

PROPERTY INFORMATION:

Property Name: Skagway 66.5 Acre Tidelands Appraisal
Address: ATS#4 & Lots 11 & 12, Blk 44, Ptn Lt 7, Blk 45
City, County, State: Skagway, AK 99840
Property Owner: City of Skagway

APPRAISAL INFORMATION:

Appraiser(s): William G. Ferguson
Date of Report: June 14, 2018
Interest Valued: Fee Simple Value.
Report Format: Narrative Appraisal Report
Valuation Approaches Omitted: Cost and Income
Prepared for: City of Skagway

REVIEW INFORMATION:

Client: Hoffman & Blasco, LLC
Review Scope: Desk review to the Uniform Standards of Professional Appraisal Practice (USPAP).
Review Type: ___ Field ___X___ Desk
Review Date: July 31, 2018
Reviewer: Allen N. Safer, MAI

Review Summary: ___ a) Accepted
___ b) Accepted with Modification
___X___ c) Not Accepted

Summary of Concluding Remarks:

1. Based on a review of the information, analyses, and conclusions presented within this report under review, the review appraiser identifies this appraisal as **Not Accepted**. The contents of the report are not sufficient for the reader to form an opinion as to the credibility of the conclusions regarding the current Fee Simple Value.
2. This review assignment involved the determination of acceptability of the appraisal reviewed. The appraisal under review does not meet the 2018-2019 USPAP requirements. The appraisal report values the Fee Simple Value. based on a "hypothetical pre-developed state" as of March 14, 2018 (date of property inspection). Referring to the definition of Hypothetical Condition on page 6 of the appraisal, this hypothetical is counter to the lease language, and results in an incorrect premise for analysis and the resulting value conclusion is not credible.

REVIEWERS CONCLUSION:

1. Based on the reviewer's reading of the lease between the City of Skagway and Pacific Arctic Railway and Navigation Company (PARN), dated August 1, 1969 (copy of lease included in appraisal addendum), "any fill material placed thereon shall be a part of the land at all times, shall be owned by the lessor and shall be leased hereunder". The appraiser's analysis in the predevelopment condition does not account for the value added by fill material placed on the site, and the "pre-development" value concluded does not appear to be in conformance to the lease terms as specified on page 3, lines 29 through 32. On page 4 of the Horan appraisal, Section 1.7, the appraiser acknowledges "this appraisal is made subject to the hypothetical condition that the land is as it was in its pre-developed state in 1968, prior to dredging, fillThe value of the property "As Is" would be substantially different without this assumption" (refer to definition of Hypothetical Condition on page 6 of the appraisal report). Accordingly, the information contained in the appraisal reviewed, and incorporated into the analysis, is concluded to not be credible, and is therefore not a USPAP compliant appraisal report.
2. Land Comparable 1 sale write-up acknowledges under "Marketing Info" that this was a non-competitive lease based on appraisal. The appraiser then converts the annual lease amount into a market value indication using an 8.0% capitalization rate. Similarly, the other three leases were all land lease rates converted into market value indications using an 8.0% capitalization rate. However, there were no actual sales of tidelands used in the appraisal and the appraiser has not demonstrated that the capitalized lease payments reflect market values.
3. The appraiser acknowledges the comparable lease rates were determined by an underlying appraisal, but the appraiser does not identify if Horan & Company was the appraisal firm engaged to establish the lease renewals. If in fact Horan & Company was the outside appraisal firm engaged to establish these comparable lease rates, then an alternative analysis of actual sale transactions should be a requirement to establish the market value of the subject property.
4. Credible assignment results require support, by relevant evidence and logic, to the degree necessary for the intended use (market value of the underlying tidelands). The reviewer has concluded the data utilized and the analysis undertaken is inadequate to support a current fee simple market value conclusion, consistent with the PARN lease requirements, and is therefore the appraisal is not credible and does not comply with USPAP requirements.

INTENDED USE – to estimate the fair market value of the of parcels leased to PARN by the City of Skagway.

REPORT SCOPE OF WORK – Based on the definitions is the 2018-2019 version of USPAP, the report is an Appraisal Report which relied on the sales comparison approach to value. The cost comparison and income approaches were not included.

On page 2 of the appraisal, Section 1.2, the appraisal states, “The purpose of this appraisal is to estimate the fair market value of parcels leased to Pacific and Arctic Railway and Navigation Company (PARN) by the City of Skagway, prior to the improvements made to dredge and fill the site per the terms of the tidelands lease dated March 19, 1968. The lease runs for 55 years and the rental amount is adjusted every five years based on “the fair market value of the land, exclusive of any portion of said value created by expenditures by lessee or its successors, but inclusive of any improvements thereon made by the lessor.” It is a hypothetical condition of this appraisal that the tidelands are in the “pre-developed state”.

The scope of work premised on the hypothetical condition is incorrect as the underlying lease document (attached as an exhibit in the appraisal addendum) notes on page 3, line 29 “The excavated basin or basins created by dredging, or otherwise, and the materials excavated therefrom and placed upon said land shall be a part of the land at all times, shall be owned by the lessor and shall be leased hereunder.” Furthermore, the restated lease dated August 1, 1969 on page 3, line 1, the lease again notes, “Any fill material placed thereon shall be a part of the land at all times, shall be owned by the lessor and shall be leased hereunder.”

As the reviewed appraisal analyzed the current fair market value based on the hypothetical predevelopment condition, the scope of work is not consistent with the terms of the lease agreement. The reviewer was not able to identify language in the lease agreement that directs the market value to be premised on this hypothetical condition.

REPORT EXTRAORDINARY ASSUMPTIONS – None

REPORT HYPOTHETICAL CONDITIONS – The leased land is as it was in its predeveloped state in 1968, prior to improvements, dredging, fill or construction of buildings on the site. The appraiser acknowledges “the value of the property “As Is” would be substantially different without this assumption” (refer to definition of Hypothetical Condition on page 6 of the appraisal report).

General assumptions, limiting conditions, disclosure and use restrictions are found on page 4 of the report.

SUMMARY OF APPRAISAL PROBLEM – As of the date of value, the subject is comprised of 66.5 acres tidelands in ATS 4 and lots 11 & 12 Blk 44, and a portion of lot 7. The appraiser estimates 6.5 acres are dry, sloping uplands, 45.5 acres tidelands and the remainder are submerged lands. The subject has two of the four large ship wharfs on the Skagway waterfront.

The purpose of the appraisal assignment was to estimate the “as is” market value of the Fee Simple Value. interest in the subject property as of March 14, 2018 , the date of inspection. The intended use is as a basis for establishing current market rent.

PROPERTY DESCRIPTION:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
1. Region/vicinity analysis is adequate (considering scope of assignment):	<u>X</u>	<u> </u>	<u> </u>
2. Site description is adequate:	<u>X</u>	<u> </u>	<u> </u>
3. Improvement description is adequate:	<u> </u>	<u>X</u>	<u> </u>
4. Improvement conformance with zoning is considered (see comments):	<u> </u>	<u> </u>	<u>X</u>

Comments: On page 15 under Highest and Best Use, the appraiser note “the subject was dredged and shaped in 1969, creating over 30 Acres of level, filled land. The remaining land includes the slope basin and dredged, submerged tidelands. However, there is no discussion of how many yards of fill was placed on the site or how much dredging occurred and to what depth. These are material omissions that should have been described as a basis for the current land value analysis.

Additionally, the Highest and Best Use Analysis

SITE VALUATION:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
1. Value conclusion is consistent with subject acquisition price:	<u> </u>	<u> </u>	<u>X</u>
2. Value conclusion is adequately supported by market data:	<u> </u>	<u>X</u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>

Comments:

Only capitalized lease payments were used to opine to the fee simple value of the land without identifying or analyzing any actual sales of tidelands to corroborate the market value conclusion. All of the land lease comparables used referenced land leases, the appraiser does not identify which, if any, of the land leases used were based on appraisals performed by Horan & Company. If some (or all) of these lease rates were established by Horan & Company appraisals, the re-use as comparables for the PARN tidelands appraisal would have the appearance of not being independent and needs to be corroborated by independent sales of tidelands in southeast Alaska.

COST APPROACH:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
1. Replacement cost analysis is adequate:	<u> </u>	<u> </u>	<u>X</u>
2. Developer profit is reasonable:	<u> </u>	<u> </u>	<u>X</u>
3. Depreciation analysis is adequate:	<u> </u>	<u> </u>	<u> </u>
4. Value conclusion is adequately supported:	<u> </u>	<u> </u>	<u>X</u>

Comments:

INCOME APPROACH:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
1. Income and expenses estimates are consistent with property history:	_____	_____	X
2. Income analysis is adequate:	_____	_____	X
3. Vacancy analysis is adequate:	_____	_____	X
4. Expenses analysis is adequate:	_____	_____	X
5. Capitalization rate analysis is adequate:	_____	X	X
6. Discounted cash flow assumptions are reasonable:	_____	_____	_____
7. Conclusion is adequately supported:	_____	_____	X

Comments:

While an income approach was not utilized, the appraiser did capitalize lease payments from other tidelands leases to suggest a market value indication; however, the appraiser utilized an 8.0% land lease cap rate whereas the subject specifically utilizes a 6.0% land capitalization rate. If a 6.0% rate had been used to analyze the leases, the indicated land value would have been 33.3% higher. The appraiser did not discuss or analyze the land leases rates from the tideland comps utilized.

Additionally, I'm aware that Ketchikan, Sitka and Petersburg have lease cap rates of 4.0% to 5.0% compared to the subject's 6.0%. The appraiser did not explain why he used an 8.0% cap rate.

RECONCILIATION:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
1. Final conclusions and analyses are reasonable:	_____	X	_____
2. As Is value is appropriately analyzed:	_____	X	_____
1. Final conclusions and analyses are reasonable:	_____	X	_____
3. Absorption discounts are appropriate:	_____	_____	X
4. Discount for non-market leases is appropriate:	_____	_____	X
5. Excess land is properly considered:	_____	_____	X
6. Personal property value is properly considered:	_____	_____	X

Comments: The hypothetical condition utilized resulted in a "hypothetical" value (rather than fair market value) which the appraiser acknowledges results in an "As Is" value that would be substantially different without this assumption. The resulting value conclusion is therefore not credible.

USPAP APPRAISAL REPORTING REQUIREMENTS:

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
1. Appraisal is not misleading:		X	
2. Written report contains sufficient information to support institution's decision to engage in transaction:		X	
3. Extraordinary assumptions are clearly disclosed:	X		
4. Identifies real estate appraised (location & legal description):	X		
5. Identifies real property interest appraised:	X		
6. States purpose of appraisal:	X		
7. States property definition of Market Value:	X		
8. States effective date of appraisal:	X		
9. States date of report:	X		
10. Describes scope of work decision process:	X		
11. Sets forth assumptions and limiting conditions:	X		
12. Summarizes data and appraisal procedures:	X		
13. Identifies Highest & Best Use:	X		
14. Explains exclusion of any valuation approach:	X		
16. Includes signed certification:	X		

Comments:

ADDITIONAL REQUIREMENTS

	<u>YES</u>	<u>NO</u>	<u>N/A</u>
1. Appraisal fulfills terms of engagement letter:		X	
2. Appraisal values property in its current condition:		X	
3. Statement that appraisal conforms to USPAP standards:	X		
4. Analyzed discounts for proposed construction, absorption, or non-market leases:	X		
5. Appraiser is appropriately state certified or licensed:	X		
6. Appraisal report format and content are appropriate and complete:	X		
7. Data and/or adjustments are adequate:		X	
8. Methods and techniques are appropriate:		X	
9. Analysis, opinions, and conclusions are reasonable:		X	

Comments:

Refer to body of this review.

PURPOSE OF REVIEW: The purpose of this review is to evaluate the adequacy of the appraisal report, including its scope, methods, accuracy, and reasonableness. The report has also been reviewed for conformity to USPAP.

SCOPE OF REVIEW: The scope of this review included the following procedures:

1. Reading and analyzing the appraisal report;
2. Checking quality and appropriateness of market data in the appraisal;
3. Checking for omitted data or techniques;
4. Checking reasonableness of analysis and conclusions;
5. Checking for conformity to *USPAP*;
6. Checking mathematics for accuracy;
7. I **have not** inspected the subject property or the comparables (desk review).

CLIENT/ USER/ USE: The intended user of this review report is the client, the Municipality of Skagway. This review will be used in determining if the work under review is acceptable.

In compliance with the Uniform Standards of Professional Appraisal Practice (USPAP, Standards Rule 3-1 and 3-2), the following disclosure is made concerning the nature, extent and detail of the review process conducted regarding the above captioned appraisal and reporting the results of the appraisal review.

In reviewing the above captioned appraisal, the nature of the review process conducted is limited by the data presented in the report. The appraisal's methodology and techniques are reviewed for appropriateness and calculations are checked. In addition, data in the report is checked for consistency and that the appraisal was completed in accordance with the client's guidelines and USPAP. The review process is summarized on the prior pages with additional comments and detail added as necessary.

In my judgment, the appraisal under review was not complete and was based on a hypothetical condition. The data analyzed was not adequate, and adjustments to the data were not sufficient to account for filling and dredging that has occurred this inception of the lease.

The analyses, opinions and conclusions in the report reviewed were not appropriate or reasonable and the fair market value conclusion is not considered credible.

ASSUMPTIONS AND LIMITING CONDITIONS

This review report is subject to the following assumptions and limiting conditions:

Extraordinary Assumptions

None

Hypothetical Conditions

None

General Assumptions and Conditions

That the information contained in the appraisal under review, and incorporated into my analysis, is credible, thus allowing the reviewer to assume the integrity of the work without personal verification.

The reviewer assumes no responsibility for matters legal in character, nor do they render any opinion as to title, which is assumed to be marketable.

I have made no survey of the property and assume no responsibility in connection with such matters.

The review appraiser assumes no responsibility for determining if the property requires environmental approval by the appropriate governing agencies, nor if it is in violation thereof, unless otherwise noted herein.

This review shall be used for its intended purpose only, and by the party to whom it is addressed. Possession of this review does not include the right of publication.

The review appraiser may not be required to give testimony or to appear in court by reason of this review report, with reference to the subject of the work under review in question, unless prior arrangements have been made therefore.

The statements and all conclusions shall apply as of the dates shown herein and with respect to the subject of the work under review.

The review appraiser has no present or contemplated future interest in the subject of the work under review which is not specifically disclosed in this review.

Neither all, nor any part of, the contents of this review shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent or approval of the author. This applies particularly to conclusions and to the identity of the review appraiser and the firm with which he or she is connected.

This review report must be used in its entirety. Reliance on any portion of the review report independent of others, may lead the reader to erroneous conclusions regarding the conclusions. No portion of the review report stands alone without approval from the author.

The liability of Integra Realty Resources - Seattle, its principals, agents, and employees is limited to the client. Further, there is no accountability, obligation, or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The review appraiser is in no way responsible for any costs incurred to discover or correct any deficiency in the subject of the work under review.

The review appraiser is not qualified to detect the presence of toxic or hazardous substances or materials which may influence or be associated with the subject of the work under review or any adjacent properties, has made no investigation or analysis as to the presence of such materials, and expressly disclaims any duty to note the degree of fault. Integra Realty Resources - Seattle and its principals, agents, employees, shall not be liable for any costs, expenses, assessments, or penalties, or diminution in value, property damage, or personal injury (including death) resulting from or otherwise attributable to toxic or hazardous substances or materials, including without limitation hazardous waste, asbestos material, formaldehyde, or any smoke, vapors, soot, fumes, acids, alkalis, toxic chemicals, liquids, solids or gasses, waste materials or other irritants, contaminants or pollutants.

The review appraiser assumes no responsibility for determining if the subject of the work under review complies with the Americans with Disabilities Act (ADA). Integra Realty Resources - Seattle, its principals, agents, and employees, shall not be liable for any costs, expenses, assessments, penalties or diminution in value resulting from non-compliance.

CERTIFICATION

I certify that, to the best of my knowledge and belief:

- The facts and data reported by the reviewer and used in the review process are true and correct.
- The analyses, opinions, and conclusions in this review are limited only by the reported assumptions and limiting conditions stated in this review report 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 the work under review, and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of the work under review or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use.
- 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 reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have not made a personal inspection of the subject property of the work under review.
- I have not provided appraisal or review services on this property in the past three years.
- No one provided significant appraisal, appraisal review, or appraisal consulting assistance to the person signing this certification.
- 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 appraisal, Allen N. Safer, MAI, has completed the continuing education program of the Appraisal Institute.



Allen N. Safer, MAI

July 31, 2018

Date

Certified General Real Estate Appraiser
State of Alaska #412

ADDENDA
Qualifications

Allen Safer, MAI, MRICS

Experience

Senior Managing Director for Integra Realty Resources-Seattle in Washington State. Integra Realty Resources Seattle is part of Integra Realty Resources (IRR), a national valuation and consulting firm with 66 offices in the U.S. and Caribbean.

Mr. Safer and his firm are experienced in the analysis of various property types including: vacant land, residential plats, master planned communities, multifamily developments, retail, office, industrial and special purpose properties in Washington State and Alaska. Clients served include various financial concerns, law and public accounting firms, private and public agencies, pension and advisory companies, investment firms, and the general public. Further, utilizing the resources of Integra's nationwide coverage, the firm is actively involved in the completion of large portfolio engagements.

Mr. Safer's background includes 30+ years of counseling and valuation analysis for the general public on commercial and residential properties in Washington and Alaska. Entered the appraisal profession with Coldwell Banker Appraisal Services from 1977 to 1981. Founded Safer & Company in 1982 and transitioned to Property Counselors from 1986 to 2001.

Professional Activities & Affiliations

Appraisal Institute, Member (MAI)

President: Local Chapter of the Appraisal Institute, January 2007 - December 2007

Chairman: Seattle Chapter Real Estate Fall Conference, January 2008 - December 2010

Chairman: National Appraisal Institute Regional Chairs, January 2000 - December 2000

Chairman: National Appraisal Institute Executive Committee, January 2000 - December 2000

Chairman: Pacific NW Region 1 Board of Directors, January 1998 - December 1999

Board of Director: Appraisal Institute, January 1996 - December 2001

Member: Appraisal Institute Finance Committee, January 1996 - December 1997

Board of Director: General Appraisal Board of the Appraisal Institute, January 1994 - December 1996

Chairman: National Comprehensive Exam Subcommittee of the Appraisal Institute, Jan. 1990 - Dec. 1992

Member: National Comprehensive Exam Subcommittee of the Appraisal Institute, Jan. 1983 - Dec. 1992

Member: Government Relations Committee, January 2002 - December 2004

Member: National Admissions Committee of the Appraisal Institute, January 1990 - December 1993

Board of Director: Seattle Chapter of the Appraisal Institute, January 1989 - December 1992

Member: Regional Professional Standards Panel of the Appraisal Institute, January 1984

Chairman: Local Chapter Admissions and Programs, January 1986 - December 1991

Licenses

Alaska, Appraiser, APRG412, Expires June 2019

Washington, Appraiser, 1100662, Expires September 2019

Washington, Designated Broker, 3341, Expires December 2019

Education

Bachelor of Science, Real Estate, University of Colorado, Boulder, Colorado

Qualified Before Courts & Administrative Bodies

United States Bankruptcy Court, Seattle Washington

King County Superior Court, Washington

King County Board of Equalization

Pierce County District Court

Washington State Board of Tax Appeals

Various Arbitration & Land Use Hearings

Miscellaneous

Recipient of the Seattle AI Chapter's "Appraiser of the Year" Award for 2001.

Recipient of the Seattle AI Chapter's 2009 "President's Award".

IRR Certified Reviewer

asafer@irr.com - 206.436.1190

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License #: APRG412
Effective: 06/13/2017
Expires: 06/30/2019

STATE OF ALASKA
Department of Commerce, Community, and Economic Development
Division of Corporations, Business, and Professional Licensing
Board of Certified Real Estate Appraisers

Licensee: **ALLEN N. SAFER**

License Type: **Certified General Real Estate Appraiser**

Status: **Active**

Commissioner: Chris Hladick

Relationships

RelationType	License #	LicenseType	Owners/Entities	Names/DBA
No relationships found.				

Designations

Type	Group
No designations found.	

ALLEN N. SAFER
INTEGRA REALTY RESOURCES
600 UNIVERSITY STREET, SUITE 310
SEATTLE, WA 98101

Wallet Card

State of Alaska Department of Commerce, Community, and Economic Development Division of Corporations, Business, and Professional Licensing Board of Certified Real Estate Appraisers ALLEN N. SAFER As Certified General Real Estate Appraiser		
License APRG412	Effective 06/13/2017	Expires 06/30/2019