

**Executive Summary  
of  
Appraisal  
of  
Keweenaw Land Association, Limited  
(161,940.21 Acres)**

**December 31, 2012**

**Prepared For:  
Mr. Brian Glodowski  
Manager of Operations  
Keweenaw Land Association, Limited  
1801 East Cloverland Drive  
P.O.Box 188  
Ironwood, Michigan 49938**

**By**

**Steigerwaldt Land Services, Inc.**

**This summary is provided to assist Keweenaw Land Association, Limited shareholders with supplemental information regarding the December 31, 2012, Appraisal completed by Steigerwaldt Land Services, Inc. The specific intended use of the Appraisal is limited to the Board of Directors of Keweenaw Land Association, Limited and publication and distribution of the report is expressly prohibited.**

**EXECUTIVE SUMMARY**  
**of**  
**REAL ESTATE APPRAISAL – SUMMARY REPORT**

**Summary of Facts and Conclusions**

- A. Landowner: Keweenaw Land Association, Limited  
1801 East Cloverland Drive  
P.O. Box 188  
Ironwood, Michigan 49938
- B. Acreage and Location: The subject property consists of 161,940.21 acres located in parts of 11 counties – Baraga, Dickinson, Iron, Ontonagon, Houghton, Marquette, and Gogebic Counties, in Upper Michigan; and Bayfield, Forest, Florence, and Iron Counties, in northern Wisconsin.
- C. Improvements: No improvements are included in this valuation of the subject property.
- D. Highest and Best Use: The highest and best use of the property, as a whole, is forest management and timber production.
- E. Date of Value Estimate: The property is appraised as of December 31, 2012.
- F. Market Value Estimate: \$140,100,000.00

### **Client and Intended Users**

The client for this appraisal is Mr. Brian D. Glodowski, Manager of Operations, Keweenaw Land Association, Limited (KLA). Intended users of this report are the administrative staff and the Board of Directors of KLA. Publication or distribution of this report in any manner is expressly prohibited.

### **Purpose and Intended Use of Appraisal**

The purpose of this appraisal is to estimate the cash market value of 161,940.21 acres of land owned by Keweenaw Land Association, Limited in parts of Gogebic, Ontonagon, Houghton, Baraga, Iron, Marquette, and Dickinson Counties, in Upper Michigan; and Bayfield, Iron, Forest, and Florence Counties, in northern Wisconsin. The assignment is an update of an appraisal with an effective date of December 31, 2009 (report date of January 6, 2010) previously completed for the client by Steigerwaldt Land Services, Inc. The intended use of this update will be to establish any change in value since the January 2010 report, and to provide information to the administrative staff and Board of Directors of KLA that can be used to assist in business planning and overall asset management.

## **Statement of Assumptions and Limiting Conditions**

Title to the property is assumed to be marketable. The appraisers assume no responsibility for matters of legal nature, especially those affecting title to the property.

The legal descriptions furnished to the appraisers are assumed to be correct.

The valuation is based upon an estimated timber volume provided by the client. No current timber cruise information was obtained by the appraiser for this specific assignment. The appraisers reserve the right to adjust the final value estimate based upon any new timber inventory information that may become available in the future. Other information in this report furnished to the appraisers by the client or third parties is believed to be reliable and correct, but no responsibility is assumed for its accuracy.

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The land is appraised as though free and clear of liens and mortgages, but outstanding third party leases and interests are reflected in the appraised value.

Maps, sketches, or drawings in this report are believed to be correct and are included to assist the reader in visualizing the property. No legal surveys were conducted regarding the location of descriptions provided.

Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraisers. The appraisers have no knowledge of the existence of such material on or in the property appraised. The appraisers, however, are not qualified to detect such substances. The presence of potentially hazardous materials may affect the value of the property. The value estimate is based on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions or for any expertise or engineering to discover them. The client is urged to retain an expert in this field if desired.

## Definition of Market Value

Market value is defined as follows:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- A) buyer and seller are typically motivated;
- B) both parties are well informed or well advised, and acting in what they consider their own best interests;
- C) a reasonable time is allowed for exposure in the open market;
- D) payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
- E) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

*(The Dictionary of Real Estate Appraisal, 5<sup>th</sup> Edition, Appraisal Institute, 2010.)*

## Report Option

This report is a Summary Appraisal Report prepared in accordance with Standards Rule 2-2(b) of the *Uniform Standards of Professional Appraisal Practice*. As such, it presents sufficient information to enable the client and other intended users, as identified, to understand it properly.

## **Scope of Work**

The subject property is a large forestland tract located mostly in the western half of the Upper Peninsula of Michigan but including a few outlying parcels in Bayfield County, Forest County, Iron County, and Florence County, in northern Wisconsin. The forest cover of the property was mapped by Steigerwaldt Land Services, Inc. (SLS) in 1997/1998 prior to the implementation of a Geographic Information System. The subject was also appraised by SLS in the spring of 1998, in February 2001, in January 2004, in January 2007, and in January of 2010. In addition, inventories to obtain timber volume data on portions of the ownership were completed in 1993 and 1994. Because of this past involvement, a re-inspection of every parcel of the property for this update is neither feasible nor necessary to formulate a reliable estimate of market value.

Both the sales comparison approach and the income approach are applicable and will be utilized to determine the estimate of value. For the sales comparison approach, a market search for comparable sales of large forestland tracts in Michigan and Wisconsin will be conducted to identify recent market transactions. Any new sales will be investigated, inspected, and added to those already in our sales database. The “best” sales will be adjusted for inferior or superior value elements compared to the subject to arrive at the sales comparison approach value. The income approach value will be determined by calculating the hypothetical net present value of an annual income stream that could potentially be generated by the subject property. This assignment involves the development of a real estate appraisal provided in a summary report according to Standards Rules 1 and 2 of the Uniform Standards of Professional Appraisal Practice (USPAP – 2012-2013 Edition, effective January 1, 2012).

## **Estate Appraised**

The estate appraised consists of the fee simple interest, subject to rights of the state, the various counties, and the public for roads, and rights of electric, gas, and telecommunications utilities in line easements. The effect on value of these and other outstanding rights will be discussed in a later section of this report.

## **Effective Date of Appraisal**

The property is appraised as of December 31, 2012, as requested by the client.

## **Date of Appraisal Report**

The appraisal report was completed on January 16, 2013, which indicates that the perspective of the appraiser is current.

## **Description of Entire Property**

The subject property consists of approximately 161,940 acres located in parts of 11 counties in the central and western portions of Michigan's Upper Peninsula and northern Wisconsin. Complete land description lists are retained in the appraiser's files. A general location map, based on the GIS ownership data provided by the client, is included as Figure #1. Accounting for land purchases, disposals, and trades, the property has seen a net increase of 879.54 acres since December 31, 2009. By county, the current ownership totals are highlighted as follows:

**Keweenaw Land Association, Limited -  
Ownership by County**

<i>County</i>	<i>Acres</i>
Baraga, MI	40.00
Dickinson, MI	10,967.08
Gogebic, MI	80,765.54
Houghton, MI	19,000.79
Iron, MI	10,420.42
Marquette, MI	2,279.06
Ontonagon, MI	36,767.50
Bayfield, WI	200.00
Florence, WI	54.00
Forest, WI	160.00
Iron, WI	1,285.82
<b>Totals</b>	<b>161,940.21</b>

The acreage of the property to be appraised is based on company land and tax records as of September 30, 2012.

**Highest and Best Use**

Highest and best use is defined as the reasonable and probable legal use, or combination of reasonable and probable legal uses, that as of the date of valuation is most likely to produce the greatest present net return. The highest and best use must be legally permissible, physically possible, economically feasible, and maximally productive.

Based on our inspection and analysis of location, tract size, access, forest cover, land quality, and water features, it is our opinion, that the subject property, as a whole, has a highest and best use of forestry and timber production. The property could be held long term for timber growth and appreciation, or the timber resource could be harvested and the residual land sold over a 5- to 10-year investment plan.



The four criteria for highest and best use are analyzed as follows:

Physically Possible. The 161,940-acre property includes a well-stocked forest cover with above average volumes of mixed hardwood pulpwood and sawtimber. Interior roads and trails provide adequate access to most of the property, and the soils are well suited to the construction of additional roads for timber removals and recreational access after logging. The forest management or logging and resale plans are physically possible.

Legally Permissible. The zoning varies over the entire ownership, but most of the property is zoned for forest management and recreation. Minimum lot sizes are 10 acres or less and, in most cases, this would not impact the use of the property for timber production or division into smaller parcels. Land enrolled in the CFA (Michigan) or MFL (Wisconsin) tax law programs will be under the current management plan, which minimally affects harvesting or management. Long-term management or timber harvesting and resale of the land are both considered to be legally permissible uses.

Economically Feasible. Many potential buyers exist in the current market for well-stocked timberland. Loggers, timber companies, and timberland investors are using the harvest/resale scenario in land investments. This type of market activity is common in today's economy. The current market for timber is stable in this region as is the current market for recreational forestland. The highest and best use is economically feasible.

Maximally Productive. Of all the possible uses considered, it would appear that acquisition for long-term forest growth, or acquisition for short-term timber harvesting and land resale are both profitable, potential uses.

### **Real Estate Appraisal Procedure**

In general appraisal practice, an approach is a procedure used to derive an indication for the value of real property. The three approaches most often used in the valuation of properties are the cost, income, and sales comparison approaches.

The cost approach is utilized in appraising property with improvements and is generally derived by combining the land value (as though it were vacant) with the cost to reconstruct or replace existing structures less a deduction for each structure's accrued

depreciation. The income approach is used in appraising properties with a potential for generating income. An estimate from the income approach is found by calculating the net present value of annual income that can be generated by the property being appraised. The sales comparison approach is a direct comparison technique that relates recent land sales (preferably in the same market area) to the specifics of the subject property. Time-adjusted prices of comparable sales are adjusted in the sales comparison approach to arrive at a range in value based on the presence or quality of individual features found on the subject and its related sales.

The approach or combination of approaches taken is generally dependent upon the type of property being appraised, its highest and best use, and the availability of income and comparable sales data. For this appraisal, the subject is valued with the income approach and the sales comparison approach. The income approach is suitable because significant revenues can be generated from timber harvesting and resale of the land afterward. It must be pointed out, however, that an infinite number of possible scenarios can be proposed for the discounted cash flow analysis, and quite dramatic value differences in the results can be seen depending on the parameters of the model.

The sales comparison approach is also applicable because comparable sales of timberland are available and can be used to estimate the value of the timber and land together. The subject has no improvements and the cost approach is not warranted. A reconciliation is performed to select the most appropriate value from the two approaches utilized.

## **Market Analysis**

### **Price-Time Trends**

The strongest markets in Upper Michigan and northern Wisconsin continue to be those areas in close proximity to recreation and tourist centers. Popular tourist centers in the Upper Midwest are located primarily in areas with an abundance of inland lakes and public forestland. In the current economy, these areas have an especially large draw. An expanding tourist trade has enhanced the market for recreational properties throughout Upper Michigan. Most real estate brokers cite a demand for reasonably-priced waterfront parcels and recreational land. An upward trend (long term) in the Upper Michigan timber market has also enhanced the market for quality forestland. Market indicators for Wisconsin and Upper Michigan reflect past increases in the price of timber and recreational land. Assessment studies conducted by the Wisconsin Department of Revenue show that property sales in northern Wisconsin, which loosely “mirror” value trends in the western Upper Peninsula, increased at rates of 4 to 15 percent per year between 2003 and 2007, depending on the specific county and market area. The rate increases were much lower in 2008, and in 2009, 2010, 2011, and 2012 many counties showed value losses.

Based on our knowledge of the Upper Michigan real estate market, it is our opinion that time adjustments were warranted for large-tract forestland sales only through December 31, 2007. We believe that annual time adjustments of 10 percent were appropriate through 2005, and a slowing market warranted reduced value increases of 5 percent per year for larger tracts in 2006 and 2007. Since January 1, 2008, annual time adjustments cannot be supported. It appears that smaller tracts are seeing roughly the same diminished price escalation.

### **Elements of Value That Affect Price**

Comparable sales are selected based on several elements known to contribute directly to the value of property. These elements are location, tract size, access, forest cover, land quality, and water features.

### **Marketing Time**

For a large forestland property of this size located in Upper Michigan and northern Wisconsin, it is our opinion that a reasonable marketing time would be 9 to 18 months. This would allow time for an interested buyer to thoroughly inspect the property, obtain a detailed timber inventory, and derive an independent opinion of property value.

### **Sales Comparison Approach to Value**

The sales comparison approach is a comparison of the subject property to sales of other large timberland properties in the regional market. The large size of the subject necessitated a wide geographic search for sales of comparable timberland.

Of all the sales explored and inspected, it is our opinion that the following eight sales are the most comparable for this appraisal of the subject.

<i>Sale #</i>	<i>Grantor</i>	<i>Grantee</i>	<i>Total Acres</i>	<i>Sale Date</i>
Sale #1	Plum Creek	The Forestland Group	99,420.00	12/29/2007
Sale #2	Heartwood Forestland Fund II	Lake Superior Timberlands, LLC	68,392.00	04/21/2008
Sale #3	Plum Creek	Great Northern Forest, LLC & RMK	27,768.00	09/24.2008
Sale #4	Plum Creek	Northwoods ATP, LP (c/o RMK)	59,473.00	06/24/2009
Sale #5	Horizon Timber Acquisition, LLC	Crandon Timber, LLC	21,509.25	02/04/2010
Sale #6	Heartwood Forestland Fund III, LP	Molpus	90,285.00	09/02/2011
Sale #7	Wausau Papers	Lyme Timber Company, L.P.	72,823.87	12/23/2011
Sale #8	Plum Creek (Timberlands and Land Co.)	Heartwood Forest Fund VII and WNH (TFG)	99,924.00	09/10/2012

After sales analysis, the appraisers developed an indicated value of the subject property of \$825.00 per acre.

**Sales Comparison Approach Value Estimate:**

**161,940.21 Acres at \$825.00 Per Acre = \$133,600,673.20**

**Rounded To: \$133,601,000.00**

**Income Approach to Value**

The income approach is based upon the net income derived from the sale of the timber assets and liquidation of the residual land. It is likely that an investor would remove the most valuable of the timber resources and, after harvesting, sell the land to investors (such as TIMOs and REITs) or others in the area real estate market interested in recreational properties. The residual land would have some remaining timber, along with the lake, river, stream, and creek frontages, and provide opportunities for timber investment and recreation (hunting, fishing, and enjoyment). The net present value of the income derived from timber sales and recreational land sales is the income approach estimate of property value.

### **Income Approach Value Estimate**

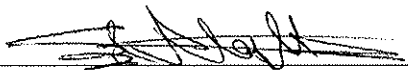
Utilizing a discounted cash flow analysis, the estimated property value with the income approach is \$141,209,000.00 (rounded). This approach replicates an investor's perspective and accounts for the income and many of the expenses expected during a specified holding period. Based on our analysis, we believe that the income approach yields a value estimate of \$141,209,000.00 for the subject property. This is an average value of about \$871.98 per acre across the entire property.

**Income Approach Value Estimate: \$141,209,000.00**

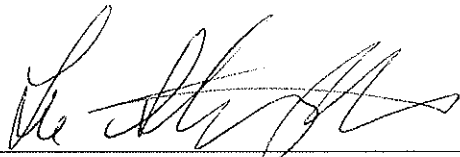
After considering both approaches, it is our opinion that the subject property would have a value of \$140,100,000.00, or approximately \$865.00 per acre.

**Subject Property Value: \$140,100,000.00**

**Submitted By:**



Edward F. Steigerwaldt, ACF  
Wisconsin Certified General Appraiser #293  
Michigan Certified General Appraiser #1201001969



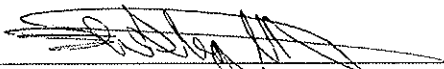
Lee A. Steigerwaldt, ACF  
Wisconsin Certified General Appraiser #1516  
Michigan Certified General Appraiser #1201073565

**STEIGERWALDT LAND SERVICES, INC.**

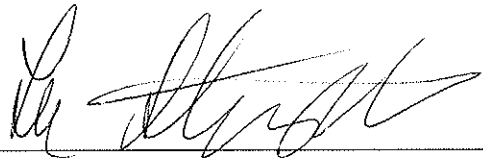
**CERTIFICATION**

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

- a. The statements of fact contained in this report are true and correct and no important facts have been withheld.
- b. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.
- c. I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- d. My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
- e. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the "Uniform Standards of Professional Appraisal Practice."
- f. I have made a personal inspection of some, but not all, of the parcels that comprise the subject property and parts of all nine comparable sales used in developing the estimate of value. Because of the configuration of the property and the nature of the assignment, a partial inspection was deemed appropriate and sufficient.
- g. This report was prepared by Lee A. Steigerwaldt. Additional professional assistance was provided by Edward F. Steigerwaldt and the GIS department of the appraisal firm.
- h. Within the prior three years, the appraiser has not performed any other services with regard to the subject property; however, Robert L. Karl of Steigerwaldt Land Services, Inc. completed a similar appraisal of the subject property dated January 6, 2010.
- i. In my opinion, the market value of the 161,940.21-acre subject property is \$140,100,000.00 as of December 31, 2012.



Edward F. Steigerwaldt, ACF  
Wisconsin Certified General Appraiser #293  
Michigan Certified General Appraiser #1201001969



Lee A. Steigerwaldt, ACF  
Wisconsin Certified General Appraiser #1516  
Michigan Certified General Appraiser #1201073565

**STEIGERWALDT LAND SERVICES, INC.**