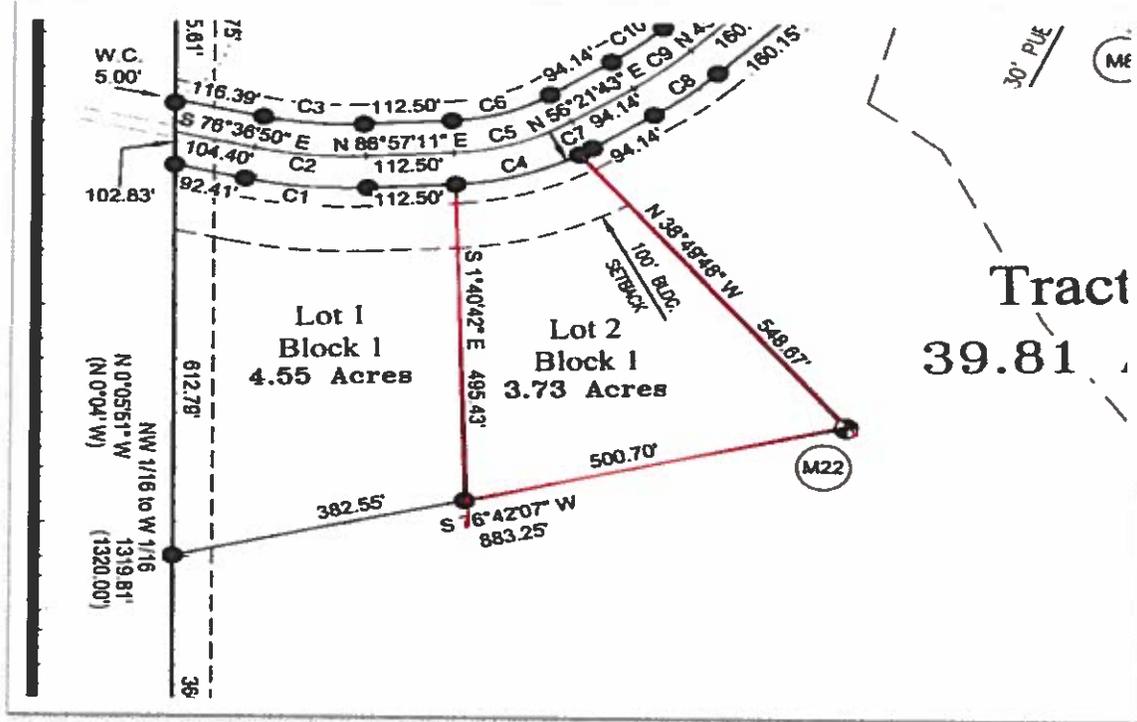
Interior Key Lot

(ADL 108193, Lot 2, Block 1, ASLS 2010-44)

| | |
|------------------------------|--|
| Location | Freshwater Bay Subdivision is located on Chichagof Island, about 17 miles southeast of Hoonah and 35 miles west of Juneau. |
| Access | Forest service road provides seasonal vehicle access and snowmachine access in the winter. |
| Size & Shape | 3.73-acres, irregular shaped parcel |
| Topography | Gently to moderately sloped parcel. About 10% of the lot is considered steep. |
| Soils | Adequate drainage |
| Vegetation | The rear ½ of lot has previously been logged and is re-growing |
| Utilities | None |
| Water & Sewer | None |
| Easements | Typical |
| Environmental Hazards | None noted |
| Zoning Regulations | None |
| Tax Assessments | None |
| Ownership History | State of Alaska |
| Adjacent Land Use | Mostly undeveloped |
| Amenities | Interior lot |

Survey of Interior Key Lot

(ADL 108193, Lot 2, Block 1, ASLS 2010-44)



Satellite imagery of Interior Key Lot

(ADL 108193, Lot 2, Block 1, ASLS 2010-44)



Photograph of Forest Service access road



Photograph taken June 19, 2012

Photograph of typical vegetation in Freshwater Bay Subdivision



Photograph taken June 19, 2012

Due to the confidentiality of sales information in the State of Alaska, the valuation section of the report is unavailable online. The entire report can be reviewed at the DNR Public Information Center:

In Anchorage

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Fax (907) 269-8901
TDD for hearing impaired (907) 269-8411
e-mail: dnr.pic@alaska.gov
Business hours 10:00 am to 5:00 pm M-F.

In Fairbanks

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