

**Exhibit E-3
of
PZC Case 2011-104 Issue Response**

**Municipal Assessor Opinion:
“Possible Property Value Impacts of Mixed-use Districts”
(Letter dated May 9, 2012)**

Note: This information was requested by Commissioners.

MUNICIPALITY OF ANCHORAGE



Property Appraisal Division

907-343-6770

Mayor Dan Sullivan

May 9, 2012

Mr. Jerry T Weaver Jr.
Director Community Development Department
Municipality of Anchorage
PO Box 196650
Anchorage, AK 99519

Re: Possible Property Value Impacts of Mixed-Use Zoning Districts

Dear Jerry,

I have reviewed the documents provided by you and have consulted with the supervisors of the appraisal staff in developing this response. The primary task of the Property Appraisal division is to track value changes for real property in the Anchorage community. Our work is done using generally accepted professional appraisal methodologies. On average the individuals involved in this review have 20 years of appraisal experience in both the private appraisal field and the public tax assessment application of real property appraisal. My background includes a Master of Science in Real Estate from the University of Alaska Anchorage. I personally have been a real estate owner, builder, developer and appraiser in this community for the past 35 years.

First, "market value" is an observed phenomenon which is based on historic market behavior. In assessment we let the market tell us what changes value. Because of this, the point of view of appraisers tends to be heavily influenced by historic sale prices and supply and demand factors. A forward looking perspective, in order to anticipate future changes to supply and demand, is not foreign to appraisers, in fact it is required, but we are more influence by historic patterns of economic behavior. In theory "price" is the result of the interplay of supply and demand and includes what buyers and sellers are currently anticipating with regard to future economic changes. In short the market tells us the effect of anticipated economic changes through the current negotiated "price".

One of the steps in appraisal is the determination of Highest and Best Use. One element of the Highest and Best Use is the legally permitted use. Zoning is an exercise of police power, by the government, which creates limits on legally permitted use. In Anchorage zoning is a relatively new legal limitation and the administration of zoning laws has allowed a great deal of latitude for property owners through grandfathered uses and exceptions to the new zoning limitations such that there are many current property uses which do not strictly conform to the statutory zoning. As a result, property owners have anticipated quite a bit of flexibility with regard to anticipated future legally permitted use.

Another criterion in determining Highest and Best Use is economically feasible and maximally productive. This has been the most important limitation on land use in the Anchorage market area. Most commercial and industrial property in Anchorage is currently developed with older, low cost, low rise buildings. Because of economic mega trends there is very limited demand for new construction. The population of the community has not increased significantly, the population is aging and household size is decreasing, jobs and employment have not increased significantly, and the incomes generated by economic enterprises have decreased in the past ten

years. Future trends indicate growing construction costs, increasing operating expenses for commercial buildings, increasing energy costs, and stable income (rent to the real estate). In most cases it is the economic feasibility which is limiting demand for commercial real estate, and land use, not the legally permitted use. These same supply and demand factors are affecting site coverage ratios, building height and land use density. Similar economic forces are working to limit the feasibility of residential land use and construction activity. Real Estate investors and developers are by nature optimistic about the future potential of their property or project. They tend to think that their project can capture available market share over competitive property or development projects. This point of view creates a perpetual conflict with appraisers who look at the whole market and are not often convinced that one property will prevail in a competitive market.

Reviewing the changes to Title 21 it appears that there would be more legal limitations on land use than in the prior law. However, these limitations may present no decrease in "price" or "value" if the already present economic limits on Highest and Best Use indicate a most probable use which is within the new allowed legal use. Our observation is that in most areas of Anchorage that is true. As an example the economic forces of supply and demand indicate very little support for buildings higher than 4 stories. A height limitation to 4 stories appears to prohibit higher density development but the economic forces already limit the feasibility of that type of construction so that the change to legal permitted use has no effect on value. The higher cost of fuel is going to impact how often and how far people are willing to drive to live in the community. Higher density residential development combined with smaller and closer commercial services fit that anticipated future trend. The aging of the population and the trend to smaller household size changes both anticipated commercial property and residential property demand patterns.

It is clear that historically this community has been very oriented to automobile travel and is willing to travel distances to receive services from concentrated commercial centers. Pedestrian access is not currently important to most consumers or real estate owners, although there are some signs of change. If parking is not visible and apparent to passing traffic retail facilities suffer with higher vacancy and lower rental rates. That is the current and historic demand. However, commercial property developers are anticipating an economic shift and we are seeing more construction of smaller commercial building located closer to residential areas. This year, in property tax appeals, many of the big-box retailers have pled for property tax relief on the grounds that construction of new large retail is not currently feasible and the national and local trend is against large retail. Walgreens is building new small stores located near residential and has not asked for a reduction in value. All of the enclosed retail malls are struggling to attract tenants and generate sales volume which supports these facilities. In recent years we have been receiving regular appeals with regard to retail center value and getting information indicating declining economic feasibility. Older people are selling homes in regular subdivisions and buying smaller and denser residences located nearer to commercial facilities they regularly use. This is a local and national trend and is leading to an over supply of larger homes with yard space. In Anchorage, most of the new residential construction is of smaller homes with more homes per acre.

It is our observation that the Anchorage community is very tolerant of adjacent uses. We see very little if any impact on property value of commercial use adjacent to residential use. We are basing this observation on actual sale prices for both commercial and residential property. We also see a similar situation with regard to light industrial adjacent to residential or office and retail use. The most common conflicts we see are related to light and noise. Traffic impacts as related to adjacent uses appear to be non existent. This is probably the result of good traffic and street design and planning. We believe that mixed-use zoning districts will not negatively impact property values.

Mr. Jerry Weaver
Re: Possible Property Value Impacts of Mixed-Use Zoning Districts
May 9, 2012
Page 3 of 3

In summary:

- The property appraisal division will wait for market evidence of value change before we change assessed value due to changes to zoning laws.
- We anticipate little net effect on price or value, as these things are defined by real estate appraisers, from the proposed zoning changes
- The current and historic supply and demand forces indicate do not support mixed use high density residential commercial, pedestrian oriented centers. However, there are signs of economic and demographic change which may provide future support for this type of development.

The current and historic pattern is clearly in support of automobile access oriented commercial developments. At present where mixed use development has been tried it has found very weak demand. However, the anticipated future trend appears to support mixed use, higher density type development. The current situation finds a real estate market in equilibrium with little demand for new construction or changes to existing land use patterns. The current economic trends of higher fuel prices and changing demographics indicated that change will be demanded in the near future. While the proposed changes to zoning appear to take the potential for new development away from property owners the current economics and anticipate future economics already put very similar limitations on the feasibility of new development. In our view the new zonings allow uses within the scope of current economic feasibility.

Regards,



Marty McGee
Municipal Assessor

Cc: Brent Schlosstein
Jerry Wedelich
John Dyson
Tom Davis
Dave Tremont