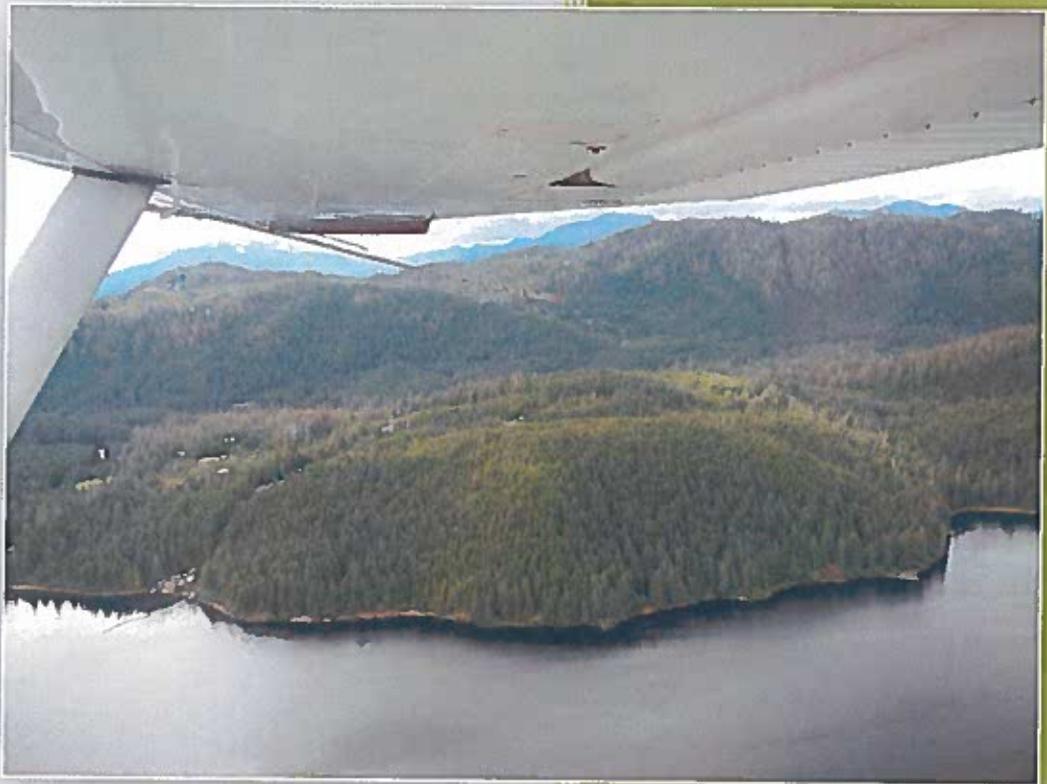


MARKET VALUE APPRAISAL
Of
Thorne Bay
Parcels
For 2016 Auction

Appraisal Report No. 4270



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 602

Anchorage AK 99501-3576

DATE: December 22, 2015

TO: Kevin Hindmarch
Review Appraiser

FROM: Brandon Simpson *BS*

SUBJECT: Appraisal of 15 parcels of land located in Thorne Bay, Alaska. 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 is Appraisal Report is 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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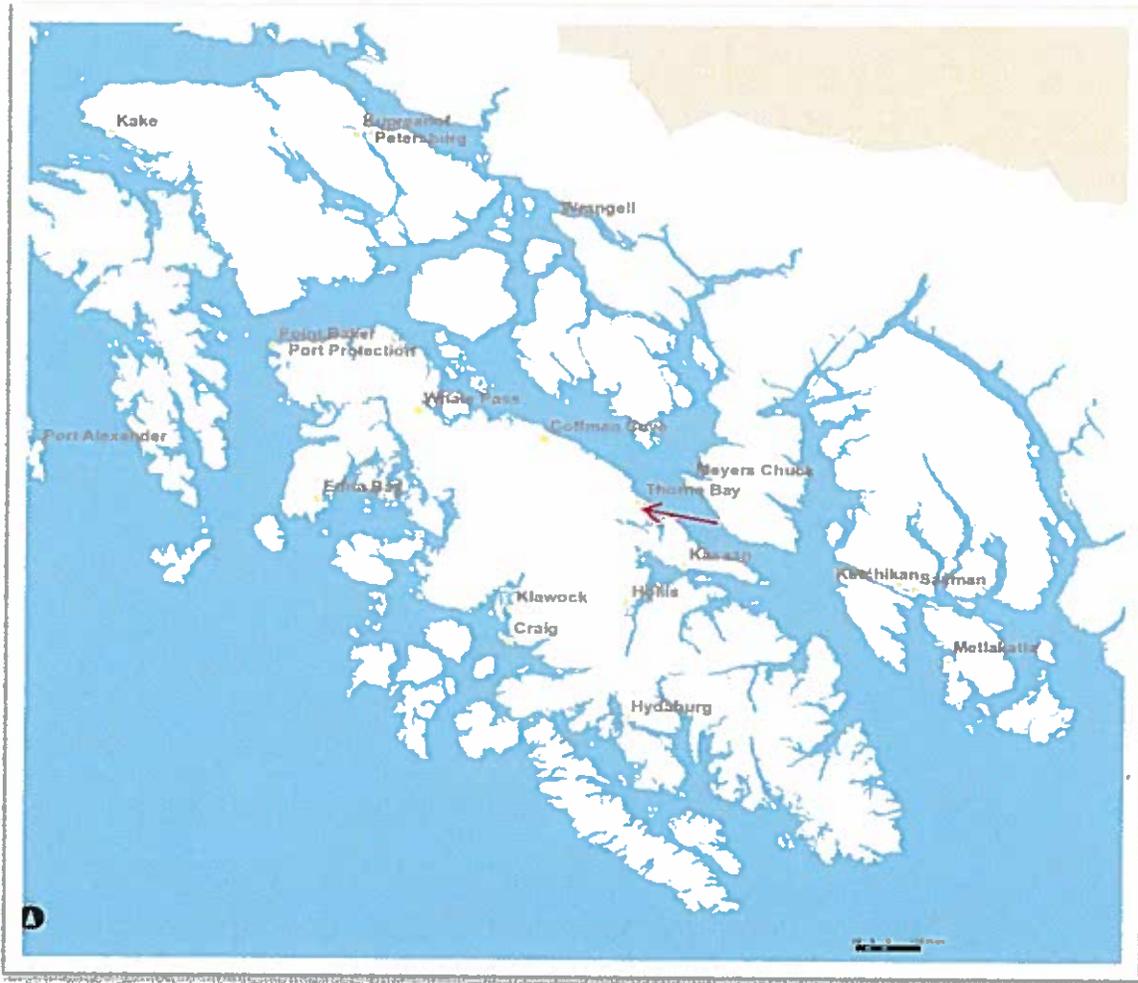
ADDENDA

Subject Parcels Survey	
Market Data Map	
Comparable Sales Forms	
DNR Size Adjustment Method	
DNR Land Disposal Appraisal Instructions	
Appraiser Qualifications	

APPRAISAL SUMMARY

Location

Subdivision Name	Location	Lot Size (acres)
Old Skid Road	Across Thorne Bay from the community of Thorne Bay	2.55 to 4.97
South Thorne Bay Addition No. 1	About 3 1/2 miles south of the community of Thorne Bay	2.08 & 2.91



Value Summary

ADL	Subdivision	Survey	Lot	Block	Size (acres)	Value (RND)
108469	Old Skid Road	2014-62	5	1	3.51	\$68,400
108470	Old Skid Road	2014-62	6	1	4.06	\$75,100
108471	Old Skid Road	2014-62	7	1	4.04	\$74,700
108472	Old Skid Road	2014-62	8	1	3.47	\$71,100
108474	Old Skid Road	2014-62	10	1	4.97	\$37,300
108475	Old Skid Road	2014-62	11	1	4.92	\$35,100
108479	Old Skid Road	2014-62	1	2	3.53	\$25,800
108480	Old Skid Road	2014-62	2	2	2.84	\$26,700
108481	Old Skid Road	2014-62	3	2	4.14	\$31,900
108482	Old Skid Road	2014-62	4	2	2.55	\$25,500
108483	Old Skid Road	2014-62	5	2	2.61	\$26,100
108484	Old Skid Road	2014-62	6	2	3.75	\$31,500
108485	Old Skid Road	2014-62	7	2	2.55	\$25,500
107758	South Thorne Bay Addition 1	2006-72	2	19	2.91	\$23,000
107760	South Thorne Bay Addition 1	2006-72	4	19	2.08	\$18,400

PREMISES OF THE APPRAISAL

Type of Appraisal and Report

This appraisal report is 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:

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

"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 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 September 15, 2015.

Date of Report

December 22, 2015

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."

Appraised Parcels

The subject parcels are located on Prince of Wales Island in Southeast Alaska. The majority of parcels offered by DNR in southeast Alaska sell at auction, or in the initial over-the-counter offering. An exposure time of up to one year is reasonable.

Sale History

The appraised parcels have not sold in the last three years.

Prior Appraisal History

I have not previously appraised the subject parcels.

² Alaska Statutes Title 38, Public Land Article 5, accessed 14 December 2015.

<<http://touchngo.com/iglcntr/akstats/Statutes/Title38/Chapter05/Section125.htm>>

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 December 14, 2015 <www.uspap.org/#/2/>

SCOPE OF WORK

Property and Comparable Sales Inspection

I inspected the subject parcels on September 15, 2015 by fixed wing airplane. Relevant comparable sales were inspected on this day and during previous unrelated inspections of the area. The appraiser has also relied on physical inspections and photographs provided by the contract surveyor for the subdivision, and DNR staff surveyor Cliff Baker. In addition, available aerial photography and topographic maps have been utilized to identify physical features of the subject parcels.

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 recorder's 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.

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.

Extraordinary Assumption

A recorded plat is not available for the Old Skid Road parcels. All acreage figures are based on a preliminary plat provided by DNR's survey unit. A copy of the preliminary plat is included in the addenda of this report. It is assumed that the acreage and easements will not change from those provided on the preliminary plat. The appraiser reserves the right to amend the appraisal if the acreage or easements in the final plat differs substantially from the preliminary plat referenced in this report.

Hypothetical Condition

The appraised parcels were legal and conveyable as of the date of value.

Assumptions and Limiting Conditions

1. The property is appraised as vacant land without structural or site improvements (except where noted).
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. 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.

PRESENTATION OF DATA

Property Identification

ADL	Subdivision	Survey	Lot	Block	Size (acres)
108469	Old Skid Road	2014-62	5	1	3.51
108470	Old Skid Road	2014-62	6	1	4.06
108471	Old Skid Road	2014-62	7	1	4.04
108472	Old Skid Road	2014-62	8	1	3.47
108474	Old Skid Road	2014-62	10	1	4.97
108475	Old Skid Road	2014-62	11	1	4.92
108479	Old Skid Road	2014-62	1	2	3.53
108480	Old Skid Road	2014-62	2	2	2.84
108481	Old Skid Road	2014-62	3	2	4.14
108482	Old Skid Road	2014-62	4	2	2.55
108483	Old Skid Road	2014-62	5	2	2.61
108484	Old Skid Road	2014-62	6	2	3.75
108485	Old Skid Road	2014-62	7	2	2.55
107758	South Thorne Bay Addition 1	2006-72	2	19	2.91
107760	South Thorne Bay Addition 1	2006-72	4	19	2.08

Personal Property

There is no personal property involved with the appraisal of most of these properties. ADL 108469 (Old Skid Road) has an old logging winch on site.

MARKET AREA

Old Skid Road Parcels

The subdivision is located across Thorne Bay (the waterbody) from the community of Thorne Bay. The subdivision has a mixture of oceanfront parcels and interior parcels. The subdivision is located on a hilly area on the south side of Thorne Bay (the waterbody). The oceanfront parcels do not have any developed road access. The primary access to these parcels is by water. Most of the interior parcels in the subdivision have developed road access via North Road. North Road connects to the Prince of Wales Island road system. North Road is a rough road with minimal maintenance. Electric service is available on North Road, but has not been extended to Old Skid Road Subdivision. All of the lots within the subdivision are heavily wooded.

South Thorne Bay Addition I Parcels

The subdivision is located about 3 ½ miles south of the community of Thorne Bay. Some of the lots within the subdivision have developed access, but access to the subject parcels is via unimproved right-of-ways. The subject lots are heavily wooded. There has been recent logging in the vicinity of the parcels. The lots are located within a ½ mile of Thorne Bay (the waterbody).

The communities of Prince of Wales Island are connected by a network of Forest Service Roads. The area is dominated by a cool, maritime climate. Average temperatures in the summer range from 46 to 70 °F; winter temperatures range from 32 to 42 °F.

Thorne Bay

Is a 2nd class city in the Prince of Wales-Hyder Census area located on the east coast of Prince of Wales Island. The current population is 530 (2014 DCCED certified estimate).

Municipal Facilities & Utilities

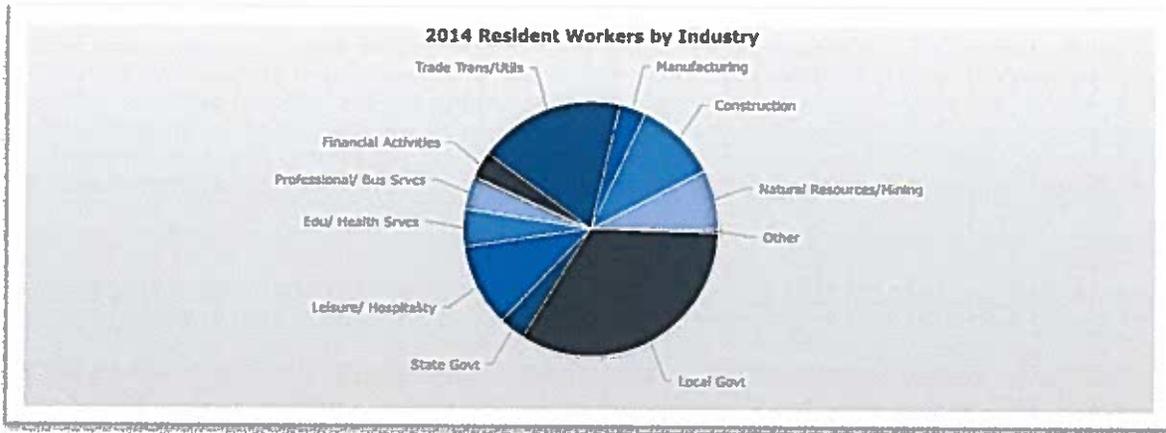
Piped Water, Piped Sewer, Electric, Refuse Collection, Landfill, Health Clinic, Police, Volunteer Fire/EMS/Rescue, Public Safety Facility, Animal Control, Harbor/Dock, Bay Chalet, Gravel Sales, Roads, Planning, Parks, Economic Development, Job Training.

Transportation

Thorne Bay is accessed by float plane, the airport at Klawock, and the inter-island ferry at Hollis. The Thorne Bay Harbor provides slips for over 100 vessels. A seaplane base is state-owned. The Prince of Wales Island Road System connects the communities on Prince of Wales Island with one another⁵.

⁵ (December 14, 2015). <https://www.commerce.alaska.gov/dcra/DCRAExternal/community/Details/4e6cc7c9-137e-4b57-b549-c367df971985>

Economy



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 parcel lacks 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

Eleven parcels are interior lots located in two different subdivisions located near the community of Thorne Bay. Nine of the parcels are located within the Old Skid Road Subdivision, and the remaining two lots are located in the South Thorne Bay Addition I Subdivision.

Eight of the parcels in the Old Skid Road Subdivision have developed access via a rough gravel road. The remaining parcels in both subdivisions lack developed access. Currently, there is not electric service available to the appraised parcels. These lots are not subject to taxation currently.

The *Interior Key Lot* is ADL 108485, Lot 7, Block 2, ASLS 2014-62, a 2.55-acre parcel located in Old Skid Road Subdivision.

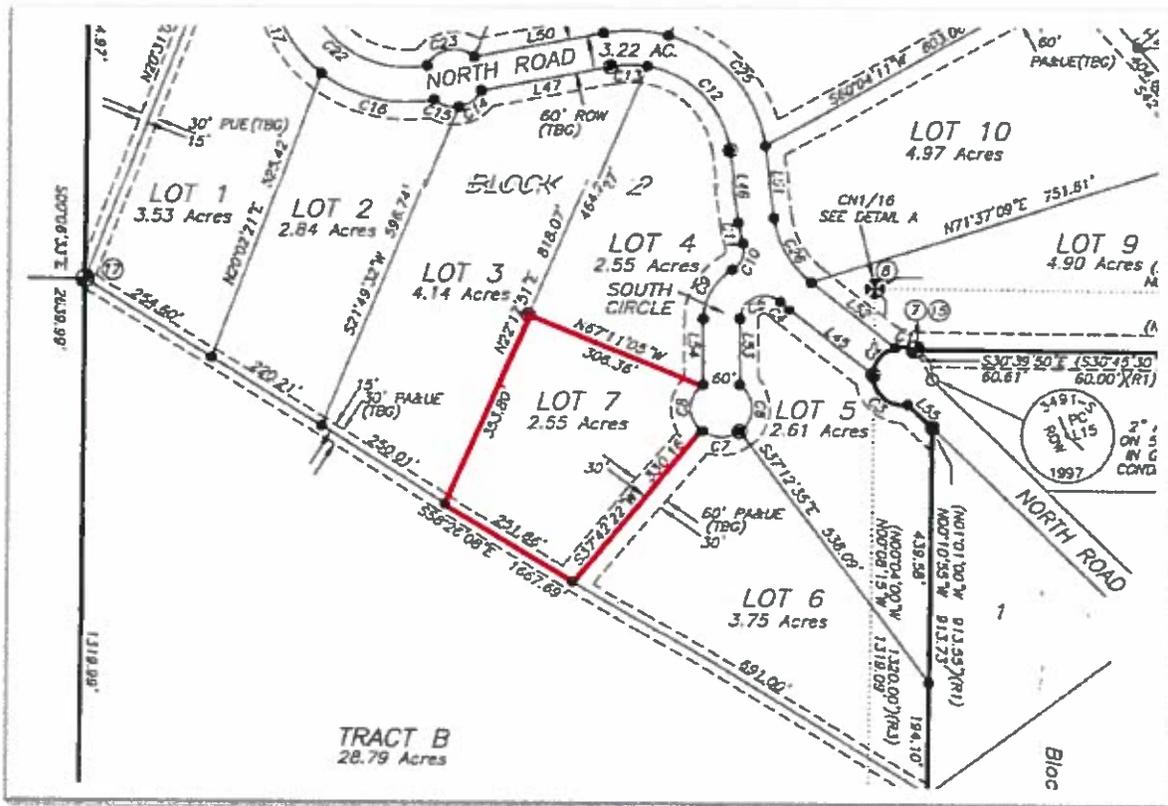
Key Lot	Legal Description	Size (acres)
ADL 108485, Old Skid Road Subdivision	Lot 7, Block 2, ASLS 2014-62	2.55

Interior Key Lot (ADL 108485, Lot 7, Block 2, ASLS 2014-62)

Location	On south side of Thorne Bay (waterbody), across from the community of Thorne Bay
Access	Via rough gravel road
Size & Shape	2.55-acres, irregular shaped parcel
Topography	Moderate slope with good building site near the cul-de-sac
Soils	Adequate drainage
Vegetation	Wooded with 2 nd growth hemlock, red cedar and spruce
Utilities	None
Water & Sewer	None
Easements	Typical
Environmental Hazards	None noted on lot.
Zoning Regulations	None
Tax Assessments	None
Ownership History	State of Alaska
Adjacent Land Use	Undeveloped or residential
Amenities	Interior lot

Survey of Interior Key Lot

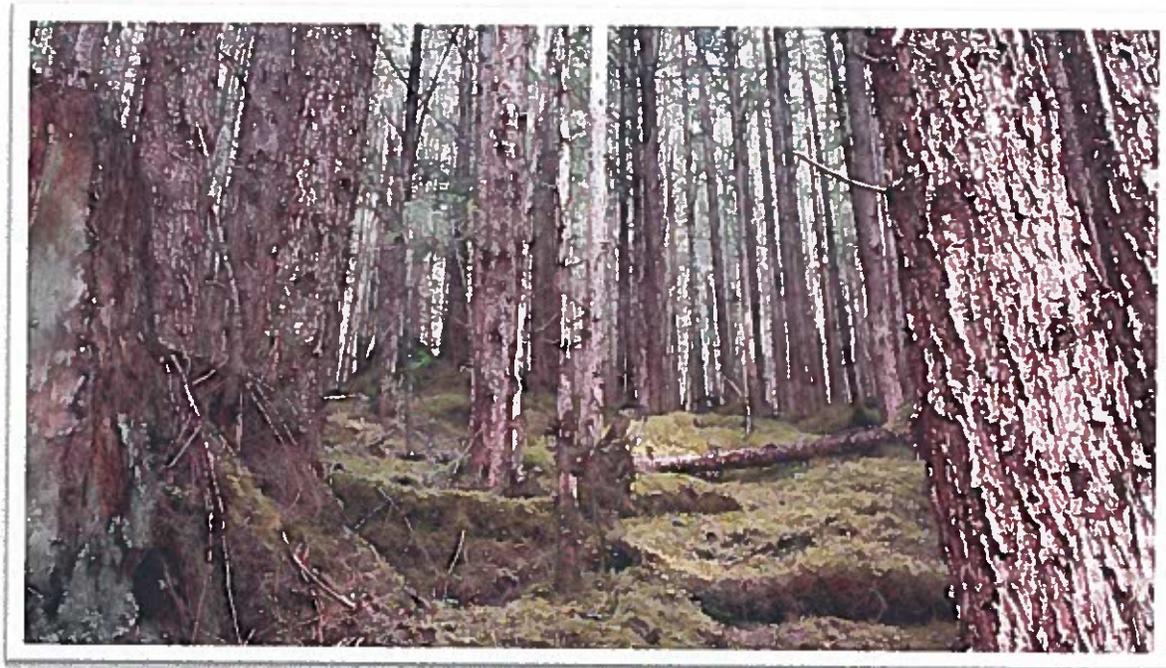
(ADL 108485, Lot 7, Block 2, ASLS 2014-62)



Note: Preliminary plat. See Extraordinary Assumption above.

Photograph of Interior Key Lot

(ADL 108485, Lot 7, Block 2, ASLS 2014-62)



Photograph taken September 25, 2015 (photograph provided by surveyor)

Photograph of North Road (heading away from South Circle toward Block 2 Lots)



Photograph taken September 25, 2015 (photograph provided by surveyor)

The remaining interior parcels included in this analysis are summarized below:

ADL	Subdivision	Survey	Lot	Block	Size (acres)	Access	Utilities	Site
108474	Old Skid Road	2014-62	10	1	4.97	Rough Gravel Road	None	Interior. 20% steep, 0% wetlands. Heavily wooded parcel.
108475	Old Skid Road	2014-62	11	1	4.92	Rough Gravel Road	None	Interior. 40% steep, 0% wetlands. Heavily wooded parcel.
108479	Old Skid Road	2014-62	1	2	3.53	R.O.W.	None	Interior. 25% steep, 0% wetlands. Heavily wooded parcel.
108480	Old Skid Road	2014-62	2	2	2.84	Rough Gravel Road ends at NE corner of lot	None	Interior. 10% steep, 0% wetlands. Heavily wooded parcel.
108481	Old Skid Road	2014-62	3	2	4.14	Rough Gravel Road	None	Interior. 60% steep, 0% wetlands. Heavily wooded parcel.
108482	Old Skid Road	2014-62	4	2	2.55	Rough Gravel Road	None	Interior. 15% steep, 0% wetlands. Heavily wooded parcel.
108483	Old Skid Road	2014-62	5	2	2.61	Rough Gravel Road	None	Interior. 0% steep, 0% wetlands. Heavily wooded parcel.
108484	Old Skid Road	2014-62	6	2	3.75	Rough Gravel Road	None	Interior. 0% steep, 0% wetlands. Heavily wooded parcel.
107758	South Thorne Bay Addition 1	2006-72	2	19	2.91	R.O.W.	None	Interior, Moderately sloping, heavily wooded parcel.
107760	South Thorne Bay Addition 1	2006-72	4	19	2.08	R.O.W.	None	Interior, Moderately sloping, heavily wooded parcel.

Highest and Best Use

Analysis of highest and best use for the subject property is necessary to accurately estimate the value of the land. Highest and best use analysis ensures that the value estimate is derived with the use in mind that maximizes the utility for a given property. The appropriate highest and best use for a given property is determined by the conditions of the market. Highest and best use can be defined as⁶:

"The reasonably probable use that produces the most benefits and highest land value at any given time."

The land to be valued is considered vacant and thus valued with the highest and best potential use for the property. Value for improvements (when present on the site) is then based on their contribution to this use.

Legally Permissible

The *Interior Lots* are not subject to any known zoning requirements that would be restrictive to potential development. Development of well and septic systems must comply with the requirements of the Department of Environmental Conservation. Therefore, almost any legal use of the site would be possible.

Physically Possible

The *Interior Lots* range in size from 2.08-acres to 4.97-acres. Most of these parcels are moderately sloping with at least one good building site available. Sloping topography is not a hindrance to development in Southeast Alaska. The size and physical characteristics are adequate to support all reasonable and probable uses.

Financially Feasible

All of the *interior lots* lack electric service, but many of the *Interior Lots* have gravel road access. Three of the lots lack developed access. Development as a residential use would require extending access and bringing in electric service.

Maximally Productive

Maximally productive use is the use that produces the maximum return from the proceeds of a sale or lease.

Highest and Best Use of Land as Vacant

Based on the foregoing analysis, the highest and best use of the *Interior Lots* as vacant would be for almost any legal use, primarily a recreational cabin site.

Discussion of Comparable Sales and Value Conclusion for *Interior Key Lot*

The following sales are the most recent transactions of parcels similar to the key parcel:

No.	Comp ID	Sale date	Location	Sale Price	Size/ Acres	\$ per/ acre
1	30710	8/6/14	Naukati	\$33,101	3.52	\$9,404
2	29096	4/4/13	Coffman Cove	\$26,200	2.02	\$12,970
3	29098	9/1/11	Coffman Cove	\$26,100	2.00	\$13,050
4	30565	3/26/14	Thorne Bay	\$28,173	3.97	\$7,096
5	27145	9/14/11	Whale Pass	\$40,159	6.82	\$5,888

⁶ The Appraisal of Real Estate, Fourteenth Edition, Appraisal Institute, 2013, p.333

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

(in the Atwood Building)
550 W. 7th Ave. Suite 1200, Anchorage AK, 99501
Phone (907) 269-8400
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

(Corner of University & Airport Way)
3700 Airport Way, Fairbanks, AK 99709
Phone (907) 451-2705
Fax (907) 451-2706
TDD for hearing impaired (907) 451-2770
e-mail: fbx-pic@alaska.gov
Business hours 10:00 am to 5:00 pm M-F.

In Juneau

(Southeast Div. of Land)
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Business hours 10:00 am to 5:00 pm M-F.