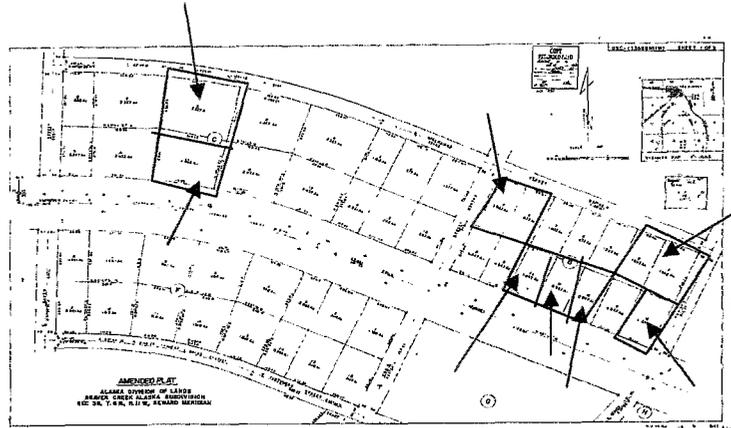


COMPLETE MULTIPLE APPRAISAL REPORT

BEAVER CREEK SUBDIVISION

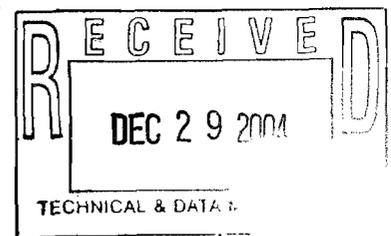


FOR:

Judy A. Robinson, SRWA
State of Alaska Department of Natural Resources
Division of Mining, Land and Water
550 West. 7th Avenue, Suite 650
Anchorage, Alaska 99501-3576

Date of Value:
November 27, 2004

Appraised by:
Richard H. Johnson, ARA
Anchorage, Alaska
Alaska Certified General License #323



Johnson Appraisal Company

3748 Sycamore Loop
Anchorage, Alaska 99504
(907) 929-7346

December 20, 2004

Judy Robinson, Review Appraiser
State of Alaska, DNR
Division of Mining, Land and Water
550 West 7th Avenue, Suite 650
Anchorage, Alaska 99501-3576

Dear Ms. Robinson:

As requested, the above referenced appraisal report has been completed. The property is located about 2 miles southeasterly from the city of Kenai, Alaska on the north side of the Kenai Spur Highway. The appraisal assignment comprises eight subject properties within the Beaver Creek Subdivision. The subject was most recently inspected November 27, 2004 by means of an "on-the-ground" inspection. Available market data considered pertinent to solve the appraisal problem has been gathered and analyzed for this *Complete, Summary* appraisal report.

The purpose of the appraisal is to develop an estimate of market value for the above-described property. Market value is defined on page 9 of the appraisal report.

Based on my analysis of the data contained in the appraisal report and subject to the assumptions and limited conditions outlined on page 6, it is my professional opinion that the market value of the subject property, as of November 27, 2004, is

ADL Number	Highest & Best Use	Size	Estimated Market Value
#228870 (L1&2, Blk B)	Rural residential	2.273 acres or 99,012ft ²	\$6,000
#228871(L6&7, Blk B)	Rural residential	2.066 acres or 89,995ft ²	\$3,500
#228872 (L10, Blk B)	Commercial	0.947 acres or 41,251ft ²	\$22,700
#228873 (L11, Blk B)	Commercial	0.947 acres or 41,251ft ²	\$22,700
#3121 (L12, Blk B)	Commercial	0.947 acres or 41,251ft ²	\$21,500
#228874 (L14, Blk B)	Commercial	1.136 acres or 49,484ft ²	\$21,500
#228875 (L6, Blk C)	Rural residential	2.327 acres or 101,364ft ²	\$4,000
#228876 (L11, Blk C)	Commercial	2.032 acres or 88,514ft ²	\$18,600

Respectfully,


Richard H. Johnson, ARA
Johnson Appraisal Company
Alaska Certified General Appraiser License #323

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PART IV-ADDENDA

PART I - INTRODUCTION

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Name of Project: Beaver Creek Subdivision-DNR Land Disposal Program.

City and State: Kenai, Alaska.

Owner of Record: State of Alaska.

Brief Description: Eight appraisal assignments comprising platted lots in the Beaver Creek Subdivision near Kenai, Alaska.

Appraiser: Richard H. Johnson, ARA.

Type of Report: Complete, summary under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice.

Client of this Report: State of Alaska, Department of Natural Resources.

Instructions to the Appraiser: Estimate current market value of the subject tracts.

Intended Use of this Report: This appraisal will be used by the DNR to establish the minimum price for a sealed bid auction. It will also be used by the general public for guidance in determining actual bid prices.

Property Rights Appraised: Fee simple estate less mineral rights.

Intended Users of this Report: State of Alaska, Department of Natural Resources.

Dates of Field Work: November 27, 2004.

Date of Property Inspection: November 27, 2004.

Effective Date of Value: November 27, 2004.

Date of Report: December 15, 2004.

SUMMARY

ADL Number	Highest & Best Use	Size	Estimated Market Value
#228870 (L1&2, Blk B)	Rural residential	2.273 acres or 99,012ft ²	\$6,000
#228871(L6&7, Blk B)	Rural residential	2.066 acres or 89,995ft ²	\$3,500
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#3121 (L12, Blk B)	Commercial	0.947 acres or 41,251ft ²	\$21,500
#228874 (L14, Blk B)	Commercial	1.136 acres or 49,484ft ²	\$21,500
#228875 (L6, Blk C)	Rural residential	2.327 acres or 101,364ft ²	\$4,000
#228876 (L11, Blk C)	Commercial	2.032 acres or 88,514ft ²	\$18,600



AREA MAP

ASSUMPTIONS AND LIMITING CONDITIONS

1. The appraiser assumes no responsibility for legal matters. The subject parcels are assumed to be free and clear of encumbrances, except as otherwise noted, *and* title is assumed to be marketable. No title information was given to the appraiser prior to the engagement.
2. Market data and other pertinent information has been obtained from seemingly knowledgeable and reputable persons. The accuracy of this information is believed to be true but cannot be guaranteed.
3. It is assumed the legal descriptions of the subject parcels as furnished is correct.
4. It is assumed all plats and maps used by the appraiser are correct.
5. The appraiser observed no evidence of potential contaminant problems. A six-inch blanket of snow was present at the time of inspection. I assume no responsibility for identifying such problems. The property is assumed to be free of contaminants.
6. The fee simple of the surface estate is being appraised. There are no known underlying oil, gas, mineral or coal deposits in sufficient quantities that would disturb the surface estate. However, no information regarding minerals was given to the appraiser prior to engagement of this assignment.
7. Sketches and maps included in this appraisal report show *approximate* boundaries and are included to help the reader in visualizing the subject and sales. No claim is made to their accuracy.
8. This report is based on the condition of the subject parcels and the market data gathered at the time of the appraisal. It is understood that values expressed in this report may cease to be valid if a market change occurs in the subject or in the local real estate market, or if any appropriate new information becomes available. The appraiser reserves the right to revise the appraisal report should the need arise.
9. It is assumed that there is full compliance with all applicable Federal, State, and local environmental laws and regulations, as well as applicable zoning, building, and use regulations and restrictions, unless otherwise noted in this report.
10. It is assumed that the utilization of the land is within the boundaries of the property described and that there is no encroachment or trespass unless otherwise noted.
11. The appraiser assumes there are no unapparent conditions of the property or subsoil that render it more or less valuable. I assume no responsibility for such conditions, or for any engineering studies required to discover such conditions.
12. This appraisal report is to be used only in its entirety and no part is to be used without the entire report, or in conjunction with any other appraisal. Use of a portion of the report invalidates the analysis and valuation conclusions contained herein.
13. Richard H. Johnson is an accredited member of the American Society of Farm Managers and Rural Appraisers. This report may be reviewed by the Society's Ethics Committee for compliance with their Code of Ethics and Standards of Professional Practice.
14. This appraisal report has been written for the State of Alaska, Department of Natural Resources (the client). Possession of this report, or a copy thereof, does not carry with it the right of publication (either in part or in whole). It may not be used for any purpose other than the stated Purpose of the Report without the express, written consent of the appraiser *and* client.

Scope of Appraisal

The scope of this appraisal encompasses the research and analysis to prepare a report in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) as adopted by the Appraisal Standards Board of the Appraisal Foundation.

The term "scope of work" refers to the amount and type of information researched and the analysis applied in the assignment. The appraisal process is divided into four basic tasks: (1) gathering of information, (2) analyzing data collected, (3) drawing conclusions, and (4) reporting the conclusions.

This report is performed under USPAP Standard Rules 1 and 2. It is prepared under the *summary* reporting option of Standard Rule 2-2(b). Departure is not invoked. Thus, it is a *complete* appraisal report. The subject of this appraisal report consists of eight separate valuation assignments. The appraised parcels are platted lots ranging from 0.947 acres to 2.327 acres in size. They are part of the Beaver Creek Subdivision, near the city of Kenai, Alaska. A property inspection was completed November 27, 2004.

Area and neighborhood data is compiled from several sources, including the State of Alaska Community Data Base website and an inspection of the area. Property data is based on a physical inspection of the subject. Legal descriptions and acreage estimates are taken from information supplied by the client (State of Alaska). Title information was not available prior to the engagement of the assignment.

A preliminary search for comparable data took place during the week of November 23, 2004 and again on December 4, 2004. The search was confined to areas around Soldotna and Kenai. Sales of existing platted lots occurring after January 2002 were considered. Data sources included the Multiple Listing Service, area Realtors and appraisers. All sales were field inspected and verified with appropriate sources. After assembling and analyzing the data defined in the scope of the assignment, a final value estimate is made for each ADL number.

The three traditional approaches to value are considered. These include the income approach, cost approach, and sales comparison approach. The sales comparison is used. The other two approaches were not used due to a lack of market data or being an inapplicable approach.

**Competency
Provision**

The subject of this appraisal assignment encompasses platted lots within the Beaver Creek subdivision. They are zoned either Commercial or Rural Residential. As required by the USPAP Competency Rule,

“Prior to accepting an assignment or entering into an agreement to perform any assignment, an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently; or alternatively, must:

1. disclose the lack of knowledge and/or experience to the client before accepting the assignment;
2. take all steps necessary or appropriate to complete the assignment competently; and
3. describe the lack of knowledge and/or experience and the steps taken to complete the assignment competently in the report.”

In the spirit of competency, I have both the education and the experience necessary to perform the appraisal assignment. In the area of education, I currently have a General Real Estate Appraiser License in the State of Alaska and hold the coveted Accredited Rural Appraiser designation from the American Society of Farm Managers and Rural Appraisers.

My appraisal experience in Alaska, and more specifically south-central Alaska spans a period of about six years. I have completed more than 25 real estate appraisals and reviews on the Kenai Peninsula. I also review appraisals for Federal land acquisition standards throughout the State of Alaska.

In closing, I believe I have sufficient education and experience to complete the appraisal assignment. I am confident in my ability to complete a thorough and competent job.

PART II - FACTUAL DATA

PROPERTY RIGHTS

The property rights appraised herein are the fee simple estate less mineral rights reserved under AS 38.05.125(a). This is the absolute ownership of all of the rights (less mineral estate) unencumbered by any other interest or estate (which include the rights to sell, lease, use, give the property away and the right to refuse to exercise any of these privileges), other than those described in this report; subject only to the limitations of eminent domain, escheat, police power and taxation.

PURPOSE OF APPRAISAL

The purpose of this report is to obtain an estimate of current market value for each subject parcel. *Market Value* is defined by the Special Appraisal Instructions, DNR Land Disposal as follows:

Market Value- The most probable price, as of a specified date, in cash, or in terms of 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.

Reasonable Exposure Time in Market Value Estimate-

Exposure time is the estimated period of time the property being appraised would have been offered on the market in order to have sold at market value on the effective date of the appraisal. The exposure assumes a competent sale effort and reasonable time as reflected by sales of like-kind property under similar market conditions. In this appraisal, the exposure time is 1 to 2 years.

INTENDED USE

The appraisal will be used by the State of Alaska-DNR to establish the minimum price for a sealed bid auction. It will also be used by the general public for guidance in determining actual bid price.

DATE OF INSPECTION

An inspection of the subject lots took place November 27, 2004.

**LEGAL
DESCRIPTION**

Beaver Creek Subdivision, recorded in the Kenai Recording District. The plat is referred to as Plat 81-101.

ADL#228870: Lots 1&2 of Block B.
ADL#228871: Lots 6 &7 of Block B.
ADL#228872: Lot 10 of Block B.
ADL#228873: Lot 11 of Block B.
ADL#3121: Lot 12 of Block B.
ADL#228874: Lot 14 of Block B.
ADL#228875: Lot 6 of Block C.
ADL#228876: Lot 11 of Block C.

**AREA AND
COMMUNITY
DATA**

Based on the Special Appraisal Instructions, the *Area and Regional* analysis is brief. The city of Kenai is on the west side of the Kenai Peninsula. It is about 65 air miles and 155 road miles southwest from Anchorage, Alaska. The area is rich with history. It was first settled by westerners in the 1800's. At the time, commercial fishing was the reason for settling the area. In the 1920's oil was discovered in the Swanson River area. The 2003 census recorded 7,125 persons living in Kenai.

Most of the area is still classified rural. However, as the population continues to grow, new subdivisions are being platted. Public water and sewer serves about 75% of the population. Natural gas and electricity are also available to most households in the area.

The economy of Kenai continues to grow. The oil and gas industry serves as a main economic factor for the area. Drilling, exploration, production and supply companies provide a significant impact on the local economy. An oil refinery, fertilizer facility and Liquid-to-Gas plant are located to the north in Nikiski. Although the oil and natural gas output has been declining in recent years, new fields are being explored with promising results. Commercial fishing is the historical backbone for the local economy. 234 residents hold commercial fishing permits. There are numerous fish processing facilities in and around the city of Kenai. Most of the fish processing centers around the sockeye salmon fishery. Both in-state and out-of-state visitors provide a significant industry on the Kenai Peninsula. This trend is expected to continue. Other important economic sectors in the area include sport fishing, timber harvest, construction and transportation services.

**MARKET
OVERVIEW**

The market for the subject properties is mostly confined to local people. However, out-of-the-area retiree's have begun to impact the market. Several existing subdivisions are competing with the subject for potential buyers. A check of the Multiple Listing Service revealed several hundred vacant residential lots for sale in the Kenai, Soldotna and Funny River areas. While it appears there is an over supply, vacant lots on hard surfaced, all-season roads are in demand.

**PROPERTY
DATA**

The appraisal assignment comprises eight independent valuation assignments under one appraisal report. The subject parcels are in the Beaver Creek Subdivision and part of Engineering Plat #3-9. The subdivision is on the north and south sides of the Kenai Spur Highway. The subject lots are all north of the highway and within the Kenai city limits.

Electricity, telephone and natural gas is available to all of the lots. Public water is available to the lots fronting the Kenai Spur Highway. Extension of water services to the remaining lots is necessary. According to the Exploratory Soil Survey of Alaska, the soils within the subdivision are classified Typic Cryorthods. This soil classification is associated with loamy, nearly level soils. None of the subdivision falls within a FEMA *designated* floodway. However, wetlands do exist. Each parcel is further described below:

ADL#228870
(Lots 1&2, Blk B)

Two platted lots comprise this appraisal unit. It is situated at the southwest quadrant of the Minchumina Street and Shotgun Avenue intersection. This parcel affords 300 feet of frontage on Shotgun Avenue. Minchumina Street is a dedicated road that is undeveloped. Shotgun Avenue is an improved gravel road. The lot measures 330 feet by 300 feet. Total size is 2.273 acres or 99,012 square feet. It appears a fire about 5-10 years burned most of the trees on the tract. Vegetation is now grass. Topography is nearly level. The Army Corp of Engineers delineated the site for wetlands. It appears the site has about 75% upland and 25% wetlands. The wetlands require a Section 404 permit in order to develop.

ADL#228871
(Lots 6&7, Blk B)

Two platted lots comprise this subject unit. It is situated at the southeast quadrant of the Minchumina Street and Eagle Street intersection. However, nether road is developed. The subject measures 300 feet by 300 feet. Total size is 2.066 acres or 89,995 square feet. A fire about 5-10 years ago burned most of the trees. Grass characterizes the vegetation. Topography is nearly level. The Army COE delineated the site for wetlands. I estimate the site is 25% upland with the balance wetlands.

ADL#228872
(Lot 10, Blk B)

A single platted lot comprises this subject. Access is good by the Kenai Spur Highway. The parcel affords 150 feet of highway frontage and measures 150 feet by 275 feet. Total size is 0.947 acres or 41,251 square feet. Its shape is rectangular. Black spruce and scattered birch trees characterize vegetation. Topography is nearly level. The elevation of the parcel is slightly below road grade. Most of this parcel is suitable for development. However, as evidenced by the adjoining property to the northwest, a small ^{amount} of fill maybe required. The Army COE delineated the entire site and found no wetlands.

ADL#228873
(Lot 11 Blk B)

A single platted lot comprises this appraisal unit. Access is good by the Kenai Spur Highway. The lot affords 150 feet of highway frontage. **A trail between this lot and Lot 12 was observed. This may be an encumbrance on the parcel.** The lot measures 150 feet by 275 feet. Total size is 0.947 acres or 41,251 square feet. Black spruce and birch trees characterize vegetation. Topography is nearly level. There are no wetlands reported on this parcel by the Army COE.

ADL#3121
(Lot 12, Blk B)

A single platted lot comprises this appraisal unit. Access is good by the Kenai Spur Highway. The parcel affords 150 feet of highway frontage. **A trail between this lot and Lot 11 (ADL#228873) was observed. This may be an encumbrance on the parcel.** The lot measures 150 feet by 275 feet. Total size is 0.947 acres or 41,251 square feet. Birch trees and scattered black spruce characterize vegetation. Topography is nearly level. The elevation of the parcel is at road grade. Little, if any fill is required. The Army COE classified about 5% of the rear portion to be wetlands.

ADL#228874
(Lot 14, Blk B)

A single platted lot comprises this subject parcel. Access is good by the Kenai Spur Highway and Shotgun Avenue. The lot affords 150 feet of highway frontage and 275 feet of frontage on Shotgun Avenue. The parcel measures 180 feet by 275 feet. Total size is 1.136 acres or 49,484 square feet. Black spruce and scattered birch trees characterize vegetation. Topography is nearly level. The elevation of the parcel is slightly below road grade. The Army COE did not classify any of the site as wetlands. However, as evidenced by the adjoining property to the south, about 2-3 feet of fill maybe required to develop this lot. A small area of household debris was observed on this parcel.

ADL#228875
(Lot 6, Blk C)

A single platted lot comprises this subject lot. Access is by a dedicated right-of-way only. Currently, access is unimproved. Total size is 2.327 acres. Its shape is generally rectangular.

Marsh type grasses and scattered black spruce characterize vegetation. Topography is nearly level. The elevation of the parcel is below road grade and appears wet. The Army COE completed a wetland delineation on the tract. I estimate 90% of this tract is upland with the balance wetlands.

ADL#228876
(Lot 11, Blk C)

A single platted lot comprises this unit. Access is good by the Kenai Spur Highway. The subject parcel affords 301.35 feet of highway frontage. Total size is 2.032 acres or 88,514 square feet. Black spruce, birch trees and marsh type grasses characterize vegetation. Topography is nearly level. There is a low, wet swale meandering through the center of the tract from the highway to the north. A few feet of water was observed in this area. The balance of the parcel is suitable for development. Based on topographic maps, the Army COE delineation and the physical inspection, it is estimated 30% of this parcel is suitable for development.

SUMMARY OF THE EIGHT SUBJECT PARCELS

ADL #/Lot-Blk	Size	% upland	Road Access	Utilities	Zoning
#228870/L1&2 Blk B	2.273 ac.	75%	Shotgun Drive	E,T,G	Rural Residential
#228871/L6&7 Blk B	2.066 ac.	25%	Unimproved	E,T,G	Rural Residential
#228872/L10 Blk B	.947 ac.	100%	Kenai Spur Hwy.	E,T,W,G	Commercial
#228873/L11 Blk B	.947 ac.	100%	Kenai Spur Hwy.	E,T,W,G	Commercial
#3121/L12 Blk B	.947 ac.	95%	Kenai Spur Hwy.	E,T,W,G	Commercial
#228874/L14 Blk B	1.136 ac.	100%	Kenai Spur Hwy.	E,T,W,G	Commercial
#228875/L6 Blk C	2.327 ac.	90%	Unimproved	E,T,G	Rural Residential
#228876/L11 Blk. C	2.032 ac.	30%	Kenai Spur Hwy.	E,T,W,G	Commercial



Neighborhood-Kenai Spur Highway looking southerly.



Neighborhood-Kenai Spur Highway looking northerly. The Beaver Creek Subdivision is to the right.



Lot 11, Block C-south side of the lot by the Kenai Spur Highway.



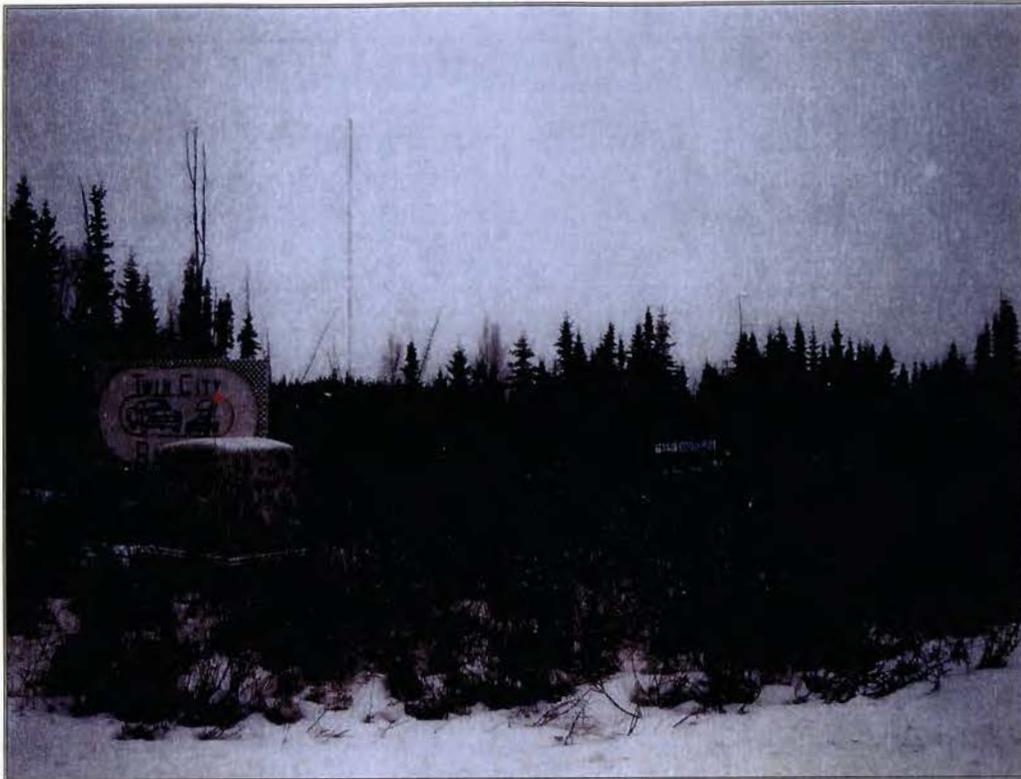
Lot 6 and 11 of Block C- Low, wet area in the center of the two lots.



Neighborhood picture- property adjacent to the north of the Beaver Creek subdivision.



Neighborhood picture- Communication site in center of Block C.



Lot 14 of Block B-southeast corner looking northerly.



Shotgun Drive along the eastern side of Beaver Creek Subdivision. Lot 14 of Block B is to the left.



Lot 14 of Block B- Debris in center.



Lot 14 of Block B- Typical vegetation/topography in center.



Lot 12 of Block B- southwest corner looking northerly. Typical vegetation.



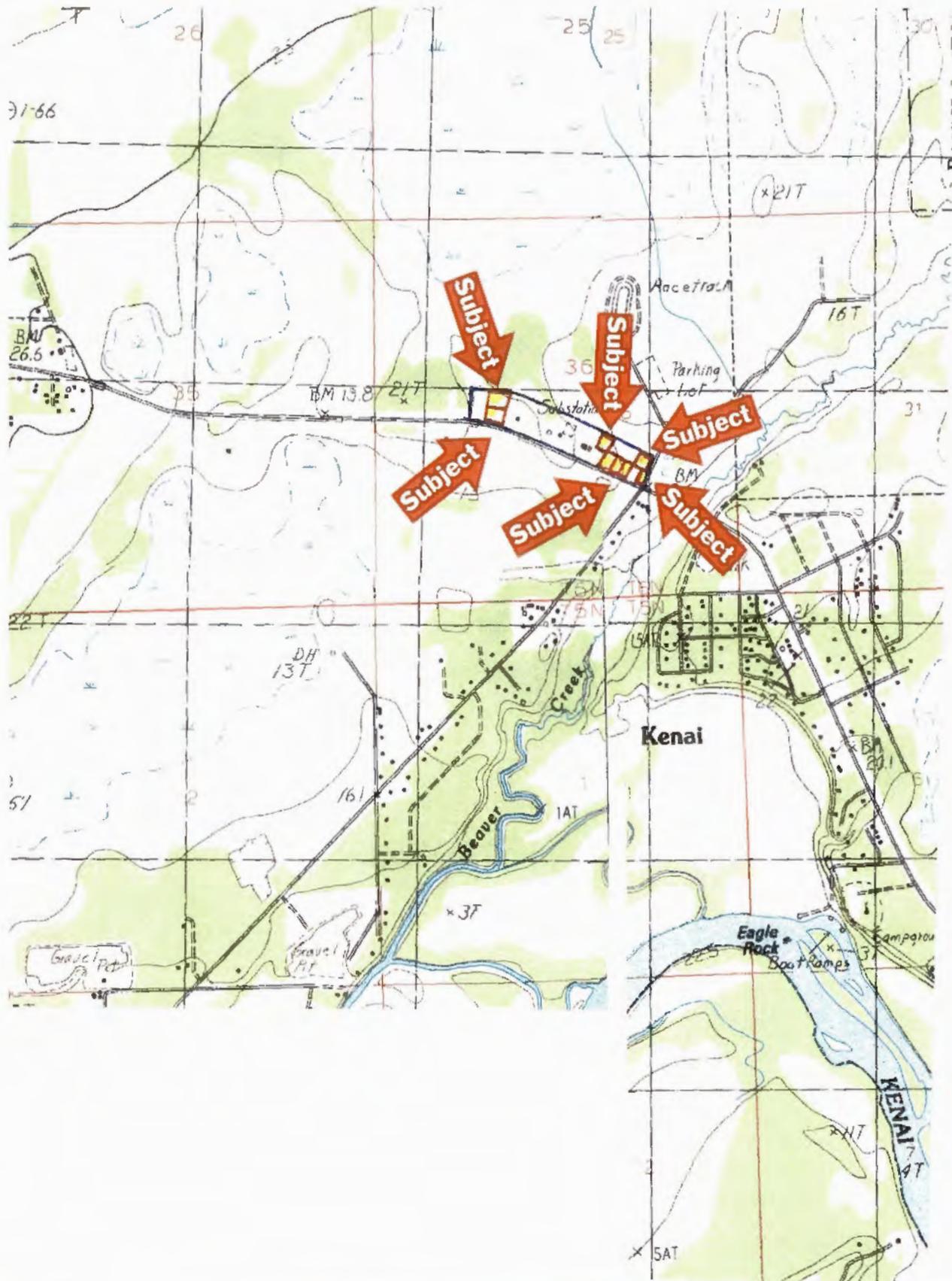
Trail between Lots 11 and 12 of Block B- Trail leads to a communication tower on Lot 4.



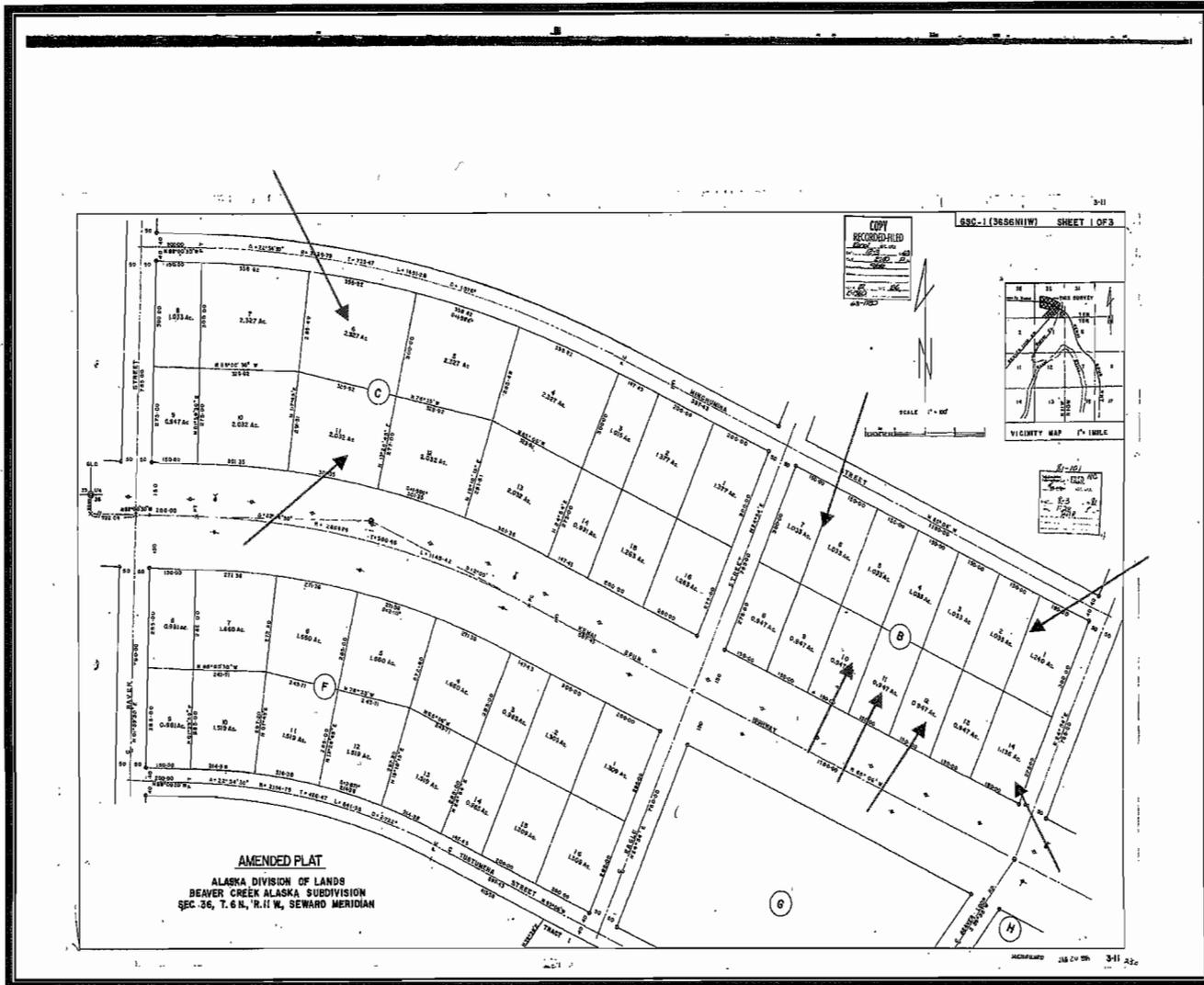
Lots 6 and 7 of Block B-typical topography and vegetation.



Lots 1 and 2 of Block B- northern side along dedicated right-of-way (Minchumina Street).



TOPOGRAPHIC MAP



BEAVER CREEK SUBDIVISION PLAT

HISTORY

According to USPAP Standard 1, Standards Rule 1-5, ... "In developing a real property appraisal, an appraiser must:

- 1) analyze any current Agreement of Sale, option, or listing of the property, if such information is available to the appraiser in the normal course of business; and
- 2) an appraiser must consider and analyze any prior sales or listings of the property being appraised that occurred within the following time period:
 - (A) one year for one-to-four family residential property; and
 - (B) three years for all other property types.
- 3) reconcile the quality and quantity of data available and analyzed within the approaches uses and the applicability of the approaches used."

The Beaver Creek Subdivision was platted in the summer of 1981. It is recorded under Plat 81-101. The following is the most recent sale activity in the Beaver Creek Subdivision:

<u>Lot/Blk</u>	<u>Buyer</u>	<u>Date</u>	<u>Size</u>	<u>Sale Price</u>
9-C	Kloth	9/04	0.95 ac.	\$24,500
3-C	Adair	3/04	1.15 ac.	\$2,000
1-F	Rogers	6/04	1.31 ac.	\$21,000
6-I	Vaughn	2/03	1.49 ac.	\$13,500
16-F	Frickle	6/03	1.31 ac.	\$4,200
12-G	Welch	4/03	1.15 ac.	\$9,000
2-C	Adair	3/03	1.38 ac.	\$2,800

REAL ESTATE TAXES

The parcels are owned by the State of Alaska. They are exempt from property taxes. If the tracts were to be privately owned, they would be taxed by the Kenai Borough. The following is assessment information.

<u>Borough Pcl. No.</u>	<u>Legal</u>	<u>Assessed Value</u>
04106201	L1, Block B	\$3,500
04106202	L2, Block B	\$3,200
04106206	L6, Block B	\$3,200
04106207	L7, Block B	\$3,200
04106210	L10,Block B	\$11,400
04106211	L11,Block B	\$11,400
04106212	L12,Block B	\$11,400
04106214	L14,Block B	\$13,400
04106106	L6, Block C	\$5,400
04106111	L11,Block C	\$16,700

ZONING

Zoning enforcement is under the jurisdiction of the City of Kenai. The lots adjacent to the Kenai Spur Highway are zoned General Commercial (CG). These are Lots 10,11,12 and 14 of Block "B" and Lot 11 of Block "C". The remaining lots fall under Rural Residential (RR). A copy of each zoning regulation is included in the addendum of the report.

The intent of CG Zoning is "to provide for areas where a broad range of retail, wholesale and service establishments is desirable." Permitted uses include most commercial and industrial uses. Single-family residential use is permitted as a secondary use only. Residential use is not allowed to face the highway.

Under RR-Rural Residential zoning, the intent is "to provide for low density residential development in outlying and rural areas in a form which creates a stable and attractive residential environment." Permitted uses include single-family residences and multi family dwellings up to 3 families. Conditional uses include public/institutional uses and B&B's. Some light commercial use is conditionally permitted.

The subject lots are found within FEMA Panel 0200122035A. However, most of the Beaver Creek subdivision has not been mapped by FEMA nor a flood elevation estimated. Only a small area along the southern part of the subdivision is mapped. This area falls under Zone "C".

The Army Corp of Engineers completed a delineation of the subject properties. Lisa Gibson with the Kenai field office was personally interviewed. The Army COE delineation included reviewing aerial maps and completed a physical inspection of the subject lots. A copy of the determination map is show on the next page.



PART III - ANALYSIS AND CONCLUSIONS

HIGHEST AND BEST USE

The determination of highest and best use is one of the most fundamental and important parts of the appraisal process. An appraiser's estimate of highest and best use must be an economic use. A non-economic highest and best use, such as conservation preservation, or any other use that requires the property to be withheld from economic production in perpetuity, is not a valid use upon which to estimate market value.

Definition

The Appraisal of Real Estate 12th Edition, defines highest and best use as "...the reasonably probable and legal use of vacant land or improved property, which is physically possible, appropriately supported, financially feasible and that results in the highest value..."

Four Tests

In determining the highest and best use of a property, many elements are considered. Potential uses must be analyzed in terms of legal permissibility, physical possibility, financial feasibility and degree of profitability. That use which meets the first three tests and is the most profitable is its highest and best use. The four tests are applied in their corresponding order. In other words, the test of legal use must be met before the test of physically possible can be applied, and so forth.

Reasonably Probable Uses

A key element in the definition refers to "reasonably probable uses." Market value cannot be predicted upon uses that are not reasonable. Supply and demand observed in the market area indicated three possible *reasonably probable* uses. These are recreation, residential and commercial uses. Since the subject parcels are somewhat homogeneous with each other, one highest and best use determination will be completed.

DETERMINATION

Legally Permissible

The first test involves a determination of what uses are legally permissible. Existing leases, deed restrictions, zoning, building codes, historic controls and environmental regulations may all influence potential use and must be investigated by the appraiser.

The appraisal unit's are regulated by either General Commercial (CG) or Rural Residential (RR) zoning. Only commercial use is allowed under the CG zoning. Rural residential use can be allowed as an ancillary use, but only after a commercial use has been established. Therefore, the lots fronting the Kenai Spur Highway and under the CG zoning have highest and best uses of commercial. The lots which fall under RR zoning would allow any of the three reasonably probably uses.

Physically Possible

Once the test of legally permissible use is completed, the test of physically possible uses must be addressed. The appraiser must determine what legally permitted uses of the property being appraised are physically possible. Utility of a parcel may also depend on its frontage and depth. Irregularly shaped parcels can cost more to develop and, after development, may have less utility than a regularly shaped parcel of the same size. Ease of access can also enhance the utility of a site.

Two of the three appraisal units zoned RR have undeveloped access. However, it is physically possible to construct access along the dedicated ROW. Wetlands are an issue. However, each of the three RR zoned parcels have adequate area for a home site or cabin. Therefore, all three reasonably probably uses on the RR zoned parcels are physically possible.

Financially Feasible

After applying the first two tests in the highest and best use determination, uses which are not legally permissible or physically possible are eliminated from consideration. The potential uses that do satisfy the first two criteria are then subjected to the third criteria of financially feasible. If the uses are income producing, the analysis will study which are likely to produce an income, or return, greater than the amount needed to satisfy operating expenses, financial obligations, and amortization of capital. Any use that can be expected to produce a positive return is considered financially feasible. If the uses are not income-producing, the analysis will determine which are likely to create a value or result in a profit equal to or greater than the amount needed to develop and market the property under those uses.

Demand for recreation within the city of Kenai is fair to poor. Discharging of firearms around commercial businesses and the highway is not allowed. Most recreational buyers are looking for remote parcels for quiet enjoyment away from the population

centers of Kenai and Soldotna. Because of poor recreational demand, rural recreational use can be omitted as a highest and best use. Commercial uses generally demand highway frontage. The "rear lots" lack traffic exposure. Based on demand, commercial use can be omitted from consideration for the RR zoned parcels. Thus, only rural residential use is left. This use becomes the highest and best use for the three appraisal units zoned Rural Residential.

APPROACH TO VALUE

There are three generally accepted approaches to value. The **income approach** is based on the capitalization of the net income produced. Conversion of economic benefits into value is the underlying premise of this approach. The basic formula for deriving a capitalization rate from a sale is: $R_o = I / V$ (R_o is an overall capitalization rate, I is net income, and V is the selling price).

The **cost approach** is based on the premise that the value of the subject can be indicated by the cost of reconstructing improvements, less applicable depreciation plus the value of the land and entrepreneurial profit. The cost approach embodies a market derived depreciation rate.

The **sales comparison approach** analyzes sales of similar properties and is premised on the principle of substitution. The sales comparison concept of market value depends on the number of sales, actual sales comparable to the subject and sale terms.

Conclusion

The appraisal units are vacant (unimproved). Using the Cost Approach would duplicate the sales comparison approach. Therefore, the cost approach is not used. The appraised properties do not produce income. Vacant properties typically are not purchased based on income producing capacity. Deriving market-based capitalization rates from the comparable sales is difficult. Therefore, the income approach is not used. The sales comparison approach is used to estimate the value of the subject parcels. This approach is the most accepted approach to value for vacant tracts.