MARKET VALUE APPRAISAL

Of
Happy Creek Subdivision
Parcels
For 2013 Auction

Appraisal Report No. 3637

STATE OF ALASKA

Department of Natural Resources
Division of Mining, Land and Water
550 West 7th Avenue, Suite 650
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MEMORANDUM State of Alaska

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DATE: December 3, 2012

TO: Kevin Hindmarch
Review Appraiser

FROM: Brandon Simpson BS

SUBJECT: Appraisal of 8 parcels of land located on the Kenai Peninsula. 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 a Summary 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 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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Subject Parcels Survey
Market Data Map
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DNR Land Disposal Appraisal Instructions
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APPRAISAL SUMMARY

Location

Subdivision Name	Location	Lot Size
Happy Creek	Near the community of Happy Valley, about 12 miles northeast of Anchor Point	1.839 to 2.661 acres

Value Summary

Subdivision	ADL	Lot	Survey	Size (acres)	Value (RND)
Happy Creek	231136	3	ASLS 2009-11	2.268	$13,400
Happy Creek	231138	5	ASLS 2009-11	2.385	$14,100
Happy Creek	231140	7	ASLS 2009-11	2.255	$13,300
Happy Creek	231142	9	ASLS 2009-11	1.882	$11,100
Happy Creek	231144	11	ASLS 2009-11	1.839	$10,900
Happy Creek	231146	13	ASLS 2009-11	1.839	$10,900
Happy Creek	231148	15	ASLS 2009-11	1.912	$11,300
Happy Creek	231150	17	ASLS 2009-11	2.661	$15,700

PREMISES OF THE APPRAISAL

Type of Appraisal and Report
This appraisal is a Summary 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 as[1]:
"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) states[2]:
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 Value[3]
"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
July 26, 2012

Date of Report
December 3, 2012

Exposure Time
Exposure time is defined as[4]:

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[1] The Appraisal of Real Estate, Thirteenth Edition, Appraisal Institute, 2008, p.112
[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>
[3] The Appraisal of Real Estate, Thirteenth Edition, Appraisal Institute, 2008, p.23
[4] Uniform Standards of Professional Appraisal Practice 2012-2013, Appraisal Foundation, accessed November 16, 2012 <www.uspap.org/#/24/>

"...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."

Happy Creek Parcels
The Happy Creek parcels are recreational properties located north of Anchor Point. DNR offered nine Happy Creek parcels in the 2011 and 2012 auctions. All of these parcels sold at auction or in the initial over-the-counter offering. An exposure time of up to 1 year is reasonable.

Sale History
None of the appraised parcels have been previously offered.

Prior Appraisal History
I previously appraised the subject parcels. The results are detailed in Appraisal No. 3582 which has an effective date of August 3, 2010.

SCOPE OF WORK

Property and Comparable Sales Inspection
I inspected the Happy Creek parcels and comparable sales July 26, 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. The assessed value of the appraised parcel was reviewed. Aerial imagery from the Kenai Peninsula Borough was utilized to identify potential comparable properties. Sellers and buyers or other knowledgeable market participants were contacted to verify recent sale prices and other transaction details.

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.

PRESENTATION OF DATA

Property Identification

Subdivision	ADL	Lot	Survey	Size (acres)
Happy Creek	231136	3	ASLS 2009-11	2.268
Happy Creek	231138	5	ASLS 2009-11	2.385
Happy Creek	231140	7	ASLS 2009-11	2.255
Happy Creek	231142	9	ASLS 2009-11	1.882
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Happy Creek	231148	15	ASLS 2009-11	1.912
Happy Creek	231150	17	ASLS 2009-11	2.661

Personal Property

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

MARKET AREA

Happy Creek Subdivision
The subdivision is located near the community of Happy Valley, about 12 miles northeast of Anchor Point.

Happy Valley

Current Population:	582 (2011 Alaska Department of Labor Estimate)
Incorporation Type:	Unincorporated
Borough Located In:	Kenai Peninsula Borough
School District:	Kenai Peninsula Schools
Regional Native Corporation:	Cook Inlet Region, Incorporated

Happy Valley lies on Happy Valley Creek on the west coast of the Kenai Peninsula on the Sterling Highway, 22 miles northwest of Homer. Happy Valley has a roadhouse economy. Many of its residents work in the larger communities of the southern Kenai Peninsula, or commute to Alaska's oil regions, or to seasonal construction jobs.

The majority of homes use individual water wells and septic tank systems. The remainder of residences haul water or have it delivered and use privies. Sixty percent of homes are fully plumbed. Many homes in this area are used only seasonally. The borough provides refuse transfer station in Anchor Point, at mile 157 Sterling Highway, and in Ninilchik, at mile 138.5 Sterling Highway.

Anchor Point

Current Population:	2,002 (2011 Alaska Department of Labor Estimates)
Incorporation Type:	Unincorporated
Borough Located In:	Kenai Peninsula Borough
School District:	Kenai Peninsula Schools
Regional Native Corporation:	Cook Inlet Region, Incorporated

Anchor Point is located on the Kenai Peninsula at the junction of the Anchor River and its north fork, 14 miles northwest of Homer. It lies at mile 156 of the Sterling Highway. Anchor Point has a visitor's center, a chamber of commerce, the Two Rivers Coalition (an organization formed to examine watershed and other local issues), and a weekly newspaper, "The Anchor Pointer."

Many residents work in Homer in a variety of positions. The community caters to the sport-fishing industry, and several lodges provide services. A small sawmill helps to process timber from various borough sites. In 2010, 56 residents held commercial fishing permits.

Most residents have individual wells, septic tanks, and complete indoor plumbing. A well, a water treatment plant, and water distribution mains were installed in an area serving five homes. The borough refuse transfer facility is located at Mile 157 of Sterling Highway. The Sterling Highway provides access to Anchorage. Nearby Homer offers an airport, state ferry access, and docking and boat launching facilities here.[5]

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[5] Alaska DCCED 'Community Database Online', accessed 19 November 2012. 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.

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.

HAPPY CREEK SUBDIVISION LOTS

The eight subject parcels are located in the Happy Creek Subdivision. This is a newer subdivision accessed from Tim Avenue, and located near the community of Happy Valley, about 12 miles northeast of Anchor Point. Tim Avenue is a gravel road that provides access to Lot 1 of the subdivision. The remaining lots are accessed by platted, but undeveloped, Jacob Samuel Street.

The *Happy Creek Key Lot* is ADL 231140, Lot 7, ASLS 2009-11, a 2.255-acre parcel.

Key Lot	Legal Description	Size (acres)
ADL 231140	Lot 7, ASLS 2009-11, Plat 2011-6	2.255

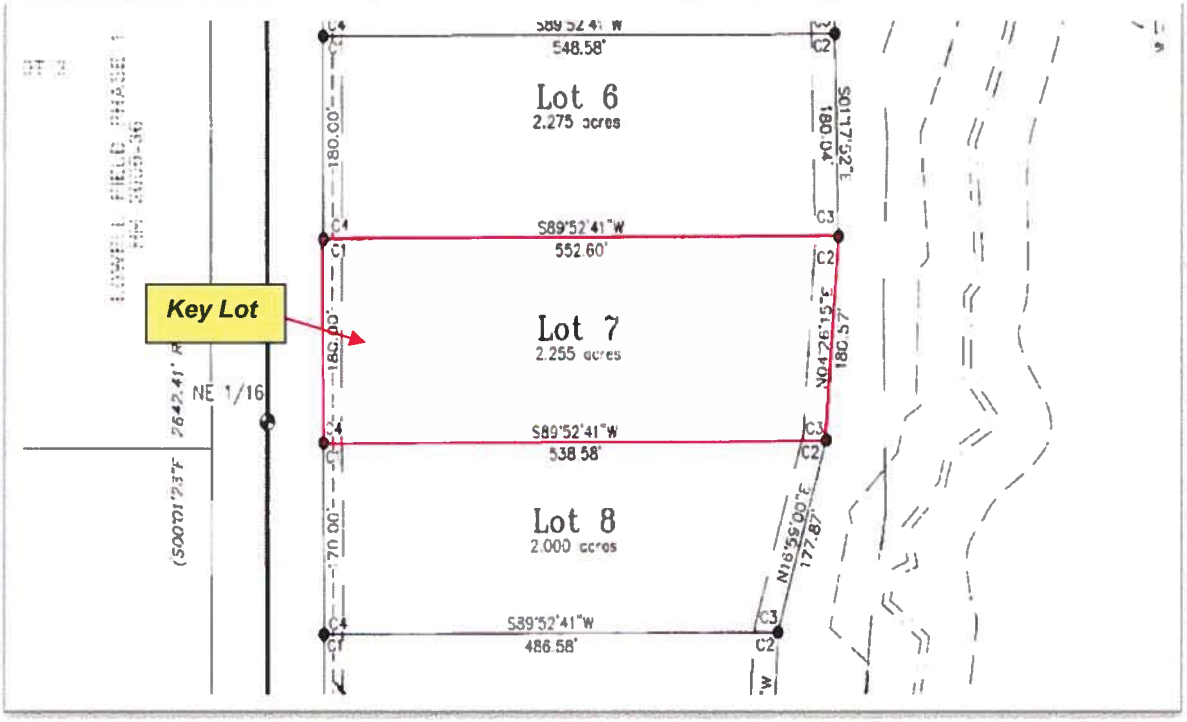
The remaining subject parcels included in this analysis are summarized below:

Subdivision	ADL	Lot	Survey	Size (acres)
Happy Creek	231136	3	ASLS 2009-11	2.268
Happy Creek	231138	5	ASLS 2009-11	2.385
Happy Creek	231142	9	ASLS 2009-11	1.882
Happy Creek	231144	11	ASLS 2009-11	1.839
Happy Creek	231146	13	ASLS 2009-11	1.839
Happy Creek	231148	15	ASLS 2009-11	1.912
Happy Creek	231150	17	ASLS 2009-11	2.661

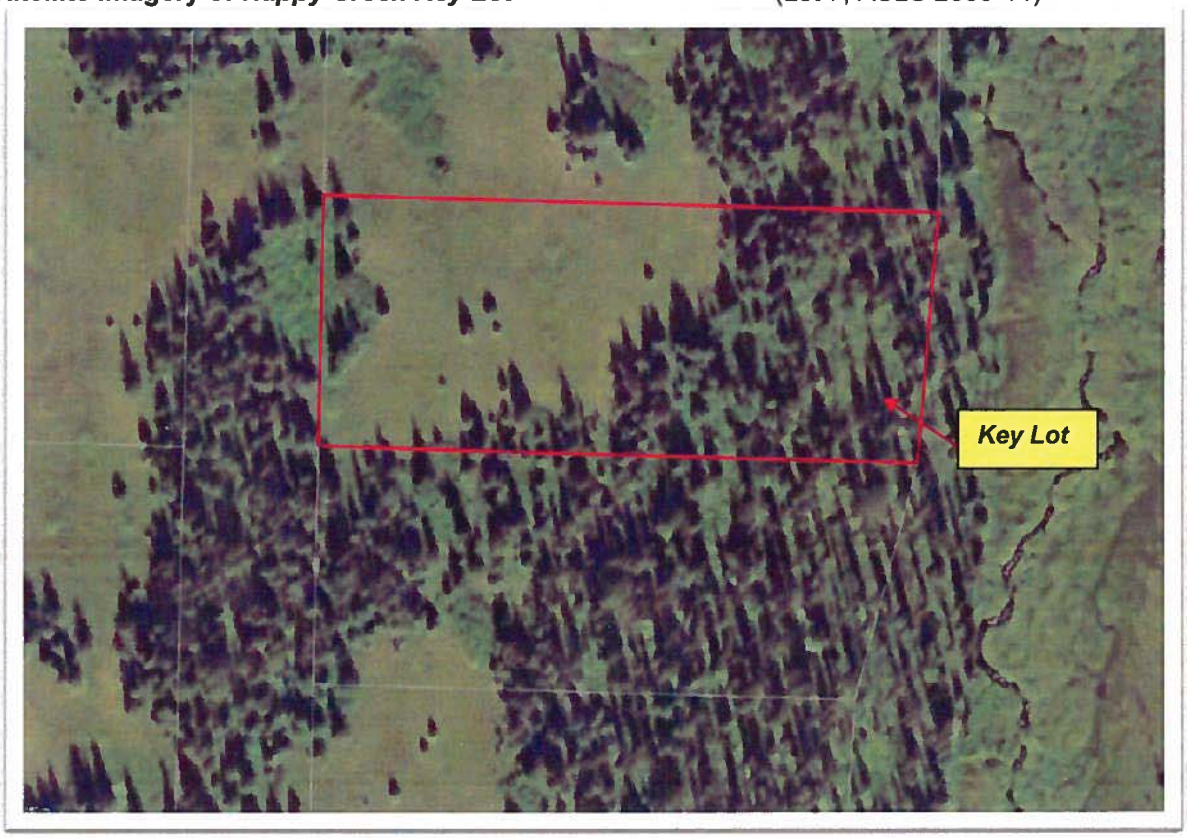
Happy Creek Key Lot (Lot 7, ASLS 2009-11)

Location	About a ¼ mile from Tim Avenue
Access	Walk-in along platted road, Jacob Samuel Street
Size & Shape	2.255-acres, irregular shaped parcel
Topography	Mostly level
Soils	Adequate drainage
Vegetation	Mostly spruce with some cottonwood and birch
Utilities	None
Water & Sewer	None
Easements	Typical
Environmental Hazards	None noted
Zoning Regulations	None
Tax Assessments	Kenai Peninsula Borough tax parcel # 15911149 2012 Assessment $22,600
Ownership History	State of Alaska
Adjacent Land Use	Residential or undeveloped
Amenities	Interior lot with view potential

Survey of Happy Creek Key Lot (Lot 7, ASLS 2009-11)



Satellite Imagery of *Happy Creek Key Lot* (Lot 7, ASLS 2009-11)



Photograph of Happy Creek Key Lot (Lot 7, ASLS 2009-11)

Photograph taken July 26, 2012

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 as[6]:

"The reasonably probable and legal use of vacant land or an improved property, that is legally permissible, physically possible, appropriately supported, financially feasible, and that results in the highest value."

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 *Key Lot* is 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 *Key Lot* is 2.255-acres. The size and physical characteristics are adequate to support all reasonable and probable uses.

[6] The Appraisal of Real Estate, Thirteenth Edition, Appraisal Institute, 2008, p.278