

MARKET VALUE APPRAISAL

**One Parcel of Vacant Land on Kakhonak Lake,
within the Kenai Peninsula Borough**

Appraisal Report No.4651



STATE OF ALASKA

Department of Natural Resources
Division of Mining, Land and Water
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MEMORANDUM

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DATE: December 1, 2023

TO: Kevin Hindmarch
Review Appraiser

FROM: Mike Dooley



SUBJECT: Appraisal of one parcel of land located on Lake Kakhonak. The parcel is being appraised to establish minimum bid price for sale at auction.

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

The appraisal was completed in accordance with the "Uniform Standards of Professional Appraisal Practice" of the Appraisal foundation and in accordance with the Special Appraisal Instructions (DNR Land Disposal), DNR. This Appraisal Report is based on the General Assumptions and Limiting Conditions, Hypothetical Condition and Extraordinary Assumption (see Page 8) stated in the report, as well as the facts, analyses, and reasoning leading to the opinions of value.

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

TABLE OF CONTENTS

INTRODUCTION

Title Page	ii
Letter of Transmittal	
Appraisal Summary	4

Premise of the Appraisal

Type of Appraisal and Report	4
Purpose and Use of the Appraisal	4
User and Client Identity	4
Property Rights Appraised	4
Definition of Market Value	5
Effective Date of Value Estimate	5
Exposure Time	5
Sale History	5
Scope of the Appraisal	5
Assumptions and Limiting Conditions	6

PRESENTATION OF DATA

Area Analysis	7
Parcel Descriptions	8

DATA ANALYSIS AND CONCLUSION

Highest and Best Use	12
Approaches to Value	12
Data Analyses and Conclusion	15
Certification of Value	18

ADDENDA

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

APPRAISAL SUMMARY

Subdivision Name	Location	Lot Size (acres)
Kakhonak Lake RRCS	There is one subject parcel in the Kakhonak Lake RRCS. The parcel is located between Lake Iliamna and Cook Inlet, about 90 miles west of Homer and 30 miles southeast of Iliamna.	6.926

Value Summary

ADL	Subdivision	Tract	Survey	Size (acres)	Value (RND)
231401	Kakhonak Lake RRCS	I	ASLS 2013-16	6.926	\$27,700

PREMISES OF THE APPRAISAL

Type of Appraisal and Report

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

Purpose of Appraisal

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

User and Client Identity

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

Intended Use of Appraisal

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

Property Rights Appraised

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

Fee simple estate is defined as¹:

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

AS 38.05.125(a) states²:

Reservation. (a) Each contract for the sale, lease or grant of state land...is subject to the following reservations: "[sic] the party of the first part, Alaska, hereby expressly saves, excepts and reserves... unto itself, its lessees, successors, and assigns forever, all oils, gases, coal, ores, minerals, fissionable materials, geothermal resources, and fossils of every name, kind or description, and with may be in or upon said land...[and the right] to occupy as much of said land as may be necessary or convenient... to render beneficial and efficient the complete enjoyment of the property and rights hereby expressly reserved."

¹ The Dictionary of Real Estate Appraisal, Sixth Edition, Appraisal Institute, 2015, p.90

² Alaska Statutes Title 38, Public Land Article 5, <http://www.legis.state.ak.us/basis/folio.asp>, Accessed 2/01/2023.

Definition of Market Value³

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

Effective Date of Value

I inspected all of the subject parcels and some of the comparable sales via an aerial inspection on July 24, 2023.

Date of Report

December 1, 2023

Exposure Time

Exposure time is defined as "...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 opinion based on an analysis of past events assuming a competitive and open market. Exposure time is different for various types of property and under various market conditions. It is noted that the overall concept of reasonable exposure encompasses not only adequate, sufficient, and reasonable time but also adequate, sufficient, and reasonable effort."⁴

Exposure time can vary depending on the type of property being appraised and constantly changing market conditions. Supply and demand of similar properties to the subject is an important factor for determining exposure time. An exposure time of up to one year is typical for road accessible parcels, and up to three years for remote parcels.

Sale History

The subject parcel is owned by the State of Alaska. There have been no other known sales or transfers of the subject parcels within the past three years.

Prior Appraisal History

I previously appraised the subject parcel on December 18, 2020.

SCOPE OF WORK**Property and Comparable Sales Inspection**

I inspected the subject parcel and some of the comparable sales via an aerial inspection on July 24, 2023.

Research and Analysis Conducted

Interviews were conducted with local real estate agents, appraisers, and other individuals familiar with the area who provided information about trends in values, supply and demand. DNR records were searched for recent comparable sales and information about parcels currently available. Previous appraisals of the subject parcels were utilized to help identify pertinent physical characteristics and neighborhood characteristics. Current listings were also searched. The recorder's office was searched to identify any recent sales. Sellers and buyers or other knowledgeable market participants were contacted to verify recent sale prices and other transaction details.

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

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

⁴ Uniform Standards of Professional Appraisal Practice 2016-2017, Appraisal Foundation, p. 2-3

Assumptions and Limiting Conditions

1. The property is appraised as vacant land without structural or site improvements.
2. All engineering studies are assumed to be accurate. Plats and illustrative material included in the report are intended to help the reader visualize the properties.
3. Information furnished by others and included in the report is believed to be reliable, but the appraiser does not warrant the accuracy of such information.
4. Unless otherwise noted in the report, the appraiser did not find any evidence that hazardous materials exist on these properties. The estimate of value is based on the assumption that there are no such materials on the property. The appraiser is not qualified to detect these substances. No responsibility is assumed for any such conditions or for any expertise or engineering knowledge that is required to discover these substances.
5. The appraiser, by reason of this appraisal, is not required to give further consultation or testimony, or be in attendance in court with reference to the property in question unless arrangements have been made in advance.
6. The data and conclusions in this report are a part of the whole valuation. Each part of this report is only part of the evidence upon which the final judgment is based. Therefore, no part should be used out of context and by itself alone.
7. It is assumed that there are no hidden or apparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for any such conditions, or for arranging engineering studies to discover them.
8. The estimate of value in this report is not based in whole or in part upon the race, color, or national origin of the present owners or occupants of the properties in the vicinity of the property appraised.
9. Some parcels may contain saw timber, but not necessarily in commercial quantities. The estimated market value does not include the value of commercial timber, if any.
10. Unless noted, the existence of personal property or improvements, if any, could not be confirmed. The properties are appraised "as vacant".
11. In this valuation, various mathematical calculations were used to formulate the opinion of value. These calculations are only aids for the formulation of the opinion of value by the appraiser. Therefore, in the application of these calculations, certain arithmetical figures are rounded to the nearest significant amount.
12. The appraiser assumes no responsibility for legal matters. The subject lots are assumed to be free and clear of encumbrances, except as otherwise noted, and title is assumed to be marketable.

PRESENTATION OF DATA

Area Data

The Kakhonak Lake Remote Recreational Cabin Sites parcels are located between Lake Iliamna and Cook Inlet, about 91 miles west of Homer and 30 miles southeast of Iliamna. Kakhonak Lake is a large lake that provides year-round fly-in access on floats or skis.

Market Area

Iliamna

Current Population:	109 (2010 U.S. Census Population)
Incorporation Type:	Unincorporated
Borough Located In:	Lake and Peninsula Borough
School District:	Lake and Peninsula Schools
Regional Native Corporation:	Bristol Bay Native Corporation

Iliamna is located on the northwest side of Iliamna Lake, 225 miles southwest of Anchorage. It is near the Lake Clark Park and Preserve. It lies at approximately 59.754720 North Latitude and -154.906110 West Longitude. (Sec. 12, T005S, R033W, Seward Meridian.) Iliamna is located in the Iliamna Recording District.

Commercial fishing, sport fishing, and tourism are the major sources of income for the community. In 2010, 15 residents held commercial fishing permits. Many workers depart each summer to fish in Bristol Bay. Lake Iliamna is the eighth largest lake in the U.S., and tourism is increasing. However, most lodge employees are not local workers. Most residents participate in subsistence hunting and fishing activities. Salmon, trout, grayling, moose, caribou, bear, seal, porcupine, and rabbits are utilized. Northern Dynasty Minerals Ltd. is exploring the gold, copper, and molybdenum potential of Pebble Mine, 15 miles from Iliamna, but development of the mine remains controversial, due to environmental concerns.

The 2005-2009 American Community Survey (ACS) estimated 42¹ residents as employed. The public sector employed 50.0%¹ of all workers. The local unemployment rate was 2.3%¹. The percentage of workers not in labor force was 23.2%¹. The ACS surveys established that average median household income (in 2009 inflation-adjusted dollars) was \$108,750 (MOE +/- \$40,940)¹. The per capita income (in 2009 inflation-adjusted dollars) was \$32,124 (MOE +/- \$20,731)¹. About 6.3%¹ of all residents had incomes below the poverty level.

Iliamna residents use individual water wells and septic systems. Eighty-five percent of homes are fully plumbed. A 270' well provides water to the community building/village office/washeteria. Septic pumping services are provided by the village. Refuse is transported by individuals to the landfill. The INN Electric Cooperative owns a diesel plant in Newhalen, and 50 miles of distribution line connect the three communities. The Tazimina Hydroelectric Project has been completed and powers Iliamna, Newhalen, and Nondalton.

Iliamna is accessible by air and water. An 8-mile gravel road connects Iliamna to Newhalen. There are two state-owned gravel airstrips; one measures 5,086' long by 100' wide, and the other is 4,800' long by 100' wide. The airstrips are located between Iliamna and Newhalen. Additional facilities include float plane facilities at Slop Lake, East Bay, and Pike Lake, a private airstrip at the Iliamna Roadhouse, and private float plane access at Summit Lake. Barge services are available via the Kvichak River. A breakwater, boat harbor, and dock are available.

Iliamna lies in the transitional climatic zone with strong maritime influences. Average summer temperatures range from 42 to 62 °F; winter temperatures average 6 to 30 °F. Annual precipitation averages 26 inches, with 64 inches of snowfall.⁵

⁵ Alaska DCCED 'Community Database Online', accessed December 1, 2023.
http://www.commerce.state.ak.us/dca/CF_BLOCK.htm.

Parcel Descriptions

ADL	Subdivision	Tract	Survey	MTRS	Size (acres)
231401	Kakhonak Lake RRCS	I	ASLS 2013-16	S008S028W05	6.926

Location

There is one subject parcel in the Kakhonak Lake RRCS. The parcel is located approximately 180 miles southwest of Anchorage, Alaska, and 91 miles west of Homer, Alaska, between Lake Iliamna and Cook Inlet.

Access

Primary summer access to this parcel is by floatplane.

Size & Shape

The subject parcel is 6.926-acres and is irregular in shape.

Topography

The subdivision topography is characterized by a level to sloping topography. The parcel is located approximately 250 feet above sea level.

Soils/Vegetation

The subdivision is heavily treed with a mix of spruce, birch, and alder. The soils are typical of the area.

Utilities, Water & Sewer

Electricity is not available to any of the lots within the subdivision. No public water or sewer system is available. Water supply or sewage disposal systems must be located, constructed, and equipped in accordance with the requirements, standards, and recommendations of the Alaska Department of Environmental Conservation.

Easements & Zoning Regulations.

There are 30' public access and utility easements on all interior lot lines and a 50' wide public access easement along the mean high water or ordinary highwater line of Kakhonak Lake. In addition, there is a 100' building setback from the mean ordinary high-water line. The subject parcels are not encumbered by zoning restrictions.

Environmental Hazards, Hazardous Waste & Toxic Materials

No toxic materials, waste, or hazards were observed during the field inspection.

Tax Assessments

The subject is located within the taxing authority of the Kenai Peninsula Borough, property ID #23119011; however, there is no tax burden assessed to the State of Alaska from the borough. Tax assessments to private parties will become active when property is sold into private ownership. The 2023 mill rate for the subject subdivision is 7.82.

Ownership History

The Department of Natural Resources is the current owner of record for the subject parcel. The subject was offered in the 2022 DNR Land Auction with a minimum bid of \$22,200. The parcel did not receive any bids and the parcel was offered over the counter. An application to purchase the subject was received, but later relinquished prior to a contract being issued. There have been no known sales or deed transfers of the subject property within the past three years.

Personal Property

There is no personal property involved with the appraisal of this property.

ADL #231401



Satellite Image. The yellow outline is the **approximate**. This outline is **not** to be relied upon to locate parcel.



Red arrow is approximate location of parcel.



Red arrow is approximate location of parcel.



DATA ANALYSIS AND CONCLUSION

ADL	Subdivision	Tract	Survey	MTRS	Size (acres)
231401	Kakhonak Lake RRCS	I	ASLS 2013-16	S008S028W07	6.926

Highest and Best Use

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

“The reasonably probable and legal use of vacant land or an improved property, that is physically possible, legally permissible, appropriately supported, financially feasible, and that results in the highest value.”⁶

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

Legally Permissible

The Subject is not encumbered by any known zoning requirements that would restrict potential development. Development of well and septic systems must comply with the requirements of the Department of Environmental Conservation. Almost any legal use of the site would be possible.

Physically Possible

The size and physical characteristics of the Subject is adequate to support all reasonable and probable uses.

Financially Feasible

The Subject lacks developed access or utilities. As a result, development as a residential home site is not financially feasible.

Maximally Productive

Maximally productive use is the use that produces the maximum return from the proceeds of a sale or lease. The immediate vicinity is characterized by private recreation. Outdoor recreational activities are the primary motivations for the surrounding recreational users.

Highest and Best Use of Land as Vacant

Based on the foregoing analysis, the highest and best use of the Subject as vacant would be for almost any legal use, primarily a rural recreation cabin site.

Valuation Analysis

Three approaches to value are considered to determine the market value estimate.

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

Income Approach

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

Cost Approach

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

Sales Comparison Approach

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

Key Parcel Method

When appraising more than one similar parcel, it is an accepted practice to appraise a key parcel that is most representative of the other parcels being appraised. The key parcel may be a hypothetical parcel or an actual parcel. The value of the remaining parcels is then based on a comparison to the key parcel. This methodology replicates typical developer thinking. Since there is only one Subject Parcel in this report, this methodology will not be utilized.

Explanation of Adjustments

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

An adjustment of less than 1.00 (or -) means the sale feature is superior to that appraised property and requires a downward adjustment to match the quality of the key parcel's feature, thus indicating the value of the key parcel. An adjustment greater than 1.00 (or +) means that the sale feature is inferior to the subject's feature which requires an upward adjustment to match, thus indicating the value of the key parcel. An adjustment of 1.00 (or =) means the sale feature is similar to the key parcel, and no adjustment is necessary. The adjustments are multiplied to obtain a total adjustment, which is then multiplied by the sale price to indicate the value of a key parcel.

Unit of Comparison

Generally, the buyers and sellers in the marketplace determine the unit of comparison, e.g., price per acre, square foot, site, front foot, etc. The Subject Parcel will be valued on a per acre basis.

Rights Conveyed

Fee simple less mineral rights as per Alaska Statute 38.05.125(a). Retention and exclusion of the mineral estate does not tend to affect property values, because most buyers are interested in the surface estate.

Financing Terms

In accordance with DNR instructions, market value is estimated in terms of seller financing typical for the market. Cash transactions sometimes are afforded a discount from typical financing. In general, a cash transaction would tend to be at the lower end of the price range with listings or sales with favorable financing usually setting the upper limit.

Conditions of Sale

Unless otherwise noted, the market transactions used in this appraisal do not reflect any unusual seller-buyer motivations that affected value.

Market Conditions (Time)

Analysis of real estate sales in the subject area indicates that prices of vacant land have been stable in recent years. Comparable sales used in this valuation are the most recent transactions available and do not need to be adjusted for time.

Location

The Subject and the comparable sales are located in the same market area. However, location adjustments were made for parcels that were located on superior or inferior lakes, as compared to the subject. See the reconciliation for further discussion.

Size & Topography

Some of the comparable sales within this analysis required site size adjustments. The DNR site size adjustment method was utilized to calculate site size adjustments. An explanation of this method is located in the addendum. Comp #3 has a steeper terrain than the subject and was adjusted downward accordingly. There are no other major topographical deficiencies which would require an adjustment.

Access

Comp #1 is situated on a cove that can have limited to no access from the main body of Kakhonak Lake at low water levels. As such, this comp received an upward adjustment for having inferior access. In addition to lake frontage, Comp #4 and Comp #5 also have gravel airstrip access. These sales were adjusted downward for superior access.

Building Site Condition and Soil Quality Adjustments

The Subject and all of the comparable sales have adequate soils and good building sites. In effect, poorer soils reduce potential building sites. No building site or soil quality adjustments were warranted.

Utilities

The Subject and all comparable sales lack utilities, no adjustment is necessary.

Amenities

Exceptional features of a given parcel may increase value. Features such as type of water frontage, proximity to bodies of water, exceptional views are examples of amenities that may warrant adjustments. Market observations in the area indicated that a nominal 10% adjustment for creeks and ponds is warranted. However, no such adjustments were required in this analysis. Having more water frontage is considered an amenity in the market. The comparable sales have varying amounts of water frontage. were qualitatively adjusted accordingly.

Due to the confidentiality of sales information, the valuation section of the report is not available online. The entire report can be obtained by submitting a request to the Land Conveyance Section at (907)269-8594, or by e-mail: landsales@alaska.gov.