



City of Homer

www.cityofhomer-ak.gov

Port and Harbor

4311 Freight Dock Road

Homer, AK 99603

port@cityofhomer-ak.gov

(p) 907-235-3160

(f) 907-235-3152

MEMORANDUM

TO: MAYOR CASTNER AND CITY COUNCIL

THROUGH: CITY MANAGER KATIE KOESTER

FROM: BRYAN HAWKINS, PORT DIRECTOR / HARBORMASTER

DATE: MARCH 15th, 2019

SUBJECT: NORTHERN ENTERPRISES BOAT YARD INC. LEASE APPLICATION FOR 60
SQUARE FEET OF CITY TIDELANDS – LARGE TRAVEL LIFT PROJECT

Introduction

Northern Enterprises Boat Yard Inc. (“Northern Enterprises”) of Homer has requested a long-term lease for a portion (60 sq. ft.) of City tidelands in Mud Bay directly across from their private property (survey attached). According to Northern Enterprises’ application, they wish to lease this small portion of tidelands to *“construct a dock pier capable of supporting a travel lift station that can haul out large vessels. This requested portion of City tidelands is needed in order to obtain the increase of required tidelands from the State of Alaska, Department of Natural Resources.”*

Positive Benefit to the Community

What could this lease mean for the community? Large vessel owners, marine trades support industry, and the City have recognized the need to facilitate hauling out larger vessels in Homer for many years. This public and economic need led the City to form the Large Vessel Haul-Out Task Force. One of the things the task force determined was that the best way to justify the purchase of a sling lift and associated facility was if the sling lift and facility were connected to a vessel storage/repair yard with the capacity to store a large amount of boats. This is exactly what Northern Enterprises has to offer.

The larger vessel sling lift will serve unmet haul-out needs in Homer’s fleet and will double Homer’s haul out capacities.

Leasing the tidelands puts both public land and private resources to the best advantage. It supports private industry in fulfilling a haul-out repair need that has been prioritized by the community in the CIP, helping to share the cost burden of building harbor-related infrastructure.

Homer is in the business of boats. Facilities that better serve our fleet and that expand the potential for marine trades business brings great economic opportunity to Homer’s commercial boat business and is in the best interest of the City of Homer’s Harbor Enterprise.

City Code

Because of Northern Enterprises' request to lease 60 square feet of City tidelands, staff has worked to come up with a positive recommendation in support of this lease while making the lease administratively advantageous to the City of Homer. There are two sections of code I would like to draw your attention to: 18.01.100 Appraisal and 18.08.075 Lease Rental Rates (a).

18.01.100 Appraisal

This section of code requires all new leases to be appraised during the first year and every 5th year from the effective date of the lease.

Northern Enterprises currently holds a lease with the State of Alaska for 10,324 square feet at \$628 a year; this tidelands parcel was appraised by the State of Alaska in 2014 and is located directly adjacent to the City tidelands parcel Northern Enterprises wishes to lease. Given the proximity of the City tidelands to the State's tidelands, City staff feel that the 2014 State of Alaska appraisal's market rent value conclusion can be used by the City to determine market rent for this proposal.

Breakdown of 2014 State of Alaska Appraisal

The State of Alaska 2014 appraisal of the property indicated the price per square foot of tidelands in this area would be determined by the following formula (see pages 55-57 of attached appraisal):

$\$3.80/\text{sf}$ (**uplands value**) $\times .20$ (**tidelands: uplands ratio**) $\times 60$ sf (**subject size**) = $\$45.60$ (**conclusion of tidelands value**)

The appraiser then had to take into account that this is only the tideland value and not fair market rent value. The appraisers determined that the fair market value would be 8% of the total tidelands value.

$\$45.60$ (**market value**) $\times .08$ (**lease rate**) = $\$3.65/\text{year}$ (**Market Rent**)

This means that based on the 2014 State of Alaska appraisal, the revenue generated from the City leasing 60 square feet to Northern Enterprises Boat Yard Inc. would be \$3.65 a year. The fee to appraise one parcel typically costs the City between \$780-\$1,500 dollars. Let's say the City entered into a 20 year lease term based on the \$3.65 rate determined by this appraisal and included an annual 3% CPI adjustment – after those 20 years, the total revenue generated from this 20 year lease would be \$98.08 (spreadsheet attached). It is for this reason staff recommends exempting this lease from HCC 18.01.100 as one appraisal of the property alone will far exceed any revenue generated by this lease. This is the process the State of Alaska follows for these situations under 11 AAC 58.410. *Rental (a)*.

11 AAC 58.410. Rental (a) ...“A full appraisal will not be done if, based on a preliminary appraisal by a department employee who is qualified to determine the value of land under AS 38.05.840, the department finds that the minimum annual rent required by this subsection exceeds the amount likely to be determined by a full appraisal.”

Staff instead requests the option to reevaluate the applicant's lease rate every 5 years to give the option to compare the market rent value determined in the most recent State of Alaska appraisal of the adjacent tidelands, or to hire an appraiser if there is reason to believe the current lease rate is disadvantageous to the City, and to then adjust the lease rate to reflect a fair market value.

18.08.075 Lease Rental Rates (a)

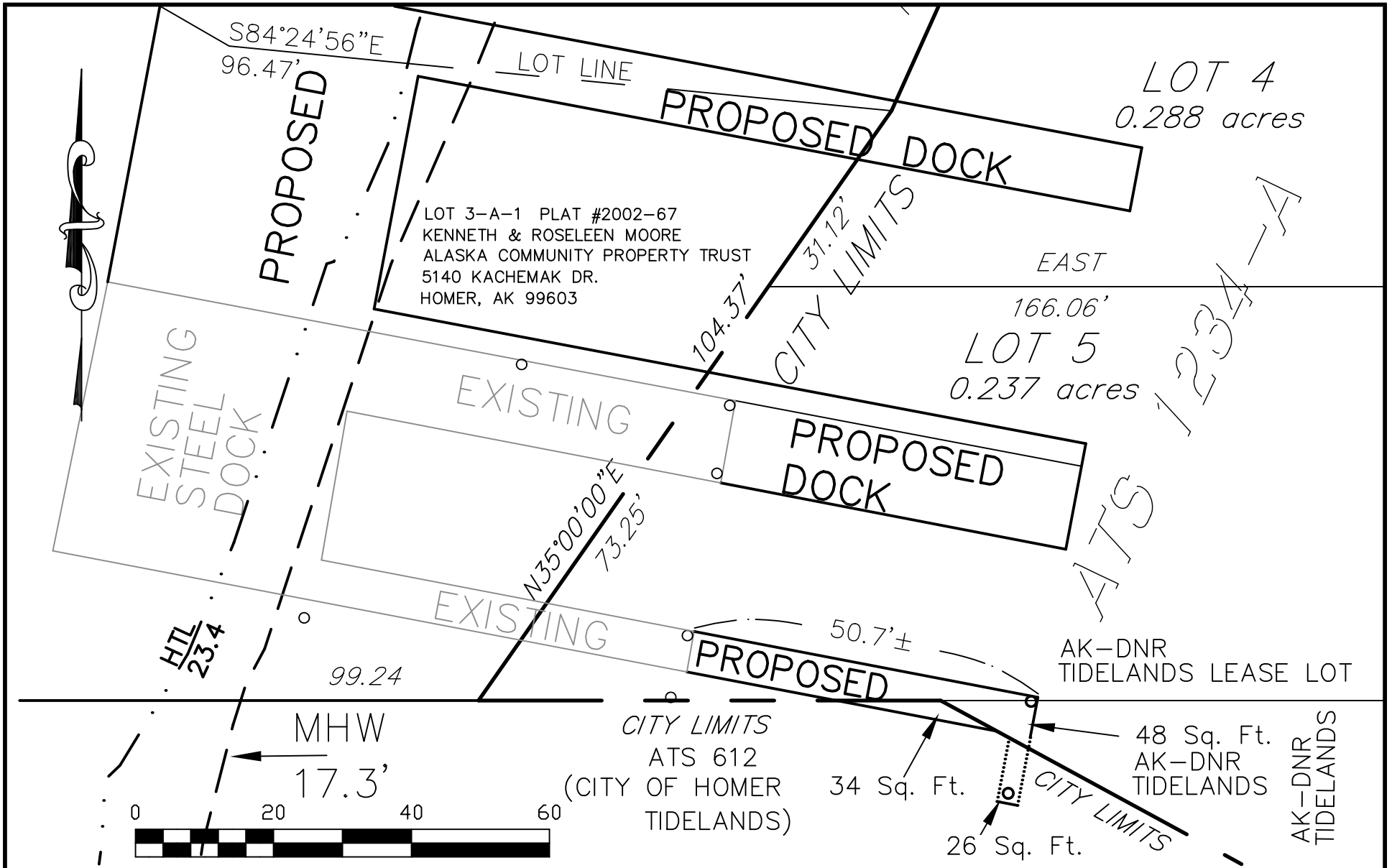
Section (a) of HCC 18.08.75 states all property shall be leased at no less than fair market value.

Staff has requested Council waive the appraisal requirement and that means we also need to waive the fair market value requirement since the State of Alaska appraisal is from 2014.

State of Alaska statute *11 AAC 58.410. Rental (a)* requires the state to charge a minimum annual rent rate of \$1,000 for leases of this nature. The City could follow this state statute, however with the positive, public benefit to the community and marine trades Northern Enterprises' proposal will accomplish, staff recommends determining the lease rate by following the 2014 State of Alaska appraisal.

Recommendation:

Staff recommends City Council authorize the City Manager to enter into a new, noncompetitive lease for 60 square feet of City tidelands on ATS 612 to Northern Enterprises Boat Yard Inc. for the initial annual lease rate of \$3.65 adjusted annually based on the Anchorage Consumer Price Index while also exempting this lease from HCC 18.01.100 and HCC 18.08.075 (a). Staff also recommends adding a condition that gives the City the option to reevaluate the applicant's lease rate every 5 years to compare the market rent value determined in the most recent State of Alaska appraisal of the adjacent tidelands, or to hire an appraiser if there is reason to believe the current lease rate is disadvantageous to the City, and adjust the lease rate to reflect the most up-to-date fair market value.



NOTES: PROPOSED DOCK IS AN EXTENSION OF EXISTING DOCK. THIS EXHIBIT IS BASED ON AN AS-BUILT SURVEY BY GARY NELSON, ALASKA LAND #7610 ON JANUARY 24, 2019. 26 SQUARE FEET AREA IN CITY TIDELANDS ASSUMES AN AREA 3 FEET WIDE BY 10 FEET FROM PROPOSED DOCK TO ACCOMODATE AN 18 INCH DIAMETER BATTER PILE (NOT PLUMB) TO EXTEND 9 FEET FROM THE DOCK. 26 FEET OF WHICH ARE ON CITY TIDELANDS. ADDITIONAL 34 SQUARE FEET WILL BE COVERED BY THE SUSPENDED DOCK. TOTAL AREA OF NEED IS 60 SQUARE FEET.

**NORTHERN ENTERPRISES
PROPOSED DOCK ADDITION
EXHIBIT OF PROPOSED
TIDELAND LEASE**

20 Year Lease Rate Assuming an Annual 3% CPI Increase to the Year 1 Starting Lease Rate of \$3.65

\$3.65 Year 1

\$3.76 Year 2

\$3.87 Year 3

\$3.99 Year 4

\$4.11 Year 5

\$4.23 Year 6

\$4.36 Year 7

\$4.49 Year 8

\$4.62 Year 9

\$4.76 Year 10

\$4.91 Year 11

\$5.05 Year 12

\$5.20 Year 13

\$5.36 Year 14

\$5.52 Year 15

\$5.69 Year 16

\$5.86 Year 17

\$6.03 Year 18

\$6.21 Year 19

\$6.40 Year 20

\$98.08 Total

APPRAISAL REPORT

Market Rent

Lot 5, Alaska Tidelands Survey 1234A
Kachemak Bay – East of Kachemak Drive
ADL 209326
Homer, AK



Prepared for

Kenneth D. Moore, Lessee
Northern Enterprises
5140 Kachemak Drive
Homer, AK 99603

Kevin Hindmarch, Review Appraiser
State of Alaska – Department of
Natural Resources
550 W. 7th Avenue, Suite 650
Anchorage, AK 99501-3576

Effective Appraisal Date: June 12, 2014



DERRY & ASSOCIATES, Inc.
Real Estate Appraisers & Counselors
(907) 260-8434 • derry@alaska.com
Box 2882 • Kenai, AK 99611



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NOV 17 2014

SURVEY SECTION

October 29, 2014

Kenneth D. Moore, Lessee
Northern Enterprises
5140 Kachemak Dr.
Homer, AK 99603

Kevin Hindmarch, Review Appraiser
State of Alaska, Dept. of Natural Resources
550 W. 7th Avenue, Suite 650
Anchorage, AK 99501-3576

Dear Mr. Moore and Mr. Hindmarch:

At the request of Mr. Moore I have prepared an **Appraisal Report** of the current Market Rent of a Kachemak Bay tidelands lot he leases from the State of Alaska. An inspection of the subject property and adjoining uplands lot fronting Kachemak Dr. and comparables analyzed in this report was made on September 19, 2014.

The concluded Market Rent is developed using a three step process which is outlined under the Scope of Work in the Appraisal Assignment section and in more detail in the Property Valuation section of this report. Briefly, the first step requires the valuation of the adjoining uplands lot using the Sales Comparison Approach. For this an extensive search was made to verify the most recent sales and current listings of waterfront lots in the Kachemak Drive neighborhood. Then an uplands:tidelands value ratio and current lease rate for the subject lot are concluded based on results of market-based evidence/research. A complete discussion of the analysis and valuation process are included in the Property Valuation section. Pertinent property details including the Extraordinary Assumptions, Hypothetical Conditions, and Market Rent conclusion are reported in the Summary.

This appraisal is prepared in conformance with the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation, and in conformity with and subject to the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, and State of Alaska General Appraisal Requirements.

An overview of the Homer real estate market is included in the Location and Neighborhood Description.

Thank you for this assignment and the opportunity to be of service to you.

Respectfully submitted,


Julie A. Derry



Table of Contents

Cover
Letter
Table of Contents

	Page No.
Assumptions and Limiting Conditions	4
Summary	6
Photographs	8
Appraisal Assignment	14
Location Description and Market Overview	18
Property Description	25
Highest and Best Use	31
Property Valuation	33
Certification of Value	58
Qualifications of the Appraiser	59
Addenda	
Appraisal Specific Definitions	



Assumptions & Limiting Conditions

1. This is an Appraisal Report which is intended to comply with the reporting requirements set forth under Standards Rule 2-2 (b) of the Uniform Standards of Professional Appraisal Practice for an Appraisal Report. As such, it may include summary discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraisers' conclusion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's work file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
2. No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
3. The property is appraised free and clear of any or all liens and encumbrances unless otherwise stated in this report.
4. Responsible ownership and competent property management are assumed unless otherwise stated in this report.
5. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
6. All engineering is assumed to be correct. Any plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
7. It is assumed that there are no hidden or unapparent conditions of the property or subsoil that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
8. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in this report.
9. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined, and considered in this appraisal report.
10. It is assumed that all required licenses or other legislative or administrative authority from any local, state, or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.
11. Any site plan in this report may show approximate dimensions and is included to assist the reader in visualizing the property. Maps and exhibits found in this report are provided for reader reference purposes only. No guarantee as to accuracy is expressed or implied unless otherwise stated in this report. No survey has been made for the purpose of this report.
12. It is assumed that the utilization of the land is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless otherwise stated in this report.
13. The appraiser is not qualified to detect hazardous waste and/or toxic substances. Any comment by the appraisers that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert in the field of environmental assessment. The presence of substances such as asbestos, ureaformaldehyde foam insulation,



polychlorinated biphenyl, petroleum leakage, agricultural chemicals or without limitation other potentially hazardous materials may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such substance on or in the property or in proximity to it that would cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.

14. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraisers, and in any event, only with proper written qualification and only in its entirety.
15. Neither all nor any part of the contents of this report (especially any conclusion as to value, the identity of the appraisers, or the firm with which the appraisers are connected) shall be disseminated to the public through advertising, public relations, news sales, or other media without prior written consent and approval of the appraiser.
16. The appraiser herein by reason of this appraisal are not required to give further consultation, testimony, or be in attendance in court with reference to the property in question unless arrangements have been previously made.
17. The estimates of Market Value and Market Rent in this report is not based in whole or in part upon the race, color, or national origin of the prospective owners or occupants of the property appraised, or upon the race, color, or national origin of the present owners or occupants of the properties in the vicinity of the property appraised.



Summary



Looking SE to the subject tidelands lot beginning near the end of the dock and extending into Kachemak Bay 167'+/-. The photo was taken about 1 hour after a high tide of 14.9' with all of the tidelands mostly under water.

Property Appraised

Market Rent
.237 acre (10,324+/- sq.ft.)
tidelands lot – Kachemak Bay

Location

East of Kachemak Drive
Adjacent to 5070 Kachemak Dr.
Homer, AK

Legal Description

Lot 5, ATS 1234A
ADL 209326

Owner of Record

State of Alaska

Lessee

Kenneth D. Moore
Northern Enterprises

Interest Appraised

Market Rent of fee simple estate less mineral
rights



Highest and Best Use

Commercial use in conjunction with the adjacent uplands

Extraordinary Assumptions

This is a retrospective appraisal; accordingly the property condition as of the effective date of value is assumed the same as observed on the date of inspection.

Hypothetical Conditions

- 1) The Market Value of the adjacent uplands that is concluded as part of the tidelands valuation is developed based on a buyer assuming the outstanding balance of the City of Homer water/sewer assessments which is typical for the market.
- 2) The Market Value of the uplands lot is concluded as-if vacant without consideration of the existing site improvements (clearing, installation of gravel and rock rip rap).
- 3) Natural gas mains and service lines have been extended throughout Homer and Kachemak City, including servicing the subject property. As part of those line extensions an assessment will be levied on the properties by the responsible municipality upon completion of cost accounting and certification. The City of Homer currently estimates that assessments will be levied in "early" 2015. The appraisal is prepared under the premise that those assessments, when levied, would be assumed by an owner or buyer as part of a sale transaction.

Inspection Date

September 19, 2014

Effective Appraisal Date

June 12, 2014

Date of Report

October 29, 2014

Market Rent Conclusion

\$628/year



Subject Aerial





Aerial view west over Kachemak Bay to the subject uplands (and dock) at arrow and tidelands lot beyond which is totally submerged. The photo was taken about 1 hour after a 15.1' high tide. The Northern Enterprises Boat Yard is across Kachemak Dr. from the subject. Residential improvements on the waterfront lots north and south of the subject are visible on the east side of Kachemak Dr..



North over the subject at mid left. The tidelands are fully submerged, 1+/- hour after high tide.



Looking SE over Kachemak Dr. to the subject uplands at left. Driveway in foreground at right is to the Northern Enterprises Boat Yard. The dock on the uplands/tideland lots is partially visible at arrow.



NE on Kachemak Dr. with the subject uplands at right. The entrance to the Northern Enterprises Boat Yard is at mid left.



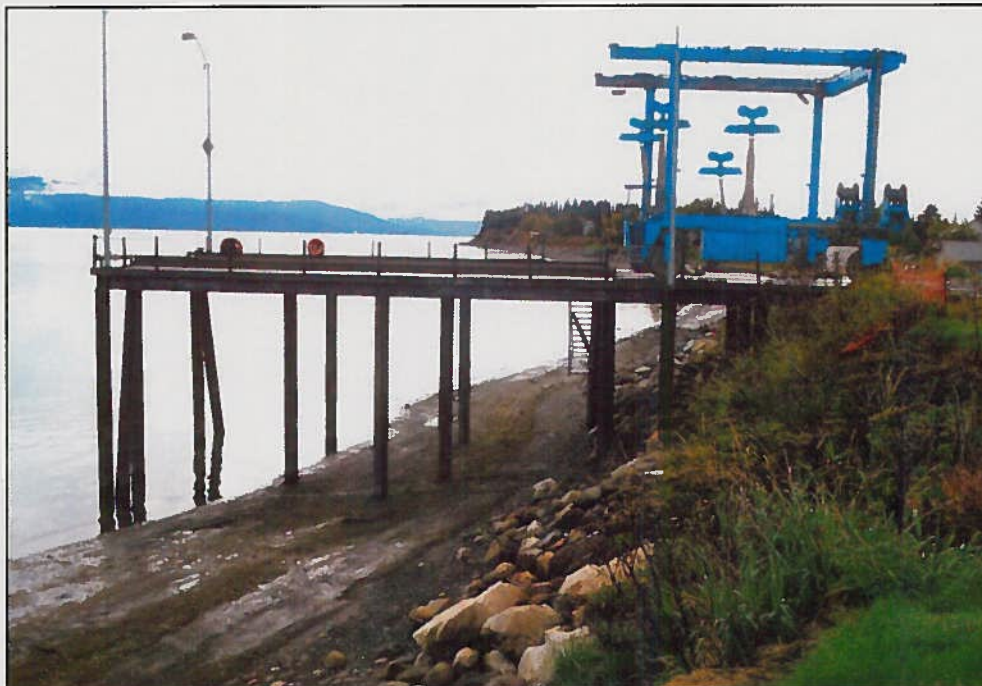
Looking NW from the subject upland's Kachemak Dr. frontage to the entrance to the Northern Enterprises Boat Yard across the street. The road continues NE at mid right to the intersection with East End Rd.



South over the uplands lot from the north boundary. The dock is out of view behind the boat at left. The boats and building at right are on the lot.



East on the uplands lot to the top of the bank/bluff and dock.



South along the bank/bluff of the uplands lot. Most of the dock is on the uplands with the west boundary of the tidelands close to the end of the dock at left.



Close up view of the sloping bank/bluff on the uplands and dock above.



North on the beach to the dock and tidelands lot at right. The photo was taken about 1.5+/- hours after a high tide of 14.9'. The water level is close to the west boundary (inland) for the subject tidelands lot.

Appraisal Assignment

Purpose and Intended Use

This appraisal was requested by the lessee of the subject lot with the Lessor/Owner, the State of Alaska, as the intended client.

The purpose is to estimate the current Market Rent to establish the annual rent due the State of Alaska, Lessor.

The intended users of the appraisal report are the State of Alaska, Department of Natural Resources and the Lessee. No additional users are identified by the appraiser.

The depth of the discussion contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.

Scope of Work

Consistent with the intended use/purpose, the appropriate Scope of Work was developed.

- A physical inspection was made of the lot appraised, adjoining uplands, neighborhood, and market data utilized in the property valuation.
- Additional data/information concerning the subject lot was obtained from utility providers, the City of Homer, and available maps/plats and aerials. The *Alaska DNR Case Detail* for the subject property was obtained through the State of Alaska Division of Natural Resources (DNR) website and reviewed by the appraiser.
- Kevin Hindmarch, Review Appraiser with the State of Alaska Department of Natural Resources, Division of Land, Mining and Water (DLMW) provided the effective appraisal date.
- Market Rent of the subject tidelands is concluded following a three-step process:
 - 1 – Estimate Market Value of the adjoining uplands lot;
 - 2 – Analyze and conclude a tidelands/uplands value ratio;
 - 3 – Develop and apply a market lease rate.
- The Sales Comparison technique is used to estimate the Market Value of the uplands lot. Comparable Kachemak Dr. waterfront lot sales and listings were researched, confirmed, inspected, and analyzed. Data sources include the appraiser's market data bank, the Multiple Listing Service (MLS), recorded documents, real estate agents/ brokers, and parties to the transactions.
- Analysis of the comparables and other sales/listings not included was made to develop the market-derived adjustments applied in the Sales Comparison technique.



- In step 2 review/analysis of tideland/upland value ratios was done to conclude a ratio to apply to the uplands land value. This included research of tideland sales/leases to verify transactions that could provide a basis for comparison to upland land values.
- Statewide entities active in leasing land were interviewed to verify historical and current market rental rates to apply in the final step of concluding Market Rent of the subject tidelands.
- This appraisal is specifically prepared to be in conformance with the 2014 State of Alaska *General Appraisal Requirements* (available on-line @ DNR.Alaska.gov/mlw/appraise/pdf/genreq.pdf).
- The Cost and Income Approaches are not applicable to this assignment because the property consists of land, as-if vacant.

**Appraisal
Reporting
Process**

This assignment is reported as an **Appraisal Report**, described in "Appraisal Specific Definitions: in the Addenda.

Definitions

Market Value: *The most probable price, as of a specified date, in cash, or in 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.*¹

Note the Market Value definition used is as specified in the State "General Appraisal Requirements". Based on market conditions as of the effective appraisal date, cash sale terms and seller provided financing are considered interchangeable.

Market Rent: *The most probable rent that a property should bring in a competitive and open market.*²

Rental Rate: *The percentage of market value that a comparable class of private property would bring in the open market with the same conditions of lease as offered by the state.*³

¹ The Appraisal of Real Estate, Twelfth Edition, Appraisal Institute, 2001, page 22.

² "General Appraisal Requirements", State of Alaska Department of Natural Resources, 2014, page 2.

³ Ibid.

Property History

The fee owner of record is the State of Alaska.

The lot is leased to Kenneth D. Moore, dba Northern Enterprises, 5140 Kachemak Dr., Homer, AK 99603. According to Kenai Peninsula Borough ownership records the adjacent uplands (valued as part of this appraisal) are owned by Kenneth and Roseleen Moore Alaska Community Property Trust.

According to the State of Alaska, Division of Lands records for the subject tidelands are reported under ADL 209326. The lessee has a 30-year lease of the tidelands lot; June 1994 to the expiration on June 11, 2024. Annual lease payments are subject to revaluation every five years. The last reappraisal was effective June 12, 2004. The State's "case actions" report in 2009 "Market check indicated no appraisal necessary". As a result the next appraisal was postponed for another five years to June 2014. This appraisal then will be used as the basis for determining any change in Market Rent. The annual rent since 2004 has been \$336.

Property Rights Appraised

Market Rent of the fee simple estate less mineral rights

Legal Description

Lot 5, Alaska Tidelands Survey (ATS) 1234A (Plat 96-3)

The adjacent uplands lot is Lot 3-A-1, Northern Enterprises No. 1 (Plat No. 2002-67).

Both lots are in the Homer Recording District, Third Judicial District, State of Alaska.

State of Alaska records for this property are maintained under ADL (Alaska Division of Lands) 209326.

Effective Date of Value

June 12, 2014

Date of Inspection

September 19, 2014

Date of Report

October 29, 2014

Environmental Risks/Hazards

There were no environmental hazards observed at the time of inspection, however the lot was mostly submerged. No environmental assessment was provided during the course of this assignment.

The reader is specifically referred to paragraph 13 of the following Assumptions and Limiting Conditions.



Prior Appraisal Services

Uniform Standards of Professional Appraisal Practice (USPAP) requires that the appraiser disclose any services provided as an appraiser or in any other capacity in the prior three years pertaining to the subject property.

I (Julie Derry) have not performed any services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three year period immediately preceding acceptance of this assignment.

Hypothetical Condition (1)

- 1) The Market Value of the adjacent uplands that is concluded as part of the tidelands valuation is developed based on a buyer assuming the outstanding balance of the City of Homer water/sewer assessments which is typical for the market.
- 2) The Market Value of the uplands lot is concluded as-if vacant without consideration of the existing site improvements (clearing, installation of gravel and rock rip rap).
- 3) Natural gas mains and service lines have been extended throughout Homer and Kachemak City, including servicing the subject property. As part of those line extensions an assessment will be levied on the properties by the responsible municipality upon completion of cost accounting and certification. The City of Homer currently estimates that assessments will be levied in "early" 2015. The appraisal is prepared under the premise that those assessments, when levied, would be assumed by an owner or buyer as part of a sale transaction.

Extraordinary Assumption (1)

This is a retrospective appraisal; accordingly the property condition as of the effective date of value is assumed the same as observed on the date of inspection.

Marketing Time-Uplands (1)

18 -24 months

Exposure Time-Uplands (1)

12 – 18 months

Legal Constraints

Potential constraints on site development result primarily from state and federal regulations affecting tidelands, discussed in the Property Description section.

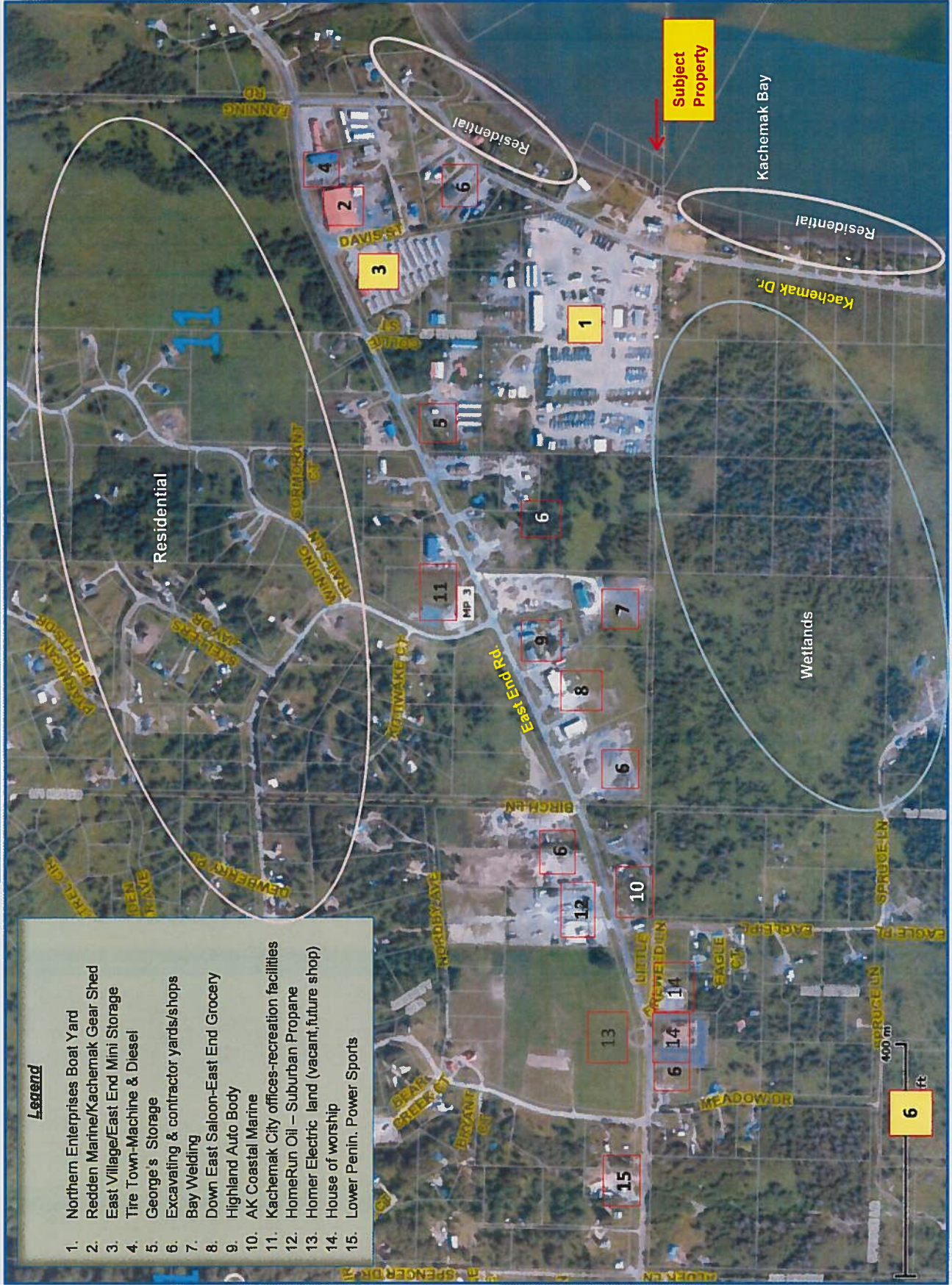
Existing Improvements

None considered; the lot is valued as-if vacant.

(1) See "Appraisal Specific Definitions" in the Addenda.



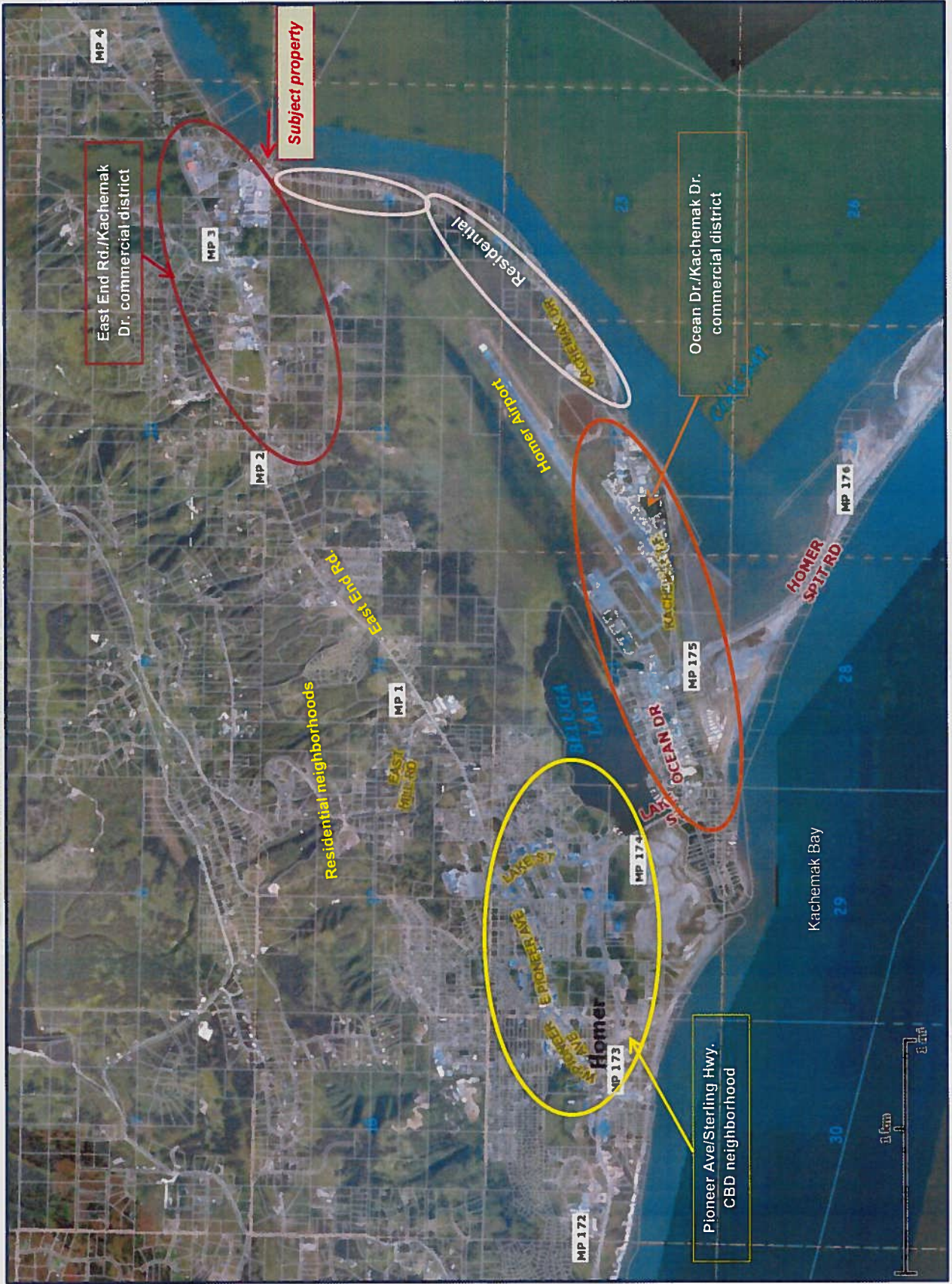
East End Rd./Kachemak Dr. neighborhood



- Legend**
1. Northern Enterprises Boat Yard
 2. Redden Marine/Kachemak Gear Shed
 3. East Village/East End Mini Storage
 4. Tire Town-Machine & Diesel
 5. George's Storage
 6. Excavating & contractor yards/shops
 7. Bay Welding
 8. Down East Saloon-East End Grocery
 9. Highland Auto Body
 10. AK Coastal Marine
 11. Kachemak City offices-recreation facilities
 12. HomeRun Oil - Suburban Propane
 13. Homer Electric land (vacant, future shop)
 14. House of worship
 15. Lower Penin. Power Sports



Subject Location Map



Location / Neighborhood Characteristics and Market Overview

Summary

The subject is located within a generally triangular shaped commercial/industrial district west/southwest of the East End Rd./Kachemak Drive intersection. The neighborhood originally developed because it was outside the boundaries of the City of Homer and Kachemak City which resulted in lower taxes and no zoning. In March 2002 the area was annexed into the Homer city limits. The area is now zoned East End Mixed Use which permits a wide variety of commercial/industrial uses and outside storage.

The focal point in the neighborhood is the 25-acre Northern Enterprises Boat Yard located west/northwest of Kachemak Drive from the subject tidelands/uplands. Appeal of the neighborhood is enhanced by the ease of access from the Homer Spit, Airport, or city center via Kachemak Drive and/or East End Rd. Residential uses are predominate on the Kachemak Bay frontage lots on the east and southeast side of Kachemak Drive, both south of the subject which is zoned Rural Residential and on the lots north which are zoned East End Mixed Use, the same as the subject uplands.

Location

The subject tidelands and adjoining uplands are southwest of the Kachemak Drive/East End Rd. intersection about 4/10 mile. The immediate area is 4+/- miles northeast of the heart of the Homer city center/commercial district. Access is available from the southwest via Kachemak Drive or from the north on East End Rd.; both are paved, 2-lane State maintained roads. East End Rd. has a paved bike/pedestrian path on the north side of the road.

The Neighborhood

Neighborhood boundaries consist of Kachemak Bay on the east and south, East End Rd. to the north and the State of Alaska Airport Reserve on the west. Prior to annexation by the City of Homer in March 2002 this triangular shaped area was commonly referred to as the "golden triangle". It had developed as a compact, mostly commercial/industrial business district; spurred by its location just north of the Homer city limits and south of the boundaries of Kachemak City. As a result development was not subject to zoning restrictions, city sales tax and had a lower real property tax rate.

Kachemak Drive extends southwest from the subject, generally following the Kachemak Bay bluff around to and intersecting with the Homer Spit Rd., 3.5+/- miles southwest. Development along Kachemak Drive predominately consists of single family residences on bluff frontage lots south or east of the road. Appeal of these lots is enhanced by their Bay frontage and excellent Bay/mountain view amenities. Privately-owned lots/acreage north or west of the road is generally one-lot deep and borders undeveloped Airport Reserve beyond. Development on this side of the road has been limited due to a high proportion of wetlands. There are some single family residences and varied, primarily aviation-related uses on the south



side of the Airport Runway near the Homer Spit Rd. intersection. Usability of lots in the neighborhood has been enhanced in recent years with extension of public water and sewer as well as natural gas within the past year.

End East Rd. to the north is the primary traffic route to residences and property east of the Homer Business District. Reconstruction of East End Rd. from the Pioneer Avenue intersection to the Kachemak Dr. intersection just north of the subject was completed in Fall 2005; straightening and realigning the road, widening it, and adding a paved pedestrian/bike path on the north side. Reconstruction of East End Rd. from the Kachemak Dr./East End Rd. intersection east is now underway. Many area residents live along or on property accessible by East End Rd. The appeal of the area is enhanced by the typically sloping terrain and good to excellent view amenities of Kachemak Bay and the Kenai Mountains to the south.

Development within the immediate vicinity west and north/northwest of the subject is commercial/industrial. The subject uplands/tidelands are the site of a dock which accommodates a 60-ton marine travel lift to haul out/put in a variety of commercial charter, fishing, and private vessels, the only facility of its kind in the Homer area. Most of the boats are stored/repared across the street in the 25+/- acre, fenced Northern Enterprises marine repair/storage yard. The facility also includes varied industrial buildings leased to businesses catering to marine-related repair/supplies.

Northern Enterprises has clearly developed as a business catalyst for the immediate neighborhood. Other nearby uses include a general contractor's office/storage yard, excavating contractor yards, a boat builder, three mini-storage facilities, a cold storage plant, and a mix of retail uses. North of the Northern Enterprises yard is Redden Net-Kachemak Gear Shed, located in a 45,000+/- sq. ft. building fronting on East End Rd. The Gear Shed is a major Homer retailer of clothing and a primary supplier of marine supplies and parts. Residential use is predominant on the waterfront lots north of the subject to the East End Rd. intersection and continuing east on East End Rd.

After annexation by the City, land in this "triangle" had been zoned General Commercial I which permits a variety of commercial/industrial uses with outside vehicle and boat storage/staging. The East End Mixed Use district was created in March 2012 and now encompasses this area, including both the subject uplands lot and tidelands. The EEMU classification generally allows similar uses to the GC1 category but with a slightly broader category of commercial uses. This classification applies only to this specific area. Lots on both sides of Kachemak Drive south of the subject and east of the Airport Reserve, are zoned Rural Residential.



Homer Area Tideland Lots

On the north shore of Kachemak Bay, in the Homer, area there are only a handful of tideland lots that have actually been platted. Besides the subject tidelands, **State-owned tideland lots** include:

- Lots 1 – 4, ATS 1234A, unleased/vacant, adjacent to the north of the subject ,
- ATS 644, a 10.37 acre lot ¼ mile northeast of the subject, apparently unleased,
- ATS 1603, 1.37 acres at the tip of the Homer Spit, a portion of the site occupied by the city of Homer “Pioneer Dock”, and
- ATS 1373, 11.91 acres of submerged land originally leased by the City of Homer for construction of the “Deep Water Dock”.

The only **privately owned tidelands in Homer** are:

- Lands End S/D Tidelands Tract B-1 and Tract B-2.

The two small lots are at the tip of the Homer Spit and owned by the owners of adjacent Land's End Resort. The .56 and .64 acre lots are undeveloped.

All of the remaining tidelands surrounding the original Homer city limits (prior to annexation of the immediate neighborhood of the subject) are City owned. No tideland lots have been platted/leased.

There are some privately owned tidelands on the south shore of Kachemak Bay and also some leased from the State of Alaska. This area of the Bay has physical features and property values very dissimilar to those on the north side.

Market Overview- Vacant Land

From the peak of the real estate market in 2005 market activity for vacant land in Homer has experienced a steady decline. This is not unique to Homer since the decrease has been experienced Peninsula-wide. The following table provides a snapshot of market activity for vacant lots and acreage during this time frame. It is prepared from MLS sales data for the central Homer core over the past ten years. Since the MLS data includes all vacant land, the activity reported includes Residential, Commercial, Residential Office, etc. zoned land classifications. Reviewing the individual transactions shows most of the listings/sales represent residential land, and only a few are waterfront lots.



10-year Comparison Report

Property Type: Vacant Land
Area: 490 – Homer

Year	# Sold	Avg. List Price	% List Price Change	Avg. Sold Price	% Sold Price Change	Avg. DOM
2004	64	\$48,067	NA	\$44,196	NA	271
2005	72	\$72,111	50.02%	\$70,306	59.08%	197
2006	52	\$91,235	26.52%	\$80,864	15.02%	232
2007	35	\$78,994	-13.42%	\$77,070	-4.69%	148
2008	34	\$92,563	17.18%	\$84,162	9.20%	276
2009	22	\$70,754	-23.56%	\$63,390	-24.68%	328
2010	12	\$55,400	-21.70%	\$46,233	-27.07%	347
2011	22	\$73,459	32.60%	\$65,595	41.88%	314
2012	20	\$57,407	-21.85%	\$50,380	-23.20%	260
2013	33	\$74,515	29.80%	\$64,921	28.86%	267

Year-to-date total sales reported are 19. Recognizing this reflects 9 months of the year potentially one might expect 27 sales for the year if market activity keeps pace with the average number of sales that occurred in 2013. This would reflect a decrease from 2013 which showed an increase when compared to the number of sales reported for 2009 through 2012 and particularly in comparison from the lowest point in 2010. Market activity for 2013 is close to that reported for 2007 and 2008. The upward trend for both 2013 and 2014 is encouraging however significantly less than reported during the height of the market in 2004/2005.

The average sale and listing prices reported in the previous table show varied ups and downs from year-to year. However, it is difficult to accurately interpret these numbers as reflecting actual changes in sale prices over time because the average list and sold prices clearly depend on the type of property that is listed each year. One year there may be a number of higher priced view or commercial lots listed. Then the next year lower priced properties are on the market, thus indicating a decline in prices from the previous year.

Tracking market activity reported in MLS for only **waterfront lot sales** indicates the following results for the period of January 1, 2004 through year-to-date 2014. The majority of properties locally are listed with local real estate agents and marketed through MLS.



Waterfront Land Sales 2004 – 2014*

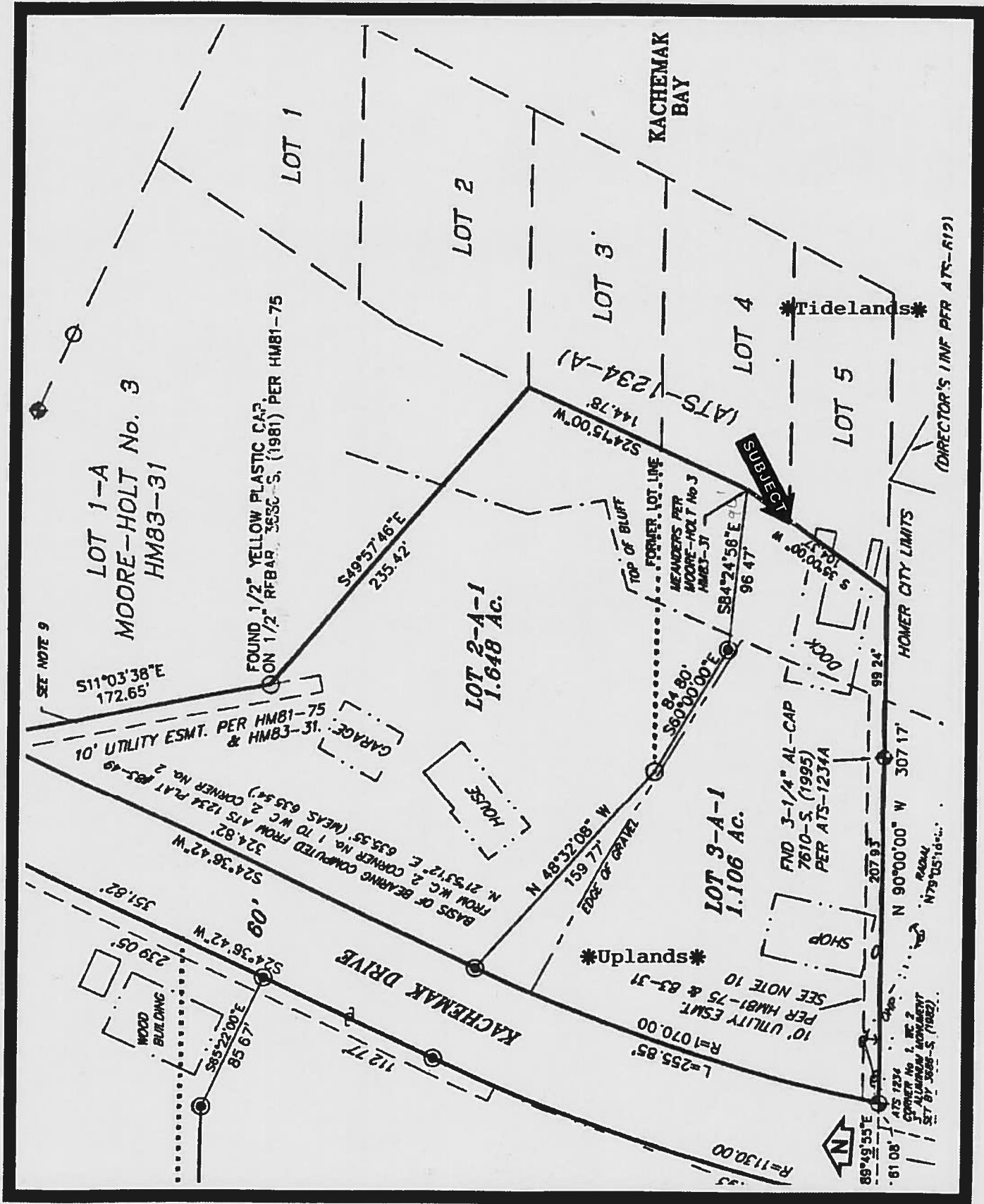
<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
5	3	4	1	0	0	0	0	1	2	4

*Reported in MLS

It is not surprising that there were no waterfront lot sales from 2008 through 2012 in the depths of the real estate decline. The sale prices of waterfront lots are typically much higher than other lots marketed in the Homer area. Two of the 2012 - 2014 lot sales are on Kachemak Dr. and are analyzed in the valuation of the subject uplands discussed in the Property Valuation section. The remaining sales are west of the Homer CBD and are not considered readily comparable to the subject since they are larger lots with a steep 200'+ high bluff amenity and thus lack direct access to the Kachemak Bay beach. Most of the lots east of the subject south of East End Rd. are similar with high steep bluffs lacking beach access.

Currently in MLS there are five "Homer" waterfront listings; one on Kachemak Dr. and included as Comparable 3a in this appraisal. The other four are larger lots west of the CBD. Comparable 7 was formerly listed on craigslist and currently has a "for sale" sign posted on the lot.





Property Description

Overview

Since the Market Value of the subject tidelands is estimated based on a percentage (ratio) of the adjacent uplands Market Value a description of the physical features, zoning, etc. of the uplands lot is incorporated into this discussion of the tidelands.

The lots are valued as-if vacant and unimproved; available for development. No consideration is given to site improvements installed by the Lessee of the tidelands on either lot (dock, gravel fill, rock rip rap, etc.).

Size

Tidelands: .237 acres – 10,324+/- sq. ft.

Uplands – Total Lot: 1.106 acres – 48,177 sq.ft.

Estimated site area above the bluff: 40,077+/- sq.ft. (.92 acre)

For consistency in the analysis of waterfront lots/acreage sizes of the comparables are compared to the subject based on the area inland from the edge of the bank/bluff overlooking the Kachemak Bay beach. Based on the 2002 survey of the subject uplands which identifies the location of the top of the bluff 8,100+/- sf is estimated to be at beach level; leaving 40,077+/-sf of uplands. Site area at the toe of the sloping bank is subject to daily tidal inundation and typically not considered readily usable except for construction of docks or buildings on piers/pilings.

Road Access/ Frontage

The uplands has 256+/- feet of frontage on the **two-lane, paved State maintained Kachemak Drive**. Access to the tidelands is at beach level over the adjoining uplands.

Utilities

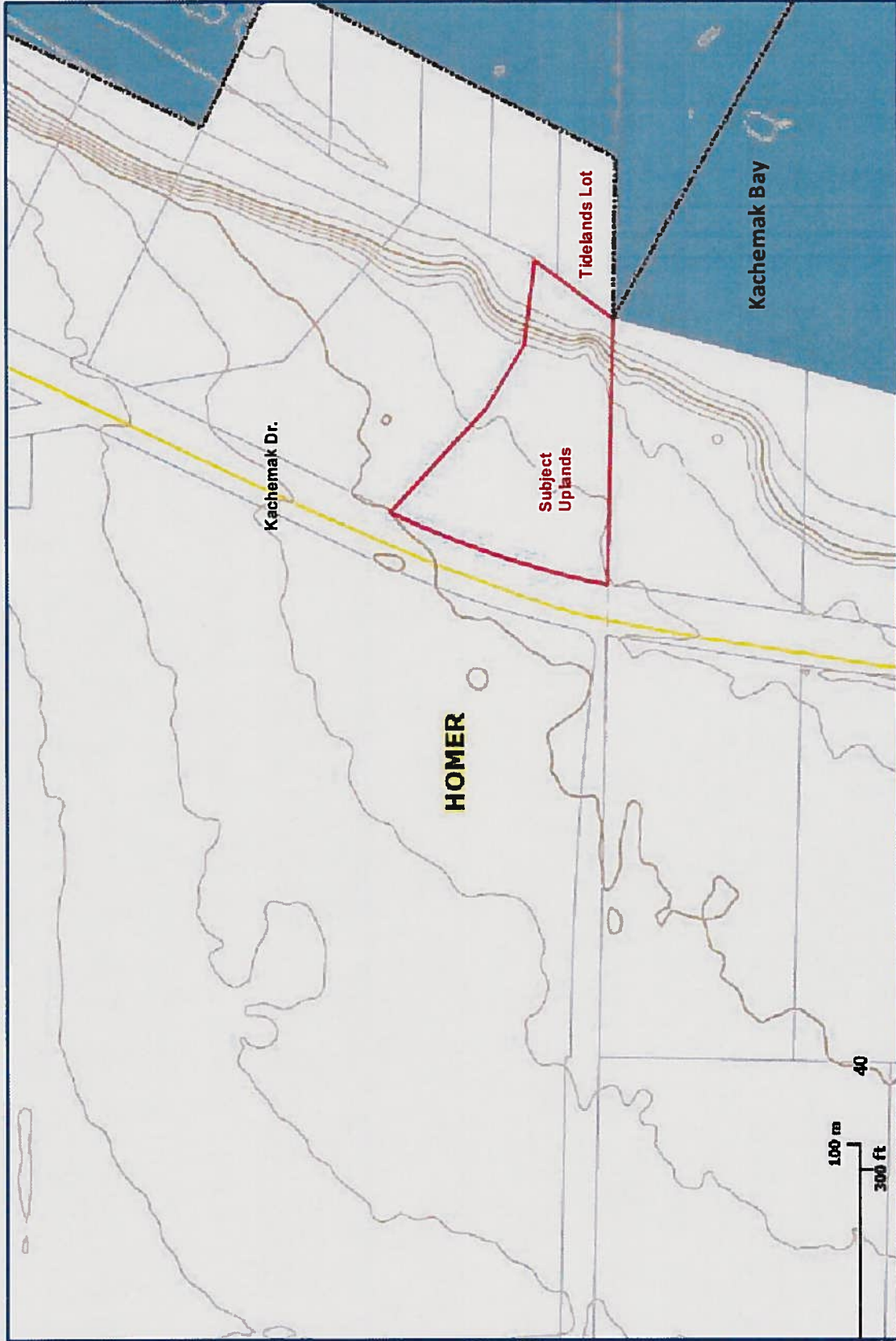
Electrical, telephone, natural gas, and public water and sewer are available to the uplands.

City of Homer **public water and sewer** was installed to the subject lot during the summer of 2011. In September 2013 the City levied a total assessment of \$34,140.80 for each benefitting property, regardless of size. The assessment is financed by the City for 20 years with annual payments including 1.5% interest. The outstanding **assessment balance** for the subject uplands lot is **\$32,926.27**.

The **assessment** for installation of **natural gas** within the Homer city limits in 2013 and 2014 has not been levied. It is estimated to be **\$3,283+/-/lot**. The City reports gas assessments will be finalized/levied in **early 2015**, payable over 10 years. The assessment will be the same for all lots, regardless of size, the same as the Kachemak Dr. water/sewer improvement districts.



Topography Map



Map from Kenai Peninsula Borough GIS Department - 4' contours



Assessed Value and Taxes

<u>Lot</u>	<u>KPB Parcel No.</u>	<u>Assessed Value</u>	<u>R.E. Taxes</u>
Tidelands	174-201-17	\$9,900	\$111.87
Uplands	174-201-20	Land: \$137,000	\$1,548.10

Since the uplands are valued as-if vacant the assessed value of the "improvement" (dock) at \$165,900 is excluded.

The **real estate taxes** are based on the City's 2014 real property tax rate of 11.30 mills. It is composed of: Kenai Peninsula Borough – 4.5 mills, City of Homer – 4.5 mills, and South Peninsula Hospital – 2.3 mills.

Topography and Soils

The **tidelands** have a **gradual easterly slope** seaward from the lot's west boundary near the end of the dock (see Plat Map). The lot is reportedly flooded at all high tides over 17+/- feet which provides boat access to the face of the dock constructed over the seaward (east) boundary of the uplands. This portion of Kachemak Bay is generally more shallow and the lot "goes dry" relatively quickly. The vicinity is only flooded at the higher tides for an estimated 3+/- hours during a typical 12-hour high/low tide cycle; thus minimizing the time that the dock can be used.

The **uplands** are level at Kachemak Drive road grade to the edge of the 15-20+/- foot high bank/bluff overlooking the Kachemak Bay beach below (see photos). The lot has 104 feet of Bay frontage, 113' acre of above-bluff site area. As previously reported under size the quantity of area above the bank overlooking the Kachemak Bay beach is .92+/- acre. The majority of the uplands lot has been graveled and is used for staging/parking area in conjunction with the dock and marine travel lift.

Due to historical problems with bank/bluff erosion in this area the owners installed rock riprap along most of the exposed bank/bluff. However, for appraisal purposes the uplands lot is valued as-if vacant and unimproved, assuming typical ground/tree cover and bluff amenities on vacant lots in the neighborhood. From the lot there is an excellent view amenity of Kachemak Bay and the Kenai Mountains.

The US Natural Resources Conservation Service on-line soil survey classifies soils within this area as **Beluga silt loam, nearly level**. Soil characteristics are identified as a top layer of silt loam and fine sandy loam underlain by silty clay loam to a depth of 40 inches, the extent of sampling. This soil type encompasses most of the Homer city center. Seepage from higher areas can keep this soil wet unless it is drained. Susceptibility to frost action is rated as "moderate to very high".

The soil survey identifies a small area of Salamatof peat, adjacent south of the subject uplands. The peat soils are visible along the



exposed bank/bluff on some of the lots south of the subject which have been heavily eroded prior to any bank restoration/stabilization.

The soils on the tidelands lot are identified as Tidal flats.

Zoning and Use Restrictions

The lots are zoned **East End Mixed Use (EEMU)**. This classification permits a wide variety of commercial and industrial uses as well as exterior (not enclosed) storage. Permitted uses include marine equipment service, sales and rental; warehousing-mini storage; building supply and equipment sales; residential uses that existed prior to the zoning classification, etc. A new 1 or 2-family residential use can be an accessory use.

Due to the beachfront location of the eastern portion of the uplands (site area east of the bank/bluff) and all of the **tidelands** lot this area is subject to **development constraints** resulting from federal regulations administered by the **US Army Corps of Engineers**. A Corps permit is required for development on any of the beachfront area subject to tidal action. The permit process requires extensive review and approval by various State and Federal agencies.

Easements

The subdivision plat for the tidelands lot identifies a 50' wide public use easement along the west boundary of the lot (see plat). This is typical for waterfront lots and **not considered to adversely impact usability** of the existing dock.

A 10' wide utility easement parallels the south boundary of the uplands lot. Again, it is typical and does not adversely impair usability. No other easements are known/identified on the plat.

Flood Zone Identification

According to the City of Homer Planning Department the **flood insurance rate maps** for Homer are in the process of being revised, expected to be officially adopted in Fall 2015. The existing and revised maps identify the **uplands** as a "**Zone D**"; described as "an area of undetermined but possible flood hazards". The site area below the top of the bank (**beachfrontage, including the tidelands**) is identified as a **Flood Zone VE** with a current defined elevation of 20' and proposed to increase to 24'. Zone V3 is identified as "An area inundated by 1% annual chance flooding with velocity hazard (wave action); BFEs (base flood elevations) have been determined." The Kachemak Dr. area is currently on map Panel 0201076065C, revised November 6, 2013. The proposed map dated June 13, 2014 is Map #02122C2115A.

Site Improvements

None considered, the lots are valued as-if vacant and unimproved.



Highest and Best use

Definition

The reasonably probable and legal use of vacant land or an improved property, that is physically possible, appropriately supported, financially feasible, and results in the highest value. The four criteria the Highest and Best Use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.¹

Methodology

The Highest and Best Use of a property is an economic concept that measures the interaction of the four criteria. The determination of a property's Highest and Best Use is an important appraisal component that provides the valuation framework upon which the comparable market data is based. Normally the Highest and Best Use is considered both as-if vacant and as improved. However, since the subject property is valued as-if vacant/undeveloped, Highest and Best Use is discussed only as vacant.

As Vacant

The unique physical features of the subject tidelands clearly impact the potential uses that are **physically possible**. Typically tidelands are used in combination with adjacent uplands; most likely for a dock/pier.

City of Homer zoning affects what uses are **legally permissible** on the adjoining uplands. In Homer the majority of waterfront lots are unzoned (and outside the city limits) or zoned to permit residential use. There are few waterfront lots, like the subject uplands, that allow primarily commercial/industrial use under the EEMU zoning. Residential use is permitted as ancillary to the primary commercial/industrial oriented use on-site.

Uses permitted outright in the EEMU zone include a variety of commercial/industrial uses that are already predominate in the immediate neighborhood. These include marine equipment service, sales, and storage; warehousing and mini storage; equipment storage yards, and retail sales.

The tests of **financial feasibility** and **maximum productivity** are determined based on a specific, planned use and the test of that use for economic return to the owner. As an example, this would consider the demand, competition, and rent levels for a particular industrial/commercial building type or occupancy.

Considering current market conditions the **two uses** that meet the tests of Highest and Best Use would be holding the site vacant as an interim use or developing with an industrial/commercial use for primarily owner occupancy in conjunction with the adjacent tidelands.

¹ The Dictionary of Real Estate Appraisal, Fifth Edition, Appraisal Institute, Chicago, 2010, pg. 93.

Summary

The Highest and Best Use of the subject uplands/tidelands is concluded to be development of a primarily owner-occupied use in conformance with the EEMU zoning requirements. Use of the tidelands would be in conjunction with the adjacent uplands, likely for a dock or pier. An alternate, interim use is holding the lots vacant for future development when deemed financially feasible.



Property Valuation

Methodology

Market Rent is typically concluded based on the fee simple Market Value of the subject property and application of a market lease rate (%). However, since the subject consists of tidelands an additional step is required in the valuation process.

The majority of tidelands statewide are publicly owned by the State or local municipalities and are normally leased rather than sold. Therefore due to the dearth of actual tideland sales on the Kenai Peninsula that are similar to the subject property the Market Value of the tidelands appraised is estimated based on a percentage of the value of the adjoining uplands lot. The valuation process then requires estimating the Market Value of the uplands as of the effective appraisal date as well as concluding a tideland/uplands value ratio. The use of the "percent of uplands value" method is considered quite appropriate since tidelands generally have limited market appeal individually and are normally used in conjunction with the adjacent uplands.

In summary, Market Rent of the subject is concluded following a three-step process:

- Valuation of the adjacent uplands lot (used in conjunction with the subject tidelands), valued as-if vacant and unimproved,
- Application of an uplands/tidelands value ratio (%),
- Application of a market lease rate.

Valuation of Adjacent Uplands

The Sales Comparison technique is the most reliable procedure for estimating land value. Using this technique sales and listings of other Kachemak Bay frontage lots on Kachemak Dr. are analyzed. Due to the dearth of more recent sales some older transactions are included, however considered to provide meaningful value indications following an analysis of market conditions since their date of sale. More recent waterfront lot sales in other areas of the city are not included due to their typically high steep banks/bluffs (200'+) and lack of direct access to the Kachemak Bay beach. Following adjustment of the subject comparables for their differences in comparison to the subject uplands they provide an indication of Market Value for the lot appraised.

For analysis the waterfront comparables are analyzed based on a sale price per square foot and utilizing their useable or above bluff site area. This method is used to provide a consistent unit of comparison since bluff locations vary, resulting in significant differences in beach/bank proportions. In some cases lots are platted to the Alaska Tidelands Survey, others to mean high water lines of varying years or in some cases the 1917 meander. Total lot sizes and proportion of beach area can vary significantly and skew the sale price per square foot (or acre) to an essentially meaningless number. However, comparing the comparables based on their "above bluff" size has been found to provide a meaningful, consistent basis of comparing waterfront sales, used in the Homer market by Derry & Associates



over the past 35+ years. The size of the useable or above bluff area is developed using the Borough's aerial topographic overlay and/or lot surveys of above-bluff area.

Historically in the Homer area waterfront properties have not been marketed/purchased based on their total water frontage and a price per front foot. This methodology was initially considered/calculated for the subject comparables. Unit prices range from \$722 to \$1,905 per front foot and do not readily provide a reliable basis of adjusting for their differences. Due to their higher prices the comparables are analyzed based on their price per square foot rather than price per acre.

As previously reported in the Property Description section the estimated "above bluff" size of the subject uplands is 40,077+/- sq.ft., .92 acre. The lot has public water/sewer, electrical, telephone, and natural gas available. The value conclusion assumes outstanding utility assessments will be assumed by a buyer/owner which is typical in the market. For analysis the lot is valued without consideration of site improvements which include clearing, installation of gravel fill for parking/staging and rock rip rap for stabilization of the Kachemak Bay bank.

**Summary of the
Comparables**

The details of the individual comparable sales and listings analyzed are summarized in the following comparable data sheets and land adjustment grid presented following discussion of the elements of comparison. **Both the data sheets and the grid report legal description, sale dates, sale terms, and physical characteristics of each of the comparables.**

Although Comparable 4 sold in 2005 it is included since it is zoned for commercial/industrial use like the subject uplands. Comparable 7, a current listing, is adjacent to the east of GC2 (General Commercial 2) zoned land, three lots east of C4, south of the Homer Airport. Comparables 3/3a and 5/5a help identify changes in market conditions since 2006/2007.

The net land value of Comparables 5/5a and 6 are estimated/analyzed due to the lack of other vacant, Kachemak Dr. waterfront sales. Both sales included small residential improvements of advanced age and fair condition with a relatively low contributory Market Value. The remaining comparables are vacant except for some mostly minor site improvements (clearing, driveway, etc..)

Recognizing this assignment as a Retrospective Appraisal and following USPAP Statement 3, it is acknowledged that some of the comparables happened after the effective date of value. Those sales however are considered to have occurred within a reasonable time of the effective date and evidence in the market confirms they are consistent with market expectations as of the effective date of value.



Comparable Location Map



Comparable Location Map



Comparable Land Sale 1

Location: 4288 Kachemak Dr., Homer

Legal Description: GLO 45B & 46C, Section 14, T6S, R13W, S.M.

Shape: Parallelogram

Sale Price: \$200,000

Area: Total site: 2.46 acres
Est. above bluff: 1.75 acres, 76,230sf

Sale Date: July-14

Access: 2-lane paved, State maintained
Kachemak Dr. along west boundary

Sale Terms: Cash + assume W/S
assessments-\$32,926.27. Pending gas
assessment (2015) - \$3,283+/-

Zoning: Rural Residential

Instrument: WD

Utilities available: S,W,E,T,G

Recording index: 2014-002141-0

Grantor: Victor D. Carlson, Anchorage

KPB parcel no. 179-110-08 & 10

Grantee: McKenzie Mahan, Homer

Confirmed: A. Newby, RE broker

Comments: The lot was listed for about 1 year, priced at \$225,000 at the time of sale. In 2007 - 2009 it had been listed with a different agent at \$420,000 - 424,000. Site topography is level at road grade to the edge of the 100+/- ft. high bank/bluff with a steep escarpment to the beach below. The bank is subject to active erosion. The lot is heavily treed. Adjoining lots north and south are developed with single family residences of varying quality, size, and age. There is no developed beach access due to steepness of the bank. Total frontage is 184', 105'/acre of above-bluff area.



Analysis: \$200,000 sale price/ 76,230 sq.ft. = \$2.62/sq.ft.



Comparable Land Sale 2

Location: 4412 Kachemak Dr., Homer

Legal Description: Lot 41C, MacInnes S/D (Plat 76-7, HRD)

Shape: Rectangular

Sale Price: \$170,000

Area: Total site: 1.48 acres
Est. above bluff: 1.28+/- acres, 55,757sf

Sale Date: December-12

Access: 2-lane paved, State maintained
Kachemak Dr. along west boundary

Sale Terms: \$20,000 down (12%)
Assume W/S assessments-\$34,661.91
Pending gas assessment (2015)-\$3,283+/-

Zoning: Rural Residential

Instrument: WD

Utilities available: S,W,E,T,G

Recording index: 2013-000027-0

Grantor: Robert R. & Maryann S. Leedy, Eagle River

KPB parcel no. 179-330-01

Grantee: Derek Lechliter, Soldotna

Confirmed: S. Erickson, RE Broker

Comments: The lot was on the market for 4.3 years, originally priced at \$375,000. Over time the listing price was reduced to \$179,900 at the time of sale. The Grantor had purchased the lot in 1996 for \$65,000. Site topography is generally level at road grade to the top of the 80'+/- high, steeply sloping bank down to the Kachemak Bay beach. The sale included a narrow driveway & gravel pad which have been expanded since purchase. The site is mostly cleared with some pockets of standing water at time of inspection after a month of heavy rain. Lot has 167' of Bay frontage, 130'/acre of above-bluff area.



Looking north over the bluff from near the south boundary.

Analysis: \$170,000 sale price / 55,757 sq.ft. = \$3.05/sq.ft.

Comparable Land Sale/Listing 3/3a

Location:	4726 Kachemak Dr., Homer
Legal Description:	GLO 31, Section 14, T6S, R13W, S.M.

Shape: Rectangular	Sale Price: \$240,000/Listing @ \$199,999
Area: Total site: 1.23 acres Est. above bluff: .75+/- acre, 32,670sf	Sale Date: Sale Aug-07; List date Aug-13
Access: 2-lane paved, State maintained Kachemak Dr. along west boundary	Sale Terms: Cash - Est. assessments @ sale: \$33,500+/- .Current balance: \$32,926.27. 2015 pending gas assessment-\$3,283+/-
Zoning: Rural Residential	Instrument: WD Recording index: 2007-004086-0
Utilities available: S,W,E,T,G	
Grantor: James Torgerson & Morgan B. Christen, Anchorage	KPB parcel no. 179-080-38
Grantee: Anne P. Rex, Ohio (now C3a Grantor)	Confirmed: A.Newby, RE Broker Selling and Listing Agent

Comments: Prior to sale the lot was listed at \$265,000 for 2 months. Current listing price unchanged since original listing in 8/13. No offers reported. Lot is level to the top of the sloping, 40'+/- high bank to the Kachemak Bay beach. The bank is mostly vegetated, helping to protect it from active erosion. Uplands is treed. The relatively low bank provides easy access to the beach. Total frontage is 173'+/-, 231'/acre of above-bluff area.



Sloping bank down to the Kachemak Bay beach in foreground.

Analysis:	\$240,000 sale price/ \$199,999 list price/	32,670 sq.ft. =	\$7.35/sq.ft. \$6.12/sq.ft.
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Comparable Land Sale 4

Location: 2355 Kachemak Dr., Homer

Legal Description: GLO 21, Section 22, T6S, R13W, S.M. lying south of Kachemak Dr.

Shape:	Rectangular	Sale Price:	\$400,000
Area:	Total site: 4.06 acres Est. above bluff: 2.88+/- acres, 125,453+/-sf	Sale Date:	August-05
Access:	2-lane paved, State maintained Kachemak Dr. along west boundary	Sale Terms:	Cash Assume pending W/S assessments-est. @ \$24,000 at time of sale.
Zoning:	General Commercial 2 (GC2)	Instrument:	WD Recording index: 2005-004787-0
Utilities available:	S,W,E,T	Grantor:	Gary Garrouette & Nina V. Garrouette, Homer
Grantee:	Larry M. Alred & Colleen Alred, Barrow	KPB parcel no.	179-150-38 (now replatted, parcel 179-150-79)
		Confirmed:	M.McHone, RE Agent

Comments: The lot had been on the market for 7+/- months, initially priced at \$495,000, reduced to \$430,000 at the time of sale. Site topography is generally level at road grade to the top of the 80'+/- high, steeply sloping, mostly treed bank down to the Kachemak Bay beach below. Portions of the site were cleared/graveled for parking. At time of sale there was a trail access down to the beach, shared with the lot to the west. In 2008 the two lots were replatted with the trail on the other lot. Total size of this lot was reduced to 3.49 acres. The lot was used for boat storage; improved with shop spaces since purchase. At time of sale the total Bay frontage was 260'; 90' acre of above-bluff area.



SW over the edge of the Kachemak Bay bluff. Homer Spit visible at upper left.

Analysis: \$400,000 sale price / 125,453 sq.ft. = 3.19/sq.ft.



Comparable Land Sale 5

Location: 4946 Kachemak Dr., Homer

Legal Description: GLO 16, Section 14, T6S, R13W, S.M. lying East of Kachemak Dr.

Shape:	Rectangular	Sale Price:	\$137,000 (Net land value)
Area:	Total site: .88 acre Est. above bluff: .50+/- acre, 21,780+/-sf	Sale Date:	July-14
Access:	2-lane paved, State maintained Kachemak Dr. along west boundary	Sale Terms:	Cash + Assume W/S assessments of \$32,926.27. 2015 pending gas assessment-\$3,283+/-
Zoning:	Rural Residential	Instrument:	WD
Utilities available:	S,W,E,T,G	Recording index:	2014-002422-0
Grantor:	Rebecca A. Winchester, Florida	KPB parcel no.	179-080-20
Grantee:	Roberta D. Gibson, Anchorage	Confirmed:	D. Leisek, RE Broker

Comments: For valuation the estimated contributory Market Value of a 384sf cabin, deck and gazebo are deducted from the \$162,000 total sale price. The property had periodically been listed for sale for 5+/- years; initially at \$270,000 (incl.improvements). Listing price at time of sale was reduced to \$169,900. Site topography is level to the sloping, grass covered 20' high bank down to the Kachemak Bay beach. Total frontage is 170', 340/acre of upland area.



NW to the lot from the beachfront amenity.

Analysis: \$137,000 sale price/ 21,780+/- sq.ft. = \$6.29/sq.ft.

Comparable Land Sale 5a

Location: 4946 Kachemak Dr., Homer

Legal Description: GLO 16, Section 14, T6S, R13W, S.M. lying East of Kachemak Dr.

Shape: Rectangular **Sale Price:** \$162,500

(Net land value)

Area: Total site: .88 acre **Sale Date:** July-06

Est. above bluff: .50+/- acre, 21,780+/-sf

Access: 2-lane paved, State maintained **Sale Terms:** Cash + Assume estimated W/S assessments of \$28,600.

Kachemak Dr. along west boundary

Zoning: Rural Residential **Instrument:** WD

Utilities available: S,W,E,T Recording index: 2006-003906-0

Grantor: Bonnie S. Gregoire, Homer **KPB parcel no.** 179-080-20

Grantee: Rebecca A. Province & Mark Hampton, FL **Confirmed:** J.Calhoun, RE Agent

Comments: For valuation the estimated \$30,000 contributory Market Value of a 384sf cabin, deck and gazebo on this lot and the estimated value (\$27,500) of the site area west of K.Dr. are deducted from the total sale price of \$220,000. The lot was listed 2 months at \$250,000. The improvements on-site were in better condition than in 2014. Site topography is level to the sloping, grass covered 20' high bank down to the Kachemak Bay beach. Total frontage is 170', 340'/acre of upland area.



NW to the lot from the beachfront amenity.

Analysis: \$162,500 sale price / 21,780+/- sq.ft. = \$7.46/sq.ft.



Comparable Land Sale 6

Location:	4834 Kachemak Dr., Homer
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Legal Description:	Lot 28, Block 1, Uminski 1997 Addition (Plat No. 99-80 HRD)
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Shape:	Rectangular	Sale Price:	\$60,000 (Net land value)
Area:	Total site: .47 acre Est. above bluff: .30+/- acre, 13,100+/-sf	Sale Date:	July-11
Access:	2-lane paved, State maintained Kachemak Dr. along west boundary	Sale Terms:	20% down + Assume W/S assessments of \$34,661.91.
Zoning:	Rural Residential	Instrument:	WD Recording index: 2011-002277-0
Utilities available:	S,W,E,T	Grantor:	Celeste Harjehausen, Anchorage KPB parcel no. 179-090-12
Grantee:	John L. Warren, Homer	Confirmed:	C.Story, RE Broker

Comments: For valuation the estimated \$15,000 contributory Market Value of a 500sf+/- cabin of advantaged age and in fair condition is deducted from the \$75,000 total sale price. Since purchase the Grantee has constructed a new residence on-site. He owns other property in the neighborhood. The property had only been listed 2 weeks, at \$94,900 (incl.the cabin). It was first listed in June 2010 at \$145,000 with periodic price reductions. Total frontage is 83', 277'/acre of upland area. The bank is 28'+/- high. The lot is partially treed, generally level at road grade to the edge of the bank overlooking the beach below.



View over the edge of the bank at the time of sale.

Analysis: \$60,000 sale price/	13,199 sq.ft. =	\$4.58/sq.ft.
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Comparable No. 7

Location: 2601 Kachemak Dr., Homer

Legal Description: Lot 1, Keta Cliffs Too S/D (Plat 79-48 HRD)

Shape:	Irregular	List Price:	\$185,000
Area:	Total site: .93 acre Est. above bluff: .5 acre, 21,780+/-sf	List Date:	May-13
Access:	2-lane paved, State maintained Kachemak Dr. along west boundary	Sale Terms:	Negotiable + assume W/S assessments-\$25,528.82. Pending gas assessment (2015) - \$3,283+/-
Zoning:	Rural Residential	Instrument:	N/A
Utilities available:	S,W,E,T,G	Recording index:	N/A
Grantor:	Rick & Margaret Egelus Living Trust	KPB parcel no.	179-260-09
Grantee:	N/A	Confirmed:	Grantor & craigslist

Comments: The price of the lot has remained unchanged since the initial advertising and sign posted on the lot. Site topography is level at road grade to the edge of the 80'+/- high, mostly treed bank down to the Kachemak Bay beach. Total frontage is 168', 336'/acre of upland site area. The lot has been mostly cleared and has grass ground cover, The lots adjoining to the west are zoned General Commercial 2 and developed with commercial uses. Lands east are zoned Rural Residential.



View SE over the edge of the bluff toward the Kachemak Bay beach.

Analysis: \$185,000 list price/ 21,780 sq.ft. = \$8.49/sq.ft.

Analysis of the Comparables

The following section discusses the analysis and adjustments applied to the comparables to develop the Market Value of the adjacent uplands, included as the first step in valuation of the subject tidelands. The comparables are analyzed first for **transactional adjustments** (financing terms, conditions of sale, market conditions) then **property adjustments** (physical characteristics, legal constraints, etc.). Only those elements potentially requiring some adjustment are discussed.

Sale Terms

The State of Alaska "General Appraisal Requirements" state "Market value must be estimated in terms of seller financing typical for the market"¹¹. For their land sales the State offers seller provided financing with no variation in price for cash.

Historically private sellers often gave a discount for cash vs. a sale with seller provided financing. However in recent years cash sale terms have become very common with no identified variation in price compared to other sale terms. As a result the cash sales terms of most of the comparables are considered interchangeable with the seller provided financing of C2, 6, and 7. Thus no adjustment is applied to any of the comparables for variation in sale terms.

Market Conditions (Date of Sale)

Due to the dearth of more recent waterfront lot sales on Kachemak Dr. the sale dates of the comparables range from August 2005 through July 2014. As a result an extensive analysis of paired sales was undertaken to identify any changes in market conditions during this time frame.

A survey of paired sales was conducted to track sales/resales within the Homer city limits between January 2005 to the current date. This included both commercial and residential oriented lots and includes several of the comparables previously discussed.

The Market Overview section previously discussed the dearth of market activity since the height of the market in 2004 - 2006. Up until that time sales in general experienced annual escalations in value/sale prices. Increases of 10 - 20%/year were commonplace. However, those increases in value in the Homer market stopped abruptly by late 2008 and early 2009. A comparison of 2007/2008 lot listing prices to current dates reflect downward trends as well, some very significant. For example Comparable 1 was listed at \$424,000 in August 2007, reduced in 2014 to \$225,000 at the time of sale. Comparable 2 was listed in 2008 at \$375,000, \$179,900 at the time of sale in 2012. C3 sold for \$240,000 in 2007, currently listed at \$199,999, a discount of 17% from the earlier purchase price. Similarly the July 2006 sale of C5a compared to the 2014 price indicates a discount of 16%.

¹¹ State of Alaska "General Appraisal Requirements", 2012, page 2: 9. Terms of Sale.



Fourteen paired sales/resales and sales/listings were tracked in a search of 2008 – 2014 sales and current listings reported in MLS for “Homer” (lots/acreage within and close to the city limits). All of these transactions indicate price declines, typically in the range of 10 – 20% with some listings currently at 30%+/- less than their earlier purchase prices.

Based on the results of the paired sales/listings analyzed a stepped market conditions adjustment is applied to the older sale dates of C3, 4, and 5a. The adjustment is calculated by applying an upward adjustment to the oldest sale (C4 in 2005) at 12%/year, compounded monthly through June 2006. That sale and the two others (C3 and 5a) are then adjusted upward at 3%/year to March 2009. The resulting indicated price per square foot is then discounted 20% to reflect the changing market conditions after that date. All of the remaining comparables with sale dates between July 2011 and July 2014 are considered to reflect current, relatively stable market conditions, and thus are not adjusted.

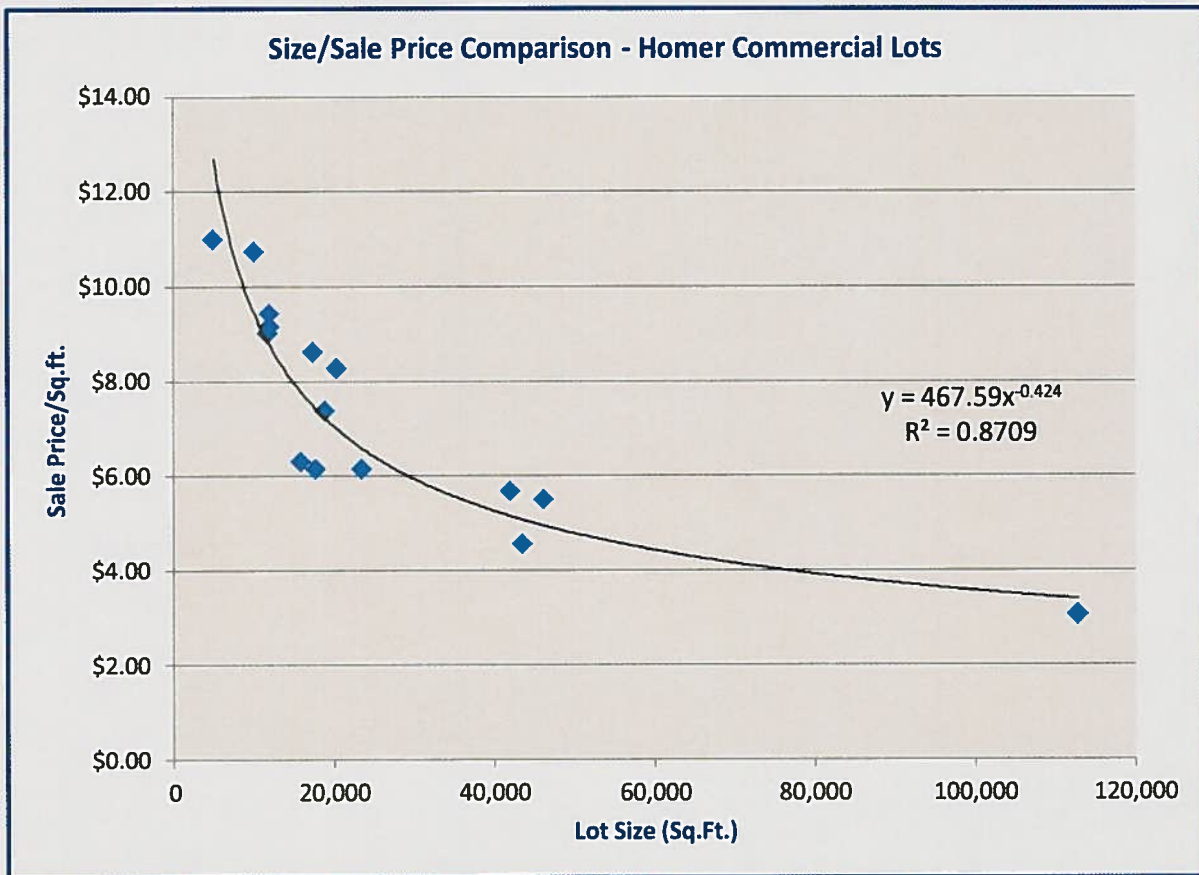
Typically listings are considered to set the upper range of value, prior to buyer/seller negotiation. As identified on the MLS sales table presented in the Market Overview section average sale prices are consistently less than the average listing prices. Over the past five years the average discount from list price for the “Homer” land sales reported in MLS was 12.6%. The subject waterfront comparables reflected discounts of 6 to 25%+/- . Considering these discounts a -10% market conditions adjustment is applied to the comparable listings of C3a and C7 to bring them more in line with a likely sale price

Site Size

Again, due to the dearth in sales and listings the comparables vary in size from the smallest (C6) at 13,100 sq. ft. (above bluff) to the largest (C4) at 125,453 sq.ft. These compare to the subject uplands at 40,077 sq. ft.

The size/price relationship is typically inverse; the larger the parcel size the lower the price paid per square foot and vice versa. To identify any market supported size/price relationship and to quantify that difference (if any) a scatter plot graph was used. To enhance the similarity of the data all the sales graphed are commercial oriented lots within the Homer CBD, first adjusted for any difference in date of sale as previously discussed under market conditions. The following graph illustrates the data arrayed.





The formula and R^2 associated with the trend line is reported. For a meaningful equation an R^2 (coefficient of determination) as close to 1.00 is optimal. Note that this formula generated by Excel reports "R²" rather than the actual calculation for simple regression in this case, correctly identified as "r²".

Using the trend line formula the percentage adjustment to each of the comparables based on variations in size compared to the subject uplands is calculated, rounded and shown on the Adjustment Grid.

View Amenity/Kachemak Bay Frontage

All of the comparables are waterfront lots fronting on Kachemak Dr. which provides an unobstructed view of Kachemak Bay and the Kenai Mountains to the south. The lots do vary in their quantity of Bay frontage. For comparison purposes the frontage is reported based on feet per acre, ranging from 90 to 340' per acre, compared to the subject at 113'. Comparables 1 and 2, and 4 which are also the largest sales have the most similar quantity of frontage to the subject at 90' - 130'/acre. The



remaining comparables have a higher proportion of frontage, attributed in part to their smaller sizes.

None of the comparables provide a basis for developing a quantitative adjustment for the frontage differences when compared to the subject. As a result a downward qualitative adjustment is noted for the higher proportion of frontage for C3/3a, 5/5a, 6 and 7.

Topography/Height of Kachemak Bay bluff/bank

As previously reported (see Hypothetical Condition 3) the subject uplands lot is valued without consideration of site improvements (clearing, gravel fill, etc.). Varied downward adjustments are applied to C2, 4, and 5/5a for site work in place on each of the lots. The percentage adjustment applied is calculated from the estimated contributory Market Value per square foot of the individual improvements. The higher adjustment to C4 is due to the higher proportion of graveled site area and resulting contributory value.

The height of the Kachemak Bay bank/bluff is an important consideration for direct beach access and erosion control. The steep, 80 to 100 foot high bluffs of C1, 2, and 7 provide limited, if any, direct beach access from the individual lots. Although C4 also has an 80 foot high bank at the time of sale the lot benefited from having a developed/shared access trail/road down to beach level with the lot adjacent to the west. The remaining comparables are more similar to the subject with banks ranging from 20 to 40 feet high, providing readily accessible beach access.

Again, the comparables do not provide a basis for applying a quantitative adjustment for these differences. As a result an upward qualitative adjustment is noted for C1, 2, and 7 due to their much higher banks than the subject and other comparables.

Utilities Available

The comparables all have public water/sewer, electrical, telephone and natural gas available. Each of the lots will be subject to the same natural gas assessment, likely finalized in early 2015 according to the City of Homer (see Hypothetical Condition No. 2). At the current time the assessment is estimated at \$3,283.30/lot.

All of the comparables were sold or are listed subject to the buyer assuming outstanding water and sewer assessments which were reported on the comparable data sheets. Water/sewer were extended to Comparables 4 and 7 in Phase I of the Kachemak Dr. improvement districts. Service to the subject and remaining comparables was in the more recent Phase II project with assessments finalized in 2013. The assessments were levied on a site basis with all lots in each phase charged the same assessment, regardless of size.



In the Kachemak Dr. market it has been customary that a buyer assumes outstanding assessments. From the buyer/seller/real estate agents perspective the sale/purchase prices are referenced/confirmed excluding the outstanding assessments. As a result the subject uplands are valued based on a buyer assuming the outstanding water/sewer assessments, the same as the comparables (See Hypothetical Condition 1). Therefore the comparables are analyzed without consideration of the assessments and no adjustments are required.

Zoning/Land Use Restrictions

The zoning of Comparable 4 is the only sale that is zoned to permit commercial/industrial development as a primary use, similar to the East Road Mixed Use zone of the subject and adjacent uplands. C7 is adjacent to the east of the GC2 (General Commercial 2) zoning of C4, south of the Homer Airport. The remaining comparables are zoned Rural Residential.

Except for lots on the Homer Spit there are a very limited number of waterfront lots that are commercially zoned. They are predominately Rural Residential like the majority of comparables. Of the few lots that permit commercial use less than five are vacant. These include three acreage tracts in the Gateway Business District fronting the Sterling Highway west of the Central Business District (CBD). The largest of these is 31.3 acres. There are six other waterfront lots in the EEMU zone of the subject; four with residences and two with residences now occupied for commercial uses.

It is interesting to note that in our analysis of the few commercially zoned waterfront lot sales and listings through the years we have never been able to identify a waterfront premium when compared to a lot lacking Bay frontage. This could be due in part to the mostly secondary location/exposure of the waterfront sites and the more limited appeal of these lots due to their typical active bluff erosion. Similarly, the few historical sales of CBD (Central Business District) zoned waterfront lots have not indicated any premium in comparison to the residentially zoned Bay frontage lots. As a result no adjustment (either quantitative or qualitative) is applied for any difference in zoning.

Shape/Bank Condition

The shape of all of the comparables provides a readily usable site, similar to that of the slightly irregular shape of the subject uplands. Accordingly, no adjustment is required.

As previously discussed the subject uplands are valued without consideration of any impact on value for the site improvements added since leasing of the subject tidelands. This includes the rock rip rap added to help stabilize the bluff erosion. While inspecting all of the comparables special emphasis was placed on identifying the condition of



the Kachemak Bay bluff/bank since over time some property owners have installed varying means to protect their properties from active bluff erosion. Although some of the buyers have undertaken erosion control projects since purchase research was done to determine bluff quality at the time of sale. All of the comparables were potentially subject to active erosion although some rocks had been installed at beach level (not up the bank) along Comparable 5/5a and Comparables 3 - 7 included some natural vegetation, potentially helping to stabilize portions of the bank. Due to their higher proportion of active erosion Comparables 1 and 2 are most similar to the subject prior to the major bank stabilization undertaken by the subject lessee.

Although there is some variation in the quantity of erosion on each of the comparables no qualitative or quantitative adjustments are applied for differences since all of the comparables lacked any major erosion control//bank stabilization at the time of sale or current listing.

Adjustment Grid

The following table lists the comparables, elements of comparison, and adjustments applied.



Land Sale Adjustment Grid

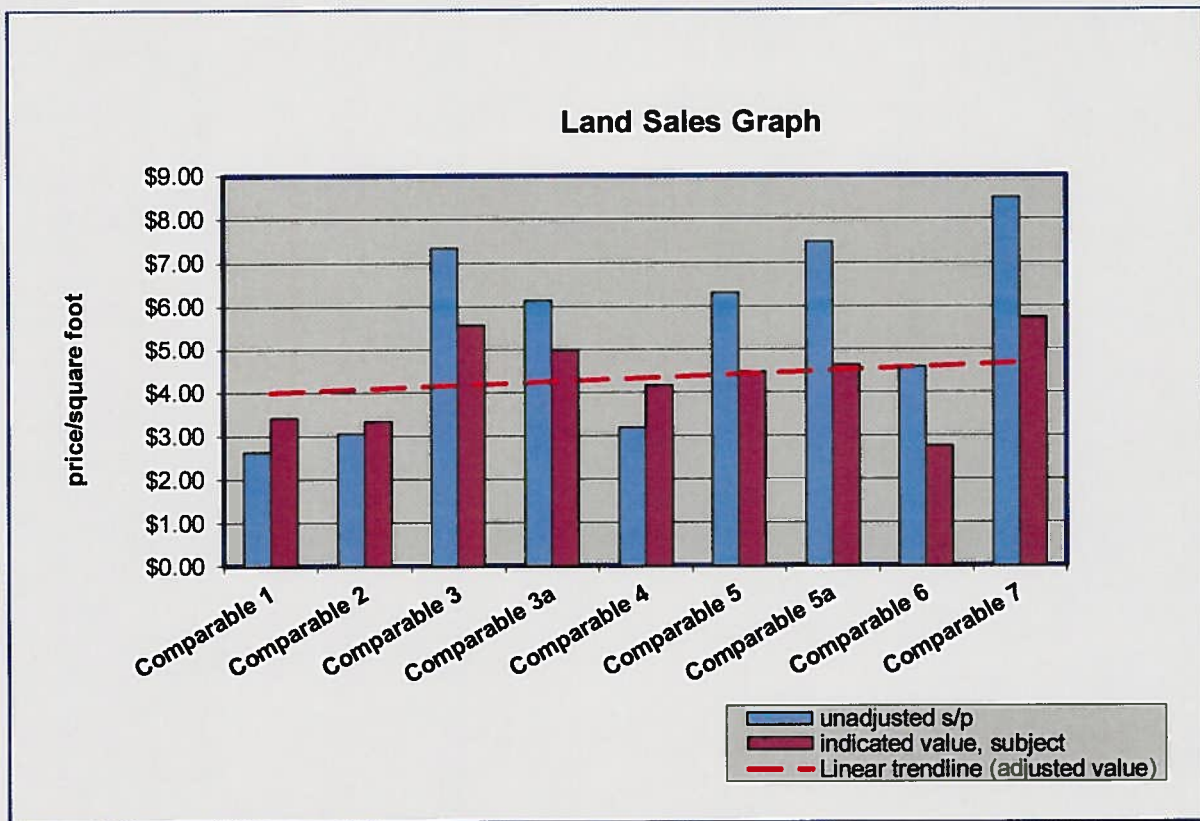
Moore Uplands Lot - Kachemak Dr., Homer									
Subject	Comparable 1	Comparable 2	Comparable 3	Comparable 3a	Comparable 4	Comparable 5	Comparable 5a	Comparable 6	Comparable 7
Uplands-Lot 3-A-1	GLO 458 & 46C, L1C, Machines	GLO 31 S14 T6S, R13W E of Kach. Dr.	GLO 31 S14 T6S, R13W E of Kach. Dr.	GLO 31 S14 T6S, R13W E of Kach. Dr.	GLO 21, Sec. 22, T6S, R13W, So. Of Kachemak Dr.	GLO 16, S14, T6S, R13W, E of Kach. Dr.	GLO 16, S14, T6S, R13W, E of Kach. Dr.	L28-B1, Uminski 1997 Addition	L1, Keta Cliffs Too
No. 1	S/D	S/D	R13W E of Kach. Dr.	R13W E of Kach. Dr.	Kachemak Dr.	Dr.	Dr.	Dr.	Dr.
KPB #174-201-20	KPB #179-330-01	KPB #179-090-38	KPB #179-090-38	KPB #179-090-38	KPB #179-190-38	KPB #179-090-20	KPB #179-090-20	KPB #179-090-12	KPB #179-260-09
\$200,000	\$170,000	\$240,000	\$199,999	\$400,000	\$137,000	\$137,000	\$192,600	\$60,000	\$186,000
	\$2.62	\$3.05	\$7.35	\$6.12	\$3.19	\$6.29	\$7.46	\$4.58	\$8.49
Typical financing	Cash	12% down	Cash	Cash	Cash	Cash	Cash	20% down	Negotiable
Price Adjusted for Terms/Conditions	\$2.62	\$3.05	\$7.35	\$6.12	\$3.19	\$6.29	\$7.46	\$4.58	\$8.49
Market Conditions (contract sale date)	Jun-14	Dec-12	Aug-07	Current Listing	Aug-05	Jul-14	Jul-06	Jul-11	Current Listing
Older sales adj @ 12%/yr to 60% 3% 7/06-3/09, then lump sum -20%									
Time Adjusted Price	\$2.62	\$3.05	\$6.17	\$5.51	\$3.06	\$6.29	\$6.49	\$4.58	\$7.64
(Acres)	1.75	1.28	0.75	0.75	2.88	0.50	0.50	0.30	0.50
Size [sq ft.-above bluff/bank] adjustment	40,077	55,757	32,670	32,670	125,453	21,780	21,780	13,100	21,780
Size Adjusted Price/sq.ft.	\$3.41	\$3.51	\$5.55	\$4.96	\$4.90	\$4.72	\$4.87	\$2.75	\$5.73
Other Characteristics									
Location (neighborhood)	Kachemak Dr.	Kachemak Dr.	Kachemak Dr.	Kachemak Dr.	Kachemak Dr.	Kachemak Dr.	Kachemak Dr.	Kachemak Dr.	Kachemak Dr.
View amenity/Bay frontage(acre/abv bluff) adjustment	Same/105'	Same/130'	Same/231'	Same/231'	Same/90'	Same/340'	Same/340'	Same/277'	Same/332'
Street surf/maintenance adjustment	Same	Same	Same	Same	Same	Same	Same	Same	Same
Topography to bank-bluff/bluff height adjustment	Level/100'	Lvl. drvw/grad/80'	Level/40'	Level/40'	Prtl.clr-grvl/80'	Lvl.drww/clearing/20'	Lvl.drww/clearing/20'	Level/28'	Level/80'
Utilities Available	Same	Same	Same	Same	E.T. W/S	Same	E.T. W/S	E.T. W/S	Same
Zoning/land use restrictions	Rural Res./similar	Rural Res./similar	Rural Res./similar	Rural Res./similar	GC2/Similar	Rural Res./similar	Rural Res./similar	Rural Res./Prtl.veg.	Rural Res./Prtl.veg.
Shape/Bank condition	Rect/Similar	Rect/Similar	Rect./Prtl.veg.	Rect./Prtl.veg.	Rect./incl. erosion/bank	Rect./Some rocks	Rect./Some rocks	Rect./Prtl.erosion	Irreg./Prtl.treed
List price/marketing time	\$225,000/1 year	\$375,000/4.3 years	\$265,000/2 mths.	\$199,999/10 mths	\$430,000/6mths	\$174,000/14 months	\$192,500/2 months	\$79,900/2 weeks	\$185,000/9/13 mths+
List price sale price change	-11%	-55%/-6% @ sale date	-9%	0%	-7%	-21%/-5% @ sale date	-16%	-25%	0%
Compound Adjustment %	0%	-5%	0%	0%	-15%	-5%	-5%	0%	0%
Indicated Value of Subject (\$/sq.ft.)	\$3.41	\$3.33	\$6.55	\$4.96	\$4.16	\$4.48	\$4.82	\$2.75	\$5.73
Qualitative adjustment (+/-)	+bank hl.	+bank hl.	-water frmtge.	-water frmtge.	-water frmtge.	-water frmtge.	-water frmtge.	-water frmtge.	-wrt frmtge.-bank hl.
Comparable weighting - cumulative = 100%	25%	25%	10%	5%	15%	10%	5%	5%	0%
Measures of Central Tendency									
Mean (unweighted)	\$4.33								
Mean (weighted)	\$3.93								
Median	\$4.48								
Concluded Land Value									
Site size- sq.ft.	40,007								
Value-\$/sq.ft.	\$3.80								



Land Value Conclusion

Unadjusted the comparables indicate a diverse range in value for the uplands lot from \$2.62 to \$8.49/sq.ft. Following adjustment the range narrows to \$2.75 to \$5.73/sq.ft. Except for the value indication from the sale of C3 the current listings of C3a and 7 indicate at the higher end of value at \$4.96 and \$5.73/sq.ft. This is not surprising since listings typically indicate toward the upper range of value, prior to buyer seller negotiations. Excluding C3 and C6, with the highest and lowest indicated values of the sale comparable, the other sales indicate a much closer range of \$3.33 to \$4.62/sq.ft.

The following graph identifies the comparables' unadjusted price, the indicated (adjusted) value and the trend line of the adjusted value.



As part of the value reconciliation each of the comparables is weighted based on its similarity to the subject uplands, date of sale, etc. The highest weighting is given to C1 and C2 since they are the most recent vacant lot sales and have the most similar erosion issues to the subject. Although the oldest sale C4 is given the next highest ranking because of its commercial/industrial zoning classification. Less weight is given to the current listing of C3a and the sales of C5a and 6 since they include some buildings for which a contributory Market Value had to be estimated/deducted. No consideration is given to C7 due to its physical features and higher listing price.



With the individual weightings applied the **Measures of Central Tendency** in the lower left corner of the adjustment grid report the mean, weighted mean and median value per square foot for the subject.

In the final value analysis consideration is given to the weighted mean from the Measures of Central Tendency and qualitative adjustments also required. As step 1 in the valuation of the subject tidelands the **Market Value of the adjacent uplands lot is concluded at \$3.80 per square foot.**

The Market Value is concluded subject to the Extraordinary Assumption and Hypothetical Conditions, listed in the Summary and Appraisal Assignment sections.

**Tidelands:
Uplands Ratio**

The second step in the valuation of the subject tidelands is the application of a tidelands:uplands value ratio.

Overview

Deriving a tidelands:uplands value ratio from actual sales of tidelands is difficult because:

- most tidelands are publicly owned and are leased rather than sold, and
- privately owned tidelands normally sell with the adjacent uplands (often including improvements) as a total "parcel" and sellers/buyers often do not assign a specific price allocation to the tidelands vs. uplands.

Private Tidelands Transactions on the Kenai Peninsula

In Kenai in August 2001 USS 257 containing 2.78 acres sold for \$2,200 cash, \$.02/sq.ft. The tract consists of predominately tidelands and submerged land at the mouth of the Kenai River which is subject to tidal fluctuation in Cook Inlet. The buyer was an out-of-state resident who could not be contacted for comments concerning his motivation for purchase. The selling real estate office commented at that time this transaction was a "novelty" purchase. The 2001 listing of a 1.94+/- acre riverfront tract northeast about 500 feet provides the best comparison for deriving a tidelands:uplands value ratio to the US Survey lot purchase. The \$.77/square foot listing price indicates a tidelands:uplands value ratio at only 3% (R) ($$.02 \div .77$).

The only privately owned tidelands in Homer are two tracts located at the tip of the Homer Spit. In October 1990 FDIC sold a .64 acre tidelands lot and adjoining 4.75 acres of uplands to the owners of the adjacent Land's End Resort. At that time the sellers allocated the tidelands value at \$.40/sf which indicates a tidelands ratio at 22%+/- of the uplands (\$.40:1.80/sf). The buyers developed an RV park on the uplands. Land's End had previously acquired the adjacent tidelands tract when purchasing



the hotel with no separate allocation reported for the tidelands. Both tidelands lots remain undeveloped to date.

In January 2005 the former Cherrier & King processing plant on the banks of the Kenai River in Kenai sold. According to the Kenai Peninsula Borough Assessing Department the buyer reported a "purchase price" of \$36,390 for the 2.95 acres of privately owned tidelands adjacent to the plant with 16.5 acres of uplands. The price allocation then reflects a value of \$12,300/acre (R) for the tidelands.

To establish a basis of comparison the reported tidelands allocation is compared to the capitalized land value of two adjoining 3.2 acre and 3.3 acre riverfront tracts that have long-term leases from a private owner and are developed with fish processing facilities. Although the lots reportedly had not been revalued for a number of years the 2005 annual rents capitalized at an 8% lease rate indicate riverfront lot values at \$65,000 and \$57,000/acre (R). Comparing both of these land values to the reported per acre purchase price of the tidelands indicates tideland:upland ratios at 19% ($\$12,300 \div \$65,000/\text{acre}$) and 22% ($\$12,300 \div \$57,000/\text{acre}$).

Private Tidelands Transactions in Southeast Alaska

Recently a MAI appraiser in Southeast Alaska provided background data concerning an analysis of tideland/upland ratios he had developed in 2011 for six purchases of waterfront tracts in Southeast Alaska that were comprised of both uplands and tidelands. The price allocations between the tidelands and uplands indicated tideland:upland ratios ranging from 12.1% to 31.1%. Five of the ratios were within a close range of 22.8% to 31.1%.

Other Allocation Ratios

In May 2003 Brandon Simpson, an Appraiser with the State of Alaska, Department of Natural Resources in Anchorage prepared a study of tidelands:uplands value ratios from an examination of 44 transactions within the State's appraisal data bank. The appraiser is unaware of a more recent study/report. Simpson reports fifteen of the ratios were from appraisals prepared of State-owned tidelands by independent fee appraisers statewide. All but four of the ratios concluded in these appraisals ranged between 23-25%. Three were concluded between 12-15% and the other at 86% because the tidelands had been mostly filled.

The remaining 29 ratios in the study were based on tidelands/uplands ratios reported on comparable sale data sheets that had been used in appraisals prepared for the State within the previous 15+/- years. A breakdown of the tidelands:uplands value ratios reported by Simpson from the sales data is:

<10%	10-20%	20-25%	25-30%	>30%
1	8	11	1	8



It is unknown how many of the reported ratios were specifically allocated by a seller or buyer, or based on an analysis of the sale by the appraiser who was using it as a comparable in the appraisal.

The City of Kenai leases three tidelands lots in the Kenai River to owners of seafood processing facilities who have constructed docks on-site. In the most recent revaluation of the lots by Derry & Associates the tidelands:uplands value ratio was concluded at 25%. Those leases are continuing under those terms.

Conclusion of Tidelands: Uplands Ratio

Considering the range of ratios indicated by the older State of Alaska study and the few private transactions available statewide, but also taking into consideration the limited demand for tideland lots within the Homer city center, a tidelands ratio at 20% of uplands value is concluded and applied to the subject uplands land value.

Conclusion of Tidelands Value

The Market Value of the subject tidelands then develops as follows:

$$\$3.80/\text{sf (uplands value)} \times .20 \text{ (tidelands:uplands ratio)} \times 10,324\text{sf (subject size)} = \$7,846.$$

Rounded to: \$7,850

Market Lease Rate

The final step in estimating the current Market Rent of the subject tidelands is conclusion and application of a Market Lease Rate. In some cases the lease or capitalization rate is determined by the appraiser and in others it is established by a municipality governing body (City Council, Assembly, etc.) or company Board of Directors.

This section is included to report and summarize prevailing land lease rates with a specific rate concluded for the subject. The previous Market Value conclusion will be multiplied by the lease rate to determine the subject's annual Market Rent conclusion.

Lease Rate Survey

The following table reports the results of a current land lease rate survey of entities active in leasing land on the Kenai Peninsula and South Central Alaska.

<u>Leasing Entity</u>	<u>Lease Rate</u>
City of Kenai	6% & 8%
City of Seward	8%
City of Soldotna	8% (new leases)
Alaska Railroad	8 – 10%
Port of Anchorage	8,9%
Mat-Su Borough	8 & 10%
City of Wasilla	7 – 8%
City of Palmer	8%



Lease Rate Comparison

In recent years the public sector land lease rates have predominately been concluded at 8%; primarily based on an appraisal rather than a lease rate percentage set by policy.

The **City of Kenai** originally owned most of the city center located north of the Kenai Spur Highway. The lands were acquired from the FAA around the Kenai Airport. The City had consistently charged a 6% land lease rate prior to the 2006 enactment of changes to the Kenai Airport land leasing policies. That lower rate was set by city code and generally considered an incentive rate to spur development within the city center. With the change to city code in 2006 the annual rents are to be established based on Market Value and application of a market lease rate (%); both determined by an appraisal. Most recently in 2006 and 2010 that rate was concluded at 8%. The next city-wide appraisal of leased lots is scheduled for 2015.

The **City of Seward** land rental rate is set by City policy. The lease rate has been 8% since at least 2005. Seward's land leases are primarily surrounding the Seward boat harbor and eleven others are east of the harbor in the Seward Marine Industrial Park. The leased lots are revalued every five years; next due in 2015.

The **City of Soldotna** leased land consists almost exclusively of varied size lots at the Soldotna Municipal Airport. The city had utilized a 7% lease rate until July 2002 when they rolled back the rate to 6%. Annual rent then was based on a five-year revaluation by appraisal. In 2002 the lands had not been valued for 10 years. The reduction in lease rate at that time was to provide relief to lessees who were faced with a higher than typical rent increase. Since 2010 the rental policy has been modified to a flat 2.5% increase in rent per year without a scheduled revaluation. City policy states that new lot leases not having been assigned a pre-existing annual rent are subject to valuation and application of an 8% lease rate.

The **Alaska Railroad** establishes their lease rate based on a commissioned market lease rate study with a rate subsequently set by the Board of Directors. The commercial lease rate for most of their lands has consistently been at 8%. The exception is for lands within the Ship Creek industrial area in Anchorage which leases at the higher 10% rate considering higher density uses, surrounding infrastructure, etc.

Personnel from the **Port of Anchorage** advised their land leases have typically been at 8% based on an appraisal. However, their most recent lease valued in October 2013 was assigned a lease rate at 9% due to the amenities available in the Port area. Anchorage Municipal Code establishes the annual rent is based on an appraisal at Market Value and a lease rate determined by the appraiser. Properties are revalued every five years.

The **Mat-Su Borough** leases land at Port MacKenzie at 10% of "Fair Market Value" determined by an appraisal. Other land leases are normally at 8%. According to Borough personnel the higher rate at the port is due to the additional infrastructure available there which includes



the dock, road and railroad spur under construction with anticipated completion in 2017.

The Matanuska-Susitna communities of **Wasilla** and **Palmer** both utilize lease rates in the 7-8% range with a predominate lease rate at 8%.

The **City of Homer** annual Market Rents are established by appraisal based on the Market Rent, determined by an appraiser. In practice the appraisals establish Market Rent on a rent per square foot basis (\$/sf) rather than a percentage of fee land value. The City's lands are all located on the Homer Spit with no land sales to provide a basis for developing a fee simple land value and application of a market lease rate. City code establishes an annual rent readjustment each January based on the annual change in the Anchorage CPI and revaluation of the lots every five years.

**Lease Rate
Conclusion**

In recent years an 8% land lease rate has commonly been charged **except for those properties having a higher than typical intensity or cost of surrounding infrastructure** (ie. railroad spur, dock, etc.) or potentially limited availability of land. The higher rates (10%) are clearly an exception and apply only to higher density locations. Entities that have leased at the lower rates have normally done so as an economic incentive or in some cases to pacify lessees.

Considering then the prevailing lease rates identified from the survey, coupled with the local conditions to date, a **market land lease rate is concluded at:**

8%

**Market Rent
Conclusion**

Based then on the previous Market Value conclusion for the tidelands lot and 8% lease rate the estimated annual **Market Rent of the subject tidelands is concluded as follows:**

\$7,850 (Market Value) x .08 (lease rate) = \$628/year



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 predetermined results.
- My compensation for completing this assignment is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this certification.
- 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.
- 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, Julie A. Derry has completed the Standards and Ethics Education Requirements as a Practicing Affiliate of the Appraisal Institute.


Julie A. Derry

October 29, 2014



Qualifications of the Appraiser Julie A. Derry

◆ Experience

Real Estate Appraiser, Derry & Associates, Inc. 1984 to present.
Home Office: Homer 1978 – 2003; Kenai 2003 – current.
Research Assistant/Office Manager, Derry & Associates, 1978 to 1984.
Secretary, Hillas Appraisal Company, Homer, 1976 to 1978.

◆ Education

University of Alaska, additional year to obtain teaching certificate.
Oregon State University, Bachelor of Science degree, Home Economics.

Valuation of Conservation Easements, Appraisal Institute (AI), Tallahassee, FL, 2008.

Business Practices and Ethics, AI, Anchorage, AK, 2006.

Standards of Professional Practice, Part C, AI, Anchorage, 2000.

Report Writing & Valuation Analysis, AI, Anchorage, 1992.

Standards of Professional Practice, Parts A & B, AI, Anchorage, 1991.

Capitalization Theory & Techniques, Parts A & B, American Institute of Real Estate Appraisers (AIREA), San Diego, CA, 1988.

Basic Valuation Procedures, AIREA, San Diego, CA, 1985.

Real Estate Appraisal Principles, AIREA, San Diego, CA 1985.

Appraisal Seminars

USPAP Update, AI, 2014; Subdivision Valuation, AI, 2013; Practical Regression Using Microsoft Excel, AI, 2013; USPAP Update, AI, 2012; USPAP Update, AI 2011; Uniform Appraisal Standards for Federal Land Acquisitions, AI, 2009; Business Practices and Ethics, AI, 2009; USPAP Update, AI, 2009; Subdivision Valuation, AI, 2008; Cool Tools: New Technology for Real Estate Appraisers, AI, 2007; USPAP Update, AI, 2007; Case Studies in Commercial Highest & Best Use, AI, 2007; USPAP Update, AI, 2005; Rates and Ratios, AI, 2005; Uniform Appraisal Standards for Federal Land Acquisitions, ASFMRA, 2005; Subdivision Analysis, AI, 2004; The Road Less Traveled: Special Purpose Properties, AI 2004; Scope of Work: Expanding Your Range of Services, AI, 2003; Land Valuation Adjustment Procedures and Land Valuation Assignments Workshops, AI, 2002; Intro to Statistics & Supporting Adjustments, AI, 2002; Partial Interest Valuation – Divided, and Partial Interest Valuation – Undivided, AI, 2001; Easements, AK State Professional Land Surveyors, 1999; Eminent Domain & Condemnation Appraising, AI, 1999; Public Interest Value vs. Market Value, AI, 1999; Valuation of Detrimental Conditions in Real Estate, AI, 1999; Appraisal of Nonconforming Uses, AI, 1999; Special-Purpose Properties: The Challenges of Real Estate Appraising in Limited Markets, AI, 1999; The Internet and



Appraising, AI, 1997; Appraisal of Retail Properties, AI, 1996; Dynamics of Office Building Valuation, AI, 1996; The Appraiser as Expert Witness, AI, 1995; Appraisal Practice for Litigation, AI, 1995; Understanding Limited Appraisals & Appraisal Reporting Options: General, AI, 1994; Feasibility Analysis and Highest & Best Use, AI, 1992; General State Certification Review Seminar, AI, 1991; Cash Equivalency and Rates, Ratios and Reasonableness, AIREA, 1988; The Basic Use of the Marshall Valuation Service: Calculator Method, and The Basic Use and Understanding of the Residential Cost Handbook, Marshall & Swift, 1985.

◆ **Business and Professional**

Practicing Affiliate, Appraisal Institute

Licensed "General Real Estate Appraiser"; Board of Certified Real Estate

Appraisers, State of Alaska, Certification No. 88. State Continuing Education Requirements valid to 6/30/15 (28 hours every 2 years).

Qualified as an Expert Witness, District Court, Third Judicial District, State of Alaska.

Affiliate Member, Kachemak and Kenai Peninsula Boards of Realtors

◆ **Typical Appraisal Clientele**

The Conservation Fund

The Nature Conservancy of Alaska

Alaska Mental Health Trust Land Office

The Trust for Public Land

U.S. Fish & Wildlife Service

State of Alaska, Department of Natural Resources

State of Alaska, Division of Parks

State of Alaska, Department of Commerce & Economic Development

Exxon Valdez Oil Spill Trustee Council

Federal Aviation Administration

City of Homer

City of Kenai

City of Soldotna

Kenai Peninsula Borough

University of Alaska

Bureau of Indian Affairs

Cook Inlet Region, Inc.

Cook Inlet Aquaculture Association

ARCO Alaska, Inc.

Safeway, Inc.

National Bank of Alaska/Wells Fargo Bank Alaska

First National Bank Alaska

KeyBank

Alaska USA Federal Credit Union

Bank of America

Various individuals, attorneys and companies



ADDENDA

Appraisal Specific Definitions

Market Value (per State of Alaska “General Appraisal Requirements”)

The most probable price, as of a specified date, in cash, or in 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. ¹

Appraisal Reporting Format

Contents of the Appraisal Report:

The Appraisal Report should contain a summary of all information significant to the solution of the appraisal problem. “Summarize” is the distinguishing term related to the Appraisal Report. ²

This report, as prepared, complies with the reporting rules for an Appraisal Report, set forth as Standards Rules 2-2(a) (i)-(xii), Uniform Standards of Professional Appraisal Practice (USPAP), 2014-2015 Edition, Appraisal Standards Board. The essential difference between the reporting options is the level of detail of presentation in the report. Supporting documentation/analysis not presented in this report is retained in the appraisers’ work file.

Extraordinary Assumption³

An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraisers’ opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property such as market conditions or trends; or about the integrity of data used in an analysis. An extraordinary assumption may be used in an assignment only if:

- It is required to properly develop credible opinions and conclusions;
- The appraisers have a reasonable basis for the extraordinary assumption;
- Use of the extraordinary assumption results in a credible analysis; and
- The appraisers comply with the disclosure requirements set forth in USPAP for extraordinary assumptions.

Note: The use of extraordinary assumptions in this assignment might have affected the assignment results.

¹ The Appraisal of Real Estate, Thirteenth Edition, Appraisal Institute, 2008, page 23.

² Uniform Standards of Professional Appraisal Practice (USPAP), 2014-2015 Edition, Appraisal Standards Board, pgs. U-22-U-24.

³ The Dictionary of Real Estate Appraisal, pg. 73 and USPAP pgs. U3 & U18.

Hypothetical Condition¹

That which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. A hypothetical condition may be used in an assignment only if:

- Use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison;
- Use of the hypothetical condition results in a credible analysis; and
- The appraisers comply with the disclosure requirements set forth in USPAP for hypothetical conditions.

Note: The use of hypothetical conditions in this assignment might have affected the assignment results.

Exposure Time²

1. The time a property remains on the market.
2. 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; a retrospective estimate based on an analysis of past events assuming a competitive and open market.

Marketing Time

An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal.³

In other words, exposure time occurs **before** the effective date of the appraisal, whereas marketing time occurs **after** the effective date.⁴

¹ The Dictionary of Real Estate Appraisal, 5th Edition, Appraisal Institute, Chicago 2010, pg. 97 and Uniform Standards of Professional Appraisal Practice (USPAP), 2014-2015 Edition, Appraisal Standards Board, pgs. U-3 & U-18.

² The Dictionary of Real Estate Appraisal, pg. 73.

³ Ibid. pg. 121.

⁴ USPAP, 2014-2015, pg. F-76.