

LESTER PARK GOLF COURSE

Update 2018 Conceptual Land Use Analysis

June 29, 2018

Prepared for:

**City of Duluth
Property & Facilities Management
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Duluth, Minnesota 55806**

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June 29, 2018

Mr. Henry Martinsen
Property Services Supervisor
City of Duluth
1532 West Michigan Street
Duluth, Minnesota 55806

Re: Update 2018 Lester Park Golf Course
Conceptual Land Value Analysis

Dear Mr. Martinsen:

Pursuant to your request for an update to a prior conceptual land use analysis completed for the referenced property in 2013, the undersigned submits the following report.

A discussion of real estate market derived inputs applicable to the subject's conceptual reuse opportunities are summarized herein. Various exhibits are also presented to supplement discussion. The 2013 conceptual reuse analysis was also employed as an additional resource reference for this update and a reproduction of the same is presented in the Addenda.

Respectfully submitted,

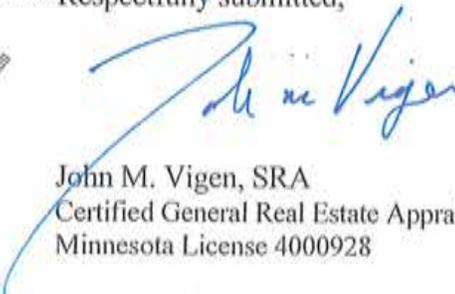

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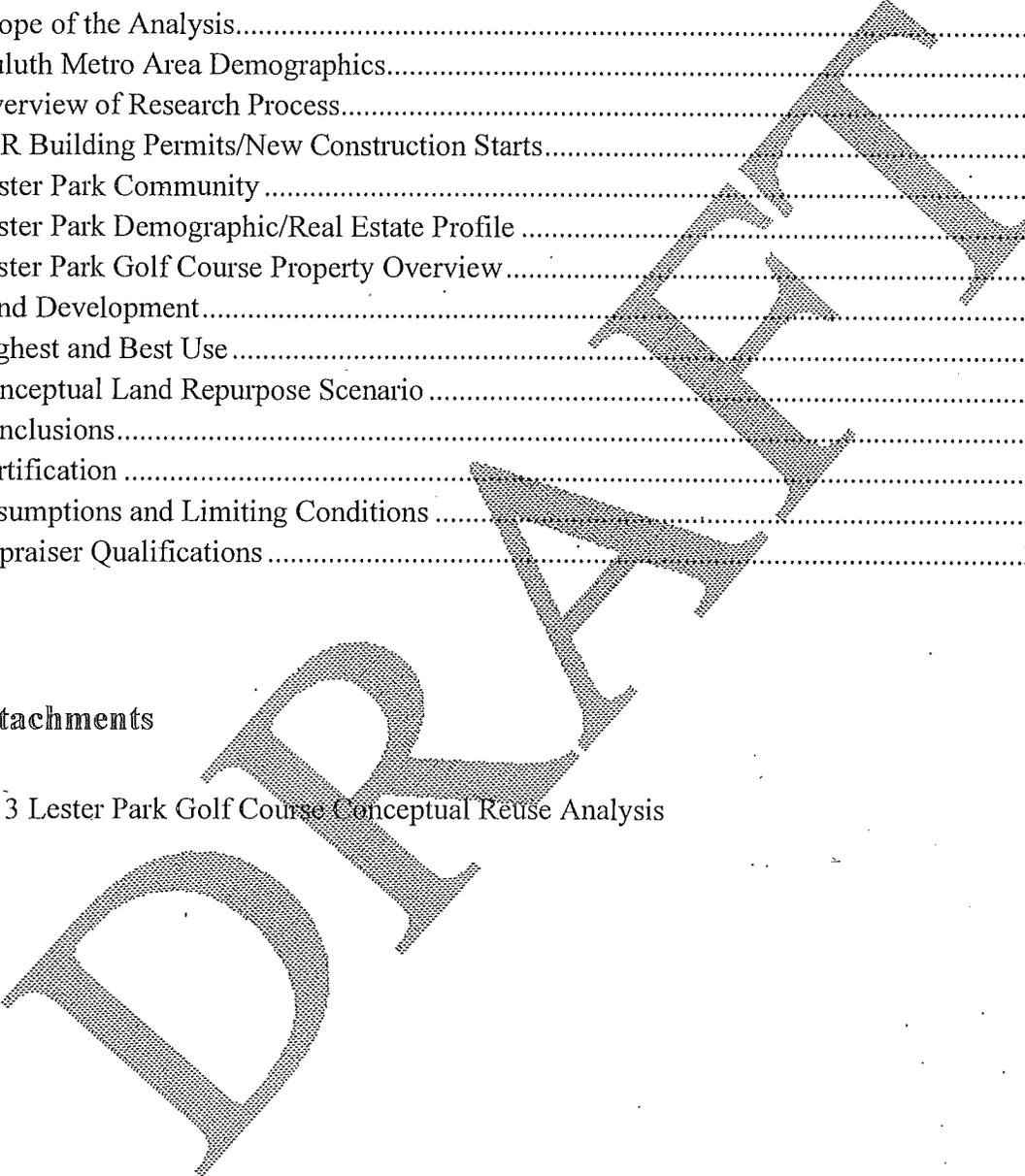
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2013 Lester Park Golf Course Conceptual Reuse Analysis



PROLOGUE

The current city administration is continuing efforts to effectively manage municipal finances through an evaluation of the City's diverse operational sectors. To date, some success has been obtained while maintaining appropriate levels of public service. The process continues.

A major element of Duluth's managerial responsibility relates to the cost/benefit of public land ownership, be it undesignated vacant, recreational, or improved. Acknowledging the importance of this element, there continues to be a concerted effort to identify real property which 1) remains necessary for the city's operation, 2) property whose use should continue to be reviewed, or 3) property deemed to have potential for repurpose or disposition. On a cooperative basis, city administration, city council, and the Duluth Planning Commission have developed procedural guidelines to accommodate the public property disposition process.

In 2013, as part of that process, the undersigned was retained to complete a conceptual reuse/valuation analysis of the Lester Park Golf Course land. This is not a new topic, but one that has intermittently risen since the Bergson administration of 2004, if not before. While the question is clear, the decision making process is complex and discussions often find economic needs of the city at odds with recreational users of the facility. Over time, various studies related to the economy of golf course operation and real estate reuse options, all intended to assist in a decision making process, have been completed. Since the future of Lester Park Golf Course is yet to be determined, the undersigned has been requested to respect administration confidentiality in this matter.

SCOPE OF THE ANALYSIS

A summary of the analytical process is presented herein with supportive data retained within the work file. For illustrative purpose, various exhibits are presented. Acknowledging the purpose of this analysis, an executive summary presentation format is employed. This report is intended for the city administrations exclusive use as a component in the decision making process.

In this matter, Mr. Hank Martinsen, Property Services Supervisor, is the city representative who has met with and counseled the undersigned relating to the nature of this project. Mr. Martinsen advised it is not the intent to replicate site specific conceptual land reuse scenarios as completed in 2013. Rather, the purpose of this engagement is to update demographic as well as market derived economic and real estate data which would likely have the greatest influence should a repurposing of Lester Park Golf Course occur. In addition, without specificity of layout/design detail presented in the 2013 report, the undersigned is requested to provide discussion as to which general areas of the golf course would be most suitable for various property types.

In addition to the referenced 2013 report, primary information resources considered include the following. A representative of the city of Duluth GIS Department prepared site map exhibits. The Lake Superior Association of Realtors database was a primary source for statistical data applicable to land and improved residential sales sold throughout the city and, specifically, the Lakeside/Lester Park neighborhoods. The St. Louis County Assessor's office was queried to confirm observed data and provide insight into valuation/sales ratio allocations applicable to select real estate categories. The director of Marketing, Research and Analysis of the Northspan Group was interviewed about a 2018 report "Housing for the Next Generation of Duluth's Workforce", which is a comparative study of single-family housing construction costs in Duluth. This source hosted a seminar on this topic for the Lake Superior Association of Realtors, which the undersigned also attended. A representative of the city's Community Planning Division was interviewed pertaining to a "City of Duluth 2016 Housing Indicator Report", released December 2017. This document and ones applicable to 2014/2015 were further analyzed.

A city of Duluth Planning Department representative was interviewed with respect to the recent "Imagine Duluth 2035" land use proposal and how it may influence future reuse opportunity for Lester Park Golf Course. It is noted upon this plan being presented to the city council, supporters of the existing golf course were successful in having the golf course rezoning element of the plan removed. This does not negate the likelihood of future changes in land use applicable to the course occurring. For the purpose of this analysis, land use opportunities available Lester Park Golf Course, as outlined within the "Imagine Duluth 2035" plan, are supposed to be applied.

An HRA representative was interviewed pertaining to public sector residential development programs and potential for public/private partnership supporting the same. Statistical data applicable to the HRA Hawk Ridge residential development of upper Lester Park was verified and considered. Data applicable to SFR building permits within the city of Duluth and surrounding townships was also assembled and analyzed.

Economic, cultural and demographic/census information for the city and its neighboring townships was also assembled and analyzed. The city's settlement and land use patterns, changing land use trends, as well as other factors influencing consumer market demand were considered. All factors relevant to an appropriate analytical process for the subject property and purpose of this analysis were considered. While only a summary of certain data is presented, source data applicable to the same are retained in the appraiser's file.

DULUTH METRO AREA DEMOGRAPHICS

Geographically, Duluth is the region's central city surrounded by independent satellite communities. Duluth is the regional center for employment, consumer services, medical facilities, and entertainment venues. With the exception of Proctor and Hermantown, which have limited commercial sectors, most abutting townships function as rural-edge residential communities. A network of public utilities originating in Duluth is expanding outward to Hermantown and several other edge communities. Albeit the extended community shares a dependency on Duluth's consumer services, employment, entertainment, etc., there are independent competitive efforts on the part of neighboring communities to attract residential development and rural community-scale commercial development.

The following matrix depicts population data (1990-2016) for the city of Duluth and neighboring communities.

COUNTY	MCD					2010-2016		1990-2010		1990-2016	
		2016 Census	2010 Census	2000 Census	1990 Census	Pop. Change	% Change	Pop. Change	% Change	Pop. Change	% Change
St. Louis	Canosia	2,189	2,158	1,998	1,743	31	1.4%	415	23.8%	446	25.6%
St. Louis	Duluth city	86,859	86,265	86,918	85,493	594	0.7%	772	0.9%	1,366	1.6%
St. Louis	Duluth Twp	1,935	1,941	1,723	1,361	-6	-0.3%	380	24.3%	374	24.0%
St. Louis	Gnesen Twp	1,664	1,683	1,468	1,089	-19	-1.1%	594	54.5%	575	52.8%
St. Louis	Hermantown city	9,307	9,414	7,448	6,761	93	1.0%	2,653	39.2%	2,746	40.6%
St. Louis	Lakewood	2,219	2,190	2,013	1,799	29	1.3%	391	21.7%	420	23.3%
St. Louis	Midway	1,418	1,399	1,479	1,500	19	1.4%	-101	-6.7%	-82	-5.5%
St. Louis	Norman Twp	768	796	637	462	-28	-3.5%	334	72.3%	306	66.2%
St. Louis	Proctor city	3,066	3,057	2,852	2,974	9	0.3%	83	2.8%	92	3.1%
St. Louis	Rice Lake Twp/city	4,109	4,095	4,139	3,883	14	0.3%	212	5.5%	226	5.8%
	Total	113,734	112,998	110,675	107,265	736	0.7%	5,733	5.3%	6,469	6.0%

Source: Minnesota State Demographic Center and the Metropolitan Council

The Census data suggests between 2010 and 2016, Duluth's population grew by 594. This growth, in addition to birth rate, is likely attributable to positive change in employment opportunity. Despite this spurt, Duluth's population has remained fairly stable with only a 1,366 or 1.6% population growth over 26 years. During the same time period, neighboring communities particularly Hermantown (+40%), Canosia (+25.6%), Duluth Township (24%) and Lakewood Township (+23.3%) have experienced positive gains. Only Midway Township

(-5.5%) indicates a negative trend. Since 1990, the cumulative growth of Duluth and nine neighboring communities equates to a 6,469 population growth or +6%. Of this, 1,366 or 21% is attributable to Duluth, while the remaining 5,103 (79%) represents gains in neighboring rural communities.

University sources indicate student census has generally remained stable to a slight decrease depending on campus. This census does not include special programs, grad students, continuing education, etc. Although student census has remained relatively stable since 2013, it has experienced significant growth from earlier time of 1990's.

DRAFT

SFR BUILDING PERMITS/NEW CONSTRUCTION STARTS

An analysis of Single-Family Residential (SFR) building permits is a meaningful input which depicts trend in consumer demand for that segment of the market. Data pertaining to SFR permits for the city of Duluth and principal neighboring communities was updated from that discussed in the 2013 analysis. For Duluth, the period 2014-2017 annualized permit volume appears slightly ahead of that observed for the 2008-2013 era. These annualized volumes, however, remain significantly below that observed in the pre-recession era of 2002-2005. During the 2014-2017 era, Duluth and Hermantown were quite similar in permit volume with Duluth issuing 159 and Hermantown 155. For the 17-year period (2000-2017) between Duluth and neighboring communities researched, there were 2,756 SFR permits issued. Of these, Duluth experienced 42.097%, while the cumulative sum of the others was 57.91%. Of the total permits, Hermantown had 27.54%. The remainder six communities ranged from 2.5% to 9.74%. A matrix depicting this data follows.

SFD PERMITS ISSUED PER CITY/TWP

2000-2017

	DULUTH-CITY	HERMANTOWN	PROCTOR	MIDWAY TWP	RICE LAKE TWP	CANOSIA TWP	LAKEWOOD TWP	DULUTH TWP	Total
2000	59	41	0	3	13	24	-	-	140
2001	94	42	2	8	19	21	-	-	186
2002	131	49	0	2	25	24	-	5	236
2003	138	60	0	7	38	18	-	13	274
2004	121	75	0	7	25	17	1	19	265
2005	113	55	22	5	31	16	3	20	265
2006	87	53	14	7	22	7	3	12	205
2007	70	46	0	5	7	15	4	4	151
2008	36	43	4	4	12	9	6	9	123
2009	31	25	2	3	8	4	3	9	85
2010	36	34	4	1	5	5	2	8	95
2011	21	24	2	1	5	3	6	6	68
2012	33	25	5	1	5	6	5	3	83
2013	31	32	6	2	10	3	5	4	93
2014	44	39	3	1	14	10	5	6	122
2015	29	36	4	5	7	6	5	8	100
2016	40	46	6	3	6	5	17	7	130
2017	46	34	3	13	16	10	4	9	135
% of Total Total SFD Permits	42.09%	27.54%	2.79%	2.83%	9.72%	7.37%	2.50%	5.15%	
	1,160	759	77	78	268	203	69	142	2,756

Available data suggests, while a number of the SFR permits issued in Duluth pertain to new construction within modern era plats (i.e., Hawk Ridge, etc.), many apply to existing “infill” sites across the city.

Consumer demand combined with availability of developable land are elements which contribute to the inventory of undeveloped SFR lots. The 2013 analysis provided a historical perspective on SFR subdivision within Duluth as well as projected inventory and applicable per lot price expectation. For the purpose of this 2018 update, the St. Louis County Recorder’s Office was queried in search of new subdivisions/plats which have occurred in the city since the prior 2013 study. It appears, over the past 4± years, approximately 12 new plats with residential component have occurred within the city. Research observed none represented a traditional, single-family, development. For example, CIC #107 Bayhill Cove was a residential-condo/townhouse project. Grand Avenue Estates was a multi-family apartment complex inclusive of a limited number of patio homes. RLS #114 Bluestone Commons was a mixed-use commercial/apartment project. RLS #131 accommodated the Kenwood Village Apartments as did the Ramsey IV. RLS #137 was a re-plat to include two townhouse lots. The remainder new plats were primarily affordable multi-family.

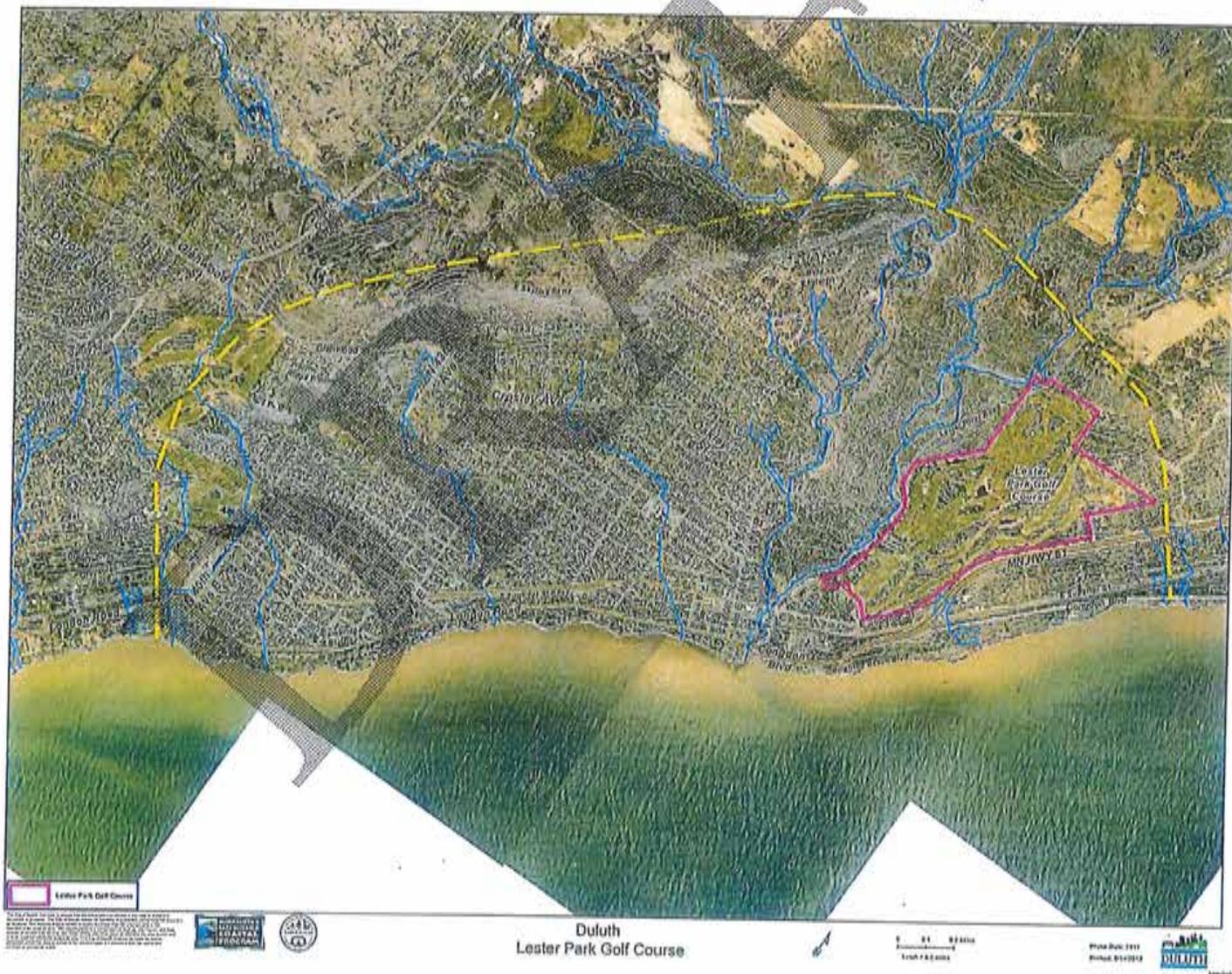
Accordingly, the inventory of residential development lots has not appreciably increased from that discussed in the 2013 report. In all likelihood, near future SFR development remains reliant on the use of remainder lots within existing plats or infill development within original city plats across town. Albeit the city is absent a complete undeveloped SFR land inventory, by observation it is apparent there are numerous locations across the city where undeveloped public/private land could accommodate market competitive size residential subdivisions. Development of same, however, is entirely consumer demand dependent.

LESTER PARK COMMUNITY

Duluth's cityscape is comprised of more than 20 neighborhoods developed amid Lake Superior's coastal plain, abutting bluff land and St. Louis River coastal environs. Many neighborhoods are separated from each other or locationally defined by cascading creeks and associated city parks, aggressive geologically influenced open space, and past industrial intrusion. The "point of rocks", "ore docks", Chester Park, Lincoln Park, and Lake Superior's coastal bluffs are representative of locations or features defining neighborhood transitions.

Core neighborhoods initially platted during the city's mid to late 1890's settlement era developed due to their proximity to emerging, waterfront industrial facilities. During the early settlement era, ethnicity of many neighborhoods was often determined by settlement patterns of European/Mediterranean migrants immigrating to Duluth for employment and life opportunities. Portions of the city's core, near "point of rocks" was commonly known as "Little Italy". Other portions of settlements along the St. Louis Bay (later converted for industrial use), became known as "Finn Town". With the introduction of mining/steel processing in far West Duluth, mid-Europeans (Serbians, Croatians, Yugoslavians, etc.) settled the Gary/New Duluth neighborhoods near the U.S. Steel works. With the introduction of public streetcar transportation and expansion of street/utility infrastructure, land speculators capitalized on consumer demand for SFR lots and developed "Streetcar" neighborhoods. Due to more favorable access over Duluth's aggressive coastal bluff geology, the earlier of these neighborhoods included Woodland, Hunters Park, Morley Heights, Congdon, and Lakeside/Lester Park. During the post-WWII era through early 1960's, neighborhoods such as Kenwood, Piedmont Heights, Duluth Heights, upper Lester Park and portions of upper West Duluth, Morgan Park and others further expanded to accommodate consumer demand. From the 1970's to current date, many of these existing neighborhoods experienced limited infill subdivision. As construction technology advanced, lands previously thought unsuitable for development due to slope gradients, soil characteristics, etc., experienced positive consumer demand and infill development due to their Lake Superior view attributes. In some sections of the city, larger multi-lot ownership was partitioned. By the 1990's, gentrification of the urban core supported positive consumer demand for hillside views. Various agencies also recognized the continued need for neighborhood revitalization and initiated affordable housing programs in many older neighborhoods of the city.

The greater Lester Parker community is geologically defined and favorably located within the city. The community's developed landscape is bordered on the southwest and northwest by aggressive, bedrock bluffs, which preclude further meaningful expansion for residential development. Along East Superior Street, East High School and Northland County club also define the community's westerly boundary. Lake Superior forms the community's south/southeasterly boundary, and the Lester River flowage with its canyon-like landscape and the Lester Park Golf Course form the community's northeasterly boundary. Although Lake Superior and aggressive bluffs preclude future development in those directions, east of Lester River, land occupied by the Lester River Golf Course and nearby private ownership features slope gradients suitable for future expansion of the community's residential/mixed-use needs.



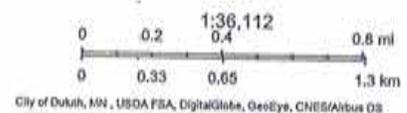
Lester Park is the easterly-most of the city's developed residential neighborhoods. It is an easterly gateway to the city for north shore residents, travelers of Minnesota's north shore and Canadian visitors. The greater Lester Park community is also locationally enhanced through diversity of recreational opportunity inclusive of eco-enhanced characteristics of Lake Superior shoreline, Lester River flowage, upland bluffs and the city parks of Lester and Brighton Beach. Duluth's bitumen surfaced Lakewalk, a multi-seasonal walk/bike trail extending from Brighton Beach through Lester Park, connects to the remainder of the city. Aside from the aggressive characteristics of the coastal bluffs and Lester River canyon, the Lester Park community's landscape has favorable slope gradients for development and pedestrian passage.

Community Planning

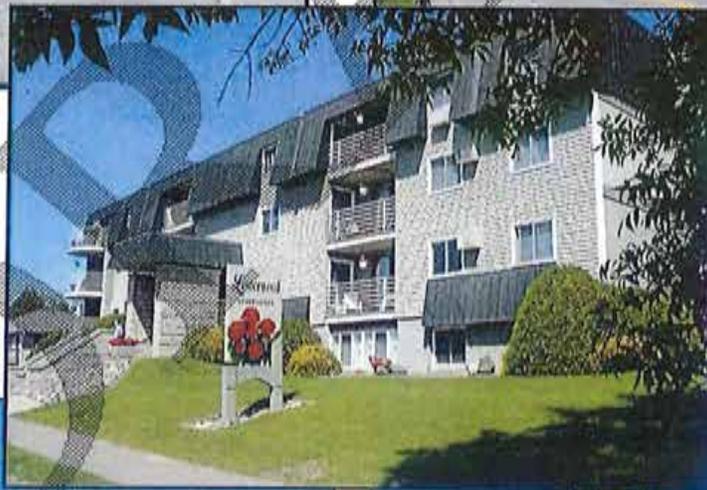
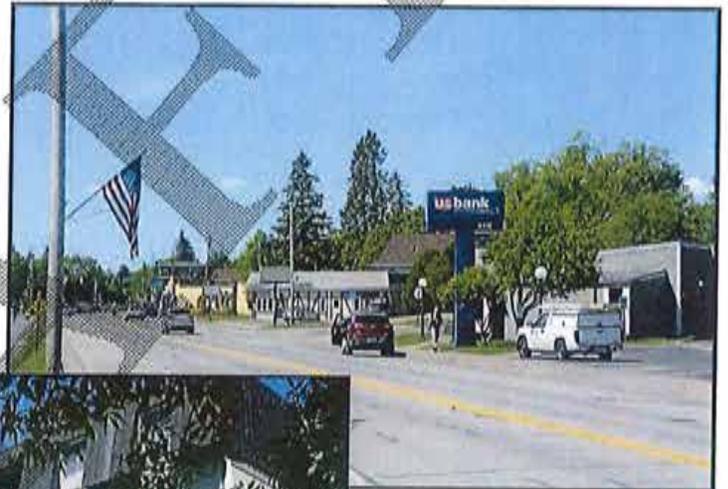
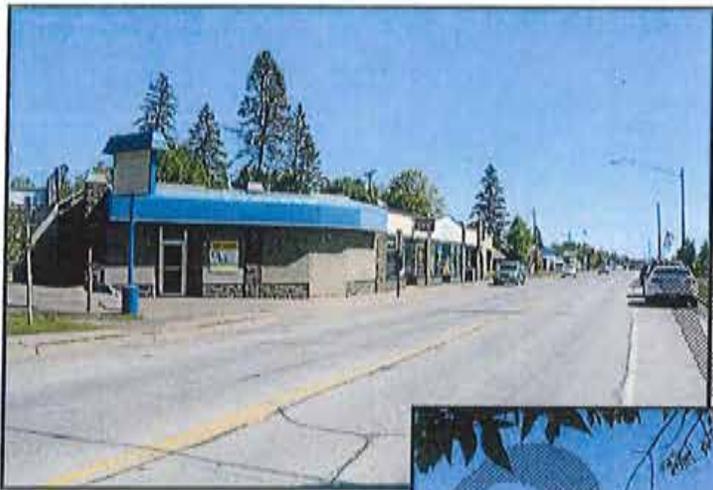


June 13, 2018

- | | | | |
|----------------|--------------------|--------------------------------------------------------------------------|-----------------------------------------------------------------------|
| Duluth Streets | — MN Highway | Zoning | ■ F-3 (Mid-Rise Community Shopping) |
| — Interstate | — CSAH; County Rds | ■ F-1 (Low-Rise Neighborhood Shopping) | ■ F-4 (Mid-Rise Community Mix) |
| — US Highway | — Local Roads | ■ F-2 (Low-Rise Neighborhood Mix) | |



The Lester Park community features a neighborhood-scale commercial sector which extends along East Superior Street from 43rd Avenue East to Lester River. This sector is comprised of diverse consumer service oriented businesses, inclusive of a hardware store, gas stations, personnel care facilities, food service, professional services, health centers, a medical clinic, dental offices, and financial centers. The commercial district has experienced a slow but steady absorption and repurposing of buildings to alternate use such as offices, retail, and personal care establishments. Due to the community's configured landscape, the commercial corridor is convenient to most residential sectors of the community. For the noted reasons, the greater Lester Park area continues to enjoy positive consumer demand and is often the community of choice.



LESTER PARK DEMOGRAPHIC / REAL ESTATE PROFILE

A glimpse of diverse elements which comprise Duluth's economic/population data is available from various sources inclusive of Minnesota Compass, which profiles individual neighborhoods as compared to the city as a whole. Recognizing the focus of this analysis is Lester Park Golf Course and the greater Lester Park community (inclusive of Lakeside), sources indicate the following.

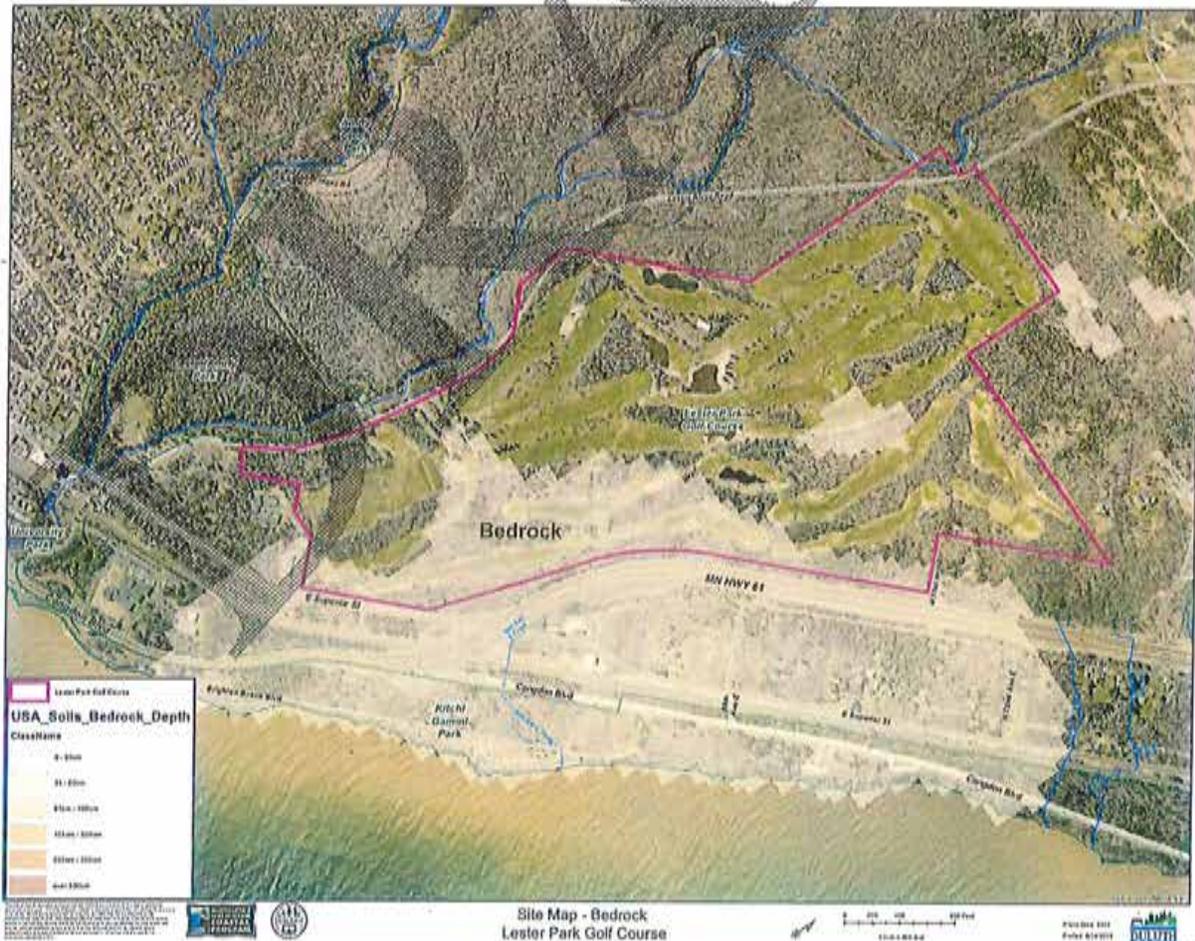
The greater Lester Park community population (2016) is estimated at 8,834± or 10.3±% of Duluth's 85,965 estimated population as a whole. About 62.2% of the community's population is between 18 to 64 years of age, which is only slightly less than the 67.6±% for the same age group citywide. The senior population of 65 years or older within the community approximates 16.5%, which is several points above the 14.5% for the city as a whole. This slightly higher percentage is likely attributable to the desire of this population group to remain within its community and the lack of alternate housing opportunity therein. Accordingly, this population group continues to occupy their homestead. Current demand for housing applicable to this age group is exhibited by the recent announcement of the proposed Zvago Superior Shore Development of 51 market rate, CIC units focused towards 55 and older consumers. Since the announcement, more than 100 qualified consumers applied for the 51 units. Accordingly, the developer is implementing a lottery system for unit selection. Clearly this response evidences a demand within the Lester Park area for senior housing. The community's median household income (2016) is \$67,215 as compared to \$49,347 for the city as a whole. The community also experiences 83.6% owner occupancy which exceeds 60.5% for the city as a whole. A cost burden, which refers to economic challenges of home ownership, indicates, within this community, 14.8% of households are so categorized compared to 19.5% for the city as a whole. Historically, Lester Park represents one of several "street car", suburban-edge residential neighborhoods of the city. Accordingly, the age of its SFR housing is slightly less than that of earlier settlement era neighborhoods of the city as a whole. Generally, 66.3% of Lester Park's housing stock is of 1940 or newer, while the city as a whole is slightly less at 56.2%. The measurable difference is reflected in 2000 or newer SFR construction. About 11.3% of Lester Park's housing is of this age group as compared to 7.3% for the city as a whole. This gain is mostly attributable to the HRA Hawk Ridge Development (2004), which is being successfully developed, as well as a combination of non-related smaller subdivision and infill development.

In addition to elements comprising the community's population demographics, an understanding of supportive residential real estate inputs within the community is also of importance. An analysis of LSAAR data indicates, between January 1, 2013 and June 1, 2018, 900± SFR dwellings have been resold within the Lester Park community. This data reflects an average sale price of \$194,048 with the median being \$165,000. The same analysis for citywide SFR sales (excluding the subject community) indicates 4,867 sales at an average price of \$170,544 and median price of \$145,000. It appears the average/median SFR dwelling price expectation within the Lester Park community exceeds the same for the city's remainder by 14±%.

Similar market research applicable to vacant SFR development lots was also conducted. This analysis found between January 1, 2013 – June 1, 2018, 93 sales of vacant SFR residential development lots were reported within the city (excluding Lakeside/Lester Park). These indicate an average price of \$65,398 with the median being \$47,000. For the same period, data indicated Lester Park experienced 20 sales (17.7% of the cumulative whole) with an average price of \$64,035 and a median of \$60,000. While the average SFR lot price was competitive with the remainder of the city, the median of \$60,000 is greater.

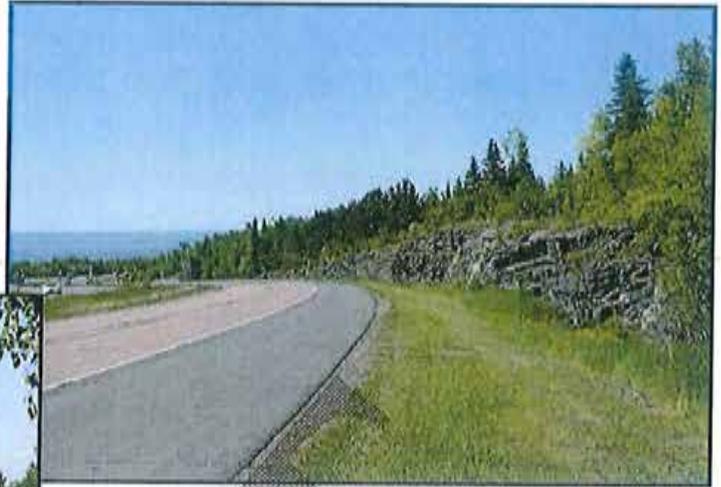
LESTER PARK GOLF COURSE PROPERTY OVERVIEW

The Lester Park Golf Course lay east of Lester River and is generally considered the easterly boundary of the greater Lester Park community. Constructed in 1938, the course encumbers 268.53± acres. Of this, 72± acres (27±%) (randomly dispersed) were formerly tax forfeited land used under a conditional use deed. Effective 2018, ownership of that part reverts to the city. Approximately 166.53± acres comprise the original 18 holes and supportive amenities. In 1988, its southerly 102± acres were further developed to accommodate the “Lake Nine”, which expanded the original course from 18 holes to 27. Multiple sources indicate the “Lake Nine” addition is not well integrated into the original 18 and is more challenging in its play. The NGF consulting report (2011), as well as other sources, concur Lake Nine is less popular due to its narrower fairways, additional bunkers, elevation changes, and direction of play. While its elevated view of Lake Superior and enhanced challenge of play was hoped to contribute in attracting tourism, the expansion has meet with only limited success. A course analysis as well as physical/functional impairments and betterments are a matter of record within the City Parks Department and related analytical golf course reports.



Property exhibits depict the Lester Park Golf Course boundaries to be irregular in shape. It is bordered on the west by Lester River Road and abutting Lester River flowage. Its southeasterly boundary abuts East Superior Street and Minnesota Highway 61. A recent MNDOT AADT (Annual Average Daily Traffic) survey estimates traffic abutting the golf course at Highway 61 to be 11,200 vehicles; East Superior Street (east of Lester River) at 3,950; East Superior Street (west of Lester River) at 5,600 and Lester River Road at 2,000. Its northeasterly and northerly boundary abut privately owned land, a portion of which is the Eastridge Estates, a mid-2000 era residential subdivision. With the exception of limited, undeveloped private ownership abutting its northerly boundary, the course cannot be expanded without acquisition of improved residential properties. Municipal sewer and water are located adjacent to the course's southwest intersect of Lester River Road and East Superior Street. A waterline extends from Superior Street to the club house. Road access is available to the property via Lester River Road, East Superior Street and limited parts of Scenic Highway 61. A bedrock cut to accommodate Highway 61 reconstruction resulted in a bedrock headwall rising 8 to 20 feet above highway grade for most of the course's Highway 61 frontage. A topographical exhibit depicts the subject's topography to undulate moderately downward 260± feet in elevation from its northerly boundary high of 930± feet to an East Superior Street low of 670± feet. With Lake Superior having an elevation approximating 603 feet, at distance views of the lake and Lester River Valley adjacent are prominent from several areas of the course.





In essence, the Lester Park Golf Course acreage enjoys a keystone location within the city and the greater Lester Park community. Lester Park's other boundaries are encumbered by either aggressive bluffs or Lake Superior, both of which preclude expansion for future residential or mixed use development within the community. The golf course's physicality is of moderate undulating terrain similar to most of the community's residentially developed landscape. The course's location is within an easterly gateway to Duluth. The course is bordered by three public thoroughfares and municipal utilities extend to the acreage. Public transportation is nearby. In recent years, a medical clinic and senior residence were constructed along East Superior Street bordering the south edge of the golf course. In the future, should all or part of the golf course be available for reuse, its location would provide a natural SFR expansion opportunity for the Lester Park community as a whole.

LAND DEVELOPMENT

When envisioning the economic viability of any conceptual SFR or MU land development project, an awareness of diverse market characteristics applicable to the project's competitive market is of significant importance. Generally, a feasibility study researches market derived data applicable to past and current competitive SFR/MU development projects, size, absorption, land characteristics, price ranges, consumer demand, etc., is observed. This data provides input which either support or refute the project's envisioned viability and is the basis for determining a probable highest and best use.

Research completed for the prior 2013 analysis, as well as this update, concludes there exists in Duluth a reasonably balanced inventory of SFR lots. Many are development ready and randomly scattered throughout the city. Most are serviced by municipal utilities and suitable for infill development. Granted, while many are located in neighborhoods of lesser demand, such lots do provide development opportunity for much needed affordable housing or neighborhood renewal. Existing inventory, however, does not preclude market acceptance of additional SFR lots being developed throughout the city. LSAR data indicates 93 undeveloped, SFR lots were sold in Duluth between January 1, 2013 and June 1, 2018 (excluding 20 sold in Lester Park). While the range in price paid differs dramatically from \$2,500 to \$300,000, the average paid was \$65,398 and the median \$47,000. On a comparative basis, the greater Lester Park community experienced 20 undeveloped SFR lot sales at price points between \$22,000 and \$129,900. For this community, the average lot price was \$64,035 and the median \$60,000. Across the city, there are, of course, high/low outliers which set their own market. Generally, a typical price point in most suburban residential neighborhoods is between \$35,000 to \$70,000. Neighborhood specifics can also influence price expectation as the more urbanized core or locationally challenged neighborhoods present lower price points, and more exclusive locations or eco-enhanced locations, the upper.

Another key competitive component in the analysis of a conceptual SFR development is the number of building permits issued within the project perceived market. Since 2013, research concluded Duluth and seven surrounding communities queried experienced a total of 487 SFR building permits. Of these, Duluth issued 159 or 32±% of the total. Interestingly, the city of Hermantown nearly matched Duluth's results by issuing 155 permits or 31±% of the four-year

total. The city of Duluth and Hermantown, on a combined basis, account for 63% of the total SFR permits issued in the immediate MSA area.

Market research also suggests traditional SFR development design concepts may not be wholly consistent with today's emerging consumer expectation. Demographic data indicates, although Duluth's stable population is aging, it remains fully engaged and active. City administration is encouraging retention and in-migration of a younger population. Not all consumers within these two census groups are anticipating buying or building traditional dwellings. Both ends of the consumer age spectrum are seeking alternative housing occupancy opportunities (i.e., qualitative apartments, townhomes, twin homes, dedicated housing for seniors, etc.) to accommodate their lifestyle. Most consumers prefer accommodations be SFR neighborhood integrated as opposed to past development zoning practices of restricting residential communities for SFR development only and relegating multi-family or greater density options to commercial sectors of the city. In other regions, mixed-use development accommodates diverse housing options, often neighborhood-scale commercial with integrated residential are consumer favored. A recent mixed-use, neighborhood-scale development in Duluth is Bluestone Commons. A result of repurposing a former jr. high school site, the project integrated multi-family housing, neighborhood-scale commerce (i.e., retail, bank, restaurants, and education/office complex). Due to its location adjacent to UMD and near St. Scholastica, housing focused on the student consumer. Acknowledging its market, Bluestone development opted for high-rise, multi-family housing and omitted an SFR element. Two additional mixed-use developments, Endi and Kenwood Village, integrate commercial and residential with a focus towards higher density apartments in urban locations. Conversely, the recently developed Grand Avenue Estates near Morgan Park, by integrating market rate apartments and independent bungalows, focused on affordable housing demand in that sector of the city by opting to exclude a commercial component.

Predicated on its community profile and consumer preferences, absent alternative options, future commercial development in the Lester Park community will most likely continue to occur on a neighborhood scale, infill pattern. In recent years, most independent commercial development within the corridor has resulted in repurposed existing structures (i.e., conversion of church to professional office), the exceptions being the new Duluth Clinic development near 47th Avenue East and a U.S. Bank branch adjacent. Some projects result in demolition and repurposing of land. Should a decision be made to allocate portions of the Lester Park Golf Course for mixed-

use development, it is reasonable to anticipate acceptance of the same by select, consumer focused commercial entities. Since 2010, a St. Luke's clinic and The Diamond Willow senior care facility have been developed along East Superior Street abutting the course. Future development might entail mixed commercial/housing, travel lodging, or other market favored entities.

Acknowledging the potential for a mixed-use development occurring should the city decide to market all or part of the golf course, commercial land sale data was also researched. Aside from those few instances where a larger "big box" development has occurred, most commercial land transactions represent a "pad" acquisition of a size necessary to accommodate a development specific project. Of 111 commercial sales recorded in the city between June 1, 2013 and current date, prices range dramatically from .07¢ to \$96.93 per square foot (common unit of comparison). Generally, those in the lower end of this scale represent agency to agency acquisition (i.e., St. Louis County to DEDA). Conversely, the uppermost prices occur at the epi-center of Duluth's Superior Street CBD. In between prices were mostly dependent upon location and intended use. Locations along key commercial corridors, such as Central Entrance, Highway 53/Miller Mall and London Road were generally in the \$10 to \$32 per square foot range. Off mainline locations or locations in more price competitive commercial sectors generally range between \$2 to \$10 per square foot. Use opportunity also influences price. For example, several sales within the emerging market of West End/Spirit Valley sold between \$3 to \$5 per square foot. Amid the Central Entrance corridor, six recent "pad" sales range from \$15 to \$32 per square foot with four of six transactions being within the upper range of \$22 to \$32 per square foot. Sales located within commercial sectors, but off mainline, were generally in the \$4 to \$6 per square foot range. While there is a significant diversity in price paid, the observed ranges fairly represent prevailing price expectation. With respect to the Lester Park Golf Course location, the clinic site was acquired in July 2009 for a recorded price of \$7.72 per square foot. Conversely, the Diamond Willow senior care facility land adjacent was transferred by DEDA for .17¢ per square foot. This municipal transfer was at a nominal price to encourage development which is a common practice within the city. City participation may have made the difference as to whether or not that project would have occurred. It is of interest to note for the year 2018 payable, Diamond Willow will pay \$25,250 in real estate taxes plus special assessment for utility extension. Real estate taxes payable 2018 applicable to the St. Luke's clinic adjacent equate to \$37,585.

This data, inclusive of SFR and commercial land transactions, represent the breadth of retail price expectation within the city. An investment dependent conceptual development plan requires an in-depth, fully supportable analysis which accounts for all inputs inclusive of relevant hard and soft development costs, entrepreneurial profit, retail price expectation, absorption, and land value. For a project to be successful, all of these elements must be in balance. An example of the importance to complete a project feasibility as well as a highest and best use study is best exhibited by observation of the following projects.

In Duluth, the past decade has experienced only two larger scale SFR development projects. One was publicly promoted and the other of private investor. The publicly promoted development occurred in the upper Lester Park community. Known as Hawk Ridge, this project was developed by HRA. Initiated in 2004, the project developed 126 SFR lots, of which 114 have either closed or committed to close in the near future with 12 remaining unsold. The average lot price approximated \$63,500 with the average development cost per lot of \$27,000. This project featured a number of buyer incentives to promote development and establish an expanded economic base for the city. The absorption rate for this project approximates eight lots per year over thirteen years. While the cost, benefit, absorption rate could not be sustained by a private investor, it does exhibit a role to be played by a public entity for betterment of housing and long term economic gain for the community. Keys to its success are the public contribution of land and multi-year carrying capacity.

In 2009, private investors initiated the Coffee Creek SFR development in Duluth Heights. Land acquisition included DEDA contribution and other incentives. This project approximated 113 platted SFR lots. The first sale occurred in 2009 for development of a 55 and over CIC building. Shortly thereafter, the property went into receivership and was sold in 2011 to Menard's Real Estate Investment. Public record indicates 80± of the SFR development lots remain in Menard's name and unsold. To date, this project evidences an absorption rate of three lots per year. The Coffee Creek project could be said to have been ill conceived from the start. First, its size exceeds that typically observed in its competitive private investment market (30 to 36 lots). Rather than a phased project consistent with market expectation, the entire infrastructure was completed. Due to age and lack of maintenance, much of this infrastructure is now in need of repair/replacement. Simply, overall project costs buried initial investors. If it were not for

Menard Corporation acquisition, partially intended to bolster its building materials sales in the city, the future viability of Coffee Creek development would be dubious at best.

The best example of a mixed-use development in the city is Bluestone Commons. This project was a repurposing of a former jr. high school site. It is built out to include a higher density, high rise apartment complex, an office/educational center developed by St. Scholastica, and diverse consumer support facilities inclusive of bank, fast food and full service restaurants, and sundry retail. The site footprint can accommodate two additional high rise residential buildings. Due to its location adjacent to the University of Minnesota and near the college of St. Scholastica as well as being adjacent to Mt. Royal shopping center, the developer's focus was to accommodate university student population as well as provide services for residential neighborhood adjacent. By all indications this is a successful project and a model for future opportunities within the city.

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HIGHEST AND BEST USE

Generally, a feasibility study relating to conceptual repurposing of land follows criteria set forth in a highest and best use analysis. The process of conceptualizing design, scope (physical/functional characteristics), and economic expectations (cost/return on investment) applicable to a land repurposing project can be complex. If all necessary inputs are considered and market supported, a highest and best use analysis provides a meaningful test of a conceptual project's economic viability. Highest and best use is defined by The Dictionary of Real Estate Appraisal, 6th Edition, (2015), p. 109 as:

The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.

Absent project specific criteria, an interpretation of highest and best use criteria as it may relate to the Lester Park Golf Course can be summed as follows.

The first criteria is **legal** or permitted use of the land. Lester Park Golf Course consists of 268.53± acres. Any proposed disposition or repurposing of the course in whole or part will require approval by the Duluth City Council. Under the UDC Land Use Code, the acreage is presently classified as Park-Open Space-P1. A recent effort by Duluth Planning, under the recently enacted "Imagine Duluth 2035" plan, to reclassify the course's land use to MUN/Mixed-Use Neighborhood was opposed by golf course supporters causing the proposal to be removed from the city council agenda. Lester Park Golf Course is a public recreational venue. Any modification of the same, change in land use or administrative decision to dispose of all or part is subject to public input and city council approval. For purposes of the conceptual use analysis, as each earlier noted, supposed land use opportunities provided by "Imagine Duluth 2025" are applicable.

Community experience has shown repurposing/rezoning of land, particularly publicly owned land, can often be a prolonged and contentious process. Generally, in those matters, public opinion, not economics, influences a governing body's decision. This often introduces a level of risk and project criteria which can adversely impact a conceptual project's outcome.

The second criteria is **physical possibility** of the land to accommodate any proposed conceptual repurpose. The 268.53± acres as a whole features an elongated shape extending about 1/3± mile in breadth by 1± mile in length. Project exhibits depict and site observations concur the acreage as a whole undulates steadily downward in elevation (250± feet) from its northerly boundary (930-foot elevation) to its southerly boundary (680± foot elevation). Its westerly boundary is defined by the Lester River Road and its southerly boundary by East Superior Street and Minnesota Highway 61. Private ownership abuts the remainder boundaries. Project exhibits depict a southeasterly part of the whole is predominantly of bedrock outcropping with thin soils over. The Highway 61 frontage is characterized by an 8 to 15 foot rock face cut. This bedrock sector may experience developmental challenge. The remainder acreage is accessible from East Superior Street or Lester River Road. Public utilities are located at the southwest corner and water is extending to the existing clubhouse, which is located in a southerly sector of the course. The remainder of the acreage is absent utilities. A number of course developed water hazards and natural runoff rivulets exist. By all indication, the subject's physical characteristics could accommodate diverse redevelopment opportunity. Therefore, a physical possibility test could be met.

The third criteria, **financial feasibility**, is often the most difficult to ascertain, but is of greatest importance in conceptualizing a property's highest and best use. Although the land's physicality may support diverse uses, conceptual project must be economically feasible and within parameters of market expectations/consumer acceptance. It must also meet an investor's acceptable level of financial risk. A highest and best use financial feasibility analysis explores and distills all available market inputs in determining the lands most probable economic use opportunity. For any form of future development, it is vital, inputs pertaining to the applicable market segment be fully considered. The primary of these inputs, as earlier discussed, includes the community's historical and projected demographics, its population trends as well as settlement patterns. Project specific data also needs to relate to competitive market inventory, manageable absorption, competitive market forces, consumer design preference, and supportive price expectation. A comprehensive review of these inputs guides the decision-making process in conceptualizing a development with respect to its design, occupancy mix, scope of development and price expectation. These inputs are the basis for determining a property's economic highest and best use. They also contribute to projecting a supportable absorption time necessary to meet risk tolerances and investment criteria anticipated by a knowledgeable investor/developer.

Recognizing the subject acreage is publicly owned, such analysis would also determine if the administration's goals, acknowledging project complexities, would best be initiated by private investment and/or the public sector. The Lester Park Golf Course as a whole is physically and locationally unique. Furthermore, it is an active, public recreational venue. This combination, as a whole, is unlike any other land tract in the city. It must be conceded any future disposition plan, be it all or part, would likely be a politically negotiated process between city administration, city council, golf advocates, and general public. Further, acknowledging current market forces, it is reasonable to anticipate future development of the course would be phased to accommodate current and projected absorption expectation. A phased development plan would also likely benefit the public's recreational opportunity by permitting continued, modified use of the course's remainder. While a disposition scenario of this type may challenge a market investor, it favors a publicly managed project.

The fourth criteria is **maximum productivity** of the land. This concept is a reconciliation of the preceding criteria. If the proposed use meets legal standards, is physically possible and financially feasible, the test of maximum productivity is met.

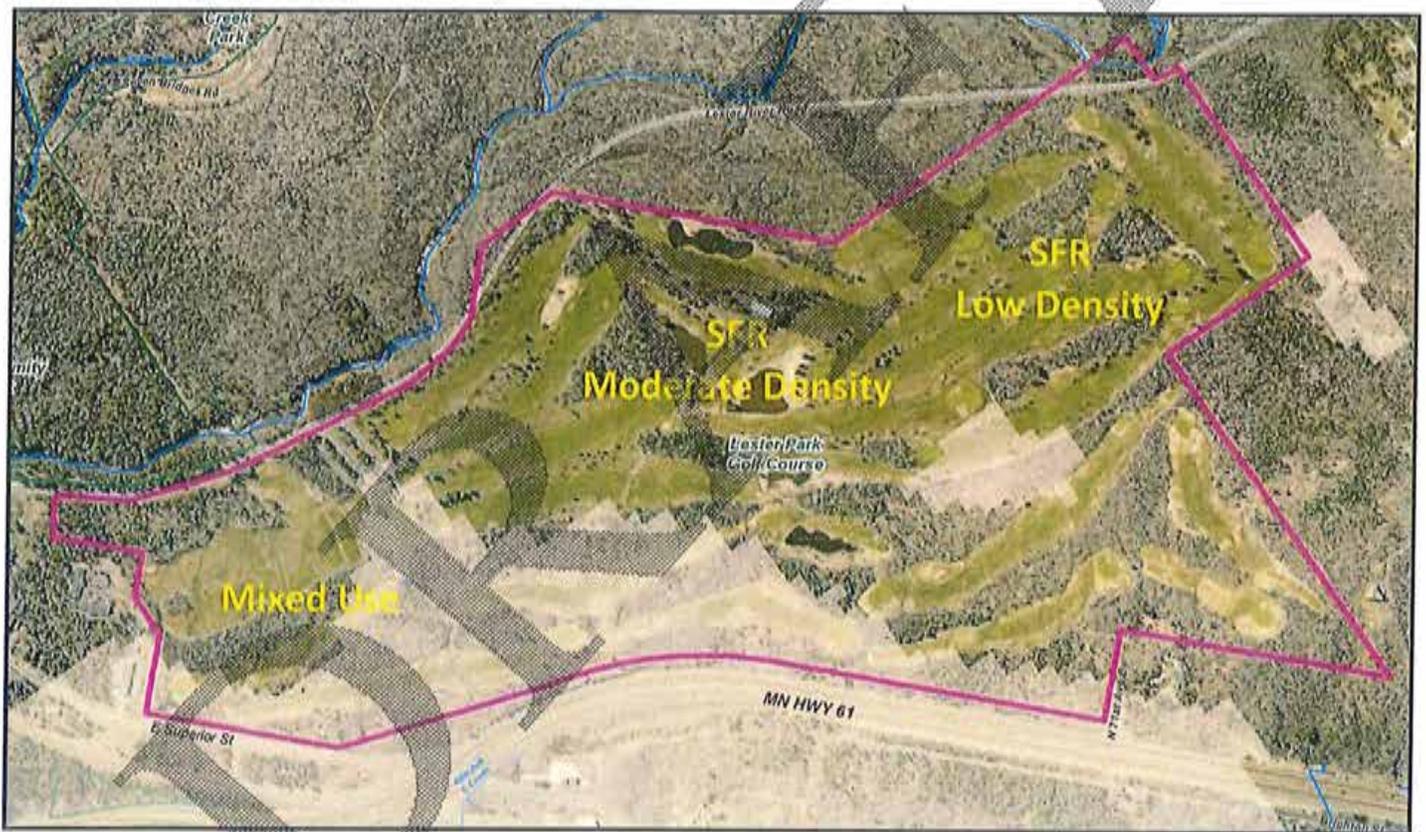
CONCEPTUAL-LAND REPURPOSE SCENARIO

Conceptualizing disposition and repurposing of Lester Park Golf Course, in whole or part, presents unique challenges. As noted, it is reasonable to anticipate the city administration, city council, golf enthusiasts, environmentalist and the general public will debate this issue at length. In the end, should it be determined a sale of all or part of the property is in the city's best interest, it is reasonable to anticipate disposition scenario will define a planned, periodic phased partitioning consistent with market demand. In this manner, the city as a whole and the Lester Park community in particular may benefit from integrated, mixed land use opportunity. If appropriately planned and executed, during the interim absorption periods, recreational use of the remainder portions of the golf course can be preserved, albeit at some reduced level. The nature of any conceptual development and market support for the same will determine the ultimate development footprint. Recognizing the diversity of stakeholders' potential mixed-use opportunities and current market forces, it is likely market absorption of the 268.53± acres as a whole would require decades.

The 2013 analysis provided three, specific, conceptual development scenarios. These were predicated on land use standards and market characteristics prevalent at the time. The focus was towards mixed residential use comprised of single-family, townhomes, twin bungalows, and apartments. Integration of neighborhood-scale commercial was not considered at that time. Simply, the three scenarios were developed to initiate conversation regarding hypothetical repurpose opportunities available the golf course as a whole. A development feasibility study, as defined herein, combined with public discussion, may accept, refute, or modify those scenarios.

For the purpose of this updated analysis, it was requested specificity of hypothetical development detail be omitted. Rather, this update is intended to summarize current market characteristics relative to a mixed-use residential/commercial neighborhood-scale development and suggest where such development opportunity may exist on the property as a whole. For illustrative purpose herein, engineering and development cost data has not been explored. This discussion is intended to illustrate development opportunity predicated only on factors noted herein. What might actually be developed in the future may differ from that discussed.

Due to its physicality, access view amenities and availability of utilities, the 268.53± acres as a whole can be segmented by potential use opportunity. The acreage is favored by having road frontage on three sides. Its **southerly** sector has frontage on East Superior Street with two recently developed commercial entities abutting its southerly boundary. This sector also fronts the Lester River Road, which provides circulatory traffic potential. Although its Highway 61 frontage is of an aggressive bedrock cut, its upland profile does provide extended visual exposure to Lake Superior and visibility from Highway 61. The subject's location is the easterly-most edge of the city's developed landscape. It provides potential to accommodate residential/commercial needs of Duluth's citizenry as well as north shore residents and Highway 61 travelers alike.



Albeit the East Superior Street corridor has historically accommodated the community's neighborhood-scale commercial land use needs, offering additional commercial potential near the intersect of Highway 61 and East Superior Street may introduce differing development opportunity. As evidenced by the St. Luke's clinic and Diamond Willow projects, an availability of vacant commercial land provides opportunity to develop new businesses beneficial to the community as a whole. While it is unlikely neither the market nor public sentiment would support a "big box" development at this location, it is reasonable to suggest neighborhood scale,

consumer support facilities (lodging facility, professional office, or similar entity) providing services to the neighborhood and Highway 61 traffic corridor may be achieved. As noted, commercial pads are being marketed in a broad spectrum of price. Generally those in markets considered reasonably competitive with the subject are being sold in the \$4 to \$10 per square foot range, depending on the nature of the project and individual developer. There are, of course, exceptions to the norm. Pad sizes vary depending on project. Motels generally require 2 to 4 acres, while another project could be less than 10,000 square feet. Most recent motel land prices include La Quinta @ \$6.41, Holiday Express @ \$8.55 and Country Suites @ \$4.07. All have interior locations in the greater Miller Mall district. Conversely, the Residence Inn on Central Entrance paid \$12.57, while the Lakewalk Lodge of Canal Park paid \$38.55. The St. Luke's clinic site, abutting the subject, sold for \$7.72 per square foot (1.79± acres) which is consistent with market observations. Since commercial adaptation is access/visibility reliant, a southwesterly part of the whole is the logical location. In this sense, access could be provided from either East Superior Street or Lester River Road and visibility to Highway 61.

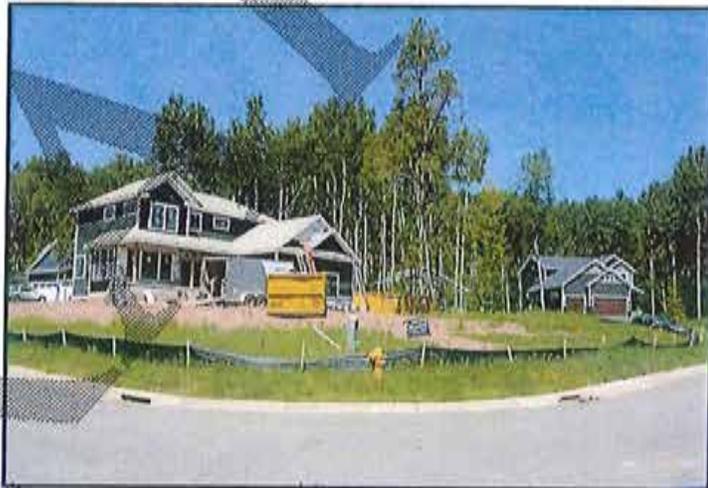
Further, acknowledging access, utilities and availability to public transportation, the southwesterly portion of the site would best accommodate higher density residential such as apartments, condominiums, townhouses, etc. Current land value price expectation for this segment of the market is variable as recent multi-family development has either been publicly supported affordable housing, conversion of former schools for affordable housing, or mixed residential/commercial property in commercial districts. Available data suggest the following range. A 30-unit condo project (now rental) at Lester River and Superior Street @ \$7.74; the Endi @ \$42.83 or \$21,779 per unit; and Kenwood Village @ \$16.64 or \$17,379 per unit. Non-mixed use includes a 50-unit near Village Mall for \$4.69 or \$4,500 per unit. The "Copper Top" condo land sold for \$18.36 or \$34,693 per unit. Development of this type could capitalize on Highway 61 frontage elevation, which provides Lake Superior views. Overall, it is reasonable to suggest a southerly sector of the property as a whole would best accommodate a neighborhood scale, mixed-use development.

The **mid-section** of the Lester Park Golf Course maintains a moderate topography at the toe of the course's uplands and is accessed from Lester River Road. This section, from a development perspective, provides a transition zone from mixed use/higher density along the East Superior Street/Highway 61 area of the whole towards the course's uplands. Depending on market

demand, the mid-section would best accommodate moderate density SFR development, small multi-family development (2 to 4 units), side by side townhomes/duplex and the like. In other words, a traditional, moderate density neighborhood of mixed-use residential occupancy. By design, it could be convenient to neighborhood-scale commercial and recreational open space. It is anticipated all municipal utilities would service this.

Acknowledging an absence of lake view and moderate density mixed residential use, supportable lot prices would likely be within the average range between \$45,000 to \$60,000 per lot. This price range is also applicable to a neighborhood scale, 2 to 4 unit building. Generally, this type of development requires, at a minimum, a double lot footprint.

The **northerly** or upper section of the Lester Park Golf Course acreage is best defined by its upland characteristics which provide an at distant view of Lake Superior. This section of the whole is set amid the upper level Lake Superior's coastal bluffs. Access continues to be from Lester River Road. Due to its elevation and favorable view amenity, this section is most suitable for qualitative, single-family residential development. Recognizing overall geological characteristics of the Lester Park Golf Course as a whole and costs associated with utility extension, it is reasonable to suggest this part of the whole could be developed absent public sewer, but inclusive of city water. In doing so, development would provide low density, multi-acre, rural-edge, residential lots. This design was employed for the Eastridge development adjacent. In that project, multi-acre homesites with lake views, absent sewer, but with water, have been marketed for \$100,000 to \$120,000.



Available data applicable to undeveloped residential land sales within the city suggest lots enhanced by Lake Superior view and/or other eco-centric attributes have been marketed in a broad range between \$80,000 to \$300,000. The most typical is a \$90,000 to \$130,000 price range.

CONCLUSIONS

Any decision pertaining to the future of Lester Park Golf Course is certain to be fully vetted with input from city administration, golf advocates, environmentalists and the general public. The city council, in all probability, will be confronted with difficult decisions in their attempts to weigh financial needs of the city and recreational endeavors of its citizenry.

The intent of the prior 2013 analysis and the current market update discussion is to conceptualize potential repurpose opportunity available the land. The process discusses primary inputs central to the conceptualizing land repurposing. These included a citywide and Lester Park neighborhood specific summary of demographic data, SFR building permits, SFR land/improvement price expectation, in general market characteristics. The update discussion also explored integration of neighborhood-scale commercial which may be appropriate for portions of the acreage.

The Lester Park Golf Course is well located being at the easterly gateway to the city. The elevated rock face of its Highway 61 frontage dominates the scene as one approaches the Highway 61/East Superior Street intersect. East Superior Street and Lester River Road front and provide access to the property's southerly and westerly boundaries. The 268.53± acres as a whole feature a moderately undulating topography which rises from East Superior Street grade to interior uplands, which provide at distant views of Lake Superior. Albeit portions of the acreage are influenced by bedrock and natural/incidental wetlands, the acreage as a whole appears suitable for diverse development. Market research of inputs necessary to determine viability of a given conceptual development suggests the city and its nine surrounding townships have experienced relatively stable population since 1990 (city of Duluth +1.6% city and surrounding nine townships +6%) population growth since 1990. The data also suggest SFR building permits, which gage consumer demand for this commodity, for Duluth range between 21 to 46 on an annual basis since 2010. The research also considered the median price paid for improved SFR real estate in the city (\$145,000) and Lester Park community (\$165,000). A similar analysis applicable to SFR vacant building lots was also completed indicating a median price across the city of \$47,000 as compared to \$60,000 for Lester Park. To accommodate the concept of integrating neighborhood-scale commercial into a conceptual reuse opportunity, data applicable to this component was also researched. The numerics of these datasets was earlier discussed.

It is reasonable to conclude from data presented, as a single offering, the course's 268.53± acres exceeds the market's ability to absorb within the foreseeable future. A master plan community which employs periodic disposition predicated on demand and fluidity of design commanded by the market, would likely have greater economic gain for the city. To accommodate an extended market absorption and meet long-term infrastructure investment needs, it would likely be most successful if such project was publicly initiated/managed as opposed to simply marketing the acreage in whole or part to individual investors. In the end, a compromise of the city's economic goals, needs of golf supporters, public opinion inputs, as well as market forces and economies of development will determine the nature of future development, if any, applicable to Lester Park Golf Course.

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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 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.
- 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 development or 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.
- 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 the Uniform Standards of Professional Appraisal Practice.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant real property appraisal, appraisal review, or appraisal consulting assistance to the person signing this certification.
- As of the date of this report, I, John M. Vigen SRA, have completed the requirements of the continuing education program for Designated Members of the Appraisal Institute.



John M. Vigen, SRA
Certified General Real Estate Appraiser
Minnesota License #9000428

ASSUMPTIONS AND LIMITING CONDITIONS:

1. This Appraisal Report is intended to comply with the reporting requirements set forth under Standard Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice (2016-2017). As such, it contains discussions of the data, reasoning, and analyses used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's 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, subsoil, or structures 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 non-conformity has been stated, defined, and considered in this appraisal report.
10. It is assumed that all required licenses, certificates of occupancy, 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 sketch 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 and improvements 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 materials. Any comment by the appraiser 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, urea-formaldehyde foam insulation, or 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 material on or in the property 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. The exhibits found herein are included to assist the reader in visualizing the property. The appraisers assume no responsibility in connection with the accuracy of such items.
15. Any proposed improvements are assumed to be completed in a good, workmanlike manner in accordance with the submitted plans and specifications.
16. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
17. 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 appraiser, and in any event, only with proper written qualification and only in its entirety.
18. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is 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.
19. The Americans with Disabilities Act, "ADA," became effective January 26, 1992. The appraiser has not made a specific compliance survey/analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact may have a negative effect upon the value of the property. Since there is no direct evidence relating to this issue, non-compliance with the requirements of ADA has not been considered in estimating the value of the property.

QUALIFICATIONS OF THE APPRAISER

John M. Vigen, SRA, RM

Present Position: Ramsland & Vigen, Inc.
Real Estate Appraisers & Consultants
Lonsdale Building
302 West Superior Street, Suite 600
Duluth, Minnesota 55802

Past Real Estate Experience: Forty-three years real estate experience consisting of residential, natural resource land, and commercial appraisals, residential sales and property management.

Professional Associations: Appraisal Institute
North Star Chapter
(Past President – 2000)
(Lake Superior Chapter No. 183)

Duluth Board of Realtors

License: Minnesota Real Estate Appraiser - #4000928
Certified General Classification

Wisconsin Real Estate Appraiser - #750-10
Certified General Classification

Member: RM Designation #1363 (1979)
(Former – American Institute of Real Estate Appraisers)

SRA Designation, Certification #909007 (1980)
(Former – Society of Real Estate Appraiser's)

Certified Instructor, State of Minnesota
Department of Securities, Real Estate Division

Conservation Easement
Related Real Estate
Appraisal Education: Compliant with qualifying and continuing education requirement for:

Appraisal Institute
State of Minnesota
State of Wisconsin

Uniform Standards of Professional Appraisal Practice – (2016)

Land Trust Alliance Symposiums (1996-2008)

Vigen (continued)

Real Estate Appraisal
Education Continued:

National Conservation Training Center – (1999)
Land Conservation Strategies

Federal Land Exchanges & Acquisitions – (2008)
Valuation of Conservation Easements – (2008)
IRS-Valuation of Donated Real Estate – (2014)

Appraisal Seminars/Courses of Diverse Content (1975-2016)

Representative Client List:

3M – Real Estate Department
Conservation Fund
Employee Relocation Council
Federal Deposit Insurance Corporation
Iron Range Resources & Rehabilitation Board
LTV Mining Company, Lands and Minerals Division
Metropolitan Federal Bank
Minnesota Cities of:
Bemidji
Cromwell
Cloquet
Duluth
Grand Marais
Hermantown
Moose Lake
Proctor
Two Harbors
Minnesota Counties: St. Louis, Lake, Cook, Cass,
Koochiching, and Aitkin
Minnesota Department of Natural Resources
Minnesota Land Trust
Minnesota Parks and Trails
Minnesota Power and Light Company
Nature Conservancy
North Shore Bank of Commerce
Potlatch Corporation
Republic Bank of Duluth
Soo Line Railroad
City of Superior, Wisconsin
Community Development Program
State of Minnesota
Trust for Public Land
United States Forest Service
University of Minnesota
Office of Real Estate Coordinator
U.S. Bank System
USX
Northern Land & Minerals Division
Wells Fargo
Western National Bank

DRAFT

ATTACHMENTS

DRAFT

2013 ANALYSIS

LESTER PARK GOLF COURSE

Land – Conceptual Reuse Analysis

May 3, 2013

Prepared for:

**Duluth Economic Development Authority
402 City Hall
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May 3, 2013

Mr. Chris Eng
Duluth Economic Development Authority
402 City Hall
Duluth, Minnesota 55802

Re: Lester Park Golf Course
Land-Conceptual Reuse Analysis

Dear Mr. Eng:

Pursuant to your request for consultation applicable to the referenced matter, the undersigned submits the following report.

Market derived inputs influencing the property's reuse opportunity, conceptual development scenarios, and price expectation are summarized herein.

Respectfully submitted,

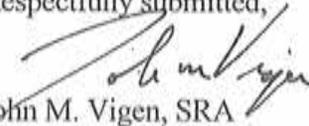

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Select pages from NGF Consulting Review for Enger and Lester Park Golf Courses

Lester Park Golf Course Financial Summary

St. Louis County Conditional Use Deed Information

Lester Park Golf Course Maps:

 Tax forfeited parcels conveyed by conditional use deed

 Aerial Overview

 Elevation

Lester Park Concept Maps:

 Concept 1

 Concept 2

 Concept 3

PROLOGUE

Duluth city administration, as part of its effort to effectively manage municipal finances, is evaluating the city's diverse operational sectors. Administration is seeking to reduce unwarranted expenditures while maintaining an appropriate level of public service. Meaningful success has been achieved to date and the process continues.

Principle to Duluth's operations are its land and improved property sectors. Throughout the evaluation process, there is a concerted effort to identify real property which 1) remains necessary for the city's operation, 2) property whose use continues to be reviewed, or 3) other property deemed to have potential for repurpose or disposition. In recent years, several recognizable public properties in the latter category went to public auction. These included the Endion Station, Minnesota Point Fire Station, and several residential development lots near Park Point's public center. The Duluth Planning Commission as well as City Council has developed procedural guidelines to accommodate the public property disposition process.

As part of this process, the undersigned has been retained to complete a use/valuation analysis of the Lester Park Golf Course land. Administrative discussion regarding this property have occurred since the Bergson administration of 2004, if not before. While the question is clear, the conclusion is complex. Over time, various studies intended to assist the decision making process have been completed. Since the future of Lester Park Golf Course is yet to be determined, the undersigned has been requested to respect administrative confidentiality in this matter.

SCOPE OF THE ANALYSIS

A summary of the undersigned's analytical process is presented herein. Supportive data is retained within the work file with only portions being presented to emphasize discussion and for illustrative purpose. An executive summary presentation format is employed. This report is intended for the client's exclusive use in the decision making process.

The nature of the subject property as well as a brief summation of past and current planning discussion related to its future were presented to the undersigned by Mr. Chris Eng, City Director

of Business and Economic Development Department. The undersigned was retained to complete an analysis of the golf course land under several “hypothetical” repurpose concepts. The first was to consider closure and repurposing of the 268.53± acre golf course as a whole; the second, potential retention of the original 18 holes and closure/repurpose of the 102± acres constituting the “Lakes Nine” portion of the course. A third scenario explores select, yet diverse, residential infill development, while retaining the course’s current characteristics.

These three “hypothetical” scenarios are only intended to provide a perspective of repurpose opportunity. A most probable range in land market value applicable to the developable “parent parcel” of each scenario is discussed. Generally, a repurpose plan would require completion of a full land development process inclusive of environmental influence, engineering, and administrative cost projections. Such specificity is beyond the scope of this assignment.

The *2012-2013 Uniform Standards of Professional Practice* edition (USPAP) defines hypothetical condition as, *that which is contrary to what exists, but supposed for the purpose of the analysis*. Hypothetical conditions assume conditions contrary to known facts about physical, legal, economic, or use characteristics of the subject property.

City of Duluth resources queried by the undersigned include Duluth Planning, Department of Economic Development, GIS and city finance departments. A comprehensive review and operation assessment report of Euger and Lester Park golf courses completed by NGF Consulting (October 2011) was reviewed. An HRA representative provided insight into past and on-going public development processes. Outside resources included computation of a conceptual development density for repurposing scenarios, Duluth Multiple Listing real estate data, as well as national and regional research resources pertaining to golf course repurposing, sales, and contributory factors. Other community resources and individual discussions with knowledgeable developers and real estate sources also provided insight for the analysis.

Regional, economic, cultural and demographic information was assembled and analyzed. The greater community settlement and land use patterns, changing land use trends, as well as other factors influencing consumer market demand were considered. Market data research with a focus

towards undeveloped acreage and development lots was researched through public offices and local real estate sources. All factors relevant to an appropriate analytical process for the subject property and purpose of this analysis were considered herein. While only a summary of certain data was presented, full depth of the same was retained in the appraiser's file.

LESTER PARK GOLF COURSE PROPERTY OVERVIEW

Lester Park Golf Course, constructed in 1938, is one of two municipal courses built in Duluth during that era. In 1988, its southeasterly 102± acres were developed to accommodate the "Lakes Nine," which expanded the original course from 18 holes to 27. At the same time, the original course experienced only minor alterations, inclusive of an updated irrigation system, which by some reports, has been problematic. Multiple sources indicate the "Lakes Nine" addition is not well integrated into the original 18 and is more challenging in its play. The NGF (2011) consulting report as well as other sources concur Lakes Nine is less popular due to its narrower fairways, additional bunkers, elevation changes, and direction of play. While its elevated view factor and enhanced challenge of play was hoped to contribute in attracting tourism, the limitation of 9 holes and poor integration with the remainder 18 has resulted in only limited success. A course analysis as well as physical/functional impairments and betterments are a matter of record with the City Parks Department and were discussed in the referenced (NGF 2011) golf course analysis. For reference, pages 53-54 of that report highlighting key issues applicable to Lester Park Golf Course are attached.

The Lester Clubhouse, also built in 1938, retains physical/functional attributes of the era. Its physical/functional obsolescence is apparent. Furthermore, its location on the course is within the parameters of the former City of Lakeside. In the early 1900's, when the City of Duluth annexed the then City of Lakeside, a prohibition on the sale of alcoholic beverages within Lakeside's boundary was retained. As such, the Lester Park Golf clubhouse cannot serve alcoholic beverages. This prohibition diminishes the economic opportunity available to the clubhouse food/beverage business by not providing social amenities anticipated by today's recreationalist, and dissuading its use for public or private social/meeting events. Furthermore, the clubhouse location does not take advantage of upper course elevations from which panoramic views of Lake

Superior and the Lester River valley can be achieved. All sources concur these factors are functional and economic impediments to the course's economic operation.

Lester Park Golf Course encumbers 268.53± acres. Of this, 196.53± acres (73±%) are classified as city land and 72± acres (27±%) (randomly dispersed) are former tax forfeited land now classified under a Conditional Use Deed. Should use continue through 2018, ownership reverts to the city. Approximately 166.53± acres comprise the original 18 holes and supportive amenities, and 102± acres are developed into the Lakes Nine addition. An ownership exhibit is attached.

The Lester Park Golf Course ownership as a whole is irregular in shape. It is bordered on the west by the Lester River Road and the abutting Lester River flowage. Its southerly boundary abuts East Superior Street and Scenic Minnesota Highway 61. Its easterly and northerly boundaries abut privately owned land, a portion of which is the Eastridge Estates residential subdivision. With the exception of that limited part abutting private ownership, the course's remaining boundary cannot be expanded. Municipal sewer and water are located adjacent to the course's southwest intersect with East Superior Street. A waterline extends from Superior Street to the clubhouse. A second potential water source is at the intersect of Eastridge Boulevard and Scenic Highway 61, a short distance from the course's northeast corner. Access easements would be required for extension of this line for service to the course. Road access is available to the property via Lester River Road, East Superior Street, and limited parts of Scenic Highway 61. A topographical exhibit depicts the subject's topography to undulate moderately downward 260± feet in elevation from its north boundary high of 930± feet to East Superior Street low of 670± feet. With Lake Superior having an elevation approximating 603± feet, at distance views of the lake and Lester River valley are plentiful.

As a 268.53± acre land tract, Lester Park Golf Course has favorable location near the easterly end of Duluth's developed cityscape. Its neighborhood characteristics include Lester/Amity Park and their duo river flowages that lay adjacent to the Lester River Road. The residential, developed community of Lester Park/Lakeside lay westward of the park. East Superior Street, as it extends through the greater Lakeside/Lester Park community, offers numerous commercial

nodes featuring diverse consumer services inclusive of a supermarket, vehicular service stations, hardware store, personal care facilities, miscellaneous retail and professional offices. The recently constructed East High School is 2± miles westward and a new elementary school is 1± mile northwestward. A recently developed medical clinic and separate assisted living center abut the subject's southwesterly boundary. Transportation routes also favor the acreage as East Superior Street is a principle DTA line. East Superior Street, an alternate eastern gateway to the city, links with Scenic Highway 61 that extends from Duluth to the Canadian border. Lester River Road links East Superior and the subject community to rural residential environs beyond. The land's physicality provides upland elevation, supportive slope gradients and ready access. Underlying bedrock and thin soils, however, present a costly challenge for public utility extension.

OVERVIEW OF RESEARCH PROCESS

The purpose of this analysis is to provide various "hypothetical" repurpose scenarios pertaining to future residential use of Lester Park Golf Course land in either whole or in part. In turn, these scenarios form the basis from which a broad range in land market value expectation can be estimated. Predicated on client directive, the hypothetical use scenarios will consider: 1) the golf course to have been closed and 268.53± acres of the whole available for residential repurpose. Under this scenario, the acreage would be offered for sale in the open market with developer determined build out; 2) the second scenario anticipates continued use with renovation of the course's original 18 holes and disposition and residential repurpose of Lakes Nine acreage; 3) this scenario is the least intrusive, retains the existing golf course, and yet provides opportunity for selective infill development within the course's forested environs.

Central to any projected "hypothetical" residential development scenario is recognition of market forces, which influence consumer demand and financial investment risk. Competitive market forces generally include, but are not limited to, population trends, exhibited consumer demand for new SFR (i.e., building permits/housing starts), community land/improved property price trends (which also consider alternative and competitive locations/inventory), absorption trends, and the like. In other words, a knowledgeable developer will weigh these and other factors as well

as economic risk with investment criteria to determine a price at which land (parent parcel) may be acquired for future development. For the purpose of this analysis, these key factors were researched and contributed to conclusions presented herein. They are summarily discussed as follows.

CENSUS DATA/POPULATION

Geographically, Duluth is a rural, central city surrounded by seven, abutting, independent satellite communities (two cities and five townships). Within its region, Duluth is the center for employment, consumer services, medical facilities, and entertainment venues. With the exception of Proctor and Hermantown, which have limited commercial sectors, the abutting townships function as rural-edge residential communities to Duluth. A network of public utilities originating in Duluth is expanding northwestward, primarily to Hermantown and its edge environs. Albeit the greater community shares a dependency on Duluth's consumer services, employment, entertainment, etc., there are independent competitive efforts on the part of neighboring communities to attract residential development and population growth.

U.S. Census data from 1990 to current date reflects a distinct trend of population migration outward from the City of Duluth to its satellite communities. **Between 2000 and 2010**, the City of Duluth recorded a -0.8% population change (-653 population). It is also important to note, during the 2000 to 2010 period, the cumulative, unduplicated college population (UMD, St. Scholastica, LSC) increased by 3,331 or 33±%. Sources indicate although total college population growth may not have been fully captured by census, a significant amount has. This suggests Duluth's non-university population declined much greater than the -653 reflected. For the same period, five of the satellite communities experienced positive growth (+7.2% to 26.4%). Hermantown experienced the greatest population increase of 1,966 or +26.4%. Only Midway and Rice Lake townships experienced a decline, which has been attributed primarily to reduction in at-home family members. A matrix depicting this information follows.

COUNTY	MCD	2010 Census	2000 Census	1990 Census	1990-2000		2000-2010		1990-2010	
					Pop. Change	% Change	Pop. Change	% Change	Pop. Change	% Change
St. Louis	Canosia township	2,158	1,998	1,743	255	14.6%	160	8.0%	415	23.8%
St. Louis	Duluth city	86,265	86,918	85,493	1,425	1.7%	-653	-0.8%	772	0.9%
St. Louis	Duluth township	1,941	1,723	1,561	162	10.4%	218	12.7%	380	24.3%
St. Louis	Hermantown city	9,414	7,448	6,761	687	10.2%	1,966	26.4%	2,653	39.2%
St. Louis	Lakewood township	2,190	2,013	1,799	214	11.9%	177	8.8%	391	21.7%
St. Louis	Midway township	1,399	1,479	1,500	-21	-1.4%	-80	-5.4%	-101	-6.7%
St. Louis	Proctor city	3,057	2,852	2,974	-122	-4.1%	205	7.2%	83	2.8%
St. Louis	Rice Lake township	4,095	4,139	3,883	256	6.6%	-44	-1.1%	212	5.5%

Source: Minnesota State Demographic Center and the Metropolitan Council

The census data suggests **between 1990 and 2010**, the City of Duluth experienced a slight growth of 1.7±% (1,425 pop). Conversely, during the same period, six of the seven abutting townships experienced population increase from 2.8% to 39.2%. Due to unyielding zoning and reduction in at-home family members, Midway Township was the only location to reflect population loss.

University sources indicate unduplicated student census data is incomplete for the period 1990 to 2000. However, the recent decade (2000-2010) records obtained from the three universities reflect a combined growth of 5,331± or 33%. The unduplicated census does not include special programs, grad students, continuing education, etc. On a combined basis, over the past 20 years, Duluth and its satellite communities experienced a non-university population growth of 4,805 or 4.35±%.

SFR BUILDING PERMITS/NEW CONSTRUCTION STARTS

The trend in consumer demand for new, single-family residential (SFR) dwellings can be observed through an analysis of annual SFR construction permits. Permits for new SFR construction in Duluth and its seven satellite communities for the period 2000 to current date were researched. The recession's adverse influence on residential construction permits is clearly evident. The City of Duluth averaged 101± SFR permits per year in the pre-recession era of 2000 to 2007. The post-recession era of 2008-2012 experienced a 70±% reduction to an annual

average of 31± permits. Overall, for the 12-year period, the City of Duluth issued 970 SFR construction permits. It is important to note more than 100 of these were reported to be agency subsidized, affordable housing.

The City of Hermantown issued 572 SFR permits over the 12-year period. Hermantown experienced a 40±% reduction in permits from pre-recession era volume of 52± per year to a post-recession average of 30 per year. Both Lakewood and Duluth townships were absent data from 2000–2003 era.

Overall, it is estimated Duluth and its satellite communities issued 2,176± SFR building permits over the 12-year period. Of this, Duluth’s share approximated 49.6±% with the remainder being dispersed throughout the seven satellite communities. Hermantown appears to have captured 48±% of the non-Duluth permits. On a combined basis, over the past 12 years, Duluth and its seven satellite communities issued an average of 181± SFR building permits per year. A matrix depicting this data follows.

SFD PERMITS ISSUED PER CITY/TW 2002-2012

	DULUTH CITY	HERMAN TOWN	PROCTOR	MIDWAY TWP	RICE LAKE TWP	CANOSIA TWP	LAKWOOD TWP	DULUTH TWP
2000	59	41	0	3	13	24	-	-
2001	94	42	2	8	19	21	-	-
2002	131	49	0	2	25	24	-	5
2003	138	60	0	7	38	18	-	13
2004	121	75	0	7	25	17	1	19
2005	113	55	22	5	31	16	3	20
2006	87	53	14	7	22	7	3	12
2007	70	46	0	5	7	15	4	4
2008	36	43	4	4	12	9	6	9
2009	31	25	2	3	8	4	3	9
2010	36	34	4	1	5	5	2	8
2011	21	24	2	1	5	3	6	6
2012	33	25	5	1	5	6	5	3
% of Total Total SFD Permits	44.58%	26.29%	2.53%	2.48%	9.88%	7.77%	1.52%	4.96%
	970	572	55	54	215	169	33	108

MARKET CHARACTERISTICS

Recognition of competitive market characteristics is a determining factor in projecting the economic viability of a proposed SFR development. Lester Park Golf Course encumbers 268.53± acres. Hypothetically, should the acreage be acquired for repurpose, its physical/functional characteristics have the capacity to support a broad spectrum of residential development types/density, inclusive of a phased, higher density, maximum yield layout to a lower density, eco-sensitive plan. Although portions may be challenging, the acreage does have physicality to accept utility extension for all or part of any development concept. It is understood any repurposing of this property would be limited to residential use and require rezoning as well as city council approval. Acknowledging the public's sensitivity towards disposition of city land, particularly potential loss of open space, and the council's evidenced support for such causes, it is reasonable to anticipate a prolonged disposition effort.

The ability for an investor to accurately estimate future economics of a conceptual SFR project is a significant challenge. What is the appropriate development scale? What cost (both development and holding) and lot absorption should be anticipated? How will competitive forces (current and future), perceived consumer demand, and market price expectation influence the development scenario?

Knowledge of competitive SFR lot inventory, pricing, absorption, and projected consumer demand is imperative to the decision making process of determining whether or not private investment capital may have interest in pursuing an SFR development opportunity. In those circumstances where perceived risk dissuades investors, the desired end result may be better achieved through public project management (aka HRA-Hawks Ridge). A balance of these factors influences the most competitive design criteria as well as initial paid offering and development phase requirements applicable to a given project. In turn, the preliminary project criteria relates directly to a most probable acquisition price expectation of the "parent parcel" land tract necessary to accommodate the project.

Compilation and analysis of competitive SFR lot inventory is a necessary input in determining project scale, lot price expectation, and projecting probable consumer demand, hence, absorp-

tion. Acknowledging the historical evolution of Duluth's cityscape, as well as its continually changing built environs, any attempt to completely quantify current/future SFR inventory is conjecture at best. A summary of observations follows.

Duluth cityscape is comprised of more than 20 neighborhoods developed amid Lake Superior's coastal plain and abutting bluff lands. Many neighborhoods and city sectors are separated from each other by cascading creeks, geologically influenced open space, and city parks. Core neighborhoods were initially platted during the late 1800's to early 1900's with re-arrangements and new plats occurring as the city expanded. In the late 1940's through the early 1960's, neighborhoods such as Kenwood, Duluth Heights, upper Lakeside/Lester Park, sections of Woodland, upper West Duluth, and portions of Morgan Park further expanded to accommodate post-WWII development demand. From the 1970's through current date, many existing neighborhoods experience infill subdivision which expanded existing municipal infrastructure. As construction technology advanced, lands previously thought unsuitable for development become premier infill locations. In some sectors of the city, larger lots were partitioned. By the 1990's, gentrification of the urban core evidenced positive consumer demand for repurpose of hillside view sites. Various agencies also recognized the continued need for neighborhood revitalization and initiated affordable housing programs in many older neighborhoods of the city.

While it is beyond reasonable probability to complete a meaningful inventory of all available SFR lots within Duluth's built environs, the competitive nature of this land category needs to be considered. By conjectural estimates, hundreds of SFR lot development opportunities, in place and to be discovered, are scattered across the city. In addition to lots, a significant amount of potentially developable land suitable for subdivision tracts is randomly scattered throughout the city's neighborhoods. Many are located at the fringe of Duluth's built neighborhoods accessible to public utilities and transport corridors. Examples include ISD 709 property north of Hartley Field presently being marketed, tracts in Kenwood and Duluth Heights, lots on Minnesota Point, tracts in the Duluth Heights community, view tracts near the Highland Avenue reservoir, and other locations in the western sector of the city. A query of the Duluth Planning Department found an absence of any inventory applicable to acreage tracts with SFR development potential.

While the preceding discussion identifies the challenges in quantifying a meaningful SFR lot/acreage inventory, at question is what are known price expectations for SFR lots in the subject's competitive market? These parameters are best developed through observation of SFR subdivision projects that have occurred in recent years. To achieve this, a representative group of residential subdivisions in both Duluth and Hermantown initiated between the late 1990's and current date have been researched and analyzed. A summary follows.

The St. Louis County Recorder's office as well as cities of Duluth and Hermantown planning departments were queried with respect to SFR plats initiated and recorded during 2002-2009 era. An analysis of this data provides insight into SFR subdivisions inclusive of competitive attributes, design criteria, initial inventory, sales, absorption, price parameters, remaining inventory, etc. Since the cities of Duluth and Hermantown account for 71±% of SFR building permits issued within the competitive market, the analysis focused on SFR development experience within these communities.

Within the City of **Duluth**, 17 SFR development projects dispersed among 7± neighborhoods were observed. Excluded from consideration were a number of "boutique" infill developments such as Fryberger Woods, Hanford Valley, and Hawks Meadow to name a few. While several in this category were of limited offering and sold immediately, there remains within the observed boutique group a standing inventory of more than 50± development ready lots. Of all SFR developments observed, only two were of size and/or diversity approaching that available to the Lester Park tract as a whole. These are Coffee Creek and Hawk Ridge.

Coffee Creek, platted in 2007, consists of 59 single-family lots (54 lots dedicated for duplex or townhomes) and 14 outlots (2 of which were intended for apartment buildings). The project was not phased. Rather, it was offered in its entirety, complete with infrastructure. Initially, single-family lot prices ranged from \$75,000 to \$120,000 and duplex/townhome lots at \$27,500 (two required). The only sale within the project to occur over a two-year period was **Outlot F** (6.44± acres). It was acquired by Real Life Association for \$548,069 to develop a "55+ age," multi-unit cooperative building. By 2009, with no platted lots and with only one outlot sold, the project was foreclosed. Subsequently Real Life Association acquired from the lender **Outlot G** for a prelimi-

nary reported price approximating \$300,000. The intent is to construct an additional "55+ age" building.

Although exact amounts are unknown, individuals involved with the project estimate infrastructure costs (excluding land) ranged between \$35,000 to \$45,000 per lot. The Coffee Creek project was a private investor initiative with public supported land acquisition. Sources concur, due to its functionally deficient design and excess density, which exceeded market capacity as well as failure to phase the project to accommodate market demand, the developer could not economically sustain development nor holding costs. After foreclosure, the lender infused \$850,000± to complete/repair infrastructure prior to the project's reoffering.

In October 2011, Menard's acquired from the lender the Coffee Creek project as a whole for a reported price of \$1,118,700. The price equates to \$14,220 per acre or \$8,950± per development ready lot. Since Menard's acquisition, nine sales have occurred (7 SFR @ \$30,000 each (1 @ \$37,000) and two duplex/townhome sets @ \$35,900-avg).

Hawk Ridge, a 65± acre, residential subdivision, was developed and managed/marketed under HRA direction. It was initiated in 2005 as a 126-lot subdivision. The project was phased to accommodate perceived market demand. The first phase included 88 lots with utilities and infrastructure. Of these, 44 lots have been sold. Forty-two sold between 2004-2009 at an average price of \$64,750. Two have sold between 2010-2012 at an average price of \$77,500. The agency will soon initiate Phase 2 comprised of the remaining 38 lots. Infrastructure construction could begin 15 to 18 months from permit approval. Price opportunity is yet to be determined, but is anticipated to be competitive with the preceding phase. An advantage Hawk Ridge has over private development investment is public funding which permits HRA to develop infrastructure, as well as phase and hold inventory at reduced cost and deferred real estate taxes.

Of the 14 other Duluth SFR subdivisions observed, 209 lots were offered with 23% or 48± lots remaining unsold. All SFR projects were of 39 lots or less with the average approximating 20± lots. Two of the fourteen projects experienced foreclosure. The Crystal Village plat, which offered 31 lots in its first phase (second phase not initiated), sold only 3 lots before lender

ownership in 2008. Since that time, 13 sales averaging \$48,941 per lot have occurred. The other project observations indicate average lot prices ranging between \$32,180 to \$92,500. Six plats evidence an average price between \$75,000 to \$92,500 per lot (Hartley Estates, Bristolwood, etc.), while prices in the remaining nine plats range between \$32,180 to \$68,000. This price group tends to reflect a combination of average quality, existing neighborhood infill plats, and those influenced by lender ownership. It appears panoramic view lots or those with exceptional eco-quality are marketed in the \$95,000 to \$150,000 range. These are of course, A-typical outliers, which command their own price parameters. Within the 17 newer Duluth subdivisions observed, the average price approximated \$70,000 per lot.

The above data provides insight into the competitive range in per lot price expectation for diverse SFR projects within Duluth neighborhoods. Within the 17 SFR projects reviewed, there appears to be a development-ready inventory of 286± lots excluding future phase opportunity. This inventory does not include individual lot offerings or established plats not observed.

Acknowledging **Hermantown** is a meaningful competitor in the SFR development market, an analysis of its recent subdivisions was also completed. Since 2002, eleven subdivisions with a total of 344 lots were observed. Of these, 254 or 74% have been marketed with a remaining inventory of 90± lots. Several subdivisions have additional phases yet to be brought on-line. Generally, post-recession prices range between \$53,600 to \$78,000 per lot. These prices generally reflect a discount from the pre-recession original offering. For example, Hidden Creek Preserve lots (43 of its 44 lots now sold) were initially marketed for \$80,700 with prices reduced to \$51,700 during the depth of recession. During the 2010-12 era, two sales have occurred at an average of \$63,800. Timber Trails Estates, wherein 45% of its original 66-lot offerings have sold, has reduced lot prices from the initial offering of \$75,600 to current of \$60,100. This price reduction trend is clearly evident in all SFR projects observed. Of the 11 Hermantown subdivisions, 3 have experienced foreclosure with lender reoffer prices being significantly discounted, (i.e., Maple Village initial offering \$84,700/lender offering \$53,300). While 7 of the 11 Hermantown subdivisions are more than 75% sold out, the remaining four are only between 20% to 45% sold. At present, the community average SFR subdivision lot price approximates \$62,400. All SFR projects are serviced by municipal water and sewer. It is noted the above represents data

applicable to SFR subdivisions. It does not account for unknown SFR inventory (sold/available) through fractionalization of larger acreages to rural homesteads.

The referenced Duluth/Hermantown data present a fair representation of the SFR land market as a whole. The number and diversity of observations (500± or more) provide a perspective on range in price expectation for residential development lots within the greater Duluth market.

Further SFR lot price observations were obtained from the **Duluth Board of Realtor MLS data**. This data consists of realtor reported SFR land transactions. Although portions of this data were likely included in preceding discussion, a fair amount represented individual marketing efforts and sales within non-observed subdivisions.

The MLS query focused on SFR lots (less than 8 acres) sold in the City of Duluth and City of Hermantown for the period 2000-2012. During that period, 406 transactions at an average price of \$49,692 (median \$39,000) were reported in the City of Duluth. During that same era, the City of Hermantown experienced 78 observations with an average price of \$39,250 per lot.

A second query restricted the date of sale to between January 2010 and March 2013. During this era, the City of Duluth experienced 36 transactions at an average price of \$49,022 per lot. During this same era, the City of Hermantown experienced 21 transactions at an average price of \$41,969 per lot.

Although a degree of data duplication certainly exists between SFR subdivision and SFR-MLS discussions, the combined process did result in over 600 SFR sale observations. This data clearly indicates a most probable range in price expectation for SFR lots within the greater Duluth competitive market ranges between \$40,000 to \$70,000. Price outliers are limited and consist primarily of lots, which enjoy panoramic Lake Superior views and/or are within eco-sensitive locations along some of the city's cascading rivers. These observations, which are the exception to the rule, are most often marketed in the \$95,000 to \$150,000 range. It is of interest to note, on average, developers indicate infrastructure and development costs for a new development of 25 or more lots can vary from \$30,000 to \$45,000 per lot.

Preceding data provides insight into existing SFR inventory and price expectation applicable to residential subdivisions created in Duluth/Hermantown since 2000. This data suggests, with the exception of additional lots available within future phases of some project, a standing inventory of more than 357 development-ready lots exist within observed plats. Absent from, but in addition to the observed inventory, are an indeterminate number of existing, development-ready SFR lots scattered through the city's established neighborhoods. This additional inventory is comprised of undeveloped lots within original or post-WWII plats, and/or others, which might originate from portioning a larger ownership, tax forfeiture, redevelopment, or other disposition efforts. These infill SFR development opportunities present a broad spectrum of price expectation. Generally, infill SFR development lots are serviced by existing municipal infrastructure. Albeit, an inventory of this category is not compiled, it is reasonable to suggest many hundreds of such lots exist.

Yet another land category necessary to acknowledge is existing, multi-acre, undeveloped land tracts within Duluth. Most often, these are scattered across the city and lay adjacent to existing city infrastructure. On average, tracts of this type best accommodate smaller SFR projects, which are more economically favorable to independent investors. It is from this inventory that many of the more recent "boutique" residential subdivisions have been created. An inventory of these lands is unknown, but many such tracts can be readily observed. Appropriately inventoried and planned, dozens of moderately sized, infill subdivisions could be created which may also accommodate hundreds of future SFR development lots within Duluth's developed neighborhoods. A concerted effort to capitalize on development of such tracts reduces suburban or "edge" sprawl and is simply "good planning for smart growth."

RESEARCH CONCLUSIONS

In conceptualizing proposed SFR land use opportunity and price expectation is to analyze the project's competitive market. This analysis should recognize both historical and projected trends in community population growth, settlement patterns, consumer demand, market characteristics (inclusive of competitive inventory, pricing, etc.) and the like. A summary of conclusions applicable to the process follows.

U.S. Census data and community development pattern research indicates, on a combined basis over the past 20 years (1990-2010), Duluth and its satellite communities experienced a population growth of 4,805 or 4.35±%. During this era, the City of Duluth had a modest population gain of 772 or 0.9%. On a combined basis, the seven satellite communities grew in population by 4,033 or an average of 19.9±%. Hermantown experienced the greatest growth with an increase in population of 2,653 or 39.2%. Albeit, Duluth remains the center for employment and consumer service, the Census data indicates a trend in population migration from the city to its rural edge. A strong variable in Duluth's population is the unduplicated university student Census data. Between 2000-2010, the three universities combined have experienced a population growth approximating 5,331± or 33±%. While this total growth may not be fully reflected in the overall city Census data, it is reasonable to speculate a fair amount has. Further, Duluth Building Safety division estimates during the same era, 1,000+ formerly SFR occupied homes were licensed and converted for student rental to meet increased student occupancy needs. This conversion has contributed to both the loss of affordable housing for Duluth's moderate to average wage earners as well as a segment of the non-university population's exodus of the city. Adjusting Census data to reflect contribution of university population growth suggests the City of Duluth's non-university population has experienced significant reduction.

SFR dwelling construction permits as well as undeveloped **SFR** subdivision lot acquisitions are two indicators by which consumer demand and potential market absorption can be observed.

Data indicates over the past 12 years (2000-2012), the City of Duluth issued 970 SFR construction permits. During the pre-recession era of 2000-2007, the city averaged 101± per year. During the recession-post recession era of 2008-2012, the number issued decreased by 70% to an annual average of 31± SFR construction permits. Sources suggest more than 100± of these were agency subsidized, affordable housing starts.

For the same 12-year period, the City of Hermantown experienced 572 unsubsidized SFR permits for an average of 52 per year. A post-recession average was reduced to 30 per year, which appears consistent with the City of Duluth.

Overall, available information indicates Duluth and its satellite communities issued 2,176± SFR permits over the 12-year period. Of these, Duluth's share approximated 49.6% with the remainder being dispersed throughout the seven satellite communities. Hermantown has captured 48% of non-Duluth permits. The SFR permit and lot sale data lends credence to Census observations and quantifies the competitive nature of satellite communities as they increasingly attract SFR development and grow their population.

COMPETITIVE MARKET CHARACTERISTICS

An awareness of diverse market characteristics is necessary when projecting the economic viability of any conceptual SFR development project. Through this process, market derived data applicable to the size of past and current competitive SFR development projects, absorption, lot characteristics, price ranges, etc., can be observed. The analysis observed the historical context of both specific SFR projects and general data. This data contributes to consumer competitive decision making.

It was observed that hundreds or more SFR lots are development ready and randomly scattered throughout the city. Most are serviced by municipal utilities and suitable for infill development. In addition to observed SFR lots, there exist in-city acreages which can accommodate diverse SFR development opportunity. Available data indicates within Duluth, traditional SFR lots are presently being marketed in a broad range of \$40,000 to \$70,000. Those of unique, A-typical characteristics, special or eco-sensitive location can range between \$95,000 to \$150,000±. There are, of course, outliers which set their own market. In the post-recession era of 2008-2012, the City of Duluth experienced 31± SFR annual building permits representing 48% of the SFR construction occurring within the greater city/seven satellite community markets.

Market research also suggests traditional SFR development design concepts may not be consistent with today's consumer expectation. Demographic data indicates although Duluth's population is aging, it remains fully engaged and active. The community is also encouraging retention and in-migration of a younger population (i.e., medical community, engineers, university faculty, administrative/marketing, general workforce, etc.). Not all consumers within

these two census groups are anticipating buying or building traditional dwellings. Many are seeking alternative occupancy opportunities (i.e., qualitative apartments, townhomes, twin homes, etc.) to accommodate their lifestyle. Many prefer such accommodations to be neighborhood integrated.

It is apparent from available data the city has both a standing inventory and land available to create the same, which can meet SFR demand for years to come. Traditional SFR projects mix, however, is deficient in accommodating consumers changing preference in housing style. Sources indicate in addition to traditional dwellings, there is supportable demand for low rise, double bungalows or townhouses to accommodate both in-migrating professionals, those downsizing their lifestyle, and other housing needs. It is of interest to note more than 312 townhouse/double bungalow units have been recently constructed in Hermantown with only a few being built in Duluth. Consumers prefer PUD's of mixed design be located within Duluth's established neighborhoods.

CONCEPTUAL SUBDIVISION-RANGE AND LAND VALUES

A price an investor would be justified in paying for land acquisition for a SFR subdivision is generally predicated on the underlying rationale of a subdivision development approach to value. This valuation technique requires complete familiarity with the land development process and all aspects of the competitive market in which the proposed project is situated. The basis of this technique is a discounted cash flow analysis, wherein all inputs must be market derived and supported as this method simulates reality. The subdivision development technique requires nine principle factors inclusive of the following: sound development plan, a realistic pricing schedule, supportable absorption rate and price/development mix, projected development staging and related expenses, marketing and overall project related expense forecast, annual real estate taxes and associated holding costs, inclusive of financing, estimated overhead and profit allowance, employ a market derived discount rate which reflects phasing and absorption of lot sales. Correctly applied, a subdivision development approach is a complex analysis. Absent reliable market supported inputs, this technique can produce unrealistic conclusions. Most land valuation

practitioners recognize it to be the least accurate land valuation technique, wrought with variables and all too often skewed to accommodate a developer's financing needs.

An alternative valuation procedure to a full subdivision development technique is to analyze land tracts acquired by developers for SFR subdivision purpose. These bulk sales are often referred to as "parent parcel" sales. In theory, the price at which a developer acquires a "parent parcel" should reasonably reflect conclusions of a properly executed subdivision analysis. Generally, a knowledgeable developer predicates acquisition price on their own cost estimates, experience, and risk tolerance.

The Lester Park Golf Course is of 268.53± acres. In this market, it exceeds the average size typically acquired as a "parent parcel" for a SFR subdivision. Presently, a defined development plan has not been created and any conceptual repurpose scenarios applicable to the property in part or whole are merely conjecture for preliminary discussion purpose. Specificity in developing such plan is beyond the scope of this assignment.

Public ownership of the property is potentially problematic with respect to conceptualizing the property's disposition and its future use opportunity. The decision to dispose of or repurpose the property in whole or part will require rezoning, city council approval and public input. This introduces a time delay and risk potential that may be inconsistent with private capital expectations. In the event the city does decide to dispose of the 268.53 acres as a whole, public sector effort teaming planning, DEDA, city council, and HRA as development facilitator (Hawks Ridge), may have a greater chance for long-term development success.

The purpose of this report is twofold: first, to illustrate various, conceptual disposition scenarios appropriate for the subject under current market characteristics; and second, to opine a most probable range in price expectation applicable each. The conceptual repurpose scenarios presented herein are for illustration and discussion purpose only.

A sense of land price expectation was developed through a query and analysis of "parent parcel" land acquisitions for SFR development projects. Market research focused on sale data within this

category occurring between 2000 and current date. Project data was considered in both Duluth and Hermantown. An initial query was culled with a focus towards acquisitions providing a general insight into SFR projects most typically observed in the competitive market. This process resulted in 20 observations. One was a foreclosure resale. Another was planning department approved for a 73-lot subdivision, however, a plat was not filed and the acreage is now for sale. Observations represent a spectrum of residential development type inclusive of single-family, townhome/PUD's, and apartments. A matrix depicting this data follows.

DRAFT

Rec	File	Address	Project	City	Date	Price	Acres	\$/Ac	Use	Seller	Buyer	Comments
372	UL	Trinity Rd	Coffee Creek	Dih	2006~6	\$1,292,945	77.10	\$16,770	SFR	St Louis Cty	DEDA	Pre-development acquisition.
461	UL	Trinity Rd	Coffee Creek	Dih	2011~10	\$1,118,700	78.67	\$14,220	SFR	LCF Funding	Menard, Inc	Pre-development acquisition.
421	UL	Coffee Creek Blvd	Realife Coop	Dih	2009~10	\$548,069	6.44	\$85,104	CD	Trinity Dev...	Realife Coop	35 unit sr housing.
	UL	Coffee Creek Blvd	Realife Coop	Dih	Pending	\$300,000	2.86	\$104,895	CD	LCF Funding	Realife Coop	22 unit sr housing.
327	UL	Skyline Pkwy W 7600	73 unit res dev	Dih	2005~3	\$650,000	67.71	\$9,600	SFR	Zenith Terrace	Sugarloaf Ent	Plat approved, but not recorded.
		Skyline Pkwy W 7600	73 unit res dev	Dih	Current offering	\$339,900	67.71	\$5,020	SFR			
280	UL	Swan Lake Rd	Crystal Village	Dih	2003~3	\$500,000	25.04	\$19,968	SFR	Sonside Invmt New Market Bank	Northwood Oaks	Pre-development acquisition. Lots being marketed @ 45% discount
440	UL	Hwy 61 East	Eastridge Est	Dih	2007~3	\$1,023,647	143.45	\$7,136	SFR	Assemblage	White Pine Dev	Pre-development acquisition. Sewer assumed.
3519	VRA	Greystone St	Sterling Pond	Herm	2005~6	\$400,000	40.00	\$10,000	SFR	Paulucci, Gina	Compass Rose's	Pre-development acquisition. 34 lots.
348	UL	Miller Trunk Hwy	Maple Village	Herm	2005~12	\$1,190,000	35.61	\$7,647	TH	Assemblage	VernReynoldsCon	Pre-development acquisition. Multi-unit TH.
163	VMF	Stebner Rd	Timber Trails	Herm	2005~12	\$748,000	100.08	\$7,474	SFR	Wep Equity	H-TownProperties	Pre-development acquisition. 58 lots.
3228	VRA	Getchell Rd	Hidden Creek	Herm	2005~7	\$700,000	80.00	\$8,750	SFR	M.J. Wiedes	White Pine Dev	Pre-development acquisition. 44 lots.
334	UL	Blackman & Rice Lake	Boulder Ridge	Dih	2005~3	\$789,115	34.25	\$23,040	APTS	Assemblage	Summit Commons	Pre-development acquisition. Student housing
325	UL	Corno Ave	Bluffs Ridge	Dih	2004~12	\$100,000	10.00	\$10,000	Pud-SFR	St Louis Cty	Freedom Dev...	Pre-development acquisition. 21 units.
3183	VRA	Stebner Rd	Forest Ridge	Herm	2004~8	\$111,900	28.95	\$3,865	SFR	Wickland	Luoma, Rudolph	Pre-development acquisition. 23 lots.
301	UL	North Rd	Cedar Ridge	Dih	2003~12	\$315,000	38.60	\$8,161	SFR	Alette	White Pine Dev	Pre-development acquisition. 24 lots.
128	VMF	Hermantown Rd	Keene Creek	Herm	2002~8	\$175,000	17.69	\$9,893	TH	Carlson Trust	Keene Creek TH	Pre-development acquisition. Multi-unit TH.
259	UL	MacFarlane Rd	Northridge	Dih	2002~6	\$395,000	196.37	\$2,012	SFR	Paulucci, M	Hovland, John	Pre-development acquisition. 39 lots.
2249	VRA	Stebner Rd	Bishop Woods	Herm	2001~4	\$55,000	13.34	\$4,123	SFR	Bishop	Carlson Homes...	Pre-development acquisition. 18 lots.

Of the 20 project observations, only 4 were larger tracts of 100 acres or more. Of the four, two projects were located in Hermantown (Timber Trails and Maple Village) and acquired in December 2012. One was acquired for single-family development, the other for double bungalow townhomes. The third project (Eastridge Estates) lay adjacent to the subject's easterly boundary and was acquired to accommodate single-family home sites. The developer advised his acquisition price anticipated installation of public water/sewer, which would have permitted a greater density. During project planning, a moratorium on sewer extension was initiated, which required complete project redesign and economic hardship. The fourth project, acquired in 2002, required a conservation easement and cluster design to accommodate 39 residential lots on 196.37-acres. The acreage was significantly influenced by wetlands, which influences price paid. Excluding this tract, the other three sold at a range in price between \$7,136 to \$7,647 per acre.

In this market, mid-size tracts range between 67.71± acres to 80 acres. For this group three tracts representing five transactions were observed. Most notable is the Coffee Creek project. In 2006, as part of the initial land assemblage process, DEDA acquired 77.10 acres for \$16,770. Additional acreage was already owned. The combined tract was then platted and fully developed as the Coffee Creek, mixed residential use project. As earlier noted, development standards provided for 59 single-family lots, 54 double lots for duplexes/townshomes, and 14 outlots. Once completed, the only sale to occur was a 6.44± acre outlot acquired by Real Life Corporation for a 55+ housing cooperative. Without consumer acceptance of the remainder, the Coffee Creek project went into default. It was acquired from the lender in October 2007 as a development ready, mixed residential project for \$14,220 per acre. The second, mid-sized tract of 67.71 acres was acquired in March 2005 for \$9,600 per acre. It was platted for 73 residential lots. The plat was not filed and due to economic conditions the developer chose to abandon development efforts. The 67.71 acres are presently being advertised for \$5,020 per acre. The third tract within this group is of 80 acres and located in Hermantown. It was acquired in 2005 for \$8,750 per acre. It was subsequently developed with 44 residential lots of which 43 are sold.

Excluding the Coffee Creek transaction, which was a shovel ready resale, the remaining tracts within the midsize group reflect a price experience (offering/sale) of between \$5,000 to \$8,750

per acre. The smaller development tract group consists of seven observations, which ranged in size from 10 to 40 acres. All represented existing neighborhood infill projects.

Excluding the Crystal Village tract (25.04 acres @ \$19,968 per acre, which went into receivership due to initial land/development cost), the group reflected a range in price expectation between \$3,865 to \$10,000 per acre, the average being \$7,674 per acre. The “parent parcel” observations illustrate per acre price expectation fluctuates with project size and the developer perceived cost/risk allocation.

CONCEPTUALIZING POTENTIAL LAND USE

The process of conceptualizing the design, scope (physical/functional characteristics), and economic expectations (cost/return on investment) applicable to an SFR development can be complex. The premise requires highest and best use criteria be thoroughly analyzed and supported through market derived inputs. Highest and best use is defined by *The Dictionary of Real Estate Appraisal*, 5th ed. (2010) as:

The reasonably probable and legal use of vacant land or an improved property that is physical possible, appropriately supported, financially feasible, and that 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.

With respect to an analysis of assumed vacant land the definition states:

Among all reasonable alternative uses, the use that yields the highest present land value, after payments are made for labor, capital and coordination. The use for property based on the assumption that the parcel of land is vacant or can be made vacant by demolishing any improvements.

When appropriately analyzed, the four criteria comprising the highest and best use definition provide a basis from which most probable development scenarios can be proposed. In turn, determination of project scope provides the benchmark from which market value of the raw “parent parcel” can be estimated. Discussion of the four criteria follows.

The first criteria is **legal permitted use** of the land. Lester Park Golf Course consists of 268.53± acres of which 196.53 (73±%) are classified as City of Duluth land. The remaining 72± acres (27±%) are randomly dispersed across the course and use is permitted by a Conditional Use Deed. Assuming conditional use is maintained, the 72± acres will revert to city ownership in 2018. Any proposed disposition or repurposing of the course in whole or part will require approval by the Duluth City Council. Under the UDC land use code, the acreage is presently classified Park-Open Space-P1. Experience has shown repurposing/rezoning land from this category for development can be a prolonged and contentious process. Often, public opinion, not economics, influences a governing body's decision. Examples being ISD 709 attempts to rezone and repurpose Rockridge and Central High School vacated school sites. The public decision making process influenced by public opinion often introduces a level of risk and project criteria which can adversely impact successful outcome.

Acknowledging inputs which influence the subject's future use opportunity (i.e., location of utilities, access, view amenity, consumer market demand, etc.), diversity in SFR occupancy type should be anticipated. To accommodate this, it is most likely PUD approval would be sought. Due to public opinion and city council control, a lengthy and costly approval process with unknown restriction requirements may be experienced. While the test of legal permissibility must be met for any development to occur, a positive outlook is anticipated, but outcome not guaranteed.

The second criteria is **physical possibility** for the land to accommodate the proposed conceptual use. The 268.53± acres as a whole feature an elongated, shape extending about 1/3rd± mile in breadth by 1± mile in length. Project exhibits depict and site observations concur the acreage as a whole undulates steadily downward in elevation (250± feet) from its northerly boundary (930-foot elevation) to its southerly boundary (680± foot elevation). Its westerly boundary is defined by the Lester River Road and its southerly boundary by East Superior Street and Minnesota Highway 61. Public utilities are located at the southwest corner and water is extended to the existing clubhouse located in the southerly sector of the course. The remainder of the acreage is absent utilities. Although costly, utilities could be extended. Municipal water does service the Eastridge development an 1/8th mile east of the northeast corner of the course. Absent soil

borings, available information suggests variable soil depth over bedrock with non-native fill to have been used to create greens/fairways. A number of course developed water hazards and natural runoff riverlets exist. By all indications, the subject's physical characteristics could accommodate redevelopment. Therefore, the physical possibility test can be met.

The third criteria, **financial feasibility**, is often the most difficult to ascertain, yet is of greatest importance in conceptualizing a property's highest and best use. Although the land's physicality may support diverse uses, a highest and best use must be economically feasible and within parameters of market expectations/consumer acceptance. It must also meet an acceptable level of financial risk. A highest and best use financial feasibility analysis explores and distills all available market inputs in determining the land's most probable economic use opportunity. If a conceptual use is to be SFR development, it is vital inputs pertaining to that market segment be fully considered. The primary of these inputs, as earlier discussed, includes a community's historical and projected demographics, its population trends as well as settlement patterns. Project specific data needs to relate to competitive market inventory, manageable absorption, competitive market forces, consumer design preference and expectation price as known. A comprehensive review of these inputs guides the decision making process in conceptualizing an SFR development project with respect to its design, occupancy mix, scope of development, and price expectation. They form a basis in determining a property's economic highest and best use. These inputs also contribute to projecting a supportable absorption time necessary to meet risk tolerances and investment criteria of a knowledgeable investor/developer. Recognizing the subject acreage is publicly owned, this process would also determine if the administration's goals and project complexities would be better initiated by private investment and/or the public sector.

The fourth criteria is **maximum productivity** of the land. This concept is a reconciliation of the preceding criteria. If the proposed use meets legal standards, is physically possible and financially feasible, the test of maximum productivity is met.

CONCEPTUAL-LAND REPURPOSE SCENARIOS

Once it is concluded that a property's maximum productivity and economic gain is best achieved through repurposing (in whole or part), conceptual planning occurs. This process recognizes the nature of the subject acreage as well as its most probable repurposing opportunity. For example, it is reasonable to anticipate Lester Park Golf Course may be repurposed in whole or part for residential adaptation but not an industrial park. In land planning, once a probable use has been determined (i.e., residential), conceptual scenarios are explored to identify those most consistent with a community's demographic, economic and market profile for the given land use category.

The explorations repurpose scenarios presented herein are only conceptual, and may differ significantly from what is actually developed. The scenarios are only intended to illustrate development potential predicated on factors noted in the highest and best use discussion. Engineering and development cost data has not been explored for these concepts.

Concept 1

This scenario assumes closure of the golf course and disposition redevelopment of the 268.53± acres as a whole. It recognizes market observed demand for mixed residential building styles inclusive of apartments, townhomes, twin home sites, and single-family dwellings. The city has a rising need for affordable housing. Historically, this sector of the city's housing profile has been absent from suburban development. The subject's location adjacent to public transportation and consumer services introduces opportunity to creatively integrate this housing component into traditional neighborhood environs. Approximately 76 acres or 30±% of the total site is retained as open space. This concept requires municipal approval for a residential, mixed use, planned unit development (PUD). The greatest occupancy density (apartments and townhomes) should be concentrated in a southwesterly sector of the acreage, accessible to all municipal utilities and public transportation. This location is also at the lowest elevation. Twin homes, perceived to be of low rise, one-story, side-by-side style, are placed in the mid-acreage to capitalize on adjoining green space and improved views. Public utilities could be extended to these locations. The upper elevations are reserved as single-family home sites. The majority of these sites would enjoy an at-distance view of Lake Superior and/or the Lester River valley. The illustrated development density would require public utility service. Since the city sewer is in Superior Street at the toe of

the slope, the downward gradient could assist the project's sewer infrastructure linkage with the same. Conversely, to accommodate water service up the 250± foot rise, alternative engineering may be required. Should a hilltop water tower be considered, additional environmental debate with respect to viewshed and possible necessity for an abutter land acquisition may occur.

A PUD of this magnitude and occupancy diversity necessitates a prolonged planning and approval process as well as a staged infrastructure development, and phased disposition. This, in turn, will require either a sophisticated developer with a high degree of risk tolerance and financial means to carry the project through, or a public agency with development experience and administrative support to manage the project and assure its success. In today's real estate environment neither developers, their financial backers, nor mortgage lenders are interested in pursuing high-risk, long term, SFR development projects.

Therefore, it is reasonable to anticipate the scope and investment required for Concept 1 would introduce to private developers a risk expectation warranting price concession to encourage acquisition of the 268.53± acres as a whole. Predicated on available data, and under the assumption of a development as a whole concept, the price concession should reflect a probable range between \$5,500± to \$6,500± per acre. Applying these factors results in the following value range.

268.53± acres @ \$5,500 per acre = \$1,476,915
268.53± acres @ \$6,500 per acre = \$1,745,445
(R) \$1,500,000 to \$1,800,000

Concept 2

Lester Park Golf Course is part of Duluth's recreational heritage. Since 1938, it has provided recreational opportunity for a diverse segment of Duluth's population as well as that of the surrounding region. Although Concept 2 recognizes the continued importance of this recreational venue to the general public, it also recognizes the need to improve portions of the Lester Park Golf Course's operational deficiencies as well as divest excess land for economic betterment of the city as a whole. In essence, this scenario conceptualizes disposition and repurposing of the

Lakes Nine portion of the course (102± acres) as well as partial reconfiguration and retention of the original 18 holes to improve its play and economic Performa.

Past initiatives on the part of the city to expand and improve both the physical and economic operation of Lester Park Golf Course have been less than successful. Albeit the course averages 38,000± rounds per year, its operational bottom line, as attached, is negative. Of various reasons presented within the NGF Golf Course Assessment Study, one relates to the golf course clubhouse food/beverage income deficiencies. The existing clubhouse (1938) is built within the boundary of the original Town of Lakeside, which prohibited the sale of alcohol. This covenant carried forward when Lakeside was annexed by Duluth in the early 1900's. The NGF study indicates a typical food and beverage concession at a public golf course produces approximately \$5.61 per round, including banquets. Lester Park's average food and beverage revenue per round approximated \$3.54 in 2010. The study further states what cannot be accurately measured is the loss of rounds due to golfers not willing to play Lester Park because of the lack of liquor sales. On a comparative basis with Enger, that may be 5±% in lost rounds. Assuming averages, the \$2.07 difference equates to \$78,000± in potential lost revenue in just the golfing sector. The lack of full food/beverage service also reduces general public desirability to rent the clubhouse for banquets, meetings, community events, etc. Of equal import is the failure of the clubhouse to capitalize on the property's primary physical asset which is an at distant view of Lake Superior and the Amity/Lester River valley. An improved venue of this type could contribute to the tourism market and general community benefit.

The repurposing of the Lakes Nine (102± acres) theme employs an integrated mix of residential occupancy style inclusive of detached townhomes (108 units), twin homes (26 units), and single-family dwelling sites (15). Recognizing location and cost of utility infrastructure, the greater density twin-home/townhome units should mostly be clustered in a southwesterly sector of the whole nearest utilities and public transportation. The Lakes Nine tract is narrow in configuration and meanders northeastward along Minnesota Highway 61 frontage. The Concept 2 schematic indicates a lessening density transition from the southwest to the northeast, where 9± of the 15 single-family sites are located. Each enjoys a lake view and is sized to accommodate an on-site waste management system, albeit municipal water extension could occur. Four± sites with

appropriate design control and self-contained well/waste management might be incorporated into wooded sectors of the reconfigured eighteen-hole course. The remaining few single-family sites could be infill along fairway edge near the twin home sector. A multi-focus project of this nature may be best accommodated through a partnership with private investment and public sector. Again, to meet maximum success, design criteria should focus on consumer favored design criteria inclusive of low to moderate rise architecture, open space amenities, relaxed site management, garaging/storage, etc.

Predicated on available data and assuming disposition/development criteria in harmony with this concept, a most probable range in price expectation can be estimated between \$7,000± and \$9,000± per acre. Applying these factors to the Lakes 9 acreage results in a potential range in price expectation as follows.

102± acres @ \$7,000 per acre = \$714,000

102± acres @ \$9,000 per acre = \$918,000

(R) \$750,000 to \$950,000

Concept 3

This scenario acknowledges public support for continued operation of the course, yet allows opportunity for select, infill, single-family development. The conceptual development exhibit depicts 24± randomly spaced locations intended to accommodate low impact, single-family home sites. Through deed restrictions and development covenants, the home sites could be screened from the golf course fairways. Those of upper elevation should have view amenity. Each site would be utility self-sufficient. To reduce cost/environmental course impact, private access roads would be employed. Concept 3 should be attractive to a private developer/investor: Proximity to municipal utilities, public transportation and site characteristics should accommodate townhome units in the southwesterly sector.

Market observations suggest single-family home sites historically experience a broad range in price expectation. Virtually all SFR lots within the competitive market are serviced by municipal utilities (only a few with water only) and streets constructed to public standards. Lots of average quality/location tends to represent the low to mid-range (\$35,000 to \$55,000), while those of

exceptional eco-characteristics (Lake Superior view, river edge, lakeshore, etc.) tend to represent the upper (\$95,000 to \$150,000). These averages exclude outliers. Although Concept 3 lots are depicted have unique locational attributes (some with lake views), the location itself creates a challenge. The concept anticipates lots to be self-contained mostly without municipal utilities. An owners' cluster group association would be responsible for maintenance of the private drive linking home sites to public thoroughfare. Deed restrictions and building covenants would likely determine development zone and vegetation requirements to retain the integrated golf course viewshed. This development concept is similar to that used by Ridgeview Country Club for its 2003 partitioning and development of six clustered lots (aka "The Views at Ridgeview.") The Ridgeview project, however, featured a cul-de-sac layout at the westerly end of W. Wabasha Street. All lots were serviced by municipal utilities. Each of the six lots featured either a golf course or forest-edge view. They were pre-recession marketed within a 24-month period at a price range of \$60,000 to \$98,900 with the average being \$87,400.

Although Concept 3 minimizes development infrastructure cost, accelerated risk of rezone and public design conditions remain. Further, it is reasonable to anticipate infill site design, building zone determination, landscape preservation, etc., may incur above normal per site engineering costs. Road improvement expense should be less than that of public street standards. Simply, covenant restricted residential sites experience lesser price expectation than those which are unrestricted. Predicated on market derived observations, lots of this type may experience an average retail price expectation at a range between \$50,000 to \$85,000. The twin home sites should approximate \$40,000 per double unit.

The potential range in price expectation expressed in development Concepts 1 and 2 relate to observed wholesale or "parent parcel" price per acre observations. Concept 3 expresses a potential retail price expectation. An analysis of development ratios suggest, on average, the "parent parcel" price paid by developers ranges from 20% to 40% of gross retail price potential. Ratio disparity relates to project variables and development risk. While any development proposal has inherent risk, Concept 3 is significantly below that which would be experienced in the other two. For purposes herein, a 30% to 35% range is appropriate. Applying these factors to

development Concept 3's average potential retail results in a range in price expectation approximating \$400,000± to \$500,000±.

DEVELOPMENT CONCEPT RECONCILIATION

Conceptualizing for disposition and repurposing of Lester Park Golf Course (in whole or part) presents unique challenges. It is reasonable to anticipate recreationalists, environmentalists, city council and the general public will debate the issue at length. Future use opportunity of Lester Park Golf Course may be a reflection of the community's political will rather than purely economic.

For discussion purpose, three disposition/repurpose concepts were explored. All recognized future use to be mixed residential designed to accommodate evolving market expectation for single-family, townhomes, twin bungalows, and apartments. Conceptual layouts recognized the land's physical/functional characteristics, transport and utility corridors.

Concept 1 assumed full closure of the course and repurpose of its 268.53± acres as a whole. The project scale would significantly exceed foreseeable market scale, thus require a shared development and disposition plan. A project of this magnitude, risk, and investment criteria most likely would exceed private market capacity. In the end, public agency participation such as HRA at Hawks Ridge or Harbor View should assure long-term project success and completion of administrative goals. Taking into consideration factors influencing repurpose development, primarily competitive market forces, a most probable range in price expectation for the 268.53± acres as a whole, assuming the purpose intended, is estimated between \$1,500,000± to \$1,800,000±.

Concept 2 explores disposition of the Lakes Nine 102± acre part of the whole, combined with renovation of the remaining 18 holes and clubhouse replacement. Most sources concur, the 1988 Lakes Nine addition has not meet player satisfaction, attracted tourism nor increased revenue as originally anticipated. The NGF golf course analysis highlighted course deficiencies to include course layout as well as economic obsolescence of the 1938 clubhouse. Economically, its food

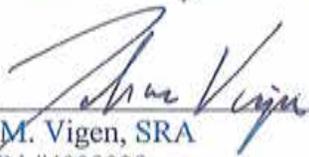
service revenue trails national averages as well as that of Enger. Clubhouse reconstruction at upper elevation would achieve two important results. The first would be introduction of panoramic views of Lake Superior and the Amity/Lester River valley. The second would be to eliminate a location prohibition of the sale of alcohol. Both would result in expansion of user groups beyond the golfing community, create another potential tourism venue, and improve food/beverage revenue opportunity. This concept introduces a mix of housing types inclusive of single-family, twin homes, townhomes, and apartments. The scope of this concept exceeds market absorption expectation, which is best mitigated through a phased development/disposition plan. As with Concept 1, to successfully fulfill administrative goals, a project of this scope is best managed by a public agency familiar with complex development scenarios. Predicated on available data, disposition under a scenario of this type should result in a range in price expectation between \$750,000± to \$950,000±.

Concept 3 explores infill residential development opportunity assuming Lester Park Golf Course continues operation on an “as is” basis. This concept integrates residential building sites into randomly dispersed, forested environs. An area fronting Lester River Road is accessible to public utilities and suitable for greater density (i.e., townhomes/apartments). The single-family sites are perceived to be self-contained (well/septic) and accessed by association managed private roads. The overall development pattern would feature a number of clusters comprised of a few residential lots randomly dispersed near the course’s periphery. A project of this scope is competitive with market observations and should be acceptable to risk tolerances of private developer/investors. A most probable range in value for this scenario was allocated to be \$400,000± to \$500,000±.

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, conclusions, and recommendations.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
- 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.
- 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 development or 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.
- 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 the Uniform Standards of Professional Appraisal Practice.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant real property appraisal or appraisal consulting assistance to the person signing this certification.
- As of the date of this report, I have completed the requirements of the continuing education program of the Appraisal Institute.



John M. Vigen, SRA
CG MN #4000928

May 3, 2013
Date

QUALIFICATIONS OF THE APPRAISER

John M. Vigen, SRA, RM

Present Position: Ramsland & Vigen, Inc.
Real Estate Appraisers & Consultants
Lonsdale Building
302 West Superior Street, Suite 600
Duluth, Minnesota 55802

Past Real Estate Experience: Thirty-eight years real estate experience consisting of appraisals, residential and commercial sales, and property management.

Professional Associations: Appraisal Institute
North Star Chapter
(Past President - 2000)
(Lake Superior Chapter No. 183)

Duluth Board of Realtors

License: Minnesota Real Estate Appraiser - #4000928
Certified General Classification

Wisconsin Real Estate Appraiser - #750-010
Certified General Classification

Member: RM Designation #1363 (1979)
(Former - American Institute of Real Estate Appraisers)

SRA Designation, Certification #909007 (1980)
(Former - Society of Real Estate Appraiser's)

Certified Instructor, State of Minnesota
Department of Securities, Real Estate Division

**Conservation Easement
Related Real Estate
Appraisal Education:** Compliant with qualifying and continuing education requirement for:

- Appraisal Institute
- State of Minnesota
- State of Wisconsin

Uniform Standards of Professional Appraisal Practice

Land Trust Alliance Symposiums
(1996-2008)

Vigen (continued)

Real Estate Appraisal
Education Continued:

National Conservation Training Center – (1999)
Land Conservation Strategies

Federal Land Exchanges & Acquisitions – (2008)

Appraisal Seminars/Courses of Diverse Content (1975-2010)

Representative Client List:

3M – Real Estate Department
Conservation Fund
Employee Relocation Council
Federal Deposit Insurance Corporation
Iron Range Resources & Rehabilitation Board
LTV Mining Company, Lands and Minerals Division
Metropolitan Federal Bank
Minnesota Cities of:
Bemidji
Cromwell
Cloquet
Duluth
Grand Marais
Hermantown
Moose Lake
Proctor
Two Harbors
Minnesota Counties: St. Louis, Lake, Cook, Cass,
Koochiching, and Aitkin.
Minnesota Department of Natural Resources
Minnesota Land Trust
Minnesota Parks and Trails
Minnesota Power and Light Company
Nature Conservancy
North Shore Bank of Commerce
Pottlatch Corporation
Republic Bank of Duluth
Soo Line Railroad
City of Superior, Wisconsin
Community Development Program
State of Minnesota
Trust for Public Land
United States Forest Service
University of Minnesota
Office of Real Estate Coordinator
U.S. Bank System
USX
Northern Land & Minerals Division
Wells Fargo
Western National Bank

DRAFT

DRAFT

ATTACHMENTS

**Comprehensive Review and
Operations Assessment**
for
**Enger Park and Lester Park
Golf Courses**
in
Duluth, Minnesota

Prepared For:

City of Duluth, Minnesota
Parks and Recreation Division
411 West First Street
Duluth, MN 55802

Prepared By:

NGF CONSULTING
NATIONAL GOLF FOUNDATION

1150 South U.S. Highway One, Suite 401
Jupiter, FL 33477
(561) 744-6006

October 2011

LESTER PARK GOLF COURSE

Lester Park has a lot of similarities to its sister course, including also being a 27-hole layout. Lester Park also shares most of the same operational concerns and facility issues, including an aging golf course and clubhouse.

Lester Park is located at the northeastern corner of the City (on the border), much further away from the population center. However, it is located less than a mile from Lake Superior and it offers spectacular views of the Lake from a large percentage of the holes.

Facility Overview

Lester Park is a few years newer than its sister course, opening in 1938. The course was expanded from its original 18 to 27 holes in 1988 at the same time Enger Park was expanded. Dick Phelps again was the designer. However, unlike Enger Park, the nine new holes were not integrated with a 2nd nine, but formed a completely new nine. The existing 18 holes received only a new irrigation system and a few cosmetic changes. The result is an even worse configuration than Enger Park with a much stronger differential between the "new" nine (Lake Nine) and the older 18. As a result, the course is almost always set up as an 18-hole course (Front and Back nines) and a 9-hole course (Lake).



The Lake nine, being a more modern nine, differs considerably from the other two nines. In addition to having modern green and tee complexes, it features a lot more elevation

changes, narrower fairways, and a lot more bunkers. It is considered to be substantially more difficult than the other two nines. As a result, staff reports it is much less popular. (However, its design, layout, and superior aesthetic value would make it much more popular with tourists – Unfortunately, being only nine holes makes it an unlikely choice.)

As with its older sister, Lester Park has an old clubhouse that lacks air conditioning and is in need of updating. However, its clubhouse has a much better layout and is more functional than Enger Park GC.

Golf Course

The Lester Park Golf Course features interesting elevation changes and dramatic vistas. As with Enger Park, there are no residential developments along the course. Unlike Enger, Lester Park has little room for expansion, but does have room for renovations and improvements.

Both the Front and Back nines have 10 sand bunkers each. The Front has three holes where water comes into play, while the Back has two. In contrast, the Lake nine has 25 sand bunkers but just one water hole.

While the irrigation system for all 27 holes was installed in 1988, seventeen of the greens are original and date back to 1939. However, even the greens on the Lake nine are approaching the end of the normal life cycle for greens as twenty-three year of age.

Lester Park Golf Course			
Men's Course Yardage / Rating / Slope			
	Front	Back	Lake
Blue	3183/35.4/118	3189/35.5/125	3417/37.1/144
White	3061/34.8/116	3061/34.7/119	3168/36/137
Red	2811/36.2/127	2271/36.5/121	2693/36.6/132

Unlike its sister course, Lester Park only has three sets of tees. Yardage from the back tees for the Front and Back 18 total only 6,371, making it a relatively short course by modern standards. Because of its shorter length, lack of traps, older greens, and lower difficulty level, the Front/Back 18 holes are not very appealing to lower handicap golfers or tourists. The Lake nine, however, would be appealing to this group except that it has only nine-holes and lower handicap players and tourists tend to prefer 18 holes.

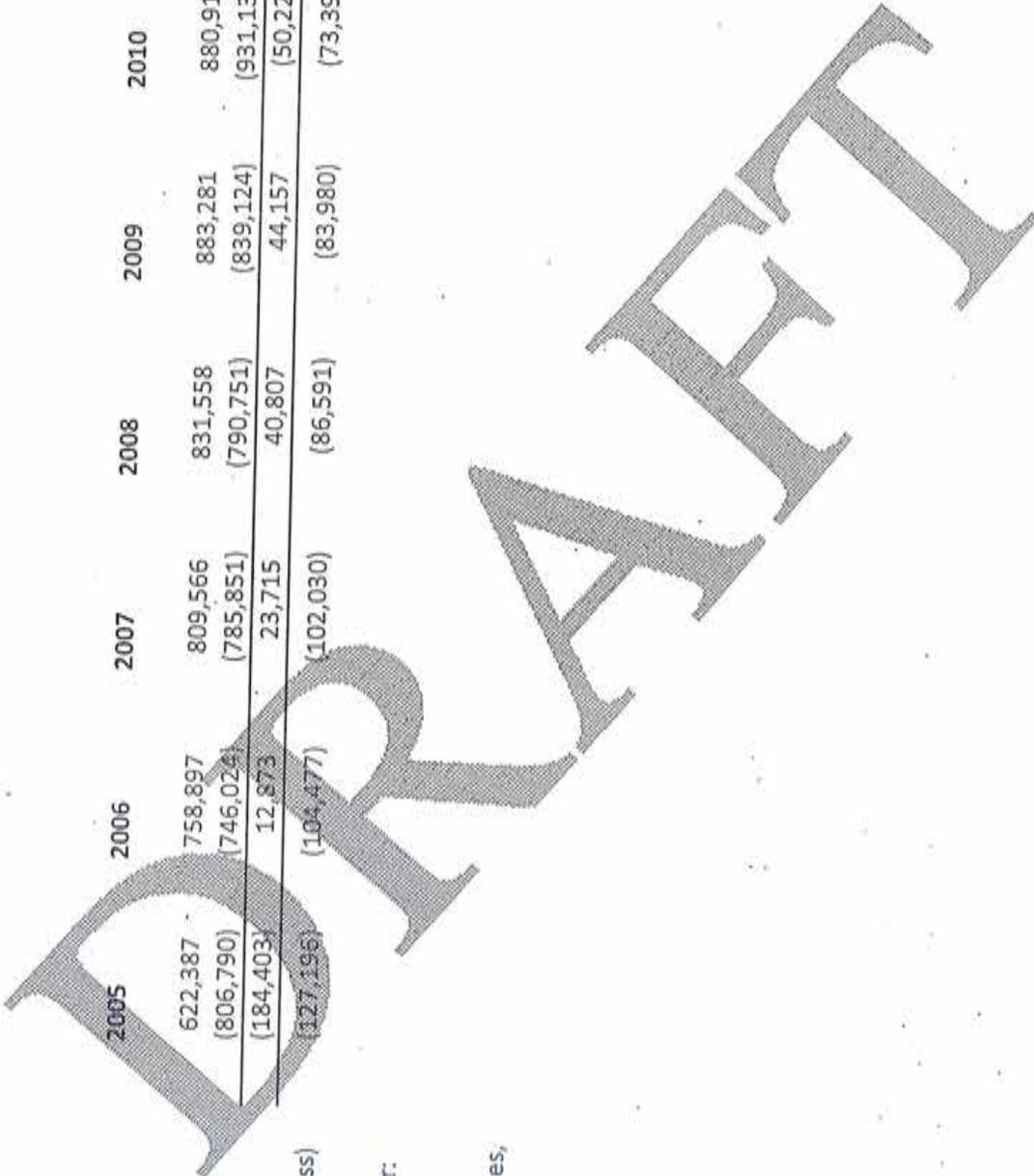
At 5,082 yards from the front tees, Lester Park does set up better for women. But the lack of "senior" tees (around 5,500 yards), likely both hurts play from seniors and will slow down the pace of play as the seniors who do play will do so from longer than ideal, thus taking more strokes and slowing play.

We do note that number 4 on the Lake hole appears to be unfair, featuring a badly sloping fairway that pushes the ball in the opposite direction to the dogleg and usually into the woods.

LESTER PARK GOLF COURSE FINANCIAL SUMMARY

	2005	2006	2007	2008	2009	2010	2011	2012
Revenues	622,387	758,897	809,566	831,558	883,281	880,915	849,485	869,494
Expenses	(806,790)	(746,024)	(785,851)	(790,751)	(839,124)	(931,139)	(863,871)	(1,001,422)
Net income/(loss)	(184,403)	12,873	23,715	40,807	44,157	(50,224)	(14,386)	(131,928)
Adjusted net income/(loss)	(127,196)	(104,477)	(102,030)	(86,591)	(83,980)	(73,394)	(132,312)	(117,771)

Following adjustment for:
 Gain (Loss) on sale of
 capital assets,
 depreciation and annuities,
 interest expense





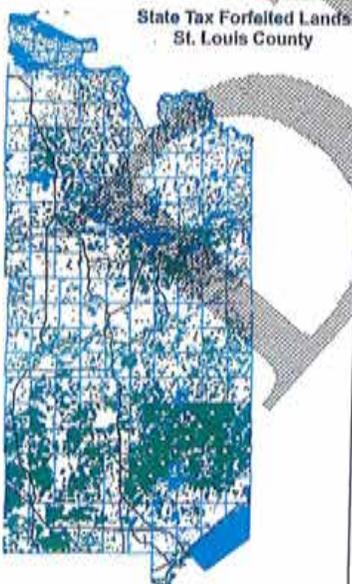
Land Department

Mission Statement

St. Louis County Land Department's vision is to provide the optimum combination of benefits from tax forfeited lands through leadership and a commitment to a standard of excellence in the management of the Tax Forfeited Trust for the people of St. Louis County. The mission of the St. Louis County Land Department is to promote, enhance, and protect St. Louis County Tax Forfeited Trust lands by providing professional expertise in the use of sound land management principles.

Tax Forfeited Lands

The St. Louis County Land Department manages approximately 900,000 acres of State tax forfeited land for the benefit of the citizens and taxing districts of the County.



Conditional Use Deeds

On State Tax Forfeited Lands

Information Guide

What is a Conditional Use Deed?

Since the 1940s the Minnesota Department of Revenue (DOR) has issued conditional use deeds to local government units (LGU) conveying State tax forfeited land free of charge for roads, fire halls, trails, playgrounds, and other authorized public uses.

What is the Law?

A LGU may retain the title to a parcel of tax forfeited land as long as it continues to be used for the authorized public use listed in the deed. If the parcel is not used as authorized, the LGU must voluntarily reconvey the property to the state. If the LGU does not voluntarily complete the reconveyance, the DOR must enforce the rule of reversion (M.S. 282.01, Subd. 1e). The rule of reversion also applies when only a part of the parcel is being used for the authorized public use. The LGU may retain the title to the part that continues to be used as authorized; however, the title to the part that is not being used as authorized must be reconveyed to the state.

Under new legislation effective July 1, 2010, all property conveyed under a conditional use deed by the Commissioner of Revenue is released from the use restriction and the possibility of reversion on the later of January 1, 2015; or, 30 years from the date the deed was issued.

What is the Land Department's Responsibility?

The new reversion clause does not expire until 2015 to allow for compliance review of older conditional use deeds. The Land Commissioner, as Trustee for the citizens and agent for the DOR, has a fiduciary and legal responsibility to ensure that Trust lands are being used for the authorized public use for which they were conveyed. The Land Department, with the support of the County Board, is reviewing conditional use deeds and will report back to the DOR and the LGU with its findings and recommendations.

What Options are Available to the LGU?

If the approved public use has been abandoned on a deeded parcel the Land Department will work with the LGU to determine if a new deed should be issued stating a use that more accurately describes the current use. The LGU also has the option to purchase the property. Any such conveyance is subject to the approval of the County Board. The final decision on whether a deeded parcel should revert to the state rests with the DOR.

Authorized Public Uses

1. A road, or right-of-way for a road;
2. A park that is both available to, and accessible by, the public that contains amenities such as campgrounds, playgrounds, athletic fields, trails or shelters;
3. Trails for walking, biking, snowmobiling, or other recreational purposes along with a reasonable amount of surrounding land;
4. Transit facilities for buses, light rail, commuter rail, or passenger rail;
5. Public beaches or boat launches;
6. Public parking;
7. Civic recreation or conference facilities;
8. Public service facilities such as fire halls, police stations, lift stations, water towers, sanitation and water treatment facilities, and administrative offices.

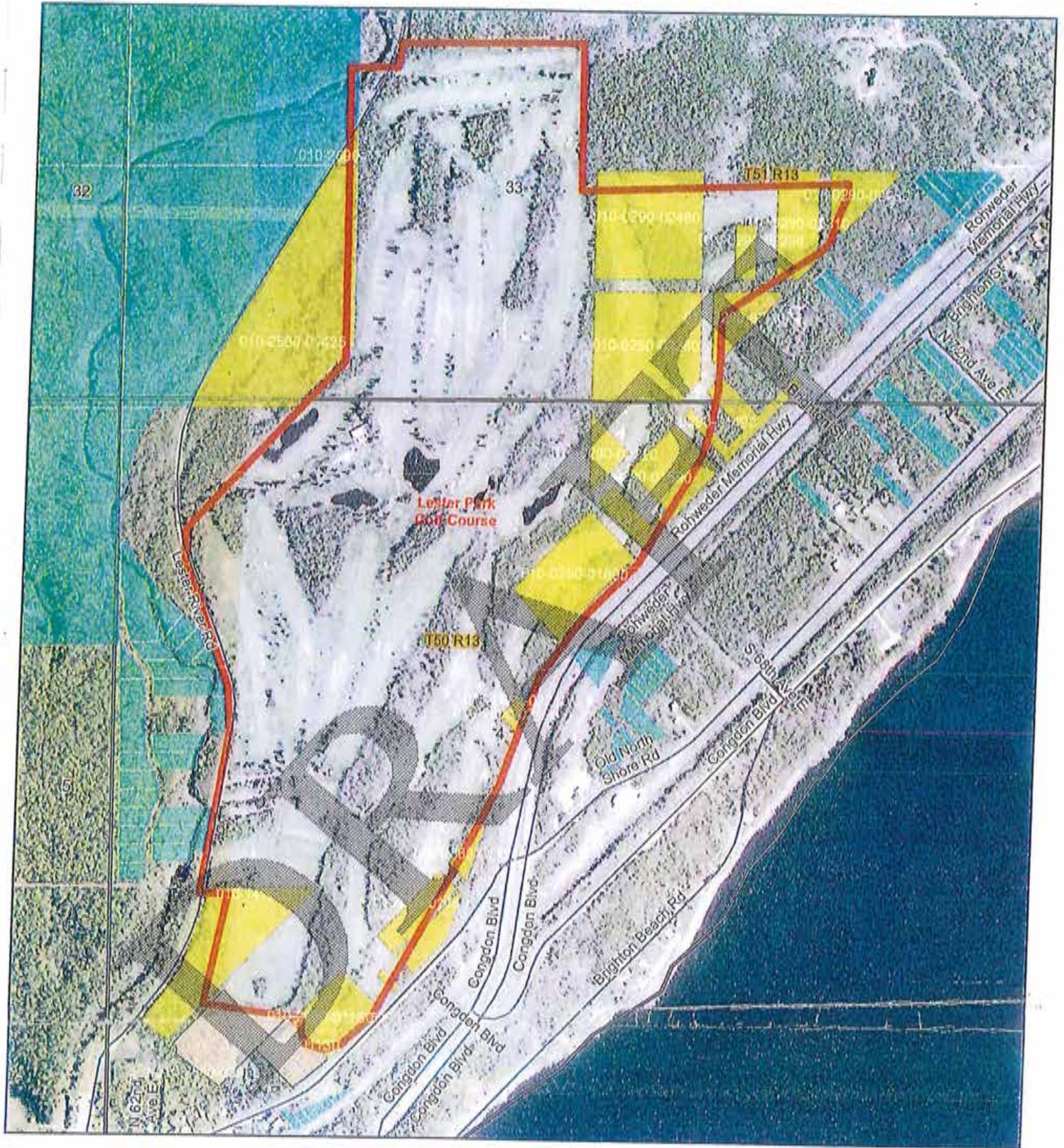
Forms and Assistance

St. Louis County Land Department
Government Services Center
320 West 2nd Street Rm 607
Duluth, MN 55802-1495
218-726-2606
<http://www.stlouiscountymn.gov/>

Minnesota Department of Revenue
600 North Robert St.
St. Paul, MN 55101
651-556-6113
<http://taxes.state.mn.us/>



Tax Forfeited Parcels Conveyed by Conditional Use Deed



Legend

-  Conveyed Parcels (66 Acres)
-  Reconveyed
-  Tax Forfeit Parcels
-  DuluthParkLands (230 Acres)



This drawing is neither a legally recorded map nor a survey and is not intended to be used as such. This drawing is a compilation of recorded information and data located in various city, county, state and federal offices. St. Louis County is not responsible for any incorrectness herein.

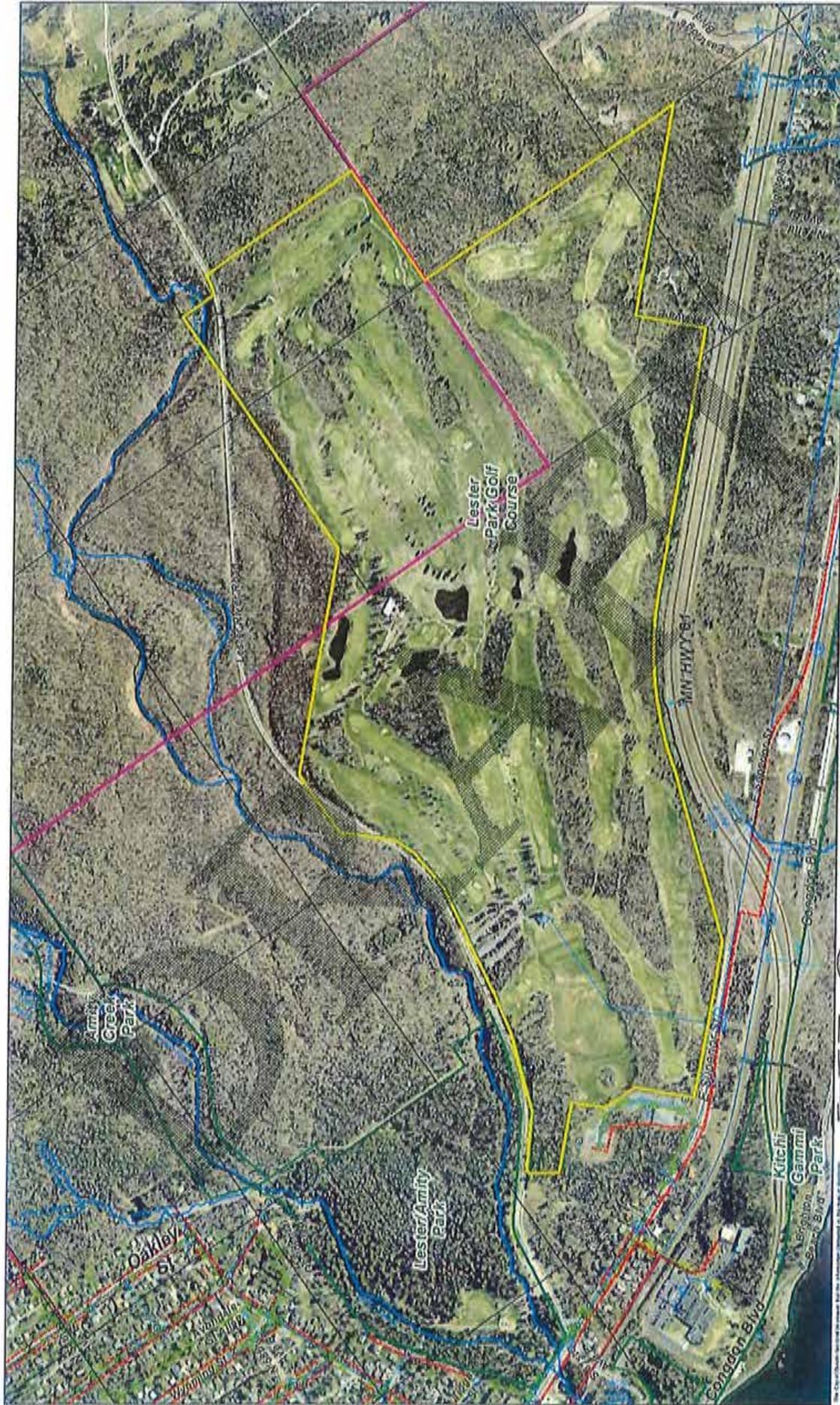


photo date: 2011
 Project: 33000003



Duluth Parcel Mapping



The City of Duluth is participating in the National Wetlands Inventory (NWI) project. The NWI is a national effort to identify and map wetlands across the United States. The NWI is a critical component of the National Wetlands Inventory (NWI) project. The NWI is a critical component of the National Wetlands Inventory (NWI) project. The NWI is a critical component of the National Wetlands Inventory (NWI) project.



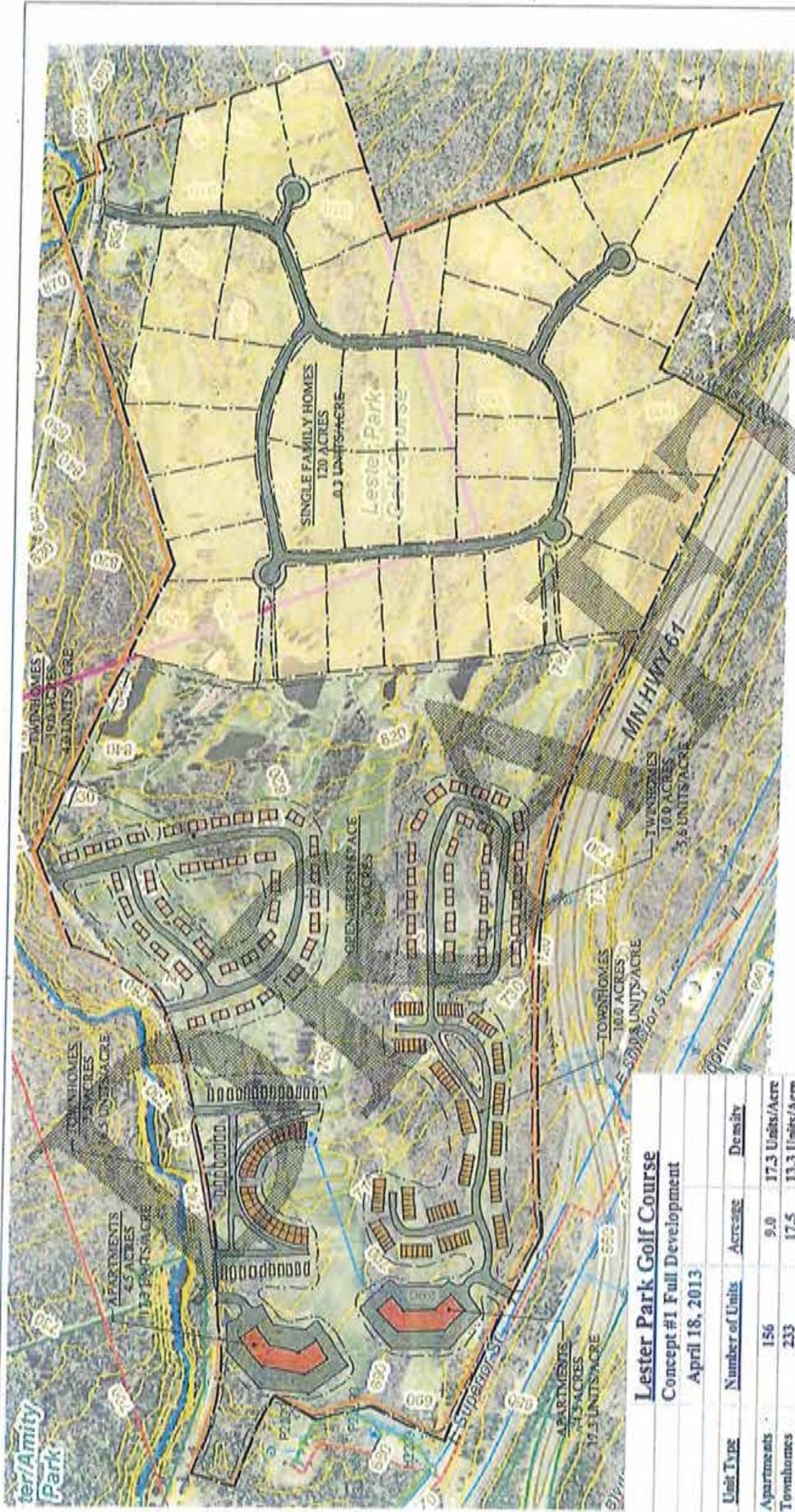
photo date: 2011
Project: 3200013



Duluth Parcel Mapping



The City of Duluth has been awarded a grant by the Minnesota Department of Natural Resources to fund a project to restore the Lester Park Golf Course. The project will include the installation of a new drainage system, the removal of existing drainage structures, and the installation of new drainage structures. The project will also include the installation of new drainage structures. The project will also include the installation of new drainage structures.



SHEET C-1
18 APRIL 2013

LESTER PARK GOLF COURSE - CONCEPT #1

Lester Park Golf Course
Concept #1 Full Development
April 18, 2013

Unit Type	Number of Units	Acreage	Density
Apartments	156	9.0	17.3 Units/Acre
Townhomes	233	17.5	13.3 Units/Acre
Twinhomes	132	29.0	4.55 Units/Acre
Single Family	37	120.0	0.3 Units/Acre
Open/Green Space	N/A	76.0	N/A
Total	558	251.5	2.22 Units/Acre



Lester Park Golf Course
 Concept #3 27 Hole Golf Course with Development
 April 18, 2013

Unit Type	Number of Units	Acreage	Density
Twinhomes	8	4.7	1.7 Units/Acre
Single Family	24	45.3	0.55 Units/Acre
27 Hole Golf Course	N/A	210.5	N/A
Additional Land (Included in SF acreage)	N/A	7.0	N/A
Total	32	258.5	0.12 Units/Acre



SHEET C-3
18 APRIL 2013

LESTER PARK GOLF COURSE - CONCEPT #3