These examples of diverse uses are important to the subject analysis as a manifestation of the previously noted unique characteristics of Newport Harbor, wherein private ownership of the uplands results in a wide variety of economic uses being available to the owner of the property, with or without joinder to the tidelands.

The following is a summary of upland uses grouped according to size of the adjoining marina:

I. Tidelands Parcels Occupied by More Than 30 Berths

Number of Tidelands Parcels:	13
Total Area of Tidelands:	1,054,713 s.f.
Per Cent of Total Study Area:	71%
Principal Upland Uses:	
Marina Office & Parking:	7
Private Clubs:	5
Retail and Offices:	1

II. Tidelands Parcels Occupied by 11 - 30 Berths

Number of Tidelands Parcels:	14
Total Area of Tidelands:	221,228 s.f.
Per Cent of Total Study Area:	14.9%
Principal Upland Uses:	
Boat Repair:	2
Private Clubs:	3
Retail and Offices:	2
Restaurant:	2

Miscellaneous (4 Residential, 1 Fun Zone)	5

III. Tidelands Parcels Occupied by 10 or fewer Berths

Number of Tidelands Parcels:	41
Total Area of Tidelands:	250,232 s.f.
Per Cent of Total Study Area:	14.1%

Principal Upland Uses:

Restaurant:	11
Boat Sales:	4
Shipyard:	6
Private Clubs:	2
Retail and Offices:	4
Fuel Sales:	3
Miscellaneous (6 Residential, 1 Mobilehome Park, 1 Arcade, 1 Ferry, 1 Parking, 1 Pavilion):	11

I. MARINAS WITH MORE THAN 30 SLIPS
(all areas are in square feet)

Site No.	Name	Front Foot	Peirhead/ Project Line	Use Class	Upland Use	Total Water Area sq.ft.	Water Area Inland Of Blkhd. Line	Estimated Tidelands Area	Exclusions	Net Area Subject To City fee
---(1)	Harbor Marina	631	varies	I	Marina office & restaurant	70,000	15,115	54,885	54,885 City/county lease	0
3-1(17)	Ardell Marina	700	80	II	Marina office, boat sales & restaurant	84,746	28,746	56,000	0	56,000
---(19)	Balboa Bay Club	1,575	80	II	Private club	204,187	78,200	125,987	125,987 City lease	0
---(20)	Bayshores Marina	1,207	80	I	Marina office	103,920	0	103,920	103,920 County tidelands	0
---(21)	Swales Marina	650	75	I	Marina office, residential	48,750	0	48,750	48,750 County tidelands	0
3-12(22)	Marvin Engineering (Lido Village)	1,100	100	II	Retail, office, boat sales, restaurants	108,688	0	110,000	0	108,688
3-11(30)	Lido Peninsula Yacht Anchorage	3,350	varies	II	Marina office, boat sales, shipyard offices, mobile home park	247,656	39,175	208,481	4,510 County tidelands	203,971
---(53)	American Legion	350	80	II	Private club	28,000	0	28,000	28,000 City lease	0
---(62)	Balboa Yacht Basin	772	70	I	Marina & shipyard	241,940	190,540	51,400	51,400 City lease	0
1-3(63)	McLain Developmen	430	70	I	Residential	37,350	7,740	29,610	0	29,610
2-1, 2(64)	Coves/NBYC	850	70	II	Private club & residential	49,980	0	49,980	0	49,980
3-5(65)	Bayside Marina	1,354	100	I	Residential, marina offices	144,500	10,000	134,500	0	134,500
4-2(66)	Balboa Yacht Club	580	100	II	Private club	83,200	30,000	53,200	0	53,200
					Sub-totals	1,451,412	399,516	1,054,713	417,452	635,949

II. MARINAS WITH 11 TO 30 SLIPS

Site No.	Name	Front Foot	Peirhead/ Project Line	Use Class	Upland Use	Total Water Area sq.ft.	Water Area Inland Of Bkhd. Line	Estimated Tidelands Area	Exclusions	Net Area Subject To City fee
2-24(3)	The Towers	86	20-40	I	Residential	4,924	2,329	2,595	0	2,595
3-16(4)	Plaza del Sol	227	40-70	I	Retail and office	27,240	14,356	12,884	0	12,884
7-2(9)	Port Calypso	100	80	II	Restaurant	14,200	6,200	8,000	0	8,000
4-4(13)	South Coast Y.C.	100	80	II	Private club	10,000	4,000	6,000	0	6,000
3-13, 14 (14-16)	VMA Mariners Mile	300	80	II	Shipyard, retail, office	36,000	12,000	24,000	0	24,000
7-1(24)	Lido Sailing Club	128	100	II	Private club	12,800	0	12,800	0	12,800
1-6(26)	Vista del Lido	196	80	I	Residential	14,640	0	14,640	0	14,640
1-2(28)	Chambers	288	80	I	Residential	23,040	0	23,040	0	23,040
3-19(32)	Sea Enterprises	315	11-37	II	Restaurant	15,540	7,700	7,840	1,540 County tidelands	6,300
2-4(42)	Cannery Village Partners	395	11-71	I	Boat Storage	16,100	8,755	7,345	0	7,345
5-3(48)	South Coast Shipyard, Inc.	67.1	60	II	Shipyard	3,878	0	3,878	0	3,878
5-4(47)	South Coast Shipyard/Design	477	60	II	Shipyard, sales	28,062	4,400	23,662	0	23,662
4-3(53A)	Newport Harbor Yacht Club	533	80	II	Private club	57,640	15,000	42,640	0	42,640
1-4(54)	Newport Bay Towers	187	80	I	Residential	17,017	2,057	14,960	0	14,960
3-7(58)	Fun Zone Marine	212	100	II	Retail, arcade, restaurant	16,944	0	16,944	0	16,944
					Sub-totals	298,025	76,797	221,228	1,540	219,688

III. MARINAS WITH 10 OR FEWER SLIPS

Site No.	Name	Front Foot	Peirhead/ Project Line	Use Class	Upland Use	Total Water Area sq.ft.	Water Area Inland Of Blkhd. Line	Estimated Tidelands Area	Exclusions	Net Area Subject To City fee
2-7(2)	Andy Crean	86.5	varies	II	Restaurant	9,230	8,520	800	0	800
2-22(5)	PROT, Inc.	200	80	II	Restaurant, retail	14,000	0	14,000	0	14,000
3-4(6A)	G&E Barienbrock	118.1	80	II	Restaurant	11,782	2,334	9,448	0	9,448
3-3(6B)	G. Barienbrock	100	80	II	Boat sales, office	14,600	660	8,000	0	8,000
2-15(7)	Marina Properties	100	80	II	Restaurant	8,000	0	8,000	0	8,000
3-15(8)	Newport Bay Management	100	80	II	Shipyard, offices	12,000	4000	8,000	0	8,000
2-14(10)	Marina Properties	112.99	80	II	Restaurant	9,039	0	9,039	0	9,039
2-16(11)	Minney	50	80	II	Restaurant	6,100	2,100	4,000	0	4,000
2-26(12)	Don Pederson	50	80	II	Retail, offices	6,100	2,100	4,000	0	4,000
2-9(18)	R.F. Dwyer	100	80	II	Boat sales	9,150	1,150	8,000	0	8,000
2-10921A	Elks Lodge	58.7	39	I	Private Club	2,348	0	2,348	0	2,348
2-25(31)	Cannery Village	218	11	I	Mobile Home Park	28,062	4,400	23,662	0	23,662
3-21(33)	Cannery, Inc.	205	11	II	Restaurant	2,255	0	2,255	0	2,255
8-1(34)	Arnold Constr.	123	11	II	Boat storage	3,690	2,337	1,353	0	1,353
3-18(35)	W.D. Shock	92.22	11	II	Boat sales	3,781	2,767	1,014	0	1,014
3-17(36)	W.D. Shock	88.56	11	II	Boat repair	3,365	2,391	974	0	974
2-6(37)	Corgiat	60	11	I	Restaurant/studio	2,640	1,980	660	0	660
2-5(38)	Cook	30	11	I	Parking	1,320	990	330	0	330
2-8(39)	Donovan	60	11	I	Offices	2,460	1,800	660	0	660
2-12(40A	Herlihy	30	11	I	Residential/Office	1,320	990	330	0	330
2-18(40B	Sullivan	30	11	I	Residential/Office	1,320	990	330	0	330
2-3(41)	Cannery Village Marina	60	11	I	Offices	1,140	480	660	0	660
5-1(43)	Balboa Boat Yard	30	60	II	Shipyard	2,700	1,200	1,500	0	1,500

III. MARINAS WITH 10 OR FEWER SLIPS (continued)

Site No.	Name	Front Foot	Peirhead/ Project Line		Upland Use	Total Water Area sq.ft.	Water Area Inland Of Blkhd. Line	Estimated Tidelands Area	Exclusions	Net Area Subject To City fee
2-19(44)	Trautwein Bros.	50	60	I	Marine contractors	3,000	0	3,000	0	3,000
2-13(45)	Steve James	75	60	II	Restaurant	4,500	0	4,500	0	4,500
2-21(46)	Woody's Wharf	75	60	II	Restaurant	4,500	0	4,500	0	4,500
5-2(49)	Sea Spray	90	60-85	II	Shipyard	5,400	0	5,400	0	5,400
1-5(50)	Robert Sullivan	90	70	II	Condominium	5,400	0	5,400	0	5,400
3-9(55)	Landing Associates	90.33	100	II	Restaurant, Sport Fish	9,000	0	9,000	0	9,000
3-8(56)	Vallely Investments	121	100	II	Restaurant, retail, office	12,100	0	12,100	0	12,100
3-6(59)	Fun Zone Boat Co.	90	100	II	Amusement Arcade	9,000	0	9,000	0	9,000
3-2(60)	Balboa Pavilion	260	126	III	Pavilion	36,540	0	36,540	0	36,540
6-2(61)	Boat Service, Inc.	120	100	III	Fuel sales, boat berth	12,000	0	12,000	3,400 public use area	8,600
6-1(68)	Beek A, B&S	100	97	III	Fuel Sales	3,175	0	3,175	0	3,175
3-20(69)	Robert Teller	91.44	97		Retail & Office	8,870	0	8,870	0	8,870
2-20(70)	Roland Vallely	61	97	II	Residential	5,917	0	5,917	0	5,917
1-1(71)	Channel Reef	220	20	I	Residential	15,400	11,000	4,400	0	4,400
					Sub-totals	291,204	52,189	233,165	3,400	229,765

Summary:

	Total Water Area sq.ft.	Water Area Inland Of Blkhd. Line	Estimated Tidelands Area	Exclusions	Net Area Subject To City fee
Marinas with more than 30 slips	1,451,412	399,516	1,054,713	417,452	635,949
Marinas with 11 to 30 slips	298,025	76,797	221,228	1,540	219,688
Marinas with 10 slips or fewer	291,204	52,189	233,165	3,400	229,765
Grand Totals	2,040,641	528,502	1,509,106	422,392	1,085,402

Allocation of Water Area: Boat berthing vs. Other Uses

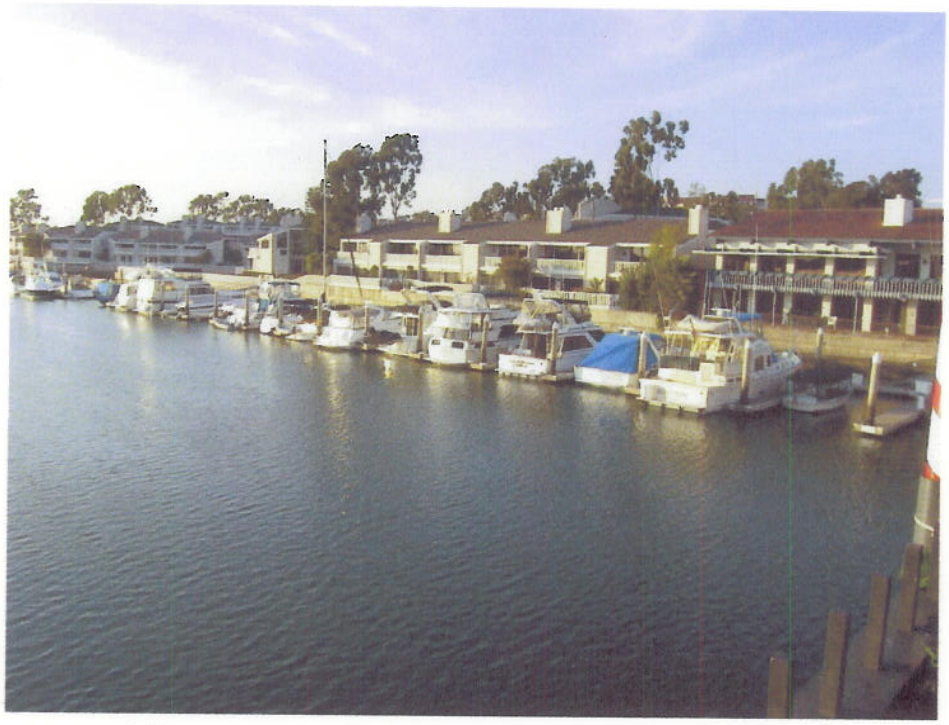
1) Other Uses:

Three Fuel Docks:	10,775
Eight (8) boat repair yards:	36,952
Pavilion (excluding boat docks)	14,300
Total area of tidelands subject to city fee involving no boat berthing:	62,027
Percent of total:	5.7%

2) Boat Berthing (balance of parcels):

Includes berthed boats which may be used in activities such as boat rental, charter and tour boats, sportfishing, boat sales, and sailing and yacht clubs.	1,023,375
Percent of total:	94.3%

PHOTOS OF NEWPORT HARBOR MARINAS



View northwesterly of Villa Cove Marina from Balboa Island bridge

Photo taken 11/29/00.

View of Bayside Marina from Balboa Island bridge.

View southwesterly of Bayside Marina.

Photos taken 11/29/00.

View northerly of Lido Peninsula Anchorage.

Lido Peninsula Anchorage showing
big yacht area.

Photos taken 11/30/00.

View southerly of Calypso Marina.

View northeasterly of Calypso Marina
showing dense berthing.

Photos taken 12/5/00.

VALUATION METHODOLOGY

Introduction:

The purpose of this appraisal is to render an opinion of the current fair rental value of those certain City Tide and Submerged Lands (hereinafter "tidelands") parcels within lower Newport Harbor, not currently under city lease, which in joinder with adjacent uplands are being employed to commercial usage.

Fair market rental value is based on the highest and best use of tidelands, as if vacant. Our investigation indicates that highest and best use of the the typical tidelands parcel is for development of boat berthing spaces in joinder with adjacent uplands consistent with applicable laws and regulations.

Highest and best use also involves joinder with the uplands for the four categories of tidelands use not involving boat berthing: fuel docks, boat repair yards, the Balboa Pavilion, and tour boats. For these special uses, alternate methodologies are employed which recognize pertinent rent comparables and the economic characteristics of the use. These categories are analyzed in a following section of this report entitled "Special Uses."

Our investigation indicates that there is insufficient data on the rental of water area alone (without supporting uplands) for marina purposes to provide reliable rental value indications. However, there is ample data on the rental of water and land combined for marina use. Economic analysis can be used for allocation of the rent between the land and water. Therefore, our methodology considers:

1. Fair Market Rent for Land and Water Combined:

   There are sufficient leases of land and water combined for marina use to provide reliable indications of market percentage rent for land and water in joinder and dedicated to marina use. Economic or residual analysis is helpful to test the empirical indications by showing whether, after paying the indicated land/water rent, there is sufficient revenue available to cover operating expenses, return on and recapture of improvements, profit, and property taxes.

2. Allocation of Fair Market Rent Between Land and Water:

   The technique we have used involves allocation of the income stream generated from marina use considering the respective value contribution of the tidelands area and the upland area in accordance with their respective highest and best use. The ultimate goal of the income allocation is to provide each owner (i.e., private uplands and public water) with an equal rate of return on value contributed.

Since the amount of rental received by the City should not be governed by special circumstances of the upland owner, the analysis is based on typical marina configuration in compliance with city regulations, with market slip rents and typical commercial upland values.

We have, therefore, first considered land and water with unity of ownership as if dedicated to marina use. The marina value (land and water) is apportioned to land area and water area based upon land value (independent of marina use) and water value (dependent upon marina use). The resulting value of water area is derived from an internal apportionment considering common land and water ownership.

To reflect the requirement of joinder for the tidelands area to achieve its highest and best use (i.e., adjustment for non-unity of ownership) an additional apportionment is required. This apportionment has been accomplished by equalizing the rate of economic return to the land and water components. The total income to land and water (from marina use) is allocated based upon equal income to value ratios.

Highest and Best Use -

Definition - Highest and Best Use:[1]

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

Conclusion - Highest and Best Use:

It is our opinion that the highest and best use of the typical parcel of subject tidelands is for development of boat berthing spaces in joinder with adjacent uplands consistent with applicable laws and regulations. Specialty uses with no boat berthing are treated separately.

Market Survey of Rent Setting Methods:

As part of our investigation into rent setting methodology, we surveyed the methods used for setting tidelands rental rates in other marinas and harbors from San Francisco to San Diego.

Data involving rental of water area separate from the uplands (like subject) is very limited and is discussed below in the subsection entitled "Evidence of Tidelands Rents Separate From Uplands." Since this data is limited and in many cases influenced by special circumstances it could not

[1] Source: The Appraisal of Real Estate, 11th Edition, Appraisal Institute

be used for direct comparison with the subject water area except in the case of boat repair yards.

Most of the survey data involved water area which is combined with the necessary uplands and leased as a package for the marina use, without an allocation of rental for the water area. This data was the most plentiful, helpful and reliable, however, for application to subject Newport Harbor tidelands an allocation of the fair market rent must be made between the uplands and the water.

The following significant differences in basic physical and economic conditions between the survey data and lower Newport Harbor were noted:

1. Ownership of Uplands and Tidelands

Newport Harbor:	Tidelands are held in public ownership and the adjacent uplands are privately owned.
Survey Area:	With the exception of the Delta region, both tidelands and uplands are held in common public ownership.

2. Uplands Use Controls

Newport Harbor:	Private owners of the uplands have a significant number of alternative uses available as evidenced by the existing uses and the City Zoning Ordinance and General Plan.
Survey Area:	The uplands and adjoining tidelands are operated by the public agency or leased to private operators who are restricted by lease agreement or master plan to the specific marina use.

3. Development and Operational Objectives

Newport Harbor:	Development and operation are based primarily on economic return and/or specific needs of the developer.

Survey Area:	The dedication of the property to marina use was predicated primarily on public need rather than to generate maximum economic return.

4. Berthing Space Rental Rates

Newport Harbor:	Berthing space rental rates are set by supply and demand.
Survey Area:	In some cases, berthing space rental rates may be controlled by the managing public agency.

Application of Appraisal Theory:

Any approach to valuation must recognize and make appropriate adjustments for the differences noted above. In the Valuation section of this report, we have provided for these differences in accordance with the following appraisal theory:

1. Private uplands ownership and public tidelands ownership:

In our analysis, we have considered the theory of joinder, wherein two or more adjacent properties (in this case upland parcel and water area parcel) are combined and dedicated to a single use.

2. Private development of Newport Harbor vs. public development within the survey area:

From study of marina developments throughout Newport Harbor, we have derived criteria for marina development. These include land area, water area, slip area, slip size, and lineal footage for a theoretical marina which conforms with code requirements and represents efficient use of the land and water area.

3. Private development based upon economic return vs. public development in response to public need.

Alternative land uses are available to the private upland owner as reflected by land values within the Newport Harbor area. Upland values for the public marina can also be estimated by comparison with other income generating uses, such as retail centers and restaurants, which are under lease within the public marinas.

Allocation of Fair Market Rental Between Land and Water:

Consistent with the highest and best use determination, we have utilized the theory of joinder (as noted above) in considering the marina use which combines privately owned uplands with publicly owned tidelands. The value in joinder is then allocated between the two components, land and water, to provide a value indication for the tidelands portion. In most instances the theory of joinder involves properties wherein the value of the properties combined is at least as much as the summation of the individual property values. In the subject instance, however, the value of the privately held upland for marina use is less than its value for alternative uses.

The technique we have used involves allocation of the income stream generated from marina use considering the respective value contribution of the tidelands area and the upland area in accordance with their respective highest and best use. The ultimate goal of the income allocation is to provide each owner (i.e., private and public) with an equal rate of return on value contributed.

We have, therefore, first considered land and water with unity of ownership as if dedicated to marina use. The marina value (land and water) was apportioned to land area and water area based upon land value (independent of marina use) and water value (dependent upon marina use). The resulting value of water area was derived from an internal apportionment considering common land and water ownership.

To reflect the requirement of joinder for the tideland area to achieve its highest and best use (i.e. adjustment for non-unity of ownership) an additional apportionment is required. This apportionment has been accomplished by equalizing the economic return to the land and water components. The total income to land and water (from marina use) is allocated based upon equal income to value ratios.

The above value components form the basis of this second allocation. The upland value is based upon its highest and best use, independent of marina use. The water value is based upon its highest and best use, for marina use in joinder. This technique of "equalization" results in an allocated income to water, that, when capitalized to value reflects the actual ownership condition of the subject water (tideland) area.

Limited Evidence of Tidelands Rents Separate from Uplands:

The valuation approach described above, which requires allocation of value to the water area, was necessary since the empirical evidence of rent or value for water area alone (separate from the adjoining uplands) is too limited to provide reliable value indications.

The following is a summary of the limited data found in our survey where the water is used in joinder with the adjacent uplands, but the water area is leased separately. The data on boat yards for the Ports of San Diego and Los Angeles is discussed in the Special Use section.

San Joaquin Delta Region:

The State of California leases water area for marina use in the Delta region. Rent is based on a percentage of the gross income from the marina operation. The percentage charged for most of the marinas ranges from 5% to 7% of the gross.

County of Orange - Newport Harbor:

The County of Orange leases small segments of tidelands under its jurisdiction to owners of adjoining commercial uplands in lower Newport Harbor. The rental for these parcels is significantly influenced by the special circumstances of the upland parcel and there is little consistency in approach. Therefore, the data is of limited assistance. Following is a summary of this data:

Swales Marina:

Rental is 20% of gross receipts for 1.15 acres of water area. The percentage rental is not based on arms length negotiations between the parties. The county recently increased the rental after the operator had substantially upgraded the improvements under a significantly different tidelands fee basis. The operator had the choice of paying the rent or abandoning the improvements.

Bayshores Marina:

For 2.22 acres of water, the minimum rental is currently $21,386/yr. with percentage rent based on the formula:

40% x [AGI - ($66,376.57 + 40% x AGI + T)], where
AGI = Annual Gross Income; T = Prior year RE taxes

The $66,376.57 is understood to have been the original estimated fair return to the uplands based on 1974 land values when the lease was written. Under current land values the lease tends to under compensate the land which results in a greater return to the water. For the fiscal year ending June 30, 2000, total rent received by the county was $181,698, and gross boat slip rental income was $929,560.

Newport Nautical Museum (formerly Rueben E. Lee Restaurant):

This involves 0.20 acre of water on County tidelands adjacent to privately owned submerged lands. Rent has been waived for the museum.

Rhine Channel:

This 0.14 acre water area (3 parcels combined) was formerly under county jurisdiction, but has been transferred to the city.

Rent for Offshore Moorings in Newport Harbor:

The City and County rent water area for offshore moorings in Newport Harbor. The mooring equipment is owned and maintained by the tenant. This data reflects rental income to water area, absent joinder with uplands.

The City mooring areas involve a total of +250 acres and the County area is +4.6 acres. One acre of water area can accommodate two single point and four double point moorings. The City charges $18.00 and the county charges $32.00 per lineal foot per year. With this information the income per square foot of water area can be calculated as follows:

	Fee Per Foot/Year	Fee for 40' Boat per Year	Density Moorings Per Acre	Rental Income Per Acre	Per S. F.
City:	$20.00	$800	2/acre single	$1,600	3.7¢
			4/acre double	$3,200	7.4¢
County:	$32.00	$1,280	4/acre double	$5,120	11.8¢

Analysis set out in the following valuation sections shows that water area generates a significantly higher return when joined with uplands for marina and related uses.

SOUTHERN CALIFORNIA MARINAS - LAND LEASE RENTAL SURVEY

Jurisdiction	Slip Rent	Live Aboards	Comments
Ventura Harbor (805) 642-8538, Ed Wohlenberg	20%	20%	Based on older leases, parties chose not to adjust at last adjustment dates in 1991 & 1992.
Channel Islands Harbor (805) 382-3006, Jesse Metcalfe	25% 1985 leases	25% 1985 leases	Earliest marina lease 20% to 28% steps, with current effective ±26% Others at 20% and 21%.
Marina del Rey (310) 305-9520, Ken Foreman	25% (typical)	25%	Most at 25%, one renewal with stepped from 25% to 28% 5/1/95.
King Harbor (Redondo Beach) (310) 318-0631, Jim Allen	25% - 27%	25% - 27%	Boat slips from older leases. 25% slip rent & liveaboard by arbitration; not considered negotiated market indicator.
Port of Los Angeles (310) 732-3862, Mark Richter 5,800 slips in various leaseholds 1,200 slips Cabrillo, leased 1998 San Pedro Marina, 1981 sublease	25% 25% 37%	25% 25%	All anchorages at 25% to Port. 7/94 San Pedro Marina reviewed & retained at 25% to master lessee. Cabrillo Marina leased @ 25% 1998 Sublease with 25% to Port and 12% to Port's O'Call, sub lessor New San Pedro project proposed.
City of Long Beach (310) 421-9431, Vince Abe City leases 1/5 of land & water req'ts for Cerritos Bahia Marina	30%	30%	±1/5 of marina is on City land and water, city charges 30% of of gross for this area. Other major marinas are city owned & operated.
Huntington Harbor, Sunset Aquatic (714) 834-4703, Mike Hensen County of Orange, Dept of HB&P	45% - 80% of net cash flow 25% - 35% of gross receipts min. 29% effective, 1st year Same % applies to all three categories		Lease expired in 1999. Extension signed 12/94, requires rebuilding marina and bases rent on 80% of net cash flow, after debt service.Phased minimum from 25%-35% of gross for slips, dry storage, & liveaboard
Newport (Dunes 1989 lease) Newport (Harbor Marina 1993) Newport (Bay Club 1986)	25% 25% 31%		Revised lease 1989, restricted by bridge. Depressed by toxics settlement. Part of Bay Club lease.
Dana Point (714) 834-4716 Barry Permenter County of Orange, Dept of HB&P	25%	25%	Marina leases 1971 and 1975. Adjustment dates in 1996, no change
Mission Bay (City of San Diego) (619) 236-6020 Mary Lou Groark	20% - 25%	not allowed	1995 Dana Landing negotiated new lease @ 25% of gross receipts, 25 yr term $100,000 min., rebuild marina, restricted by bridge. Three most recent leases @ 25%.
Port of San Diego (619) 686-6291 Doug Wright	Not comparable. Per lease, adjustments every 10 years must assume land is vacant and available for H&B use.		

VALUATION - FAIR MARKET RENTAL
LAND AND WATER COMBINED

Market Survey:

Our methodology includes the empirical or market comparison approach which involves a survey of leased parcels of water and land combined for marina purposes. In Southern California, most marina developments are constructed on publicly owned land under the jurisdiction of a governmental entity such as City, County, or Port District. The improvements have typically been built by lessees pursuant to long term land and water leases. The marina projects and governmental jurisdiction are as follows:

Project	Jurisdiction
San Diego Bay	Port of San Diego
Mission Bay	City of San Diego
Oceanside Harbor	Oceanside Harbor District
Dana Point Harbor	County of Orange
Newport Harbor	Private/City/County
Sunset Aquatic Park	County of Orange/Private
Long Beach Marina	City of Long Beach
Downtown Shoreline Marina	City of Long Beach
Los Angles Harbor	Port of Los Angeles
Marina del Rey	County of Los Angeles
King Harbor	City of Redondo Beach
Channel Islands Harbor - Oxnard	County of Ventura
Ventura Marina	Ventura Port District
Santa Barbara Harbor	City of Santa Barbara

We have made a detailed study of the coastal marinas to determine rent levels paid and percentage rents charged in similar lessee-lessor relationships. According to the records of the Department of Navigation and Ocean Development, less than 10% of the berthing spaces in Southern California involve privately owned uplands. Most of these privately owned marinas are in Newport Harbor.

The survey data for marina percentage ground rent for all harbors in Southern California are summarized on the facing page. This market information is confirmed with managers, lessors or operators and is studied and compared to the subject. The most pertinent data is found in Orange and Los Angeles Counties.

Percentage Rent:

The survey shows that in Southern California, percentage rent paid for land and water for marina use ranges from 20% to 37% of gross receipts

from slip rents and related uses. The data represents a wide range of physical and economic conditions. The 37% rate is somewhat anomalous in that it involves a base lease for 25% to a master lessee at Ports O'Call and a sublease for 12%, resulting in a total 37% obligation for the operator

Also, the dates when the percentage rents were established in the various leases range from nearly current to more than 10 years before the date of value. The most recently negotiated rate in the survey data (February 2000) was 25% for the Villa del Mar Marina and the California Yacht Club in Marina del Rey. For these reasons, the special circumstances affecting each item of empirical data must be carefully considered in making any direct comparison with the subject.

The percentage rent which can be supported is significantly influenced by the level of slip rents. Slip rents in Newport Harbor are the highest in Southern California. As slip rents and gross receipts increase, there is a greater percent of the gross available (residual) to land and water, after satisfying expenses, amortization of improvements and lessee's profit. This phenomenon is analyzed in greater detail in the economic/residual analysis following the empirical study.

In lower Newport Harbor there are two leases of both upland and water area for marina use. The land and water for the Harbor Club (formerly Arches Marina) is leased for mixed use including a marina. The lease was revised in 1989 and the percentage applicable to boat slip rental is 30% of gross receipts. The rent provisions were reviewed in 1992 by the county and no changes were made, however as part of a lawsuit settlement regarding soil contamination, the rent was reduced to 25% in August 1993.

The rental provisions for the Balboa Bay Club lease were revised in 1986 and the percentage rent for boat slip rents (land and water) was set at 31%. A new lease, pursuant to a 1996 option retained the rent at 31%.

Considering all of the data and the locational and other differences, the survey data supports a percentage toward the upper end of the range for the typical Newport Harbor marina, which is judged to be in the range of 27.5% to 31.0% of gross receipts for slip rents, dock box rentals, and related.

Survey Indication of Fair Market Rental for Land and Water Combined: 27.5% to 31.0%

Residual Analysis - Test of Market Survey Rental Indications:

Economic or residual analysis (incorporating elements of the income and cost approaches) is useful primarily as a check on the percentage rent indications by the empirical method. It is essentially a feasibility analysis to test the ability of the hypothetical leasehold to economically function under the indicated percentage rent. The approach seeks to divide net operating income between land/water and lessee's interest based upon market derived rates of return.

The analysis considers market level income, expenses, current marina construction costs, and the economic life of the marina improvements. The hypothetical marina used in the analysis is based on the typical marina described in the preceding section of this report. It is comprised of 100 slips, average slip size 35.5 lineal feet, with a total of 3,550 rentable lineal feet. Percentage for this typical marina is considered to be 30.0% of the gross rents.

After accounting for all of the expenses and other charges necessary to generate the gross income, including improvement amortization and land rent at the empirically indicated rate, a measure of residual income to profit, and leasehold overall capitalization rate are obtained. These criteria are compared to market indicators to judge the feasibility of the marina project.

The objective is to test whether or not the return would be sufficient to induce an investor to undertake the project at the indicated land and water percentage rent.

The economic/residual analyses require estimates of the following:

1) Effective Gross Income (EGI)
2) Operating Expenses
3) Real Estate Taxes
4) Value of Leasehold Improvements and Remaining Useful Life
5) Rates of Return

The elements comprising the residual analysis are discussed and estimated below. The residual analysis calculations are summarized following a discussion of the elements.

1) Effective Gross Income:

Effective gross income (EGI) is potential gross income at market slip rents, less market derived vacancy, incentives, and collection losses. Our market survey of slip rents is summarized on the facing page.

Detailed data sheets on each marina are set out in the Addenda Section. The survey data indicates an effective range of unadjusted slip rates from $14.00 to $21.00 per lineal foot per month. Potential gross income is estimated by multiplying the slip rent times 3,550 rentable lineal feet in our hypothetical typical marina.

Vacancy and collection losses of 5.0% are considered for the typical marina at stabilized occupancy. This results in an effective gross income of $13.30 to $19.95 per lineal foot. We have used the approximate mid point of the range, or $16.50 for this residual analysis.

2) Operating Expenses (Before Real Estate Taxes):

The operating expense estimate is pertinent to the ultimate opinion of fair rental value since it is one of the elements which is necessary for the generation of gross income. Other charges, beside operating expenses, include real estate taxes, improvement amortization, entrepreneur's return or profit, and return to land and water area (basis for percentage rent). Marina expenses can be broken down into the following elements:

Elements of Marina Expense:

Insurance:	General liability and operators liability, property damage; in addition some operators carry earthquake and non-owned vessel operation P & I.
Utilities:	Cost of energy, water, and sewer to serve dock area, parking lot and necessary ancillary buildings.
Repair and Maintenance:	Plumbing, electrical, paint, lumber supplies, decks, piers, flotation, piles, cleats, bumpers, storage boxes, black top surfacing, striping, upland structure maintenance. Included are contract services of cleaning, rubbish, dock and utility maintenance.
Reserves for Replacement:	Sums retained to meet replacement of short lived or damaged items.
Salaries and Wages:	Office staff, dock master, custodians, maintenance workers, including payroll taxes.

Administration:	Cost to administer marina operation, including office costs, accounting, billings collection, legal, auditing, advertising and promotions, office supplies, employee medical and worker's compensation insurance, personal property taxes.
Management Fees:	Contracted or in-house to handle overall management decisions and associated responsibilities.

We have found a rather wide range of expenses among other marinas. In our opinion, this is due, at least in part, to the following factors:

(a) The Age of the Facility:

On one hand, maintenance costs can rise during the last 10 years of a 30-35 year marina structure life. However, this can be offset by the operators considering that the floating improvements will need major repair or replacement and reconfiguration. Therefore, an effective repair and maintenance program is not implemented.

New marinas tend to have lower maintenance costs, and therefore lower overall expenses. However, there can sometimes be a tendency for newer marinas, with much higher slip rents, to experience greater expenses due largely to increased demands by tenants and the operator's desire to maintain a first class operation.

(b) Economic Conditions:

In periods of economic decline and reducing slip rental rates, less money is available to meet the demands of regular maintenance. Also, greater expense may arise in marketing vacant slips.

(c) Operator's Philosophy:

The available marina operating expense data reflects differences in management philosophy which affects the level of expenses. This is influenced in part by economic conditions and status of ownership.

Some may be uncertain as to what the future may bring and respond by deferring maintenance or renovation. Others pride