themselves in maintaining an operation which reflects a preventive maintenance schedule, immediate attention and permanent cure to structural deficiencies, etc.

These and other elements may affect the manner in which empirical data is reviewed and reconciled. However, all data appears to fall within specific ranges of probable costs. The reconciliation of this data for valuation purposes must be as consistent as possible and applicable to the intent or purpose of this appraisal.

The test marina docks are considered new and have an effective life of about 30 years.

We have surveyed expense data from marinas in Newport Harbor and Marina del Rey. The data indicates that for a well managed newer marina, expenses are on the order of $40.00 per lineal foot per year, before real estate taxes and tidelands fees.

Operating Expenses: $40 per lineal foot per year

3) Real Estate Taxes:

Real estate taxes are estimated by multiplying the reassessed value of the property (possessory interest) after sale by the tax rate. The assessor estimates value of the possessory interest by combining:

1) the value of the leasehold, and
2) the present value of future contract land rent payments.

We have estimated the possessory interest value upon sale by using a blended discount rate (combination of discount rates applicable to leasehold income and land rent) to calculate the present worth of the leasehold net income (value of leasehold) and land rent, combined. This combined income is equivalent to net operating income before real estate taxes and land rent. The income is discounted for 30 years using an overall discount rate of 12.02% which combines the 1.02% effective tax rate after assessments, and an 11% blended discount rate. Real estate taxes are then 1.02% of the indicated possessory interest value.

4) Value of Improvements and Remaining Useful Life:

The residual analysis considers construction of all new improvements. Our investigation of construction costs indicates the following:

a) A dock system of subject size and configuration costs on the order of $600 per lineal foot, or about $21,300 per 35.5 foot slip.

b) Asphalt paved parking with concrete stops, walks, and minimal landscaping costs approximately $925 per space.

c) A men's and women's restroom building with a shower in each costs approximately $50,000.

The industry standard for the economic life of a dock system is 30 years. The upland improvements are considered to have a similar life.

5) Return On and Recapture of Investment in Marina Improvements:

This element of the analysis is intended to provide the lessee with full recapture of the improvements (wasting asset), together with a fair return on the investment in the improvements. The marina requires not only the water area for boat moorage facilities, but also uplands areas for support uses such as parking and restrooms.

Amortization Interest Rate:

The lessee must receive a return on and recapture of his investment over the remaining life of the improvement or the lease term, whichever is shorter. Cost of money is the measure of this rate of return, assuming profit or return to entrepreneurship is also considered separately. Using the cost of money rate is not intended to suggest that the improvements are 100% financed, but rather the rate indicates an opportunity cost or return on the equity portion as well. The additional risk associated with ownership is compensated in the profit item.

The 1996 sale of the Islander Marina and Apartments in Marina del Rey was financed with a 9.5% fixed rate loan (265 points over 20 year treasury) which provides an indication of the cost of money for subject. The 9.5% rate and the approach (amortize improvements with residual to profit) is corroborated by the Huntington Harbor Sunset Aquatic lease where 10% was used

in late 1994, for a lease term to commence January 1995. Rates were higher at both dates than currently. For example the long term treasury rate was 6.83% the week of October 11, 1996, compared to 5.61% the week of February 2, 2001.

These data indicate an 8.5% current cost of money for subject amortization rate in our calculations.

Profit:

Definitions of Profit:

1. *The amount by which the proceeds of a transaction exceed its cost.*

2. *In theoretical economics, the residual share of the product of enterprise that accrues to the entrepreneur after paying interest for capital, rent for land, and wages for labor and management.*

(The Dictionary of Real Estate Appraisal, 3rd Edition, American Institute of Real Estate Appraisers:

As suggested by Definition No. 2, above, profit may be considered as residual after all other necessary components are satisfied. The clearest evidence of a residual profit requirement to attract an investor to a marina is provided by the lease in Huntington Harbor for the Sunset Aquatic marina.

The Sunset Aquatic marina lease was described above in the empirical analysis sections. One of the rental payment methods in the lease utilizes a residual to net cash flow, in which the investment in improvements is amortized for 30 years at 10% to provide the lessee with return on and recapture of the investment. The residual cash flow after expenses (maximum of 34.5% of gross) and amortization is allocated between the county as land rent and the lessee as profit.

During the first five years of the lease term the county receives 45% to 75% of net cash flow as rent, leaving 55% to 25% for profit. Thereafter, for the 35 year term of the lease, residual net cash flow is allocated 80% (land rent) to the County and 20% (profit) to the Lessee.

Indicated minimum profit requirement: 20% of net cash flow

In our analysis, the residual to profit is considered as a percentage of net cash flow for comparison with the above standard.

A leasehold overall capitalization rate is also calculated, based on stabilized net operating income divided by the cost approach indicated value of the improvements.

Summary of Calculations - Residual/Economic Analysis:

The estimates discussed above are used in the residual analysis calculations. The empirical data indicated a range from 27.5% to 31.0% of gross receipts from slip rents and liveaboard charges. We have tested this rate to determine if after paying all operating expenses, providing for recapture of new improvements plus an 8.5% return on the improvement cost, and paying the percentage land/water rent, there is sufficient profit remaining to the operator to meet market requirements. The economic analysis results in two comparative elements: 1) Leasehold overall capitalization rate, and 2) Profit residual.

1) Leasehold Overall Capitalization Rate:

The Islander leasehold (renamed Bay Club) apartments and marina in Marina del Rey sold in September 1996 for $14,850,000, with seller estimated first year NOI of $1,790,668, indicating a cap rate of 12%. This sale involved 247 boat slips and 204 apartment units built in 1963. There were 25 years remaining on the lease term when it sold and rent had been adjusted to 25% for boat slips and 10.5% for apartments. The boat slips were in poor condition. We would expect the apartment portion of the rate to be lower than 12% and the anchorage to be higher.

The prospective lessee of the proposed new Westrec project in Cabrillo Beach indicated that the project would be considered stabilized and subject to rental adjustment when the return on the cost of improvements reached 12.5%.

The California Recreation Company marinas in Newport Harbor were offered for sale in 1994 based on a 7.8% overall rate. The package included five anchorages totaling 482 slips and 16,149 lineal feet. Unlike subject, the uplands for parking and access are owned in fee. The water area (like subject) is owned by the city and a fee for its use is charged to the upland owner. An offer from a qualified buyer based on a 9% rate was not accepted. The anchorages were taken off the market.

Tradewinds Marina, leasehold Parcel 20, in Marina del Rey sold for $4,200,000 in 1998. This anchorage has 157 slips with a total of 4,770 lineal feet. The terms were $450,000 cash down, 8% interest only; balance due in 8 years. The buyer owns the adjoining leasehold and is considered a special buyer. Gross receipts from all uses (except Yacht Club) were $582,451. After expenses and ground lease the indicated overall capitalization rate would be less than 10%, however, because of the special buyer (adjoining leaseholder) we report this sale for information only.

A previous study of shopping center leasehold sales indicated overall leasehold cap rates of 11% to 13%. Further research and analysis indicated that these leasehold rates were 100 to 300 basis points above cap rates for similar fee properties.

Considering the above and the test marina's new improvements, the data indicates cap rate requirements for the anchorage on the order of 11% to 13%.

The residual analysis for the mid point of the range, 30.0% rent with $16.50 effective slip rents (see summary on facing page), produced an overall leasehold cap rate of 13.6%, which is at the upper end of the market data range. This indicates that the property can pay the empirically indicated percentage rent and produce a return which is acceptable to the market.

2) Profit Residual:

The profit residual analysis which is summarized on the facing page, is also used to test the percentage rent indications, by showing the amount left to profit from stabilized income after expenses, after amortizing improvements at an 8.5% rate and paying indicated ground rent, as shown in the summary below:

SUMMARY - TEST OF % RENT BY PROFIT RESIDUAL

Effective Gross Revenues:	$702,900 or avg./l.f.	$16.50
Land and Water Rent:	30.0% of Gross	
Expenses (before RE taxes):	$40.00 /l.f../year	
Imp. Amort. Rate:	8.5% /year	
Residual to Profit:		**$95,687**
As % of Net Cash Flow (Before Land Rent):		**31.2%**

The residual rate of profit, 31.2% of net cash flow, exceeds the 20% indicated by the Huntington Harbor data for the period after construction. It is at the low end of the data for the period during development, and therefore, the analysis tends to show that the profit would be consistent with market requirements.

Fair Market Rent of Land and Water Combined - Reconciliation:

The empirical market data indicated a range from 27.5% to 31.0% of gross receipts from slip rents. Generally a marina receiving higher slip rents can afford to pay the higher percentage land/water rent. The foregoing test by residual or economic analysis indicates that after paying the indicated percentage rent, there is sufficient return available to the leasehold to satisfy market criteria.

Conclusion: **27.5% to 31.0% of gross receipts**

VALUATION
ALLOCATION BETWEEN LAND AND WATER

Introduction:

In the preceding section we analyzed the market evidence which indicated a percentage rental of 27.5% to 31.0% of gross receipts for land and water combined for the typical Newport Harbor marina. In this section we allocate the indicated rent between land and water based on the theory of joinder.

The allocation process requires a determination of the amount of land area and water area required to support a lineal foot of berthing space in the typical marina. This forms the basis for determining the contribution to total value which is made by each component (land and water).

The amount of rent for land and water combined is supported by direct market evidence. The rent is calculated by multiplying the market derived percentage (27.5% to 31.0% estimated in preceding section) times the market derived gross receipts (slip rents adjusted for vacancy).

The value of the uplands for alternative commercial uses can also be supported by sales comparison. Given these elements, residual income to the water can be calculated. However, where the upland values are high due to demand for alternative uses (as they are in Newport Harbor) there is no rental income left to the water after providing an 7% to 8% return to the upland. Therefore, the land must underwrite the marina to some extent. The theory of joinder requires that both components receive an equal return on value.

Consequently a two step allocation is required under the theory of joinder such that both components share in the underwriting of the marina use. The allocation process requires estimates of the following:

Land and Water Area Requirements (per lineal foot of slip space)
Value of Uplands (at highest and best use)
Slip Rents and Vacancies
Capitalization Rate (for income to land and water combined for marina use)

Land and Water Area Requirements:

The most consistent and equitable means of measuring the economic contribution of the water mass is to consider the area's ability to generate income from slip rental with an appropriate berthing layout. In order to ascertain space requirements for such use, a survey of marinas in Newport Harbor was made. The data on the marinas with more than 30 slips was classified as being typical, high density, or special case. A summary of this

data is set forth in the preceding Descriptions section of this report. From this study, the following criteria was developed:

Water Area Requirements:

The marinas classified as "typical" demonstrated that approximately 35.2 square feet of water area is required per lineal foot of berthing space. The average slip length of approximately 35.5 lineal feet results in 1,249 s.f. of water area required per slip. This includes area for headwalks, fingers, piers, set backs, fairways, etc.

Effect of Berthing Beyond Pierhead Line or Slip Ends:

Applicable regulations allow moored boats to extend bayward of the pierhead line a distance equivalent to the width (beam) of the boat. Typically this allows a greater density of berthing in two ways: 1) by providing side ties coincident with and parallel to the pierhead line, and 2) by allowing boats moored in slips perpendicular to the pierhead line to extend beyond the end of the slip and bayward of the pierhead line.

The total lineal footage of berthing space in the marinas which were surveyed to establish the above criteria included side ties which were coincident with and parallel to the pierhead line. Therefore, the increase in density resulting from this method of berthing is already reflected in the criteria and requires no further adjustment.

The practice of allowing boats to extend beyond the ends of the slip (and charging berthing fees based on the length of the boat or the slip, whichever is greater) has the effect of increasing the potential gross revenue from slip rental. This occurs whether the extension is inside or bayward of the pierhead line. Our analysis of aerial photographs in Newport Harbor showed that the aggregate lineal footage of boats extending beyond slip ends typically amounted to about 2% of the total lineal footage of berthing space in the marina. The resulting increase in potential gross income from this factor is considered in the valuation analysis by offsetting it against vacancy, turnover, and credit loss in the estimate of effective gross income.

Land Area Requirements:

Marina development requires sufficient upland area to meet vehicle parking requirements. The City of Newport Beach Harbor

Permit Policies, Section 17, requires 0.75 parking space for each slip, or for each 25' of available berthing space not classified as a slip, in commercially operated marinas.

In addition, space is required for restrooms, storage, and other ancillary structures. Analysis of efficiently constructed marinas indicates that 350 s.f. of land per car space will provide sufficient area for all of these uses. The amount of upland required to support a marina use, therefore, is equivalent to 350 s.f. x 0.75 = 263 s.f. per slip, or 263 s.f. of upland per lineal foot of berthing space.

The following relationships result from the above criteria:

1. For every lineal foot of berthing, 35.2 s.f. of water area and 7.3 s.f. of upland are required.

2. Typically, 1,249 s.f. of water and 263 s.f. of upland are required per slip.

3. Area Ratios:

   Land: 7.3 s.f. Land ÷ (7.3 s.f. Land + 35.2 s.f. Water) = 17.2%

   Water: 35.2 s.f. Water ÷ (7.3 s.f. Land + 35.2 s.f. Water) = 82.8%

Upland Value:

An indication of the general level of waterfront commercial land value is necessary for the allocation analysis. Our search for sales of commercially zoned land fronting on lower Newport Harbor resulted in the sales which are summarized on the facing page. Since the waterfront is substantially developed, the sales all involved properties wherein the buyer intended to demolish existing improvements and redevelop the site. All of the data includes a bulkhead.

This data provides a panorama of sales which are helpful to show the general level of waterfront commercial land values for allocation purposes. Considering current market conditions and the upward influence of residential potential on the price paid for Sale No. 3, we have selected $65 to $125 per square foot of land area as generally representative of commercial upland values for our allocation calculations.

Effective Slip Rents (adjusted for vacancy and collection losses):

Our investigation of slip rents (see preceding section of this report) indicated a range from $13.50 for slips under 25 feet to $28.50 for a 70 foot slip at Bayside Marina. The range is narrowed to $14.00 to $21.00 by giving less weight to atypical slips and side ties.

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.

Rental Income Capitalization Rate:

Determination of this rate is necessary to compute the capitalized value of the land and water in joinder, as restricted and dedicated to marina usage. Capitalization rates are influenced by the anticipated stability and risk associated with the income stream. Generally, lower risk results in lower capitalization rate.

The applicable rate is that market yield necessary to attract a buyer to the investment in a lessor's (landowner) interest under a marina lease with rental income determined as a percentage of gross slip rental (see "Economic Rent" above). The income stream which this rental produces is subject to variations in the slip rental market, vacancy factor, and credit loss. Variations in operating expenses, however, are eliminated since the economic rent to land and water is solely a function of effective gross income.

Rates may be derived from the market by considering the sales of similar investment properties and rates on alternative investment opportunities. Some of the rates on alternative investments are set out on the facing page. This data was prepared by the Federal Reserve Bank of St. Louis, with the latest data being for the week ending February 8, 2001 (see facing page). These rates show the influence of risk and term on rates. For example, in the following long term securities instruments the rates increase as risk increases:

Long-Term Treasuries:	5.50%
Corporate Aaa Bonds:	7.10%
Corporate Baa Bonds:	7.79%

Short term rates are typically lower than long term rates, since short term investments reduce risk by affording the investor the opportunity to change position as market conditions change. For example:

Long-Term Treasuries:	5.50%
5-Year Treasuries:	4.90%
1-Year Treasury Bill:	4.55%

Capitalization rates for real estate investments typically reflect some degree of inflation protection since the capital value and income stream from real estate generally change with market conditions, including inflation. The risk influence will depend on location and anticipated stability of the income stream.

The Korpacz Real Estate Investor Survey of real estate investments in the fourth quarter of 2000 (nationwide) found capitalization rates in the following ranges by property type:

Retail-Regional Centers:	6.6% - 9.5%
Retail Strip Centers:	8.5% - 12.0%
Apartments:	7.5% - 9.5%
Office-Suburban:	8.0% - 10.5%

Capitalization rates for improved properties reflect the fact that the improvements are a wasting asset, subject to risks of deterioration and obsolescence. Consequently the rate applicable to income attributable to land only (non-wasting asset) must be lower.

Considering this data and other pertinent market evidence, it is our opinion that the capitalization rate applicable to the rental income to land and water ranges from 8.25% to 8.75%.

Influence of Upland Values:

As noted in the foregoing discussion, the direct residual method produces a negative or unreasonably low return to the water when upland values are relatively high based on their availability for alternative uses. This is demonstrated by a survey of other harbors and examples from Marina del Rey. An illustrative example using Newport Harbor data is also used.

Survey Data:

We surveyed both marinas and commercial waterfront uplands not used for marinas. The data obtained in the survey provides a factual basis for analyzing the effect on value of alternative uses

available to the upland owner in Newport Harbor. The data shows that income from marina operations is relatively low compared to that from the commercial upland uses. However the waterfront environment, including the marinas, contributes to the high level of income generated from restaurants, retail centers, hotels, and other related commercial uses.

In Newport Harbor, the private upland owner has the alternative of not developing a marina and using the upland area (otherwise required for marina support, e.g., parking, restrooms, lockers, etc.) for a more intense commercial use such as restaurant, office, or retail sales.

Most of the marinas in Newport Harbor were originally developed when economic conditions were substantially different. For example, prior to 1978, upland owners paid essentially no monetary rental for use of the tidelands area. Landowners considered all net income produced from marina operation as residual to their land ownership.

Analysis of the survey data provides an indication of the current economic factors affecting marina development. As stated previously in this report, we have developed valuation criteria based upon analysis of data obtained from Newport Harbor, as well as the survey area.

Criteria for Efficient Marina Development:

Average Slip Length:	35.5 lineal feet
Water Area Required	35.2 sq. ft./lineal foot of berthing space.
Land Area Required:	7.3 sq. ft./lineal foot of berthing space.

Criteria for Land and Water Value - Marina Use:

Economic Rent for Land and Water:	27.5% to 31.0% of Gross Rent
Capitalization Rate of Net Income to Land and Water:	8.25 % to 8.75%

The criteria for efficient marina development are used in the economic analysis of subject tidelands in Newport Harbor in accordance with the unique conditions of that location. The criteria are also helpful for comparison with the survey data, recognizing and adjusting for differences.

The most current and helpful survey information was available from Marina Del Rey. This information tends to illuminate the relationship between land value generated from various upland uses and the value of land and water combined resulting from marina usage.

Marina Del Rey:

Substantial data was obtained concerning income derived from marina operations and from alternative uplands uses including restaurants, apartments, and retail centers. Generally, the restaurants produced the highest return to the land based on percentage rents paid in fiscl year 1999-2000.

As rental for the combined water and land area for marina purposes, marina operators paid the lessor, County of Los Angeles, 25% of gross receipts from slip rentals.

Pertinent information regarding three typical marinas is summarized below (we note that the land to water ratio for marinas is substantially higher in Marina del Rey than that indicated from analysis of private marina development in Newport Harbor). We note that unlike marinas in Newport Harbor, these marinas are all producing less income than they were in 1992.

Marina	Area (sq.ft.) Land	Water	99-2000 Slip Rent Income	Land & Water Rent	Rent $/sq.ft.
Tradewinds (157 slips)	96,136	150,000	$471,275	$117,819	$0.48
Holiday Harbor (218 slips)	112,500	140,395	$530,228	$132,557	$0.52
Catalina (160 slips)	102,685	138,540	$370,793	$92,698	$0.38

We have analyzed several waterfront upland uses including retail, commercial, restaurant, and multiple family residential to derive an indication of land values. As noted above, the highest income was generated from restaurants, which pay land rent based on 3.5% of gross receipts from food and beverage sales combined. Pertinent information from two of the restaurants is summarized below:

Restaurant	Land Area (sq.ft.)	Gross Income fy 1999-2000	LandRent to County	Rent $/sq.ft.
Warehouse	56,941 sq.ft.	$4,338,678	$151,854	$2.67
Shanghai Red's	47,300 sq.ft. +11,250 water for guest docks	$4,264,168	$161,846	$2.76

The landowner's (County) rental income per square foot of land area generated by the Warehouse was $2.67/s.f./year, while Shanghai Red's produced $2.76/s.f./year including the water area for guest docks.

The water residual technique has merit as long as the land values for alternative uses and slip rental rates remain in relative balance. However, using this technique on income from the Tradewinds Marina and alternative uplands use value ($2.67/s.f./yr.) from the Warehouse Restaurant illustrates the shortcomings of this approach when income from marina use is significantly below income available from alternative upland uses.

Warehouse Restaurant:

Income to Land:	$137,557/year
$156,854 ÷ 56,941 sq. ft. =	$2.67/s.f./year

Tradewinds Marina:

Income to Land and Water:	$ 117,819
Less: Income to Land (from alternative use) $2.67/s.f. x 96,136 sq. ft. =	($256,683)
Residual Income to Water (negative):	($ 138,864)

Obviously, negative income residual to the water area is an incorrect value indication. A similar result obtains in Newport Harbor,

where the value of water fronting uplands (for use other than marina and excluding water rights) is so great in comparison to slip rates, that negative income results from the residual technique.

Newport Harbor (Illustrative Example):

The more recent sales of vacant water fronting parcels in Newport Harbor reflect per square feet values of less than $100 per sq.ft. to in excess of $200 per sq.ft.. However unit prices are affected by parcel depth, size, location and access. Data is limited and uplands within subject study area vary drastically in these characteristics. As a result we have chosen a range of average value for this analysis. That range is $65.00 to $125.00 per square foot. Effective slip rental rates in marinas range from $14 to $21 per lineal foot and appropriate rent for unimproved land and water combined for marina use is from 27.5% to 31.0% of gross revenue from slip rentals. For illustrative purposes only, utilizing the above approach, and selecting values from roughly the mid points of the indicated ranges, the residual to water area in Newport Harbor is indicated to be:

Income to land and water (Marina):

$16.50/l.f. x 12 months x 30% =	$59.40/l.f./year
$59.40/l.f .÷ 42.5 s.f./l.f. =	$1.40/s.f./year

Income to land (Alternative Commercial Use):

8.25% x $100/s.f. =	$8.25/s.f./year

Residual to Water Area:

Income to Land and Water:	$59.40/l.f./year
Less: Income to Land (from alternative use) 7.3 s.f. Land/l.f. x $8.25 =	$60.23/l.f./year
Residual Income to Water (negative)	($0.83)/l.f./year

The examples of Marina del Rey and Newport Harbor demonstrate that if the uplands values are sufficiently high due to available alternative uses, the water area shows no economic return unless joined with the land and underwritten to some extent by the land.

Many of the upland parcels adjoining the tideland parcels are used for commercial (non-marina) uses mixed with the upland area required for marina support. In some cases development approval by the city has been conditioned on joint use of parking areas, subject to some limitation on the upland commercial use, such as hours of operation. The calculations used for this report, however, are based upon the standard city requirements for marina development with the necessary upland area devoted exclusively to marina support.

Valuation and Allocation Computations:

As noted above in the section entitled Valuation Methodology, the water area is valued in joinder with the upland for marina use. The marina value (based on marina income from land and water combined) is then allocated to each component (land and water) based on the relative contribution of each, considering its respective highest and best use. The highest and best use of the land is for development to non-marina commercial uses. The highest and best use of the water area is for joinder with the land for marina development.

The objective is to provide each owner (i.e. private uplands and public water) with equal return on value contributed. This is accomplished by allocating the market derived 27.5% to 31.0% of gross receipts rental rate for land and water combined between land and water in proportion to the value contribution of each component.

The computations required to accomplish this valuation and allocation incorporate and depend upon the following criteria for Newport Harbor which were developed and discussed above:

1) the physical criteria for typical marina development, and

2) the economic criteria for value of land and water.

Criteria and Computations for Marina Value:

The criteria and computations required to derive an indicated value for marina use are summarized below. The economic criteria are expressed in ranges and are likewise employed as ranges in the computations. The following calculations are done on a computer using 17 decimal places, whereas the display shows only two decimal places. Consequently the indicated result of a calculation may be slightly different than if it were done based on the displayed numbers.

Physical Criteria for Typical Marina Development:

Land Area Requirement:	7.30	Sq.Ft. per L.F. of Slip Space
Water Area Requirement:	35.20	Sq.Ft. per L.F. of Slip Space
Total Land and Water Area Requirec	42.50	Sq.Ft. per L.F. of Slip Space

Economic Criteria for Value of Land & Water (Dedicated to Marina Use):

	From:	To:	
Market Slip Rent (after vacancy):	$13.30	$19.95	per L.F. per month
Economic Rent (Land & Water)	27.5%	31.0%	of Gross Slip Rent
Overall Capitalization Rate for:			
Net Rental Income (Land & Water)	8.25%	8.75%	
Value of Uplands at Highest and Be	$65.00	$125.00	per Sq. Ft. of Land Area

Applying the above physical and economic criteria results in an indication of the value of land and water area presuming; 1) unity of ownership, and 2) land and water area dedicated to marina use (i.e., no alternative uses available).

Indicated Value for Land & Water (Dedicated to Marina Use):

Net Income to Land & Water From Marina Use @ Economic Rent

	From:	To:	
Per Lineal Foot per Month:	$3.66	$6.18	of Slip Space
Per Lineal Foot per Year:	$43.89	$74.21	of Slip Space
Per Square Foot per Year:	$1.03	$1.75	Per Sq. Ft. of Land & Wate
	From:	To:	
Indicated Capitalized Value:	$12.52	$19.96	Per Sq. Ft. of Land & Wate

Value Allocation - Before Equalization for Joinder

The above computations result in an indicated range of value per square foot for land and water combined and dedicated to marina use. This value must next be allocated to each component (land and water) based on the relative economic contribution of each.

This allocation is a two step process, first requiring apportionment based on indicated values as though both land and water were restricted to marina use. The second step requires equalization of return for the economic effect of joinder. This adjusts for the fact that the land component

is not restricted to marina use, and as previously demonstrated, the unrestricted upland values in Newport Harbor would otherwise result in a nominal or negative residual income to the water component.

The first step involves computing the percentage which the water value (average unit value of marina applied to water area) bears to the sum of the water value plus the unrestricted land value. This percentage is then applied to the estimated marina value to obtain the indicated value of water area, before equalization for economic effect of joinder, as follows:

First Step Value Allocation - Before Equalization for Joinder:

	From:	To:	
Value of Uplands at H & B Use*:	$65.00	$125.00	per Sq. Ft. of Land Area
Value of Land&Water for Marina**	$12.52	$19.96	per Sq. Ft. (Land & Water)
Marina Upland Area (Sq.Ft.):	7.3	17.2%	of Land & Water Area
Marina Water Area (Sq.Ft.):	35.2	82.8%	of Land & Water Area
Combined Upland + Water (Sq.Ft.):	42.5	100.0%	of Land & Water Area

*Highest and best use of uplands is for non-marina use
**Capitalized value for marina use before allocation to land and water.

	From:	To:	
Indicated Value of Combined Land & Water For Marir	$532.00	$848.16	per L.F. of Slip Space
Value at Highest and Best Use:			
Upland Value (Unrestricted):	$474.50	$912.50	per L.F. of Slip Space
Water (pro rata of marina value)	$440.62	$702.48	per L.F. of Slip Space
Sum of Above:	$915.12	$1614.98	per L.F. of Slip Space

	From:	To:
Proportion of Water Value to Sum:	48.15%	43.50%

	From:	To:	
Value Allocation to Water Area*:	$256.15	$368.93	per L.F. of Slip Space
Value Allocation to Water Area*:	$7.28	$10.48	per Sq. Ft. of Water Area

	From:	To:	
Value Allocation to Land Area*:	$275.85	$479.23	per L.F. of Slip Space
Value Allocation to Land Area*:	$37.79	$65.65	per Sq. Ft. of Upland Area

*Value allocations before equalization for economic effect of joinder.

The value allocation accomplished in the first step (above) has the effect of valuing the land component as if it were restricted to marina use. If both land and water areas are so restricted, the returns to the land and water components are equal, as demonstrated by the following computations:

	From:	To:	
Net Rental Income to Land & Water :	$43.89	$74.21	per L.F. slips per Year
Allocated to Water Area:			
% Allocated to Water:	48.15%	43.50%	of Rental Income (Marina)
Income to Water Area:	$21.13	$32.28	per L.F. slips per Year
Allocated to Land Area:			
% Allocated to Land:	51.85%	56.50%	of Rental Income (Marina)
Income to Land:	$22.76	$41.93	per L.F. slips per Year
Indicated Rate of Return on Water Value Before Effect of Joinder*:	8.25%	8.75%	
Indicated Rate of Return on Land Value Restricted to Marina	8.25%	8.75%	
Indicated Rate of Return on Unrestricted Land Value:	4.80%	4.60%	

*Assumes upland restricted to Marina Use

These calculations show equal rates of return of 8.25% to 8.75% to both land and water values only when the land is restricted to marina use. However, if the income allocated to land ($22.76 to $41.93 per L.F. of slip space) is applied to the unrestricted upland value ($474.50 to $912.50 per L.F. of slip space), the indicated return to land is reduced to 4.80% to 4.60%. Therefore, to reflect the non-unity of ownership and the value contributions of the upland and tideland components, the following equalization is required.

Equalization of Economic Return for Joinder:

The above allocation provides equal rates of return only if the upland is considered to be restricted to marina use. However, deducting an economic return to the unrestricted upland value would result in a negative residual to the water component. Recognizing that the water component would have essentially no economic value without joinder to the upland, an additional computation is necessary to further apportion available income from marina utilization.

The concept of providing an equal rate of return to the unrestricted land component (i.e. value at highest and best use) and to the water component at highest and best use (i.e. before adjustment for joinder requirement) forms the basis of the "equalization" adjustment.

Adjustment to Equalize Rate of Return for Economic Effect of Joinder:

Equalized Return = Marina Net Income ÷ (Unrestricted Land + Water Values)

Marina Income/L.F./Yr.:			Unrestricted Land		Water Value
From:	$43.89	÷	$474.50	+	$256.15
To:	$74.21	÷	$912.50	+	$368.93

Equalized Return Calculation:

From:	$43.89	÷	$730.65	=	6.01%
To:	$74.21	÷	$1281.43	=	5.79%

	From:	To:
Equalized Rate of Return*:	6.01%	5.79%

*Reflects highest & best use of land & water (land unrestricted & water as marina)

Equalized Allocation of Annual Marina Income to Land and Water:

	From:	To:	
Income to Land:	$28.50	$52.85	per L.F. of Slip Space
Income to Land:	$3.90	$7.24	per Sq. Ft. of Upland Area
Income to Water:	$15.39	$21.37	per L.F. of Slip Space
Income to Water:	**$0.44**	**$0.61**	**per Sq. Ft. of Water Area**

Reconciliation:

The ranges of economic criteria used in the foregoing computations result in a fairly broad range of value indications. It is helpful to test these ranges with a sensitivity analysis in which key variables are changed, noting the effect on the indicated fair rental value conclusions. The following observed relationships in the data help to explain these effects. They also help to demonstrate why the range of fair rental value indications can be narrowed significantly and still have validity to tidelands locations throughout lower Newport Harbor.

Generally higher slip rentals are realized in areas with higher uplands values. Higher slip fees result in a higher indicated rental value for the tidelands. However, these value enhancing effects tend to be offset to some

extent by the fact that as the value of uplands increase for alternative (non-marina) uses (with other factors held constant) the value of the adjoining water area decreases.

The following sensitivity analysis illustrates the effects of changing the values of key variables in three test models. The slip rents and land values are increased incrementally in each model.

Tidelands Fair Rental Value Sensitivity Analysis - Summary of Computations:

Variables

	From:	To:	
Effective Market Slip Rental:	$13.30	$15.50	per L.F. per month
Economic Rent (Land & Water)	27.5%	30.0%	of Gross Slip Rent
Overall Capitalization Rate:	8.25%	8.75%	Net Rental (Land & Water)
Value of Uplands at Highest and Be	$65.00	$75.00	per Sq. Ft. of Land Area
Indicated Income to Water or			
Tidelands Fair Rental Value:	$0.44	$0.58	per Sq. Ft. of Water Area

Variables

	From:	To:	
Market Slip Rental Rate:	$15.50	$17.50	per L.F. per month
Economic Rent (Land & Water)	30.0%	30.0%	of Gross Slip Rent
Overall Capitalization Rate:	8.25%	8.75%	Net Rental (Land & Water)
Value of Uplands at Highest and Be	$90.00	$100.00	per Sq. Ft. of Land Area
Indicated Income to Water or			
Tidelands Fair Rental Value:	$0.51	$0.55	per Sq. Ft. of Water Area

Variables

	From:	To:	
Market Slip Rental Rate:	$17.50	$19.50	per L.F. per month
Economic Rent (Land & Water)	30.0%	31.0%	of Gross Slip Rent
Overall Capitalization Rate:	8.25%	8.75%	Net Rental (Land & Water)
Value of Uplands at Highest and Be	$100.00	$125.00	per Sq. Ft. of Land Area
Indicated Income to Water or			
Tidelands Fair Rental Value:	$0.59	$0.54	per Sq. Ft. of Water Area

These tests illustrate the inverse relationship between rental value of the water and upland land value. Since the higher upland values tend to be associated with higher slip rents, there is an offsetting and equalizing effect. Therefore the mid-range indication of $0.53 (base range of $0.44 to $0.61) per square foot tends to have fair application throughout lower Newport Harbor.

The data from other jurisdictions was reviewed as a check on this indication.

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. This method of charging rent as a percent of gross income requires accurate income reporting and is not practical for uses such as guest docks for restaurants, yacht brokers, boat repair, or other situations that do not produce income which can readily be allocated to the marina operation.

Since slip rents are much lower in the Delta region than in Newport, we would expect percentage rents to also be lower. The above range of percentages is applied to the criteria applicable in Newport Harbor, with the following results, which should provide lower limit indications of rent per square foot of subject tidelands:

$13.30/l. f../mo. x 12 mos. x 5% ÷ 35.2 s.f../l. f.. = $0.23/s.f.. of water/year

$19.95/l. f../mo. x 12 mos. x 7% ÷ 35.2 s.f../l. f.. = $0.48/s.f.. of water/year

The allocation of rental to water area in Shelter Island, San Diego, was discussed above in the Valuation Methodology section. This showed water rent at $0.42 for industrial (boat yard) use. In San Diego, both the upland and water area are owned by the Port District. Consequently the water rent is only an allocation which is made under the condition of unity of ownership. No allocation is made for marinas, wherein the land and water are leased based on percentage rent. Although not directly comparable, the level of rent is generally supportive of the rental value indicated for Newport Harbor tidelands parcels.

Valuation Conclusion - Harbor Permit Fee:

As a result of our investigation and analysis, as well as consideration of other factors pertinent to the appraisal problem, we have formed the opinion that the fair rental value of City tidelands parcels, consistent with the terms and conditions of the one year harbor permit (as distinguished from a long term lease), which in joinder with privately owned adjacent uplands are being used for commercial purposes, is the sum of $0.53 per square foot per year.

Fair Rental Value Conclusion: **$0.53/s.f./year**

City of Newport Beach
Revenue Division

Permit #:_____

3300 Newport Blvd., Newport Beach, CA 92659-1768
(714) 644-3141 FAX (714) 644-3073

MARINE CHARTER PERMIT APPLICATION

CHARTERER:_____
ADDRESS:_____
CITY:_____ZIP:_____PHONE:_____
PERSON IN CHARGE:_____

CHARTER COMPANY:_____
ADDRESS:_____
CITY:_____ZIP:_____PHONE:_____
AGENT'S NAME:_____

VESSEL NAME:_____
CHARTER DATE:_____TIME:_____AM/PM
NUMBER OF PASSENGERS:_____
TOTAL PRICE PER PASSENGER (check one): ____(<$26), ____($26-$50), ____(>$50)
BOARDING LOCATION (ADDRESS):_____
PARKING LOCATION (ADDRESS):_____
SHUTTLED/BUSSED BY:_____PHONE:_____
WHERE WILL VESSEL BE LOADING/UNLOADING EQUIPMENT & PROVISIONS:_____
_____
ALCOHOLIC BEVERAGES SOLD/SERVED BY:_____
CATERED BY:_____ENTERTAINMENT:_____
CAPTAIN:_____LICENSE#:_____TYPE:_____

I ALSO ACKNOWLEDGE THAT FAILURE TO PAY THE MARINE CHARTER PASSENGER TAX DUE ON THIS CHARTER WILL RESULT IN DENIAL OF CHARTER PERMITS FOR UP TO NINETY DAYS.

_____
APPLICANT'S NAME SIGNATURE DATE

FOR OFFICIAL USE ONLY -- DO NOT WRITE BELOW THIS LINE

Original Date:___/___/___
Add On? ___No/___Yes
Date Received:___/___/___

Application Fee:_____
Late Charges:_____
Parking Fees:_____
Passenger Tax:_____
Situs Fee:_____
TOTAL DUE:_____

VALUATION - SPECIAL USES

Introduction:

The preceding analysis of fair market rent for the tidelands parcels considers highest and best use of the tidelands parcels to be in joinder with the uplands for development of commercial boat berthing. This use forms the basis for estimating fair market rental for all of the tidelands parcels.

In addition to the base fair market rental value estimated as described above, we have also considered the following special uses from Classification 2) "Boat berthing with other uses on the water"; and 3) "No boat berthing." In summary, this section of the report considers the following:

1) Tour Boats
2) Fuel Docks
3) Shipyards
4) The Balboa Pavilion

Tour Boats:

The City of Newport Beach imposes a Marine Charter Permit fee and Marine Charter Passenger Tax to accommodate the recent dramatic increase in charter vessels operating within Newport Bay.

Chapter 5.18 of the Municipal Code codifies the Marine Charter Permit and Chapter 3.34 codifies the Marina Passenger Tax.

The requirements are necessary to minimize the traffic congestion, parking shortage, excessive noise and discharge of waste that could result from unregulated charter activity. No person may operate any charter, or permit any vessel to be used for this purpose without first obtaining a marine charter permit. Excepted are commercial fishing boats, those operating in a sailing club, sport fishing, boat repair craft or any charter carrying six or fewer passengers.

On the facing page is a permit application specifying the information required for permit issuance. The City Revenue Manager or Harbor Inspector shall review the application and issue the permit.

Reasons for denying the application include, in part, creation of noise or pollution; inadequate off street parking; failure to provide safe loading or unloading of passengers and supplies.

The term of the permit extends only for the duration of the charter. The most pertinent conditions which must be met by the operator are:

1. Adequate off street parking.
2. No loading or unloading at a public dock or gas dock.

3. No pickup on public streets.
4. Boarding location must be on a dock in a commercially zoned district.
5. No amplified sound emanating from inside the boat.
6. No music sound beyond 50 feet of boat.
7. All forms of amplified sound, music or live entertainment are prohibited after 10:00 pm.
8. Trash must be placed in a private receptacle.
9. Must operate within main channels and 100 feet from any residence.
10. Holding tanks required for sewage.
11. Obey all Federal, State, County and City laws.

Permit fees are $53.00 for the first month and $23.00 for the next month.

The Marine Charter Passenger Tax (Chapter 3.34) applies to each charter period. The tax is $0.50 per passenger for ticket prices between $26 and $50, and $1.00 per passenger for ticket prices of $50 or more.

Out of town vessels with capacity of less than 50 persons are charged an additional $50; for fifty or more it is $100. The tax amount is adjusted annually by C.P.I.

Sportfishing or whale watching outside the harbor are excluded.

Approved Boarding Locations

As of January 19, 2001 there were 14 approved boarding locations within the harbor. They are:

400 Main Street	-	Pavilion
705 Edgewater	-	Fun Zone Area
503 E. Edgewater	-	West of Ferry
670 Lido Park Drive	-	Across from Cannery Rest.
8400 Via Oporto	-	Lido Village
3404 VIa Oporto	-	Lido Village
3424 Via Oporto	-	Lido Village
3366 Via Lido	-	Easterly of Lido Village
3101 W. Coast Hwy.	-	Westerly of AYSO 101
2901 W. Coast Hwy.	-	AYSO 101
2431 W. Coast Hwy.	-	Easterly of Tustin
1221 W. Coast Hwy.	-	Balboa Bay Club