

APPRAISAL REPORT

COMMERCIAL TIDELANDS
NEWPORT HARBOR
NEWPORT BEACH, CALIFORNIA

DATE OF VALUE
SEPTEMBER 30, 2006

PREPARED FOR

MS. EVELYN TSENG
REVENUE DIVISION
CITY OF NEWPORT BEACH
3300 NEWPORT BOULEVARD
NEWPORT BEACH, CALIFORNIA 92663

PREPARED BY

NETZER & ASSOCIATES
234 E. SEVENTEENTH STREET, SUITE 209
COSTA MESA, CALIFORNIA 92627
FILE NO. 26-019

NETZER & ASSOCIATES

Real Estate Appraisal & Consulting

October 9, 2006
File No. 26-019

Ms. Evelyn Tseng
Revenue Division
City of Newport Beach
3300 Newport Boulevard
Newport Beach, CA 92663

Re: Appraisal Services
Commercial Tidelands – Newport Harbor
Newport Beach, California

Dear Ms. Tseng:

In accordance with your request and authorization, I have undertaken the investigations and analyses necessary to estimate the market value, fee simple interest, in the above referenced real property, which is the subject of this report. James B. Netzer conducted inspections of the subject properties in August and September 2006.

Based upon the work undertaken and my experience as a real estate analyst and appraiser, I have formed the opinion, as of the 30th day of September 2006, subject to the Assumptions and Limiting Conditions contained in this report, that the subject has the following market values:

SECTION A

Current Fair Market Rent for the Fuel Docks is 5.0-Percent of Gross Sales.

SECTION B

Current Fair Market Rent for the Balboa Island Ferry is 6.0-percent of gross sales.

Current Fair Market Rent for the Newport Bait Barge is 4.5-percent of gross sales.

SECTION C

The slips at the Balboa Yacht Basin have the following fair market rent:

| Slip Length (Lineal Feet) | Total Slips | Monthly Rent /LF |
|------------------------------|----------------|---------------------|
| Under 30' | 2 | \$20.00 |
| 30' – 34' | 43 | \$21.00 |
| 35' – 39' | 71 | \$23.00 |
| 40' – 44' | 32 | \$25.00 |
| 45' – 49' | 3 | \$28.00 |
| 50' & Over | 10 | \$30.00 |
| Side Ties | 10 | \$20.00 |
| TOTAL | 171 | |

The apartment units at the Balboa Yacht Basin have the following market rent.

| Unit Type | Size (Sq.Ft.) | Market Rent |
|-----------------|------------------|----------------|
| 2-Bed, One-Bath | 1,100 | \$2,200 |
| 2-Bed, One-Bath | 1,300 | \$2,500 |

The storage garages at the Balboa Yacht Basin have the following market rent.

| Size (Sq.Ft.) | Total Units | Market Rent | Total Monthly Rent |
|------------------|----------------|----------------|-----------------------|
| 200 | 29 | \$350 | \$10,150 |
| 160 | 2 | \$320 | \$640 |

SECTION D

The tidelands in Newport Harbor that are not leased in conjunction with the adjoining upland parcel have a current market rent of 22.0-percent of the gross income.

The tidelands in Newport Harbor that are leased in conjunction with the adjoining upland parcel have a current market rent of 27.0-percent of the gross income.

SECTION E

Fair market rent for a residential pier used for "commercial" purposes is 20-percent of the gross rental income.

Fair market rent for a residential pier for non-commercial use is \$18.00 per lineal foot per year.

SECTION F

Fair market rent for the 29th Street Dock is \$20.00 per lineal foot per month, or a total monthly rent of \$1,140.00.

SECTION G

Fair market "transfer value" of the off-shore moorings is \$1,000 per lineal foot.

Fair market "transfer value" of the on-shore moorings is \$475 per lineal foot.

Monthly fair market rent for the on-shore and off-shore moorings is \$7.25 per lineal foot.

SECTION H

Annual fair market rent for the oceanfront encroachments is \$45.00 per square foot of land

SECTION I

The land under the Dory Fishermen's Fleet has a market value of \$150 per square foot.

This letter of transmittal must remain attached to the limited summary appraisal report, which contains 117 pages plus related exhibits, in order for the value opinions set forth to be considered valid.

I invite your attention to the following summary narrative report which has been prepared in accordance with the Code of Professional Ethics of the Appraisal Institute and is in compliance with the USPAP standards, and sets forth the data and analysis which my opinions are, in part, predicated. Thank you for the opportunity of serving you in this matter.

Respectfully submitted,


James B. Netzer, MAI
California General Appraiser No. AG003143

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CERTIFICATION

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

The statements of fact contained in this report are true and correct.

The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusions.

I have no present or prospective interest in the property that is the subject of this report, and have no personal interest or bias with respect to the parties involved.

I have no bias with respect to the property that is the subject of this report or to the parties involved in the assignment.

My engagement in this assignment was not contingent upon developing or reporting predetermined results.

My compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, which include the *Uniform Standards of Professional Appraisal Practice*.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

I have made a personal inspection of the property that is the subject of this report.

In accordance with the USPAP Competency Provision, I certify that I have the knowledge and experience to complete this assignment and have appraised this property type before.

Disclosure of the contents of this appraisal review is governed by the Bylaws and Regulations of the Appraisal Institute. In furtherance of the aims of the Institute to develop higher standards of professional performance by its Members, the appraiser may be required to submit authorized committees of said Institute copies of this report and any subsequent changes or modifications thereof.

The Appraisal Institute conducts a voluntary program of continuing education for its designated members. MAI's who meet the minimum standards of this program are awarded periodic educational certification. As of the date of this report, James B. Netzer has completed the requirements under the continuing education program of the Appraisal Institute.

I have personally conducted an inspection of the real property identified in Exhibit A to the Contract For Services, which is the subject of this report. Based upon my investigation and analysis, I have formed the opinion that the subject properties have the following values as of September 30, 2006:

SECTION A

Current Fair Market Rent for the Fuel Docks is 5.0-Percent of Gross Sales.

SECTION B

Current Fair Market Rent for the Balboa Island Ferry is 6.0-percent of gross sales.

Current Fair Market Rent for the Newport Bait Barge is 4.5-percent of gross sales.

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| 200 | 29 | \$350 | \$10,150 |
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INTRODUCTION

Purpose of Report

The purpose of this report is to set forth the data, analyses, and conclusions relative to my opinion of the fair market rent for the various uses of the submerged tidelands located in Newport Harbor, in the City of Newport Beach California. As set forth in Exhibit "A" of the Professional Services Agreement between Netzer & Associates and the City of Newport Beach, market rent conclusions for the following tideland uses are presented:

- A. Commercial entities operating at fixed locations on tideland properties, i.e. gas dock operations, bait and tackle stores;
- B. Commercial operations emanating from tideland properties, i.e. the Balboa Island Ferry, Newport Bait Barge;
- C. Balboa Yacht Basin, which contains approximately:
 - 1. 200 boat slips,
 - 2. 3 apartments, and
 - 3. 31 garages;Note: Balboa Yacht Basin is subject to the terms of Council Policy F-7.
- D. Commercial piers within the City of Newport Beach;
- E. Two categories of residential piers within the City of Newport Beach, including:
 - 1. Those which have been leased by the residential property owners to third-party boat owners on a monthly or quarterly basis;
 - 2. Those which are used solely for personal, non-commercial use;
- F. The licensing of City-owned docks, i.e. the 29th Street dock;
- G. On-shore and off-shore moorings within the City of Newport Beach;
- H. Oceanfront encroachments; and
- I. The Dory Fisherman Fleet Zone.

For the purpose of describing the properties and the presentation of market data and market rent conclusions the above property uses will be discussed separately in the report and will be segregated by section based on the above outline.

Function of Report

The function of this report is to estimate the fair market rent of the above uses for the City's internal purposes and possible revisions to the City's Harbor Permit Policy. For reference, the

City's Harbor Permit Policy is included in the report Addenda. The appraisal is completed in compliance with the City's Harbor Permit. The appraisal is made at the request of Evelyn Tseng, Income Contract Administrator with the City of Newport Beach – Revenue Division, who is the intended user of this report.

Date of Value

The date of value presented in this report is September 30, 2006. Given the number of properties involved in this report the inspections of the properties were completed during the months of August and September 2006.

Scope of Investigation

This report conveys the results of my investigations and analyses concerning the subject property. The report includes a summary of the information utilized and the methodology used in determining an estimate of value. The appraisal process is a systematic analysis wherein data utilized in estimating the value of the subject property is acquired, classified, analyzed and presented. The first step of the appraisal process involves defining the appraisal problem. The step includes the identification of the real estate, an explanation of limiting conditions, stating the effective date of the value estimate, identification of the property rights being appraised and determining the type of value being sought. The next step is to gather information on the subject property such as vesting of ownership, property history and tax assessment information. The third step is the collection of regional, city and neighborhood data that influences the value of the subject property through economic forces. Relevant factors affecting the value of the subject property such as zoning, site and improvement data are considered to determine the Highest and Best Use of the subject property. The valuation methodology process then discusses the meaningful applications and limitations of the three approaches to value which are the Cost, Sales Comparison, and Income Capitalization Approaches. The comparable market data is analyzed for comparison to the subject property as determined by a degree of similarities. The final step in the appraisal process is the reconciliation of the data gathered to determine the final value estimate. All sections of the appraisal report are structured to show the reasoning and justification utilized in the estimate of highest and best use and conclusion of value. The "Addenda" section of the report contains various information supportive of the appraisal.

Interests Appraised

The interests appraised include the Fee Simple Estate, the Leased Fee Estate and the Leasehold Estate under the assumption that the subject properties will eventually be leased on a long term basis.

The term the “Fee Simple Estate”¹ is defined as follows:

Absolute ownership unencumbered by any other interest or estate; subject only to the limitations of eminent domain, escheat, police power, and taxation.

The term the “Leased Fee Estate”² is defined as follows:

An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the Lessor (the leased fee owner) and the leased fee are specified by contract terms contained within the lease.

The term the “Leasehold Estate”³ is defined as follows:

The interest held by the lessee (the tenant or renter) through a lease conveying the rights of use and occupancy for a stated term under certain conditions.

Market Value Defined

The terms “market value”⁴, as used in this report, is defined as follows:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well-informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure on the open market;
4. Payment is made in cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by any one associated with the sale.

Market Rent Defined

The terms “market rent”⁵, as used in this report, is defined as follows:

¹ Appraisal Institute, The Dictionary of Real Estate Appraisal, Third Edition, (Chicago, 1993), p. 140.

² Appraisal Institute, The Dictionary of Real Estate Appraisal, Third Edition, (Chicago, 1993), p. 204.

³ Appraisal Institute, The Dictionary of Real Estate Appraisal, Third Edition, (Chicago, 1993), p. 221.

⁴ Uniform Standards of Professional Appraisal Practice

⁵ Uniform Standards of Professional Appraisal Practice

The rental income that a property would most probably command in the open market; indicated by the current rents paid and asked for comparable space as of the date of the appraisal.

Bulkhead Line Defined

The term "Bulkhead Line"⁶, as established, shall define the limit of solid filling or solid structures along the bayfront.

Pierhead Line Defined

The terms "Pierhead Line"⁷, as established, typically shall define the limit for pier and float-type structures.

Project Line Defined

The terms "Project Line"⁸, shall define the channel lines of the improvements and by the Federal Government in 1935-36.

Probability of Change

The opinion of value is based upon my knowledge of conditions as of the date of this report. Constantly changing economic, social, political and physical conditions have varying effects upon real property values. Even after the passage of a relatively short period of time, property values may change substantially and require a review based on differing market conditions.

Legal Descriptions

I have not been provided with the legal description of each individual property; however, this does not impact the analysis or conclusions presented.

Owner of Record and Property History

It is assumed that title to all of the properties being appraised is vested in the City of Newport Beach. Unless specifically addressed in this report, none of the properties have transferred or encumbered with long term leases in the recent past.

Assumptions and Limiting Conditions

The analyses and opinions in this report are subject to the following assumptions and limiting conditions:

⁶ City of Newport Beach, Harbor Permit Policy

⁷ City of Newport Beach, Harbor Permit Policy

⁸ City of Newport Beach, Harbor Permit Policy

General

No investigation of title to the property has been made, and the premises are assumed to be free and clear of all encumbrances, leases, use restrictions, easements, cases or actions pending, except as specifically discussed in this report. Title is assumed to be good and marketable, and that the property is under responsible ownership, competent management and available for its highest and best use.

No survey, legal, or engineering analysis of this property has been made by the appraiser. I assume no responsibility for any condition not readily observable from the customary inspection of the premises, and that there are no hidden or unapparent conditions of the property, subsoils or structures that render it more or less valuable, except as noted herein.

The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocation for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.

The maps, plats, photographs, and exhibits included herein are for illustration only, as an aid in visualizing matters discussed within the appraisal. They should not be considered as surveys nor relied upon for any other purpose, nor should they be removed from, reproduced, or used apart from this report.

I assume no responsibility for economic or physical factors, which may affect the opinions herein, stated which might occur at some date after the date of value. I reserve the right to make such adjustments to the analysis, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Information contained in this appraisal has been gathered from sources, which are believed to be reliable, and where feasible, has been verified. No responsibility is assumed for the accuracy of information supplied by others.

No opinion is expressed as to the value of sub-surface oil, gas, or mineral rights, or whether the property is subject to surface entry for the exploration or removal of such materials except as expressly stated.

The property is appraised assuming to be in full compliance with all applicable federal, state, and local environmental regulations and laws, unless otherwise stated.

The property is appraised assuming that all applicable zoning and use regulations and restrictions have been complied with, unless otherwise stated.

The property is appraised assuming that all required licenses, certificates of occupancy, consents, or other legislative administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based, unless otherwise stated.

The Americans with Disabilities Act ("ADA") became effective January 26, 1992. The appraiser has not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a

compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since the appraiser has no direct evidence relating to this issue, possible noncompliance with the requirements of the ADA in estimating the value of the property has not been considered.

Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no material on or in the property that would cause a loss in value. No responsibility is assumed for any such condition, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired. If the client is aware or becomes aware of any conditions, the appraiser should be consulted immediately to assess the impact, if any, upon the market value.

The appraiser reserves the right to make such adjustments to the valuation herein reported, as may be required by consideration of additional data or more reliable data that may become available.

No opinion is intended to be expressed, or implied, for matters, which require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate appraisers.

I shall not be required, by reason of this appraisal, to give testimony or to be in attendance in court or any governmental or other hearing with reference to the property without prior arrangements having first been made with me relative to such additional employment.

Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser. I do not authorize out of context quoting, or partial reprinting of the report. In the event the report is placed in the hands of a third party, it is requested that such party be made cognizant of any and all limiting conditions resulting in the basis of my employment and the discussions thereto, as well as those set forth herein.

The submission of this report constitutes the completion of the service authorized. It is submitted upon the condition that the client will provide the appraiser customary compensation relative to any subsequent required deposition, conferences, additional preparation or testimony.

The appraiser respectfully requests that neither all nor part of the contents of this report shall be disseminated to the public through advertisement, public relations, news, sales, or other media, without written consent and approval of the author, particularly the valuation conclusions, the identity of the appraiser, or any reference to the Appraisal Institute or the MAI designation.

In the event the appraiser is subpoenaed for a deposition, judicial or administrative proceeding, and is ordered to produce his appraisal report and file, the appraiser will immediately notify the employer.

It shall be the responsibility of the employer to obtain a protective order.

The liability of Netzer & Associates and the appraiser responsible for this report is limited to the client only and to the fee actually received by the appraiser. Further, there is no accountability, obligation or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The appraiser is in no way responsible for any costs incurred to discover or correct any deficiencies of any type present to the property -- physical, financial, and/or legal.

It is agreed that the appraiser is not a necessary party in any inquiry or judicial proceedings. If called upon to testify in any litigation or other proceeding arising out of the duties in this matter, and is compelled to incur court costs, attorney's fees or other out-of-pocket expenses in connection with court proceedings, such costs or expenses, together with the appraisers' usual hourly per diem applicable for study, preparation, testimony or travel will be paid by the party (or parties) who acts to bring any suit requiring a judicial proceeding.

Any dispute or claim made with respect to this report shall be submitted to and resolved in accordance with the rules of the American Arbitration Association for arbitration, and the decision of the Association shall be binding. All appraisal services, pursuant to this report, shall be deemed to be contracted for and rendered in Orange County, California, and any arbitration or judicial proceedings shall take place in Orange County, California.

The signatory of this appraisal report is a member of the Appraisal Institute. The Bylaws and Regulations of the Institute require each member to control the use and distribution of each appraisal report signed by such member. Therefore, except as hereinafter provided, the party for whom this appraisal report was prepared may not distribute copies of this appraisal report, in its entirety, without the written consent of the signatory of this report. The report and parts thereof and any additional material submitted, may not be used in any prospectus or printed material used in conjunction with the sale of securities or participation interests in any Public Offering as defined under US Security laws. Further, neither all nor any part of this appraisal report shall be disseminated to the general public by the use of advertising media, public relations media, news media, sales media, or other media for public communication without the prior written consent of the signatory of this appraisal report.

AREA DESCRIPTION

Newport Harbor is the focal point of the incorporated city of Newport Beach, which is located in coastal Orange County approximately 10 miles southwest of the Santa Ana Civic Center. The coastal city was incorporated on September 1, 1906. The State Department of Finance reports an estimated population of 70,032 persons, as of the 2000 Census. According to the City Chamber of Commerce, the influx of the tourist population during the summer months increases the population to over 100,000 persons.

Newport Beach is located 85 miles north of San Diego, 14 miles south of Long Beach and 50 miles from downtown Los Angeles. The City's elevation ranges from sea level to 691 feet. With the annexation of Newport Coast, the City is comprised of approximately 25 square miles of land area, approximately 25.5 square miles bay, harbor and ocean waters for a total area of

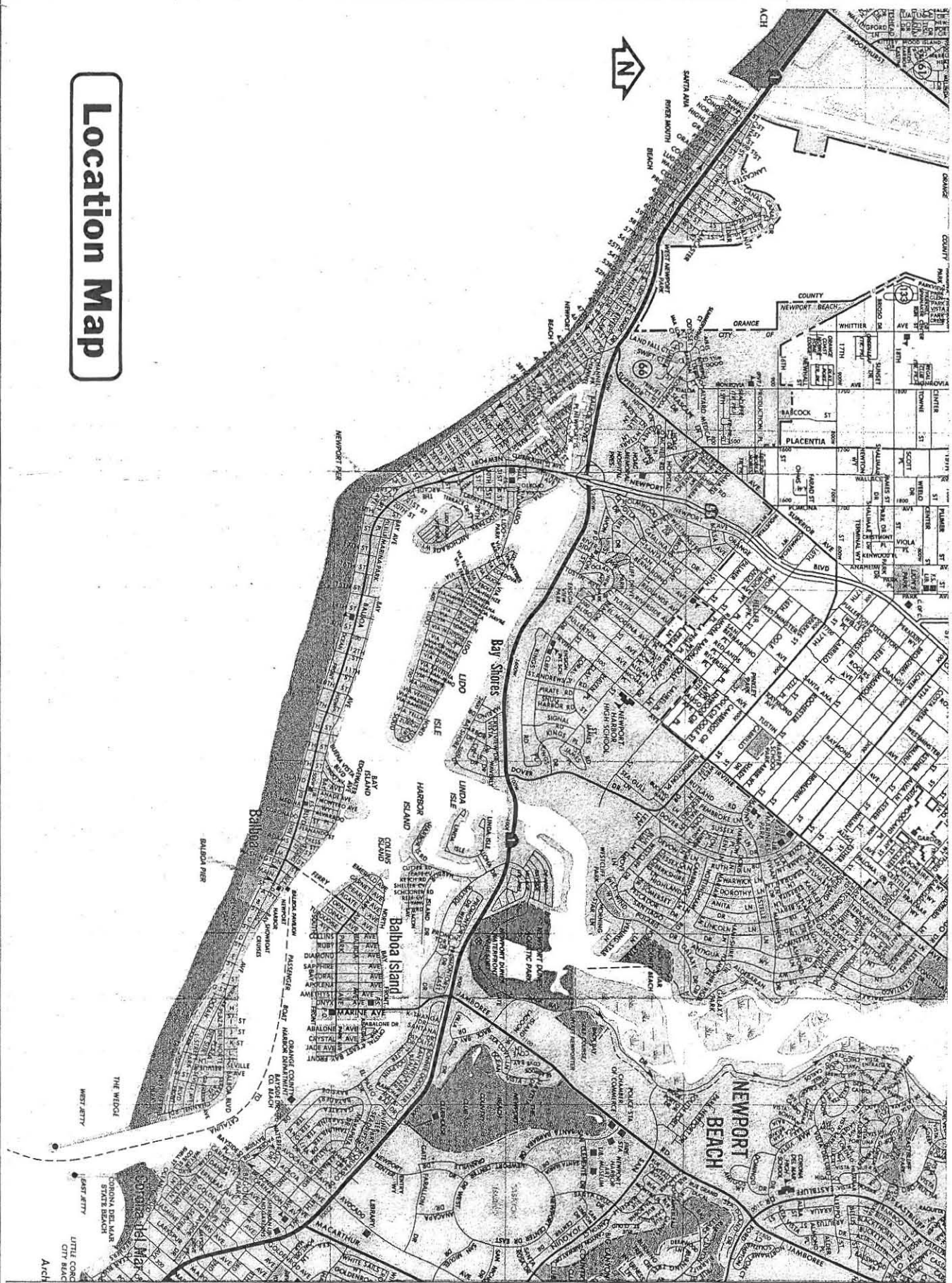
approximately 50.5 square miles. The city has 6.1 miles of ocean frontage and 25.4 miles of harbor frontage. Newport Harbor is one of the largest pleasure craft harbors on the West Coast and is home to approximately 9,900 boats, 1,230 piers, 2,330 commercial slips and side ties and 1,235 moorings.

In addition to the City's miles of beaches and pleasure craft harbor, the City is home to several public and private golf courses, Newport Center and its Fashion Island regional mall, the Balboa Peninsula, Balboa Island, Corona del Mar, and the Upper Newport Bay. Newport Center, developed by the county's largest landowner, The Irvine Company, is a master planned, mixed-use development, and includes offices, lodging and meeting facilities, and the Fashion Island regional mall. Newport Center is perceived as a premier business address in Southern California and the Class-A office buildings command some of the highest rents in the county. Fashion Island, an open-air regional mall containing approximately 1,200,000 rentable square feet, is home to many local, regional, national and international retailers, restaurants, and movie theaters. It caters to the business community, the local population, and attracts a large tourist market. Coupled with its mild climate, these community amenities will continue to draw the transient population from around the region and the nation, and the city should continue to be a destination resort into the foreseeable future.

Newport Harbor is formed by the Balboa Peninsula on south and the mainland on the north and extends inland to Jamboree Road and the north end of the Upper Newport Bay (Back Bay). The primary focus of this assignment is the Lower Newport Bay, which is generally defined as the water area south of the Coast Highway Bridge near the intersection of Coast Highway and Dover Drive. Traditionally, most of the boating activity within the harbor is concentrated in the Lower Bay as most of the Back Bay is an ecological preserve with limited boating facilities (Newport Dunes, Newport Aquatic Center, U.C.I. Rowing base, Bayside Village and Dover Shores). The Balboa Peninsula consists of all the contiguous land east of 45th Street extending to Peninsula Point and the jetty at the mouth of Newport Harbor. The south side of the Peninsula consists of sandy beaches on the Pacific Ocean while the north side of the Peninsula forms the southern perimeter of Newport Harbor.

Access to the Peninsula is via Newport Boulevard, Superior Avenue/Balboa Boulevard, or the famous ferry that runs between Balboa Island and the Balboa Peninsula. Newport Boulevard merges with Balboa Boulevard at 21st Street near McFadden Square and the Newport Pier and Balboa Boulevard continues eastward to the end of the Peninsula and eventually turns into Channel Road. Access the inland side of the Harbor is via Coast Highway, Bayside Drive and Harbor Island Drive. Additional access is afforded to the residents of the eight islands that ring

Location Map



the harbor, which include Newport Island, Lido Isle, Linda Isle, Harbor Island, Bay Island (the only island with no vehicular traffic), Balboa Island, Little Balboa Island and Collins Isle.

Primary landmarks and attractions include the Newport and Balboa Piers, the Balboa Fun Zone (being converted to the Newport Harbor Nautical Museum), the Balboa Pavilion and the Wedge, a well-known body surfing beach at the tip of the Peninsula. The commercial activities are concentrated along the Mariner's Mile section of Coast Highway, in Lido Village along the Rhine Channel, and the neighborhood surrounding the Balboa Island Ferry and Fun Zone. The balance of the upland and tidelands include residential properties, marinas, private docks and beaches. The Location Map on the facing page shows the subject location relative to the surrounding community and transportation network.

HIGHEST AND BEST USE

"Highest and Best Use" is an appraisal concept which is defined in The Dictionary of Real Estate Appraisal, Third Edition, as follows:

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. The four criteria that must be met are legal permissibility, physical possibility, financial feasibility, and maximum profitability.

Inherent in this definition are several conditions, which must be satisfied by the existing or proposed use in order to develop the maximum value. The use must be physically possible for the site. Soil condition, topography, size and shape must be compatible with the proposed use. The use must be legally permissible in that it must conform to current or projected zoning. Similarly, the use must not be precluded by deed restrictions or other encumbrances, which may limit potential uses. Also, the use must be economically feasible. The market should indicate sufficient economic demand so as to support a proposed use of the site. Among the various uses that meet the above criteria, the use which creates the greatest rate of return and maximum productivity is considered to be the highest and best use of the site.

Highest and Best Use Criteria - As If Vacant/As-Improved

A complete Highest and Best Use study of each of the uses of the tidelands and associated uplands parcels is beyond the scope of this assignment; therefore, it is assumed that the Highest and Best Use of the tidelands properties "as if vacant" and "as improved" are the current uses.

APPRAISAL PROCEDURES

The appraisal of real property generally involves one, two or three of the conventional approaches to value, and is based upon consideration of market-derived data, the experience of the appraiser, and opinions of other informed market participants.

Valuation Approaches

Three basic approaches to value are available to the appraiser: the Cost Approach, the Income Approach, and the Direct, or Sales Comparison Approach.

Cost Approach

This approach entails the preparation of a replacement or reproduction cost estimate of the subject property improvements new (maintaining comparable quality and utility) and then deducting for losses in value sustained through age, wear and tear, functionally obsolescent features, and economic factors affecting the property. The land value is then added to the depreciated cost along with an allowance for entrepreneurial profit to arrive at a value estimate.

Income Approach

This approach is based upon the theory that the value of property tends to be set by the net income that is to be realized by the owner. It is, in effect, the capitalization of expected future income into a present worth estimate. This approach requires an estimate of potential gross income, an analysis of all expense items, the selection of a capitalization rate, and finally, the processing of the net income stream into a value estimate.

Sales Comparison Approach

This approach is based upon the principle that the value of a property tends to be set by the price at which comparable properties have recently been sold or for which they were acquired. This approach requires a detailed comparison of sales of comparable properties with the subject property.

Approaches Used in the Valuation of the Subject

The Sales Comparison Approach is a process of comparing prices paid for similar properties, prices asked by owners, and offers made by prospective purchasers. The approach presents good evidence of value because it represents the actions of buyers and sellers, or in the case of leased properties Lessee's and Lessor's. The Sales Comparison Approach is based on the principle of substitution, which implies "the value of a property tends to be set by the price that would be paid to acquire a substitute property of similar utility and desirability within a reasonable amount of time."⁹ Given the preceding discussion, and the interactions of market participants, the Sales

⁹Appraisal Institute, The Appraisal of Real Estate, Eleventh Edition, (Chicago, 196), p.398.

Comparison Approach is the most relevant approach in estimating Fair Market Rent and is the only approach used in the analysis.

RECENT CITY OF NEWPORT BEACH LEASE AGREEMENTS

Within the recent past, the City of Newport Beach has entered into at least two agreements for Tideland properties in Newport Harbor. In December 2002 they entered into a Lease with the American Legion for the property at 15th Street and West Bay Avenue and in 2000 the Balboa Bay Club exercised its option for the redevelopment of their property at 1221 W. Coast Highway. The basic terms of the leases are summarized in the following table:

| LEASE SUMMARY – CITY OF NEWPORT BEACH | | | | | |
|--|---------------|---------------|--------------|--|---|
| DATA NO. LOCATION | LEASE DATE | LEASE TERM | BASE RENT | ADJUSTMENT | PERCENTAGE RENT (% of Gross Revenue) |
| 1/ American Legion 215 E. 15 th Street Newport Beach | 12/2002 | 25 yrs. | \$96,000 | Every 5 years Greater of 10% or 75% of CPI | Hall Rental: 20% Marina: 40% Storage: 50% Parking Lot: 100% |
| 2/ Balboa Bay Club 1221 W. Coast Highway Newport Beach | 10/2000 | 50 yrs. | \$1,125,000 | After 97 th Month Every 5 years based on 75% of previous 5 years average rent | Dues: 6.0% Apartment: 16.5% Marina: 31% Storage: 20% Charter Commission: 20% Charter: 6% Room: 5% Beverage: 5% Food: 3% Retail: 5% Miscellaneous: 10% |

Both of these lease agreements are for properties in Newport Harbor and both Lessee's had prior operations at the respective locations. They both control both the upland and tidelands parcels and are included as background information and for comparison to other properties located in Newport Harbor that have similar use components.

The American Legion had been occupying their property at the corner of Bay Avenue and 15th Street since 1975 and they constructed a legion hall, marina, parking area, dry boat storage facilities and lockers. The membership is restricted to those who have served in any branch of the United States armed forces. The Lease has a 25 year term with an option to extend the lease for an additional 25 year term. The Base Rent is \$8,000 per month, or \$96,000 per annum. It was reported that they paid \$23,632.59 in percentage rent in 2005.

The Bay Club lease reflects the exercise of an Option Agreement that was originally negotiated in June 1996 that had a five year term and one extension and they paid non-refundable option money (approx. \$355,000) during the option period. The operator of the Balboa Bay chose to exercise their option in October 2000. As part of the lease, the Bay Club was required to make a substantial investment in upgrading/replacing their existing improvements and had three years from the commencement date to complete the improvements. The base rent paid by the Bay Club is \$1,125,000 per year plus any amount that the percentage rent exceeds the base rent. The percentages are set forth in the previous table. The base rent was reduced by approximately one-half during the first 30-months of the lease to permit the construction/renovation of the improvements. The base rent is adjusted in the 97th month and then every 61st month thereafter, to 75% of the average annual rent for the previous five year period. There is a "Fair Market Rent" adjustment at the commencement of the 26th year based on a formula set forth in the lease. The lease does include a legal description of both the upland and tideland parcels; however, there are no area calculations.

JURISDICTIONAL LEASING POLICIES

During the course of completing this assignment interviews were conducted with representative of most of the jurisdictions that administer/lease tidelands along coastal Southern California. The representatives were interviewed with regard to the general leasing practices along the coastal strip and the following discussion is a summary of some of the interviews conducted.

County of Orange

At Dana Point Harbor, which is under the jurisdiction of Orange County, two marinas – the East Basin Marina and the Dana West Marina, had been leased on a "typical" percentage rent based on the various permitted uses. In 2001 the County changed its policy regarding the "lease" of marina properties.

In 2001 the County and the operator of the East Basin Marina (1,500 slips w/ eight service buildings) entered into a management agreement to operate the East Basin Marina at the expiration of the 30-year lease. Under the management agreement the County retains the operational expertise and historical knowledge of the original lessee (as the property manager) and the revenue to the County is significantly higher than the amounts received from percentage rents under the original lease.

The lease for the Dana West Marina expired in October 2005. The original leases commenced in 1975 and the Marina is comprised of approximately 990 slips, six service buildings to provide boats facilities (showers, restroom, laundry facilities, etc...) on the lower floor with the upper

floors leased to various marine related business activities including a yacht club, boat broker, marine insurance and the operators administrative offices. The County entered into a similar five-year management agreement with the former Lessee and they have increased the County revenue significantly and retained ownership of all the improvements including personal property (docks, etc...). Under the Management Agreement the County pays the manager five-percent (5.0%) of the gross receipts collected on behalf of the County from slip rents, building tenants and other business activities at the marina. The manager contracts with the vendors and pays all operating expenses on behalf of the county (subject to county approved budgets and reimbursement by the County) and is responsible for the proper handling and reporting of all financial information. The County retains ownership of all the improvements.

There is a third area within the harbor (Dana Wharf Sportfishing) that is leased to the operator of the Marina in a more traditional Lessor/Lessee basis under a 10 year ground lease with a 10 year option. This lease was entered into in 2002 and includes an annual "Base" rent and percentage rent based on the gross receipts of the Lessee. They also pay 1.0-percent of their gross receipts for Common Area Maintenance. There are different percentages established for each of the permitted uses and the Base rent is adjusted every five years based on the greater of the CPI or 75% of the Lessee's average rent for the prior three years.

Based on the interviews completed during the course of completing this assignment, Dana Point Harbor is the first, and only, jurisdiction to enter into property management agreements for the operation of their tidelands.

Unified Port of San Diego

The Unified Port of San Diego has jurisdiction over the tidelands in most of San Diego Harbor. In the recent past they have negotiated a lease and an option to lease agreement for the development of two separate marinas along with the associated support facilities. The leases are based on fixed minimum rent that is adjusted periodically based on the changes in the Consumer Price Index (CPI) and percentage rent based on benchmarks that they established in 1994 that are identified as "Benchmark Fair Market Rent Percentage Rental Rate Study Conducted for the San Diego Unified Port District and the San Diego Port Tenants Association". This document is included in the Report Addenda for reference. Interviews with a Senior Asset Manager in the Port Real Estate Department indicates that this study was completed based on comparison with lease data for other harbors along the Southern California coast and that the Port District has no latitude in negotiating percentage rent with prospective tenants.

City of Avalon

The primary uses of Avalon Harbor are associated with the mooring rentals, shore boat and charter tours. The City of Avalon charges all business engaged in the operation of boats using harbor facilities for landing, discharging loading or embarking passengers 7.0 percent of the gross receipts. They charge cruise ships \$2.00 per passenger. Businesses engaged in the operation of "shore boats" are charged 7.0-percent of the gross receipts.

City of Los Angeles (San Pedro)

The City of Los Angeles has historically charged fees to marina operators, bait barges and other users of tideland properties a fixed rent that was based on a price per square foot of tidelands property and, when applicable, the upland rent is based on a price per square foot of land area both multiplied by a contractually established rate of return. The fixed rent was adjusted periodically based on a change in the Consumer Price Index (CPI). It was reported that several of their leaseholds have recently expired or are expiring in the next few years and they are currently drafting Requests For Proposals (RFP's) that will base the new rents on a percent of the gross income. It was noted that this method of calculating rents allows both the City and the Lessee to benefit from increases in business and does not unduly penalize the lessee in times when business declines.

SECTION A - Commercial Entities @ Fixed Locations (Gas Docks, etc...)

Introduction

This category of properties includes those that operate at “fixed” location with the city and are located in the tidelands. Exhibit “A” of the agreement specifically identifies the gas docks and bait and tackle stores in the harbor. There are three gas docks in the city; however, no specific “bait and tackle” stores were identified. Other properties in this category that are not specifically identified but are considered in this analysis include restaurants and the Pavilion.

Location

There are three gas docks operating within Newport Harbor that have been specifically identified for this assignment. While there may be other commercial entities operating from fixed locations in the harbor they were either not identified or are addressed in another section of this report. The location and description of the fuel docks, based on a combination of information provided by the City and my research of the city files, are summarized in the following table.

| Name Location | Improvements |
|---|--|
| Hills Boat Service Inc. 813 E. Bay Avenue Newport Beach | Pier, floats, office, storage, gas pumps, refrigerated box |
| Island Marine Fuel 406 S. Bayfront Balboa Island | Pier, floats, office, storage, gas pumps, refrigerated box |
| Newport Landing 504 E. Edgewater Newport Beach | Pier, floats, office, storage, gas pumps, refrigerated box |

Description – 813 E. Bay Avenue

The fuel dock at 813 E. Bay Avenue is located on the south side of the bay, just east of the Balboa Pavilion. Based on a review of the City records the fuel dock occupies tidelands that are approximately 80-feet from the Bulkhead line to the Pierhead line and extend an additional 20-feet to the Project line, with approximately 90 feet of bay frontage. The improvements included a fuel dock with pumps, a pier with a storage area and an office/store. The fuel tanks are reported to be under a concrete slab below the wooden deck/pier. The Balboa Angling Club also appears to occupy a portion of the tidelands. A drawing of the improvements, taken from the City files, is included in the Addenda at the end of this section for reference.

Description – 406 S. Bayfront

The fuel dock at 406 S. Bayfront is located on the north side of the harbor, just west of the Balboa Island Ferry, on Balboa Island. Based on a review of the City records the fuel dock occupies tidelands that extend approximately 77-feet from the Bulkhead line to the Pierhead line and extend an additional 20-feet to the Project line, with approximately 110 feet of bay frontage. The improvements included a fuel dock with pumps, a pier with a store/office and a refrigerated box. A drawing of the improvements, taken from the City files, is included at the end of this section for reference.

Description – 406 S. Bayfront

The fuel dock at 406 S. Bayfront is located on the north side of the harbor, just west of the Balboa Island Ferry, on Balboa Island. Based on a review of the City records the fuel dock occupies tidelands that extend approximately 77-feet from the Bulkhead line to the Pierhead line and extend an additional 20-feet to the Project line, with approximately 110 feet of bay frontage. The improvements included a fuel dock with pumps, a pier with a store/office and a refrigerated box. A drawing of the improvements, taken from the City files, is included at the end of this section for reference.

Gas Dock Rental Survey

The table on the following page is a summary of the fuel docks that were surveyed to establish the current market rent for the three fuel docks specifically identified. It should be noted that in some cases the comparable fuel docks are part of a larger (POL) marina development; therefore, the following table only summarizes the rent paid for the services directly associated with the fuel dock operation. A summary of the data follows and my conclusions relative to the gas docks follows the table.

| Data No. Location | Lease Date | Use | Lease Type | Percent or \$/gallon |
|--|---------------------|--------------------------|---------------|------------------------------------|
| 1/ High Seas Fuel Dock San Diego | 1995 | Fuel Dock & Sales | Fixed | D: \$0.0075/Gal. G: \$0.04/Gal. |
| 2/ Pearson Marine Fuel San Diego | 1994 | Fuel Dock | Fixed | D: \$0.0075/Gal. G: \$0.04/Gal. |
| 3/ Harbor Island Fuel Dock San Diego | 1981 Rev. 2003 | Fuel Dock (POL) | Fixed | D: \$0.0075/Gal. G: \$0.04/Gal. |
| 4/ Cortez Fuel Dock San Diego | 1997 | Fuel Dock (POL) | Fixed | D: \$0.0075/Gal. G: \$0.04/Gal. |
| 5/ Islandia Marine Fuel San Diego | 1988 | Fuel Dock (POL) | Percent | D: 1.5% G: 3.0% |
| 6/ Dana Landing San Diego | 1995 | Fuel Dock (POL) | Percent | D: 1.5% G: 3.0% |
| 7/ Sea World Marina San Diego | 1998 Rev. 2004 | Fuel Dock (POL) | Percent | D: 1.5% G: 3.0% |
| 8/ Oceanside Harbor Fuel Dock Oceanside | 1989 2005 | Fuel Dock | Percent | D: 3.0% G: 3.0% |
| 9/ Dana Point Fuel Dock Dana Point | 1995 Adj. 2005 | Fuel Dock | Percent | D: 10.0% G: 10.0% |
| 10/ Alamitos Bay Marine Long Beach | 2003 | Fuel Dock & Marina | Fixed | D: \$0.015/Gal. G: \$0.03/Gal. |
| 11/ Shoreline Marine Fuels Long Beach | 2003 | Fuel Dock & Marina | Fixed | D: \$0.015/Gal. G: \$0.03/Gal. |
| 12/ Mike's Marine San Pedro | 1986 Rev. 2001 | Fuel Dock | Fixed | D: \$0.015/Gal. G: \$0.025/Gal. |
| 13/ Rocky Point Marine Fuels Redondo Beach | 2005 | Fuel Dock (POL) | Percent | D: 5.5% G: 5.5% |
| 14/ Marina Fuel Service Marina Del Rey | Rev. 1996 | Fuel Dock | Percent | D: 6.0% G: 6.0% |
| 15/ Dave's Marine Fuel Ventura | Rev. 1993 | Fuel Dock & Anchorage | Fixed | D: \$0.015/Gal. G: \$0.018/Gal. |
| 16/ Ventura Harbor Marine Fuel Ventura | 2002 Annual Rev. | Fuel Dock & Anchorage | Fixed | D: \$0.015 G: N.Avail. |
| 17/ McCormix Santa Barbara | 2003 | Fuel Dock | Fixed | D: \$0.04/Gal. G: \$0.04/Gal. |

Conclusion – Gas Dock Market Rent

Based on the market data uncovered and the interviews completed, the gas docks pay rent based on a fixed minimum annual rent with excess rent paid based on either on a fixed price per gallon or based on a percentage of their gross sales. It should be noted that when the rent is based on a percentage of the gross sales, the sales figures are calculated exclusive of any sales or excise taxes. Ten of the 17 fuel docks are leased on a “fixed” basis that ranges from \$0.0075 to \$0.04 per gallon of diesel fuel and \$0.018 to \$0.04 per gallon of gasoline. The remaining seven leases are based on a percentage of Sales that range from 1.5- to 10.0-percent of gross sales. The following table is a summary of these figures, including the averages based on the total sampling.

| Fuel Type | Fixed Rent /Gallon | Average Rent /Gallon | Percentage Rent | Average % Rent |
|-----------|--------------------|----------------------|-----------------|----------------|
| Diesel | \$0.0075 - \$0.04 | \$0.0145 | 1.5% - 10.0% | 4.786% |
| Gasoline | \$0.015 - \$0.04 | \$0.337 | 3.0% - 10.0% | 5.428% |

The indications are that the more recent leases are based on a percentage of gross sales; therefore I have concluded that the current market rent for the gas docks should be based on a percentage of gross sales. Based on the lease data uncovered, I have concluded that the percentage that should be applied to the gross sales of both diesel and gasoline is 5.0 percent; therefore, **the Current Fair Market Rent for the Fuel Docks is 5.0-Percent of Gross Sales.**

Conclusion – Other Commercial Entities @ Fixed Locations

As previously discussed, Exhibit A to the contract for services did not specifically identify other commercial entities that operate from a fixed location; however, many of these exist in the Harbor and Tidelands, including the Pavilion and the restaurants located on the Balboa Pier and the Newport Pier. The following table is a summary of the market data uncovered that applies to different commercial entities at fixed locations that were not specifically described in Exhibit A.

| Jurisdiction | Restaurants | | Chandlery /Retail | Service /Repair | Grocery | Off-site Bev. | Coin Op | Other |
|-------------------------------|-------------|------|-------------------|-----------------|---------|---------------|---------|-------|
| | Food | Bev. | | | | | | |
| S.D. Port Auth. | 3.0% | 5.0% | 4.0% | 5.0% | 3.0% | 3.0% | 5.0% | |
| City of S.D. | 3.0% | 5.0% | 6.0% | 4.0% | | | 25-50% | 10.0% |
| Oceanside | | | 6.0% | 6.0% | 6.0% | 6.0% | 20.0% | 6.0% |
| Dana Point* | 9.0% | 9.0% | 8.0% | | | 9.0% | 20.0% | 9.0% |
| Newport (BBC) | 3.0% | 5.0% | 5.0% | | | | | 10.0% |
| Long Beach | | | | | 5.0% | | | 5.0% |
| Port of L.A. (San Pedro) | 3.0% | 5.0% | 3.5% | | 3.0% | | | |
| L.A. County | 3.0% | 5.0% | 3.5% | | 3.0% | 5.0% | | |
| Ventura County (Channel Isl.) | 3.0% | 5.0% | | | 3.5% | 3.5% | | |
| Santa Barbara | | | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 10% |

* Dana Point charges an additional 1.0% for Common area maintenance & 1/4% for parking management

As illustrated in the above table, there are some variations within the data and complete data was not available from each of the jurisdictions interviewed; however, there does appear to be a central tendency among the data presented. It should be noted that in most cases these jurisdictions are leasing both the upland and tidelands parcels. As noted above, in many parts of Newport Harbor the City only has jurisdictions over the tidelands; therefore, in my opinion the market lease rates for the various uses would tend toward the lower end of the indicated ranges.

Based on the market data presented I have concluded that restaurants in the harbor have a market rental rate of 3.0-percent of the food sales and 5.0-percent of the beverage sales. Operations that include ship chandlery and retail sales have a fair market rent of 5.0 percent of gross sales. Operations that provided boat services and repairs have a current fair market rent of 6.0-percent of gross sales. Operations that include grocery sales and the sale of beverages for off-site consumption have a fair market rent of 5.0-percent of gross sales. If any single location has multiple uses the rent should be allocated between the different uses as set forth above.

Addenda – Section A

Subject Photographs

SECTION D

The submerged tidelands in Newport Harbor that are not leased in conjunction with the adjoining upland parcel have a current market rent of 22.0-percent of the gross income.

The submerged tidelands in Newport Harbor that are leased in conjunction with the adjoining upland parcel have a current market rent of 27.0-percent of the gross income.

SECTION E

Fair market rent for a residential pier used for "commercial" uses is 20-percent of the gross rental income.

Fair market rent for a residential pier for non-commercial use is \$18.00 per lineal foot per year.

SECTION F

Fair market rent for the 29th Street Dock is \$20.00 per lineal foot per month, or a total monthly rent of \$1,140.00.

SECTION G

Fair market "transfer value" of the off-shore moorings is \$1,000 per lineal foot.

Fair market "transfer value" of the on-shore moorings is \$475 per lineal foot.

Monthly fair market rent for the on-shore and off-shore moorings is \$7.25 per lineal foot.

SECTION H

Annual fair market rent for the oceanfront encroachments is \$45.00 per square foot of land

SECTION I

The land under the Dory Fishermen's Fleet has a market value of \$150 per square foot.

Respectfully submitted,


James B. Netzer, MAI
California General Appraiser No. AG003143



A view of the gas dock at 813 E. Bay Avenue, Balboa.



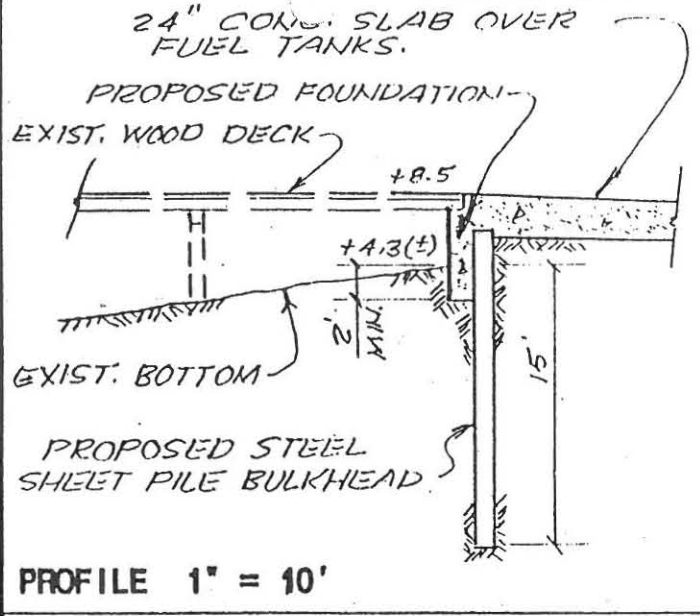
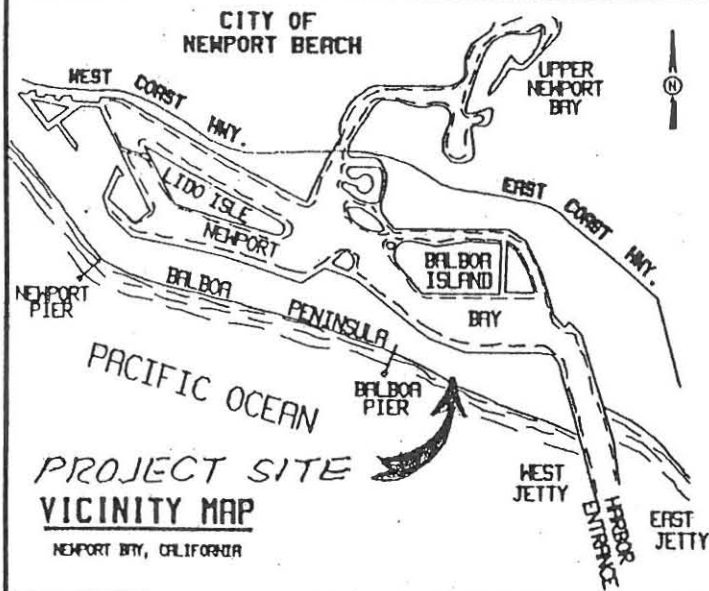
A view of the gas dock at 406 S. Bayfront, Balboa Island.



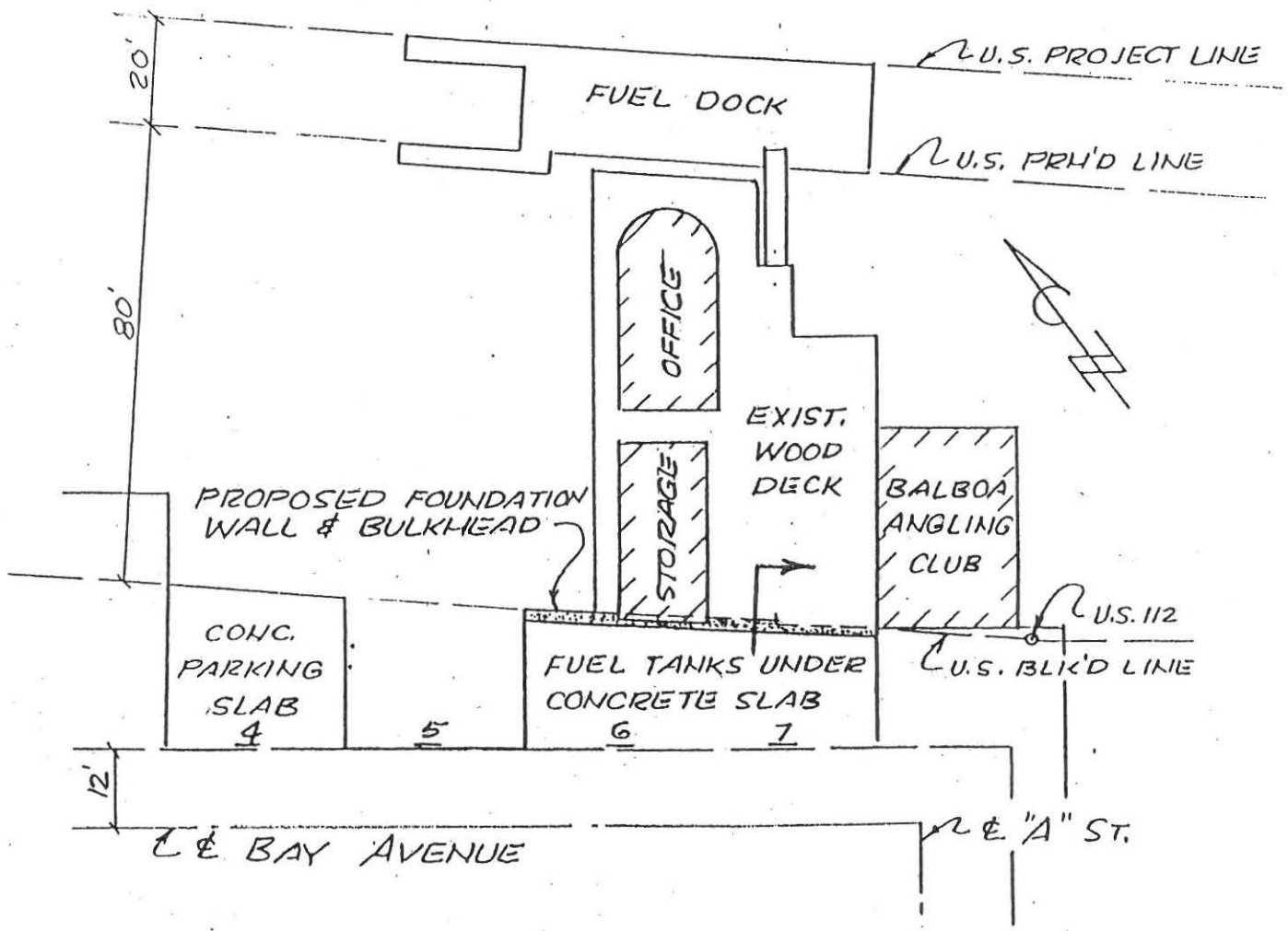
A view of the gas dock at 504 E. Edgewater, Balboa.

Dock Drawings

CITY OF NEWPORT BEACH



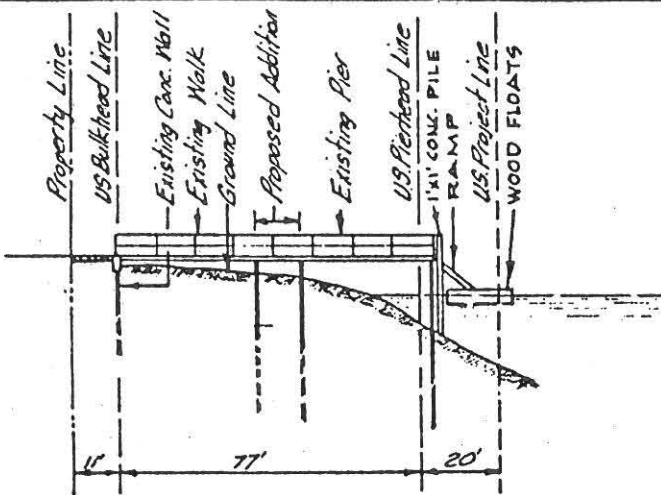
SOUNDINGS ARE EXPRESSED IN FEET AND DENOTE ELEVATIONS BASED ON MEAN LOWER LOW WATER.



PLAN VIEW 1" = 30'

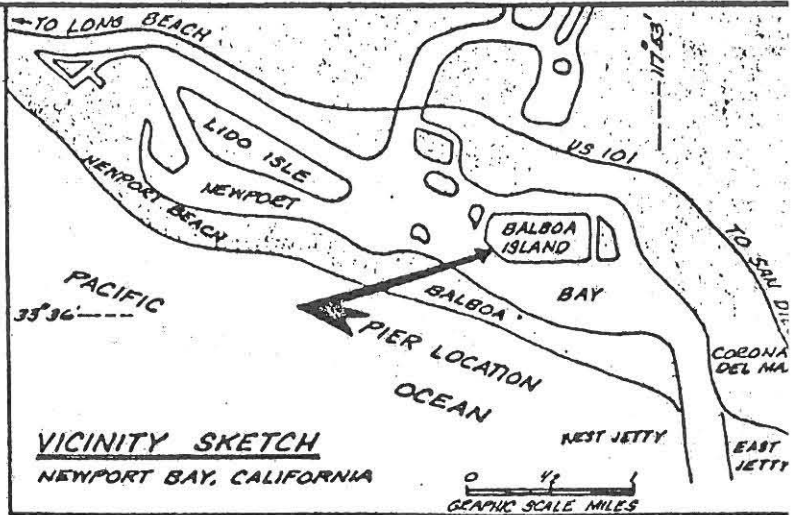
| | | |
|----------------------------|----------------------------|-------------|
| APPLICANT'S NAME GARY HILL | JOB ADDRESS 814 E. BAY AVE | DATE 2/6/95 |
|----------------------------|----------------------------|-------------|

256-406



SECTION THROUGH PIER

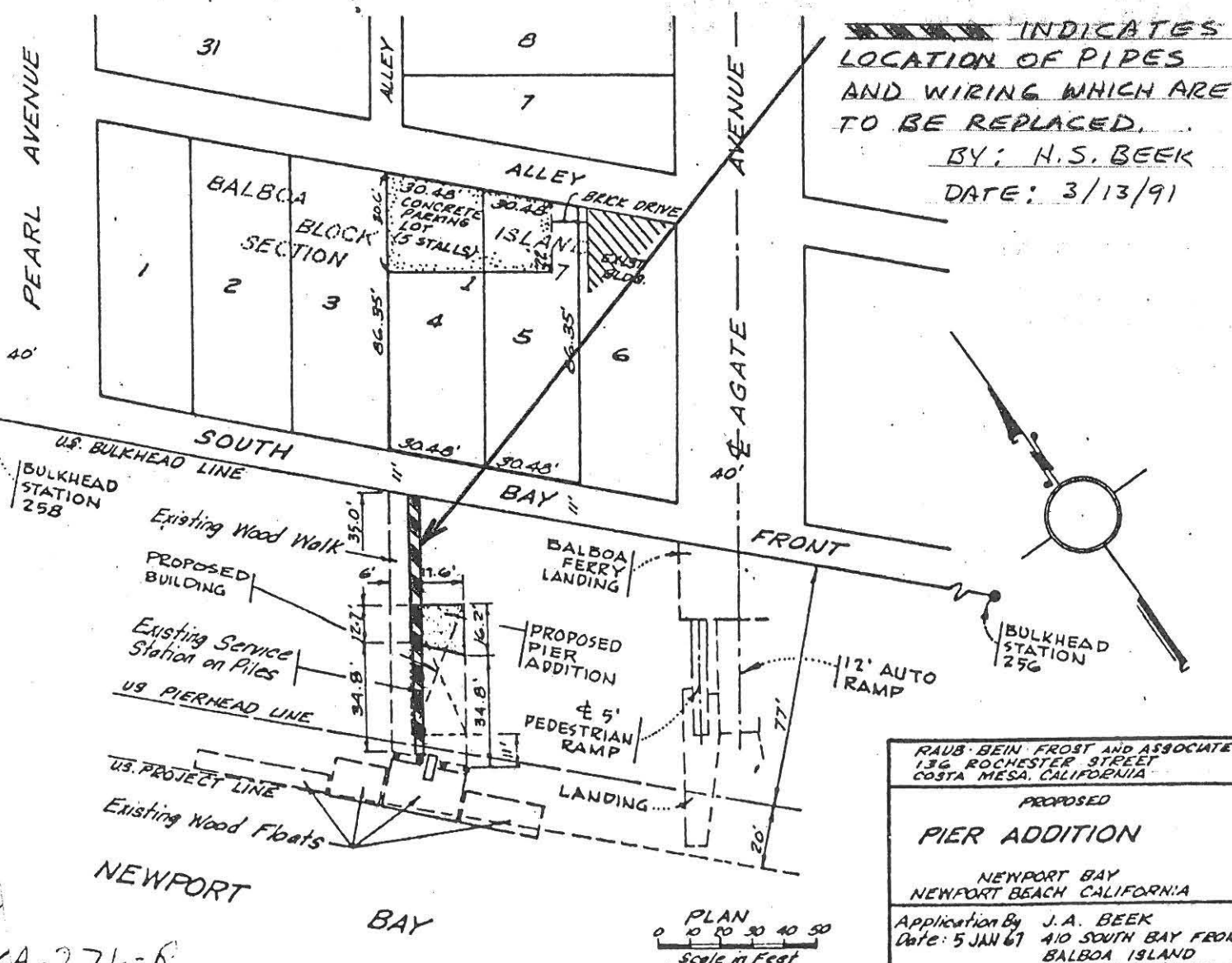
HORIZ. SCALE: 1" = 50'
VERT. SCALE: 1" = 30'



VICINITY SKETCH

NEWPORT BAY, CALIFORNIA

Soundings are expressed in feet and denote depths below Mean Lower Low Water. Maximum range of tide approximately 10 ft. Harbor Lines are established in this section of Newport Bay.



INDICATES LOCATION OF PIPES AND WIRING WHICH ARE TO BE REPLACED.

BY: H.S. BEEK
DATE: 3/13/91

RAUB, BEIN, FROST AND ASSOCIATES
136 ROCHESTER STREET
COSTA MESA, CALIFORNIA

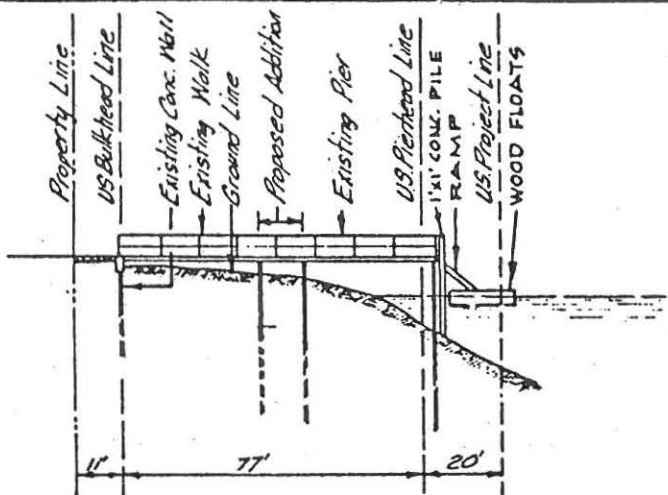
PROPOSED
PIER ADDITION

NEWPORT BAY
NEWPORT BEACH CALIFORNIA

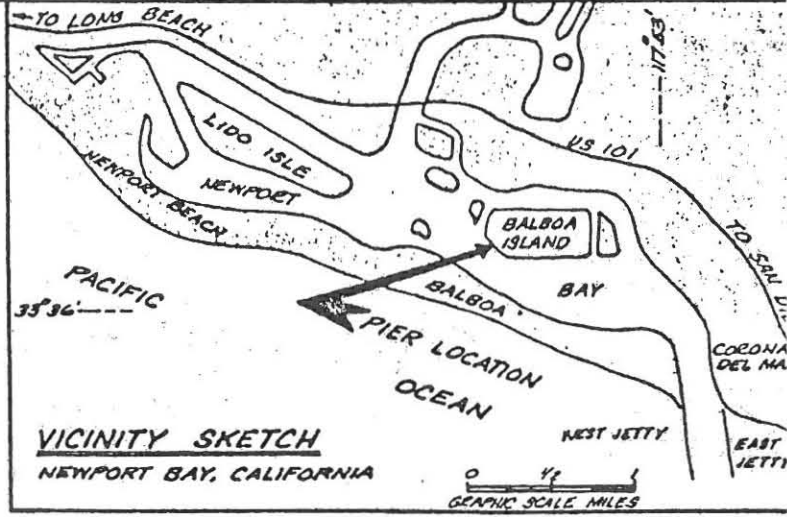
Application By: J.A. BEEK
Date: 5 JAN 67 410 SOUTH BAY FROM
BALBOA ISLAND
NEWPORT BEACH CALIF

CA-276-R

256-406

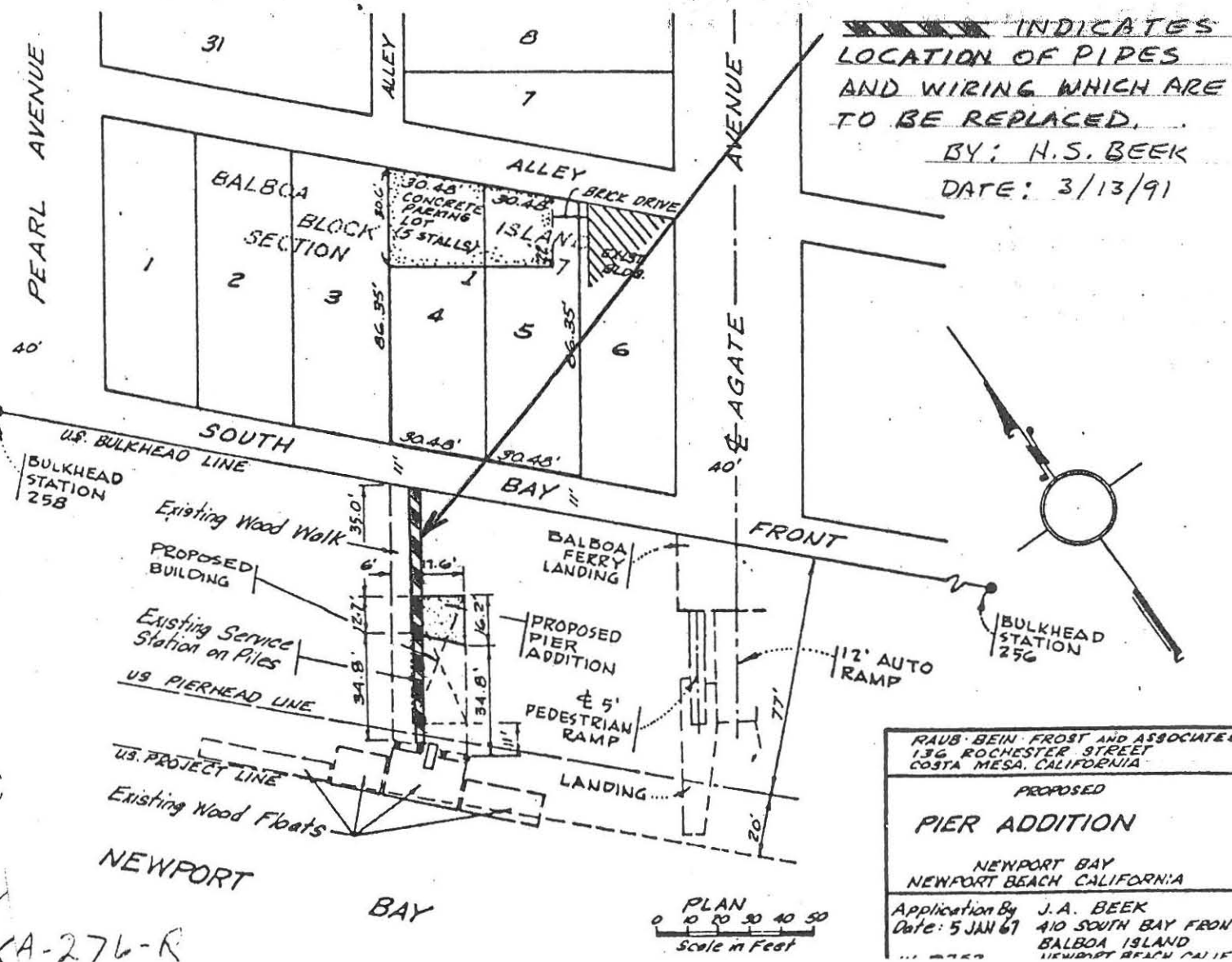


SECTION THROUGH PIER
 HORIZ. SCALE: 1" = 50'
 VERT. SCALE: 1" = 30'



VICINITY SKETCH
 NEWPORT BAY, CALIFORNIA

Soundings are expressed in feet and denote depths below Mean Lower Low Water. Maximum range of tide approximately 10 ft. Harbor Lines are established in this section of Newport Bay.



INDICATES LOCATION OF PIPES AND WIRING WHICH ARE TO BE REPLACED.
 BY: H.S. BEEK
 DATE: 3/13/91

RAUB, BEIN, FROST AND ASSOCIATES
 136 ROCHESTER STREET
 COSTA MESA, CALIFORNIA

PROPOSED PIER ADDITION

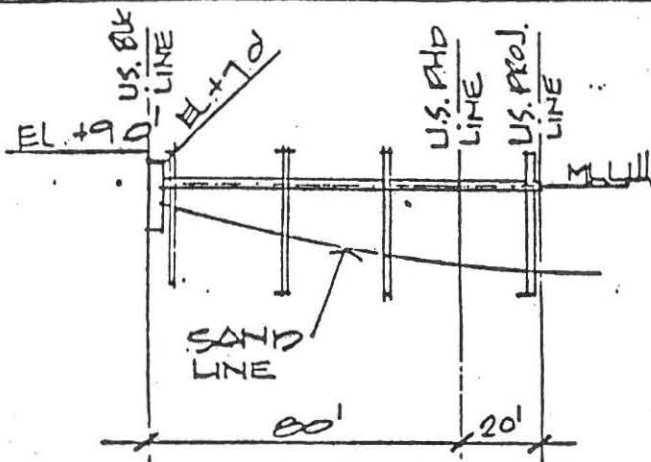
NEWPORT BAY
 NEWPORT BEACH CALIFORNIA

Application By: J.A. BEEK
 Date: 5 JAN 67
 410 SOUTH BAY FRONT
 BALBOA ISLAND
 NEWPORT BEACH CALIF

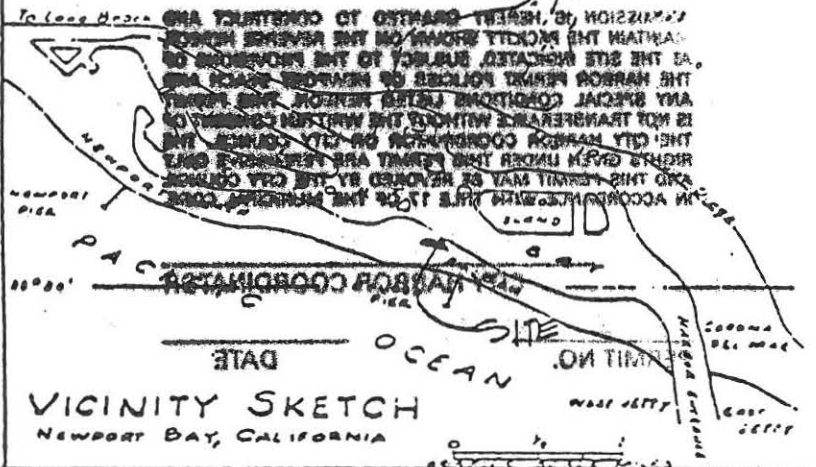
CA-276-R

112 50

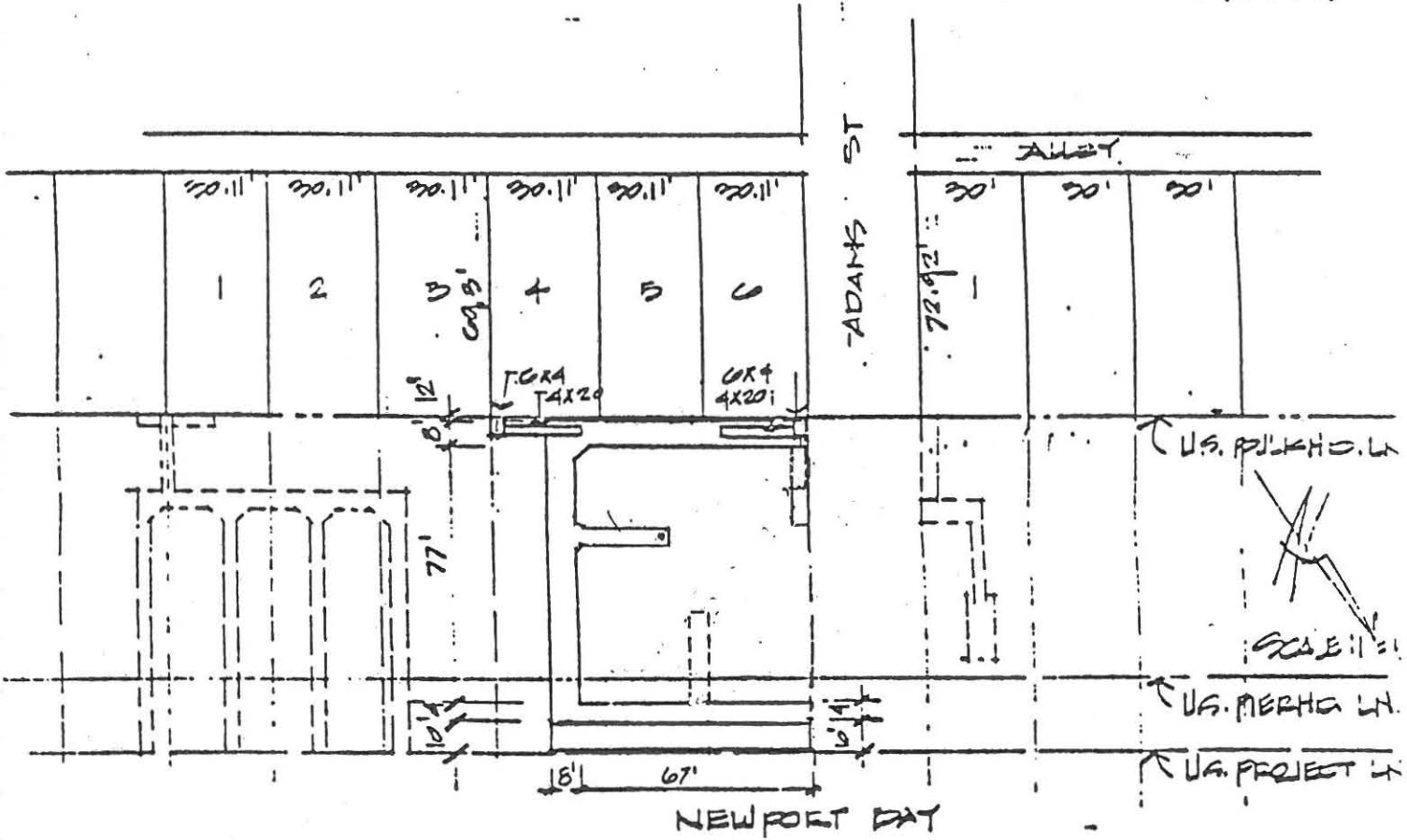
CITY OF NEWPORT BEACH



HARBOR PERMIT



Soundings are expressed in feet and denote depths below Mean Lower Low Water. Maximum range of tide approximately 10 feet. Harbor lines are established in this section of Newport Bay.



| | | | | | | |
|------------------|-----------------------------|----------|------------|------|------|--------------------|
| APPLICANTS' NAME | NEWPORT LANDING | LOT | 4, 5, 6 | BLK. | 3 | BUDA PATRICK TRACT |
| JOB ADDRESS | 503 EDGEWATER NEWPORT BEACH | DRAWN BY | KEN NELSON | | DATE | 1-23-92 |

Tony - SKIP HORNBY IS DOING A DRAWING & CAG'S & PETE SWIFT WILL DO THE WORK - I'LL CALL YOU MON AM. 11.0.

SECTION B - Commercial Operations (Balboa Island Ferry, Newport Bait Barge)

Introduction

Within Section B of the contract, two specific commercial operations “emanating from tideland properties” have been identified – the Balboa Island Ferry and the Newport Bait Barge. There are other commercial operations located in the harbor that fit into this category but were not specifically identified in Exhibit A, which include, but are not limited to: sport fishing, boat rentals, harbor tours and parasail operations.

Description – Balboa Island Ferry

The Balboa Island Ferry moves both pedestrians and automobiles between Balboa Island and the Balboa Peninsula. The ferry travels between Agate Avenue on Balboa Island's south bayfront and Palm Avenue on the Balboa Peninsula. The tidelands parcel on Balboa Island is identified by the Orange County Assessor as Assessor Parcel 050-052-30 and title is vested in the City of Newport Beach. The parcel is 50-feet deep (perpendicular to the bulkhead) with 147.07 feet of bay frontage, and a gross area of 7,354 square feet (rounded). The tidelands parcel on the Balboa Peninsula is also vested in City of Newport Beach and is identifies as Assessor Parcel 048-112-13. It has a uniform depth of approximately 145 feet (perpendicular to the bulkhead) with 50 feet of bay frontage and a gross area of approximately 7,250 square feet. A portion of this parcel is located behind the bulkhead and is dry land that is used for the access ramp to the ferry. The Assessor Plat Map for each property is included in the Addenda at the end of this section. It should be noted that the operator of the Ferry reported that due to regulatory restriction he is no longer permitted to use the section of the Balboa Island tidelands to do maintenance on the ferry boats, which he indicates should have a downward impact on his overall rent.

Ferry Rental Survey

The ferry is subject to a “Lease” with the City of Newport Beach and City Ordinance No. 88-33. The Lease with the city is dated October 25, 1988 and it expires on September 30, 2013. The Lessee pays 3.0-percent of its gross sales in rent (payable quarterly) with no fixed minimum rent and is responsible for all operating expenses including, but not limited to, utilities, insurance, maintenance and repairs and taxes. The ferry also operates under City Ordinance No. 88-33, which is a franchise that commenced November 1, 1988 and expires September 30, 2013. The Grantee (ferry operator) pays 3.0-percent of their gross receipts as “Consideration” for the franchise to operate the ferry and is responsible for all operating expenses. Overall, when the Lease and the Franchise are combined, the Lessee pays a total of 6.0-percent of their gross receipts as rent.

The ferry is unique to Newport Harbor, as most other “ferries” in Southern California only offer transport to passengers and do not provide services to transport vehicles. Given the unique characteristics, I have researched the “rent” being paid at other ferries that transport just passengers. The following table is a summary of my findings.

| FERRY RENT SURVEY SUMMARY SEPTEMBER 2006 | | | | |
|--|-------------------------------|----------------------|------------------------------------|--|
| Data No. Location | Type of Operation | Lease Type | Percentage Rent (% of Gross) | Destination |
| Subject Balboa Island Ferry Newport Harbor | Auto & Pedestrian Ferry | Percentage | 6.0% (combined) | Balboa Island to Balboa Peninsula |
| 1/ Two Harbors Catalina Island | Shore Boat | Percentage | 31% (combined) | Offshore Moorings to shore (dock) |
| 2/ Avalon Catalina Island | Shore Boat | Percentage | 7.0% | Offshore Moorings to shore (dock) |
| 3/ Santa Barbara Water Taxi Santa Barbara | Pedestrian Water Taxi | Base + Percentage | \$50/Month + 1.0% | Harbor to Stearns Wharf |
| 4/ San Diego Bay Ferry San Diego Harbor | Pedestrian Ferry | Percentage | 6.0% | Downtown San Diego to Coronado Island |
| 5/ Pier 32 Marina (Proposed) San Diego (National City) | Water Taxi | Percentage | 6.0% | Proposed |

Conclusion – Balboa Island Ferry

The first rental data summarizes the information for the shore boat at Two Harbors on the west end of Catalina Island. The 20-year lease was signed in 2002 and the operator (Two Harbors Enterprises) pays the State of California 25.0-percent of their gross with an additional 6.0-percent paid to the Catalina Island Conservancy. They have a base minimum rent of \$270,000 and it was reported that they typically pay above the minimum rent. The shore boats operate year round.

The second rental data is the for the shore boat in Avalon Harbor, on Catalina Island. The lease is with the City of Avalon and it was reported that it is renewed annually.

The third data item is for the Santa Barbara Water Taxi, which ferry’s passengers from Santa Barbara Harbor too Stearn’s Wharf. The representative of the City reported that it is an annual license agreement with a monthly minimum rent of \$50 with percentage rent of 1.0-percent of the gross sales. It was further reported that the water taxi pays a low rent as an accommodation to the merchants of Stearn’s Wharf (City tenants) as that it helps the tenants by getting people

(customers) from the Harbor to the Wharf and that the City enjoys the benefit of the added sales tax revenue that is generated at the Wharf businesses.

The fourth data item is the San Diego Bay Ferry, which is a passenger ferry that runs between the Broadway Pier in downtown San Diego to Coronado Landing on Coronado Island. The ferry takes passengers and there is a \$0.50 fee (each way) for a bicycle. This ferry runs on an hourly schedule with departures from downtown on the hour and departures from Coronado on the half-hour. Their rent was reported to be 6.0-percent of their gross sales and no base or minimum rent was reported.

The fifth data item is apart of a recently completed lease transaction between the Unified Port of San Diego and the developer/operator of a proposed marina at Pier 32 in the National City section of San Diego Harbor. The water taxi service has not been established and the exact route that it will service is not known; however, the lease permits a water taxi service with rent based on 6.0 percent of the gross income.

Based on the market data uncovered and the interviews completed, I have concluded the current combined rent reflects the current market rent for similar operations. I have concluded that **the Balboa Island Ferry has a market rent of 6.0-percent of gross sales**

Description – Newport Bait Barge

The Newport Bait Barge is anchored near the Harbor entrance at the foot of the Corona del Mar Jetty. The bait barge is a floating pier that is anchored to the bottom and provides live bait to the fishing fleet (commercial and recreational) in the Harbor. I have not reviewed a copy of any lease agreement for the operation of the bait barge. It should be noted that the bait barge is often referred to as a “bait receiver” as they have holding tanks that are filled by a commercial trawler and the bait is resold to individual fishing boats. Bait barges can be either “floating” as in the case of the subject, or are “docked” and associated with another commercial entity.

Bait Barge Rental Survey

Most of the harbors in Southern California have at least one bait barge, depending on the size of the fishing fleet. The bait barges are either leased directly from the entity that administers manages the tidelands, or in the case of Dana Point, Redondo Beach (King Harbor) and Marina Del Rey they are leased from the operators of the larger marina projects and are a sub-lessee of the entity that administers the tidelands. The following table is a summary of my findings.

| BAIT BARGE RENT SURVEY SUMMARY SEPTEMBER 2006 | | | | |
|--|----------|--------------------------|--|---|
| Data No. Location | Type | Lease Basis | Monthly Rent | Cost /Scoop |
| 1/ Everingham Bros. Bait Mission Bay (City of San Diego) | Floating | Fixed with Percentage | Between 3.0% & 5.0% | ½ Scoop \$20 Full Scoop \$30 |
| 2/ Bill's Bait/L.A. Harbor Bait City of L.A. (San Pedro) | Floating | Fixed | 10% return on \$5.00/Sq.Ft. Land | Full Scoop \$20 Squid Scoop \$50 |
| 3/ Everingham Bros. Bait San Diego Harbor (U.S. Navy) | Floating | Fixed | \$110,000 base w/ 4.0% annual adjustment | ¼ Scoop \$10 ½ Scoop \$20 Full Scoop \$30 |
| 4/ Captain Hook's Channel Islands (Ventura County) | Floating | Percentage | 15.0%* | Not Available |
| 5/ Oceanside Bait Company Oceanside | Floating | Fixed | \$1,152.19 Quarterly | ½ Scoop \$20 Full Scoop \$30 |
| 6/ Oceanside Fuel & Mini Mart Oceanside | Fixed | Percentage | 6.0% | Not Available |

* County owns all improvements

Conclusion – Newport Bait Barge

Rental Data One is a lease between the City of San Diego and Everingham Bros. for their bait barge in Mission Bay. The operator has an expired lease and has been operating on a fixed basis for several years as a new lease is negotiated. The prior lease was a flat rate that is adjusted annually based on the CPI; however, the flat rate was established in 1987. The City would not disclose the exact percentage rate that the new lease is based on as it is still being negotiated, but noted that it is above 3.0-percent and below-5.0 percent for the first five years of the lease. The lease adjusts upwards by ½-percent for years six through ten and another ½-percent for years 11 through 15.

Rental Data Two is the for two bait barges in San Pedro that have older lease that expired on September 11, 2006. One of the leases commenced in 1991 and based on a 10-percent return on the market value of the underlying tidelands, which was \$5.00 per square foot and the site area (barge footprint) was approximately 2,400 square feet; therefore, the base rent was \$100 per month (2,400 Sq.Ft. x \$5.00/Sq.Ft. x 10% :- 12 mos.). The second lease was commenced in 1995 and the lease was set up the same way; however, the underlying tidelands were value at

\$6.00 per square foot. It was noted that a new RFP is being drafted and the Port of Los Angeles (City) is going to negotiate the new leases based on a percentage of the gross income.

Comparable Rental Three is a lease that was negotiated by the U.S. Navy in 2004 and applies to the Everingham Bait barge near the entrance to San Diego Harbor near the west end of Coronado Island. The lease has a fixed annual minimum rent of \$110,000 in the first year with 4.0-percent annual increases. It was reported by the Navy that the base rent was established by taking the average of the prior three years sales volume and applying a 3.5-percent rate to the commercial bait sales and a 5.5 percent rate to the non-commercial (recreational) bait sales. It was noted that the base rent is approximately 4.0-percent of the total gross sales. The contact with the Navy reported that he had been told the City of Ventura charged 5.25-percent for their bait barge and that Marina Del Rey based their bait barge lease on 3.0-percent of the commercial sales and 5.0-percent of the recreational sales; however, I could not confirm this with either entity.

Comparable Rental Four is for the County of Ventura's bait barge at Channel Islands Harbor. The County reported that they own all of the improvements (bait barge) and that an operator pays them 15-percent of the gross sales as rent. It was noted that the operator of the charter fishing company supplies the bait and operates the bait barge.

Comparable Rental Five is the floating bait barge (Oceanside Bait Company) in Oceanside Harbor. The City reported that they renewed their lease in 2005 (a 5 year lease) and that they pay a quarterly rent of \$1,100 with annual increases that are the greater of the change in CPI or 4.0-percent. The representative for the city reported that almost everyone that leases in the harbor pays rent based on a percentage of their total revenue and that the bait barge is an exception.

Comparable Rental Six is the 2005 lease (10 years) for the Oceanside Fuel Dock that also provides live bait and various other services. The rent for the entire property is based on a fixed minimum versus a percentage of sales, with the percentage rent for the sale of bait calculated based on 6.0-percent of the gross sales. It was noted that the fixed minimum rent is lower in the off season (October thru March) and higher during the high season (April thru September).

The market data uncovered indicates that the more recent leases are based on a percentage of the gross income from the sale of bait and the rates may be different depending on the buyer – commercial fleet v. recreational fishermen. Most of the percentage figures reported are between 3.0- and 5.0-percent of the gross sales.

Based on the market data uncovered and the interviews completed, I have concluded that **the market rent for the Newport Bait Barge is 4.5-percent of total gross sales of live bait.**

Conclusion – Other Commercial Operations

As previously discussed, Exhibit A to the professional services agreement did not specifically identify other commercial operations emanating from tidelands properties; however, these operations do exist and include things like parasailing, boat rentals, charter boats and harbor cruises. The following table is a summary of the market data uncovered that applies to different commercial operations that emanate from tidelands properties that were not specifically described in Exhibit A.

| | Boat Charters | Recreation Uses | Fishing Equip. | Boat Rental | Sport Fishing | Misc. /Other |
|---------------------|----------------------|------------------------|-----------------------|--------------------|----------------------|---------------------|
| S.D. Port Authority | 6.0% 6%/5%/3%* | 10.0% | 6.0% | 10.0% | 6.0% | 10.0% |
| City of S.D. | | | 7.5% | | 7.0% | 5.0% - 10.0% |
| Oceanside | | | 7.5% | | | 7.5% |
| Dana Point** | 6.0% - 9.0% | 9.0% - 20.0% | 8.0% | | 9.0% | 9.0% |
| Newport (BBC) | 6.0% | | | | | 10.0% |
| Avalon | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% |
| Long Beach | | | | | | |
| L.A. County | 6.0%*** | 6.0% | 6.0% | 6.0% | 6.0% | 1.0% - 7.0% |
| Santa Barbara | 15.0% | | | | | |

* When Charter (6.0%) is combined with beverages (5.0%) and food (3.0%) the sliding scale applies.

** Dana Point charges an additional 1.0% for Common Area Maintenance

*** L.A. County charges 20.0% if Charter is "Commissioned" by Lessee for benefit of sub-lessee.

As illustrated in the above table, there are variations within the data and complete data was not available from each of the jurisdictions interviewed or does not apply to their specific jurisdiction. It was reported that these uses are generally in conjunction with other larger projects (marinas and upland improvements) that offer a variety of services and these categories generally are a small component of the overall income derived from the larger project.

It was noted that in Dana Point the Parasailing operation pays 20.0-percent of his gross income and is essentially provided a side tie. The location of the parasail operation is very close to the harbor entrance and it is approximately 5 minutes to the harbor mouth.

The City of Long Beach has a limited number of harbor cruises, including dinner cruises, and offshore tours. Some of the boats are berthed in Long Beach and are charges slip fees of approximately \$12.00 per lineal foot, plus 5.0-percent of all revenue from tours and cruises, including 5.0-percent of food and beverage service. This information was reported by two different third parties; however, I was unable to verify it with a representative of the City of Long Beach.

Addenda – Section B

Subject Photographs



A view of the Balboa Island Ferry landing on Balboa Island.



A view of the Balboa Island Ferry landing on Balboa.



A view of the bait barge.

Assessor Plat Maps – Balboa Island Ferry

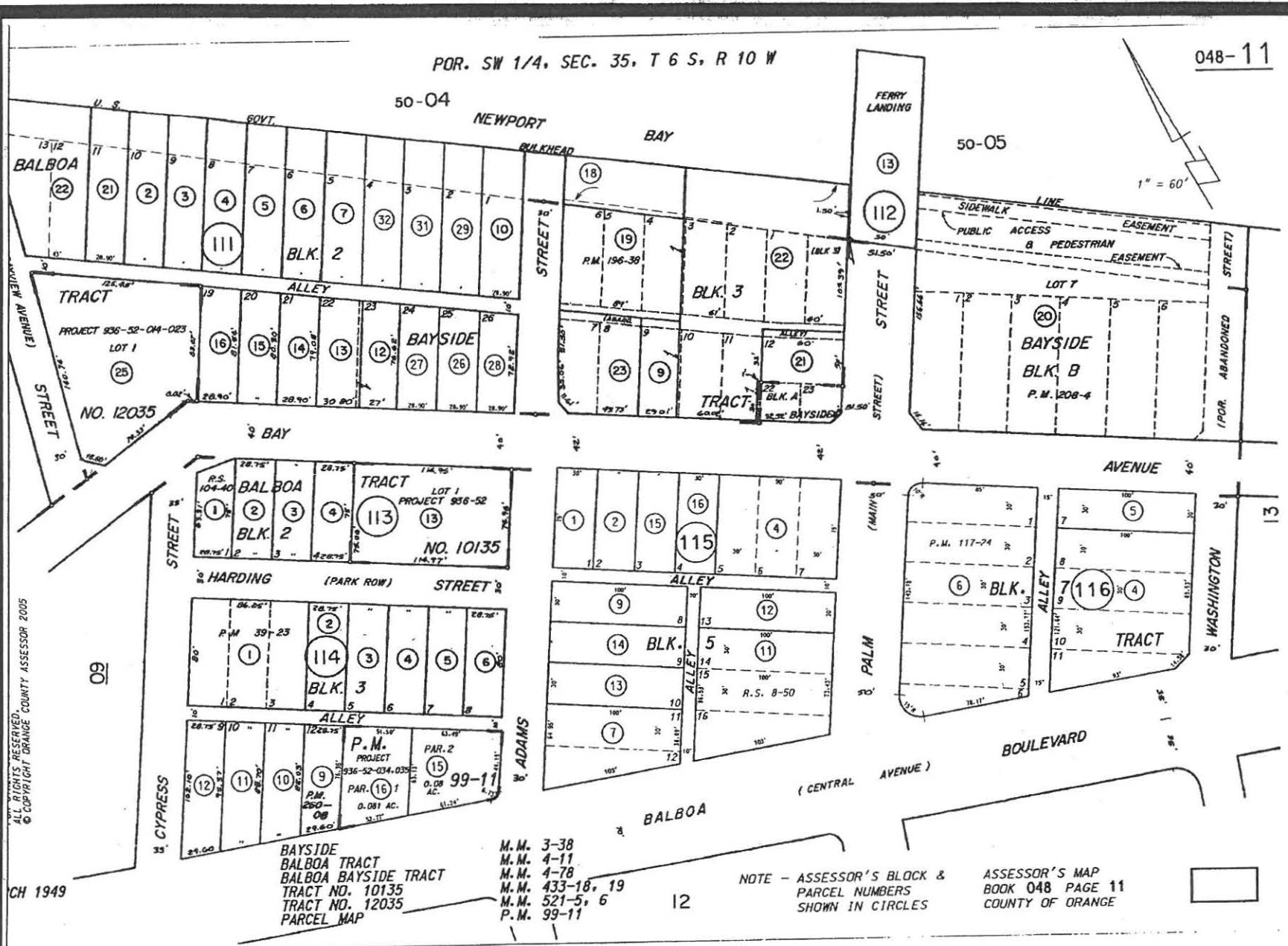
POR. SW 1/4, SEC. 35, T 6 S, R 10 W

50-04

50-05

1" = 60'

Plat Map



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CH 1949

BAYSIDE
BALBOA TRACT
BALBOA BAYSIDE TRACT
TRACT NO. 10135
TRACT NO. 12035
PARCEL MAP

M.M. 3-38
M.M. 4-11
M.M. 4-78
M.M. 433-18, 19
M.M. 521-5, 6
P.M. 99-11

NOTE - ASSESSOR'S BLOCK & PARCEL NUMBERS SHOWN IN CIRCLES

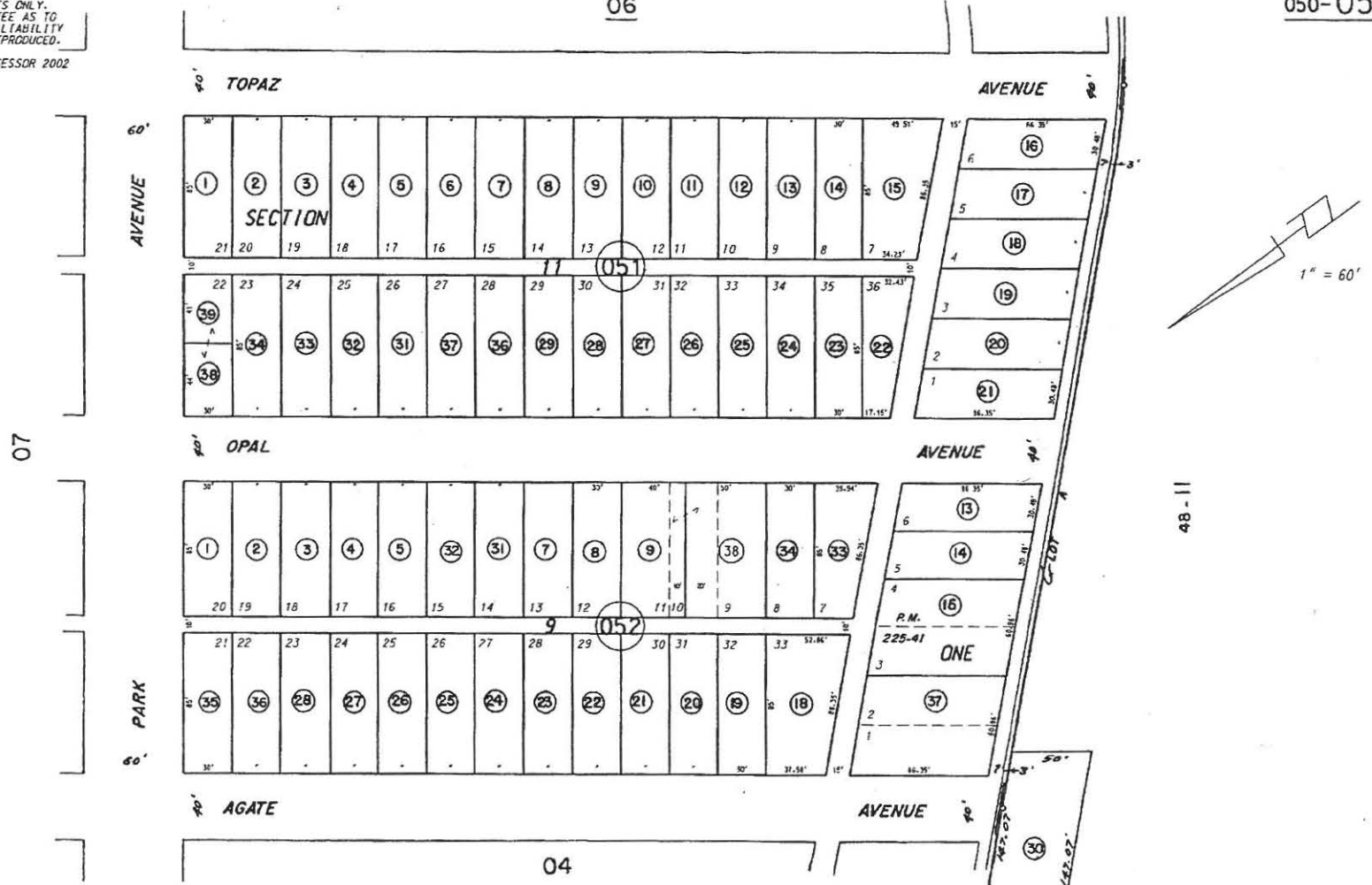
ASSESSOR'S MAP BOOK 048 PAGE 11 COUNTY OF ORANGE

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 RANGE COUNTY ASSESSOR 2002

POR. NW 1/4, NE 1/4, SW 1/4, SEC. 35, T 6 S, R 10 W

06

050-05



Plat Map

1949

RESUB. BALBOA ISLE SEC. ONE M.M. 6-30

NOTE - ASSESSOR'S BLOCK &
 PARCEL NUMBERS
 SHOWN IN CIRCLES

ASSESSOR'S MAP
 BOOK 050 PAGE 05
 COUNTY OF ORANGE

PREPARED BY G. ADAMS, INC. PCOPR1011 10/97

SECTION C - Balboa Yacht Basin

Introduction

The Balboa Yacht Basin is located on the north side of the lower Newport Bay at the end of Harbor Island Drive, in the Beacon Bay/Promontory Bay neighborhood. The location corresponds to the street address of 829 Harbor Island Drive, Newport Beach, California.

Description

The portion of the Balboa Yacht Basin that is being appraised consists of 161 boat slips and 10 side ties, three apartment units and 31 garages. Based on the information provided by the City, the slips range in size from 31-lineal feet to 75-lineal feet, with a minimum beam (width) of 10-feet, 11-inches and a maximum beam of 21-feet. The length of the side ties is as follows: one at 20-feet, one at 25-feet, four at 32-feet, one at 34-feet, one at 37-feet and one at 50-feet. The monthly rent includes the use of a dock box, electrical connection (service paid by tenant) and access to restrooms and showers. A reduction of the marina plan is included at the end of this Section.

I was not provided access to the interior of the apartments units; however, I did measure the exterior of the units. Two of the units contain approximately 1,100 square feet with a 200 square foot patio and the patio of the third unit has been enclosed and this unit has approximately 1,300 square feet of living space with no patio. It was reported by the marina manager (Lorrie Arcese) that all three units include two bedrooms and one bathroom. The units have a marina and channel view looking south toward Balboa Island. The occupants of the apartments must have a slip in the marina.

The marina also includes a total of 31 garage storage units. There are 29 units that are 10-feet wide and 20-feet deep with a total of 200 square feet and two units that are 8-feet wide and 20-feet deep, with a total of 160 square feet. The units include a light and the electrical service is included in the monthly rent. The Marina Manager reported that 30 of the 31 storage garages rent for \$200 per month, with one unit rented for \$100 per month.

Comments

The improvements are well maintained and are in a desirable location that provides ample parking. The marina is monitored by security cameras. It should be noted that all of the marina operators reported their rents based on the slip size, but noted that the rent is based on the greater of the length of the slip or the boat as most marina allow some overhang beyond the end of the slip.

Marina Slip Rental Survey

The following table is a summary of the marina's that were surveyed to establish the current market rent for the subject's slips. A discussion of each data items is presented on the pages following the summary table.

| MARINA SURVEY SUMMARY SEPTEMBER 2006 | | | | |
|--|------------------------|-----------------------|---|---|
| Data No. Name Location | Total Slips | % Occupied | Slip Sizes (range) Lineal Feet | Rental Range Monthly Rent /Lineal Foot |
| Subject Balboa Yacht Basin 829 Harbor Island Drive | 171 | 100% | 31' – 75' | \$18.00 - \$23.00 |
| 1/ Balboa Marina 201 E. Pacific Coast Highway | 132 | 100% | 20' – 55' Side ties | \$20.00 - \$31.50 \$19.00 - \$23.00 |
| 2/ Bayshore Marina 2572 Bayshore Drive | 134 | 100% | 15' – 83' | \$21.50 - \$45.50 |
| 3/ Bayside Marina 1137 & 1353 Bayside Drive | 102 | 100% | 20' – 78' Side ties | \$28.50 - \$44.50 \$18.00 - \$21.50 |
| 4/ Bayside Village (De Anza) 300 East Coast Highway | 226 | 100% | 12' – 50' | \$16.00 - \$34.75 Plus Facility Fee |
| 5/ Bellport Lido Yacht Anchorage 151 Shipyard Way | 239 | 100% | 6' – 135' | \$15.25 - \$28.50 |
| 6/ Cannery Village Marina 700 Lido Park Drive, Suite 8 | 22 | 100% | 35' – 55' | \$29.10 - \$47.71 |
| 7/ Harbor Tower Marina 3335 W. Coast Highway | 51 | 100% | 20' – 69' | \$18.50 - \$39.00 |
| 8/ Lido Marina Village 3400 Via Oporto, Suite 104 | 65 | 100% | 36' – 56' Side ties to 110' | \$25.00 - \$40.00 |
| 9/ Newport Dunes Marina 101 N. Bayside Drive | 450 | 100% | 22' – 46' | \$20.50 - \$34.00 |
| 10/ Swales Anchorage 2888 Bayside Drive | 55 | 100% | 30' – 45' Side ties End ties | \$17.00 - \$45.00 \$24.00 \$14.00 |
| 11/ Villa Cove Marina 1099 Bayside Drive | 40 | 100% | 22' – 45' | \$21.50 - \$32.25 |

MARINA RENTAL – SUBJECT



NAME: Balboa Yacht Basin
LOCATION: 829 Harbor Island Drive
Newport Beach, California

CONTACT: Lorrie Arcese, 949-644-3034
NO. OF SLIPS: 173
OCCUPANCY: 100%
WAIT LIST: Yes, 2 to 10 years
LIVE ABOARD: No
TIME TO HARBOR MOUTH: 25 minutes (35 if not under Balboa Island bridge)
BEHIND BRIDGE: Yes - Balboa Island Bridge to east
UTILITIES: Electrical hookups, Metered usage
AMENITIES: Dock box, showers, restrooms

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| 31 to 39 Feet | \$18.00 |
| 40 to 49 Feet | \$19.00 |
| 50 Feet and over | \$23.00 |

COMMENTS:

This is the subject marina. Its location and amenities are considered good. It is only one of two marinas that have any garage-size storage units. The Balboa Island Bridge is just east of the marina between the marina and the harbor mouth; therefore, tall boats must go west around Balboa Island to reach the main channel before heading to the harbor mouth.

MARINA RENTAL ONE



NAME: Balboa Marina
LOCATION: 201 E. Pacific Coast Highway
Newport Beach, California

CONTACT: Mary Kuhn, 949-721-0111
NO. OF SLIPS: 132
OCCUPANCY: 100%
WAIT LIST: Yes
LIVE ABOARD: No
TIME TO HARBOR MOUTH: 35 minutes
BEHIND BRIDGE: No
UTILITIES: Water, Trash, Hookups, Metered Electric
AMENITIES: Dock box, showers, restrooms, telephone and cable hookups, free parking

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| 20 Feet (side tie) | \$19.50 |
| 24 Feet (side tie) | \$19.50 |
| 25 Feet | \$20.00 |
| 26 Feet | \$20.00 |
| 27 Feet | \$20.50 |
| 30 Feet (side tie) | \$23.00 |
| 34 Feet | \$23.50 |
| 35 Ft. | \$23.50 |

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| 38 Ft. | \$24.75 |
| 40 Ft. | \$28.00 |
| 45 Ft. | \$28.75 |
| 50 Ft. | \$31.00 |
| 55 Ft. | \$31.50 |

COMMENTS:

This marina is located south of the Coast Highway Bridge at the Bayside Drive adjoining a parking lot. Driving access is convenient from Coast Highway. Amenities are similar to the subject. Access to the Harbor mouth is considered slightly inferior compared to the subject location.

MARINA RENTAL TWO



NAME: Bayshore Marina
LOCATION: 2572 Bayshore Drive
Newport Beach, California

CONTACT: Mary Kuhn 949-721-0111
NO. OF SLIPS: 134
OCCUPANCY: 100%
WAIT LIST: Yes
LIVE ABOARD: No
TIME TO HARBOR MOUTH: 30 minutes
BEHIND BRIDGE: No
UTILITIES: Water, trash and electrical hookups included.
Metered electric.
AMENITIES: Dock box, showers, restrooms, telephone and cable
hookups, free parking

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| 15 Feet | \$21.50 |
| 17 Feet | \$21.50 |
| 20 Feet | \$21.50 |
| 23 Feet | \$21.50 |
| 26 Feet | \$22.50 |
| 32 Feet | \$26.50 |

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| 38 Feet | \$28.00 |
| 39 Feet | \$28.00 |
| 60 Feet | \$41.25 |
| 68 Feet | \$41.25 |
| 83 Feet | \$45.50 |

COMMENTS:

This marina is located south of Coast Highway on the south shore of the Bayshore gated community just east of the Balboa Bay Club. The marina lies on the Lido Channel which merges with the Main Channel providing an unobstructed course to the harbor mouth. Driving entry to the marina is via the guarded community entry providing an added measure of security to the slip tenants. The quality and condition of the amenities are considered superior and this comparable is generally considered superior on an overall basis.

MARINA RENTAL THREE



NAME: Bayside Marina
LOCATION: 1137 & 1353 Bayside Drive
Newport Beach, California

CONTACT: Mary Kuhn 949-721-0111
NO. OF SLIPS: 102
OCCUPANCY: 100%
WAIT LIST: Yes
LIVE ABOARD: No
TIME TO HARBOR MOUTH: 15 minutes
BEHIND BRIDGE: No
UTILITIES: Water, trash and electrical hookups included.
Metered electric.
AMENITIES: Dock box, showers, restrooms, telephone and cable
hookups, free parking

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| 20 Feet (inside side tie) | \$18.00 |
| 15 Feet (outside side tie) | \$21.50 |
| 20 Feet (outside side tie) | \$21.50 |
| 22 Feet (side tie) | \$21.50 |
| 30 Feet | \$28.25 |
| 35 Feet | \$28.50 |
| 42 Ft. | \$34.25 |

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| 45 Ft. | \$35.75 |
| 60 Ft. | \$41.00 |
| 65 Ft. | \$42.50 |
| 74 Ft. | \$44.50 |

COMMENTS:

This marina is located east of Jamboree Road and the Balboa Island Bridge with two non-contiguous slip sites along Bayside Drive. Of the comparable marinas, this marina is closest to the harbor mouth. The quality, condition and amenities are slightly superior. The location is considered superior due to its proximity to the harbor mouth and is superior to the subject on an overall basis.

MARINA RENTAL FOUR



NAME: Bayside Village Marina
LOCATION: 300 East Coast Highway
Newport Beach, California

CONTACT: Nicole Conner 949-673-1331
NO. OF SLIPS: 220
OCCUPANCY: 100%
WAIT LIST: Yes
LIVE ABOARD: No
TIME TO HARBOR MOUTH: 40 minutes
BEHIND BRIDGE: Yes, Coast Highway Bridge @ Lower Newport Bay
UTILITIES: Facility Fee (\$10.00) charged for utilities
AMENITIES: Bathrooms, showers, dock box, parking

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| 12 to 19 Feet | \$16.00 |
| 20 to 29 Feet | \$17.75 |
| 30 to 35 Feet | \$21.75 |
| 36 to 39 Feet | \$22.00 |
| 40 to 45 Feet | \$27.50 |
| 46 to 50 Feet | \$28.00 |
| Super Slips | \$27.75 |
| Double Loaders | \$34.75 |

COMMENTS:

This marina is located on the north side of the Coast Highway Bridge at the south end of Upper Newport Bay. The bridge clearance limits marina users to those whose vessels can clear the fixed bridge structure depending on the tide. The marina adds a monthly facility fee depending on boat length for utilities and amenities. Electric boats are charged an additional fee ranging from \$10.00 to \$40.00 per month based on boat length. This comparable is considered similar in quality and condition and inferior overall primarily due to location.

MARINA RENTAL FIVE

PHOTO NOT AVAILABLE

NAME: Bellport Lido Yacht Anchorage
LOCATION: 151 Shipyard Way
Newport Beach, California

CONTACT: Jamie Beuthin 949-673-9330
NO. OF SLIPS: 239
OCCUPANCY: 100%
WAIT LIST: 10 Years
LIVE ABOARD: No
TIME TO HARBOR MOUTH: 45 minutes
BEHIND BRIDGE: No
UTILITIES: Electrical, telephone and cable hookups
AMENITIES: Restrooms, showers, storage, laundry facility

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| 6 to 15 Feet | \$15.25 |
| 16 to 20 Feet | \$15.75 |
| 21 to 31 Feet | \$16.25 |
| 20 to 32 Feet | \$18.00 |
| 32 Feet | \$20.00 |
| 34 to 44 Feet | \$21.00 |
| 37 Feet | \$21.00 |
| 40 to 44 Feet | \$23.25 |
| 50 Feet | \$24.25 |
| 60 to 63 Feet | \$25.25 |

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| 73 to 77 Feet | \$26.50 |
| 110 to 135 Feet | \$28.50 |

COMMENTS:

This marina is one of the larger marinas in the harbor and includes slips that can accommodate boats up to 135-feet in length. The slips are located around the southern perimeter of the Lido Peninsula separated by channels between the Balboa Peninsula to the south and Lido Isle to the north. The path to the harbor mouth is via the Newport Channel to the Main Channel. This comparable offers a variety of storage facilities and is the only other marina besides the subject to have garage size storage spaces. The Lido Peninsula has adjoining facilities for boat haulage, repair and dry storage. The quality and condition considered superior to the subject; however, the location is inferior.

MARINA RENTAL SIX



NAME: Cannery Village Marina
LOCATION: 700 Lido Park Drive
Newport Beach, California

CONTACT: Bud Martin 949-723-8485
NO. OF SLIPS: 22
OCCUPANCY: 100%
WAIT LIST: Yes
LIVE ABOARD: Yes
TIME TO HARBOR MOUTH: 45 minutes
BEHIND BRIDGE: No
UTILITIES: Electrical included
AMENITIES: Dock box, showers, restrooms

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| 35 Foot | \$45.71 |

COMMENTS:

This marina is located at the upper end of the Rhine Channel on the Lido Peninsula. It has the smallest number of slips among the comparable marinas. All slips are 35-feet in length allowing a maximum of 55-foot boat length and rent for \$1,600 per month (\$29.09 to \$45.71/LF). The quality and condition is considered similar to the subject. Overall this marina is considered inferior to the subject primarily due to the narrow, busy channel it adjoins and the distance to the harbor mouth.

MARINA RENTAL SEVEN



NAME: Harbor Tower Marina
LOCATION: 3335 W. Coast Highway
Newport Beach, California

CONTACT: Joe Bergman 949-642-4644
NO. OF SLIPS: 51
OCCUPANCY: 100%
WAIT LIST: Yes
LIVE ABOARD: Yes
TIME TO HARBOR MOUTH: 45 minutes
BEHIND BRIDGE: No
UTILITIES: Electric
AMENITIES: Restrooms

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| 20 to 29 Feet | \$18.50 |
| 30 to 39 Feet | \$22.00 |
| 40 to 49 Feet (inside slip) | \$27.00 |
| 40 to 49 Feet (outside slip) | \$29.00 |
| 50 to 59 Feet | \$35.00 |
| 60 to 69 Feet | \$39.00 |

COMMENTS:

This marina is located on W. Coast Highway on the east side of the Newport Boulevard (Arches) Bridge adjoining the turning basin at the upper end of the Main Channel. The marina is slightly inferior in terms of overall location due to its greater distance to the Harbor mouth. The quality and condition of the amenities and its rating overall is judged slightly inferior compared to the subject.

MARINA RENTAL EIGHT



NAME: Lido Marina Village
LOCATION: 3400 Via Oporto, Suite 104
Newport Beach, California

CONTACT: Donna Larson 949-675-8662
NO. OF SLIPS: 65
OCCUPANCY: 100%
WAIT LIST: Yes
LIVE ABOARD: No
TIME TO HARBOR MOUTH: 45 minutes
BEHIND BRIDGE: No
UTILITIES: Electric hookups
AMENITIES: Restrooms

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| Under 36 Feet (inside slips) | \$25.00 to \$30.00 |
| 36 to 56 Feet | \$40.00 |

COMMENTS:

This marina is located east of the Newport Boulevard (Arches) Bridge on the south side of the turning basin. According to the manager, this marina is primarily occupied by commercial tenants with charter and yacht broker boats. It can accommodate a maximum of 110-foot length vessel on a side tie. The amenities are limited to restrooms. There are no storage, shower or free parking facilities for slip tenants. On an overall basis this comparable is considered inferior to the subject.

MARINA RENTAL NINE



NAME: Newport Dunes Marina
LOCATION: 101 North Bayside Drive
Newport Beach, California

CONTACT: Wade Kerley 949-729-1100
NO. OF SLIPS: 450
OCCUPANCY: 100%
WAIT LIST: Yes
LIVE ABOARD: Yes
TIME TO HARBOR MOUTH: 40 minutes
BEHIND BRIDGE: Yes, Coast Highway Bridge
UTILITIES: Metered electrical, telephone. Water & satellite TV hookups included in slip fee
AMENITIES: Restrooms, showers, pool, spa, lounge, kitchen, fitness center, laundry, vending machines, storage, free parking, on-site restaurant and grocery store.

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| 26 to 28 Feet @ "T" Dock | \$19.50 |
| 31 Foot LOA @ "K" & "L" Docks | \$20.50 |
| 29 Feet or less | \$20.50 |
| 30 to 33 Feet | \$25.00 |

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| 34 to 39 Feet | \$26.00 |
| 40 to 45 Feet | \$32.00 |
| 46 Feet & over | \$34.00 |

COMMENTS:

This marina is located in Upper Newport Bay at the Newport Dunes Resort. The quality, condition and amenities are superior compared to the subject. Driving access to the marina is off Coast Highway via a controlled access gate. However, among the comparable marinas, this location is probably the most remote from the harbor mouth and boats are limited by the Coast Highway Bridge clearance. On an overall basis, this comparable is considered slightly inferior to the subject.

MARINA RENTAL TEN



NAME: Swales Anchorage
LOCATION: 2888 Bayshore Drive
Newport Beach, California

CONTACT: Steven Farwell 949-548-1501
NO. OF SLIPS: 55
OCCUPANCY: 100%
WAIT LIST: Yes
LIVE ABOARD: Yes.
TIME TO HARBOR MOUTH: 40 minutes
BEHIND BRIDGE: No
UTILITIES: Electrical, water included in slip fee
AMENITIES: Restrooms & showers, lockers, dinghy racks, free parking

| SLIP LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|-----------------------------------|--------------------------|
| End ties | \$14.00 |
| Side ties up to 24 Ft. | \$24.00 |
| 30 Feet | \$17.00 |
| 40 Feet | \$18.00 |
| 45 Feet | \$20.00 |

COMMENTS:

This marina is located south of W. Coast Highway at Dover Drive on the west side of the Coast Highway Bridge. The marina adjoins the Bayshores residential community. The location is considered similar to the subject in terms of driving access to the marina. The quality and condition of the amenities are judged inferior. Overall this comparable is considered inferior to the subject.

MARINA RENTAL ELEVEN



NAME: Villa Cove Marina
LOCATION: 1099 Bayside Drive
Newport Beach, California

CONTACT: Mary Kuhn 949-721-0111
NO. OF SLIPS: 40
OCCUPANCY: 100%
WAIT LIST: Yes
LIVE ABOARD: No
TIME TO HARBOR MOUTH: 25 minutes (35 if not under bridge)
BEHIND BRIDGE: Yes, Balboa Island
UTILITIES: Metered electrical. Water, trash and hookups included in slip fee.
AMENITIES: Restrooms, showers, dock boxes, free parking

| SLIP/BOAT LENGTH (Lineal Feet): | MONTHLY RENT/L.F. |
|--|--------------------------|
| 22 Feet | \$21.50 |
| 30 Feet | \$24.75 |
| 45 Feet | \$32.25 |

COMMENTS:

This marina is located on Bayside Drive adjoining the west side of the Newport Beach Yacht Club (formerly the Shark Island Yacht Club). The Balboa Island Bridge adjoins the marina on the east. The quality and condition of the amenities are considered similar. On an overall basis considering amenities, driving access, parking and location, this comparable is considered similar to the subject.

Marina Slip Rent Conclusion

Based on the market data presented above and the interviews conducted during the course of completing this assignment I have concluded that the subject slips have the following market rent (broken down by slip size and the number of slips).

| Slip Length (Lineal Feet) | Total Slips | Monthly Rent /LF |
|--------------------------------------|------------------------|-----------------------------|
| Under 30' | 2 | \$20.00 |
| 30' – 34' | 43 | \$21.00 |
| 35' – 39' | 71 | \$23.00 |
| 40' – 44' | 32 | \$25.00 |
| 45' – 49' | 3 | \$28.00 |
| 50' & Over | 10 | \$30.00 |
| Side Ties | 10 | \$20.00 |
| TOTAL | 171 | |

Apartment Rental Survey

The table on the following page is a summary of comparable apartments in the subject's general market area. A brief discussion of each data items is presented on the pages following the summary table.

| APARTMENT SURVEY SUMMARY SEPTEMBER 2006 | | | | | |
|--|--------------------------|------|---------------------------|--------------------------|----------------------------|
| Data No. Name Location | Unit Size (Sq.Ft.) | View | Room Count (Bed-Ba) | Total Monthly Rent | Monthly Rent /Sq.Ft. |
| Subject | | | | | |
| Balboa Yacht Basin | 1,100 | Bay | 2-1 | \$1,700 | \$1.55 |
| 829 Harbor Island Drive | 1,300 | | 2-1 | \$2,000 | \$1.54 |
| Newport Beach | | | | | |
| 1/ Anchorage Apartments | 800 | Bay | 1-1 | \$1,500 | \$1.88 |
| 2888 Bayshore Drive | 1,500 | None | 2-2 | \$1,450 | \$0.96 |
| Newport Beach | 1,500 | Bay | 2-2 | \$1,900 | \$1.27 |
| | 1,700 | Bay | 2-2.5 | \$2,600 | \$1.53 |
| | 2,200 | None | 3-2.5 | \$3,400 | \$1.43 |
| | 2,200 | Bay | 3-2.5 | \$4,000 | \$1.82 |
| 2/ Newport Marina Apartments | 1,800 | Bay | 2+Den-2 | \$4,100 | \$2.27 |
| 919 Bayside Drive | (upper) | | | | |
| Newport Beach | | | | | |
| 3/ 1031 Bayside Cove | 2,114 | Bay | 2-2.5 | \$4,795 | \$2.27 |
| Bayside Cove | (townhouse) | | | | |
| 4/ 1508 S. Bayfront | N.Avail. | Bay | 2-2 | \$3,200 | N.Av. |
| Balboa Island | (lower) | | | | |
| 5/ 14 ½ Beacon Bay | N.Avail. | Bay | 2-1.5 | \$2,750 | N.Av. |
| Beacon Bay | | | | | |
| 6/ 1033 Bayside Cove | 2,114 | Bay | 2-2.5 | \$4,550 | \$2.15 |
| Bayside Cove | (townhouse) | | | | |

Apartment Rent Conclusion

Comparable Rental One is an older apartment building located at Coast Highway and Bayshores and is slightly inferior compared to the subject in terms of overall condition.

Comparable Rental Two is located just east of the subject along Bayside Drive. It is superior compared to the subject in terms of overall quality, condition and the amenities that it provides.

Comparable Rentals Three and Six are individual condominium units in the Bayside Cove residential development that is east of the subject on Bayside Drive. The complex is gated and superior to the subject in terms of quality, condition and amenities.

Comparable Rental Four is the ground floor unit in a duplex located on Balboa Island's south bay front. The overall location, quality, condition and view are superior compared to the subject.

Comparable Rental Five is located just west of the subject in Beacon Bay. It is an apartment over a garage that has a bay view similar to the subject units. The overall location is generally similar compared to the subject; however, the specific location within the larger Beacon Bay community is slightly superior.

Based on the market data presented above and the interviews conducted during the course of completing this assignment I have concluded that the subject apartment units have the following market rent.

| Unit Type | Size (Sq.Ft.) | Total Units | Market Rent | Total Monthly Rent |
|-----------------|---------------|-------------|---------------------|--------------------|
| 2-Bed, One-Bath | 1,100 | 2 | \$2,200 | \$4,400 |
| 2-Bed, One-Bath | 1,300 | 1 | \$2,500 | \$2,500 |
| Total | | 3 | \$2,300 avg. | \$6,900 |

Storage Garage Rental Survey

The table on the following page is a summary of comparable storage units in the subject's general market area. A brief discussion of each data items is presented on the pages following the summary table.

| STORAGE UNIT RENTAL SURVEY SEPTEMBER 2006 | | | | |
|---|------------------|------------------------------|-------------------------------|----------------------|
| Data No. Location | Unit Type | Size (Sq.Ft.) | Monthly Rent | Monthly Rent /Sq.Ft. |
| Subject Balboa Yacht Basin 829 Harbor Island Drive Newport Beach | Garage | 200 | \$200 | \$1.00 |
| 1/ Bellport Lido Yacht Anchorage 151 Shipyard Way Newport Beach | Garage Locker | "Car size" N.Av. | \$150 - \$400 \$30 - \$150 | N.Av. N.Av. |
| 2/ Newport Dunes Marina 101 N. Bayside Drive Newport Beach | Locker Locker | 16 (4' high) 16 (8' high) | \$25 \$45 | \$1.56 \$2.81 |
| 3/ Stor It Self Storage 961 W. 17th Street Costa Mesa | Garage | 190 | \$289 | \$1.52 |

Storage Garage Rent Conclusion

Comparable Rental One is the storage facilities provided at Bellport Lido Yacht Anchorage (Marina Rental Five). The square footage was not available; however, the larger units were reported to be "car size" or roughly the size of the subject units and lease for \$400 per month.

They also have various size lockers that lease for \$30 to \$150 per month. Overall this comparable is judged to be the best indicator of market rent for the subject storage garages.

Comparable Rental Two reflects the storage lockers at the Newport Dunes (Marina Rental Nine). They offer two units, both are 16 square feet (4' x 4'); however, one unit has a four foot ceiling and the other has an eight foot ceiling.

Comparable Rental Three reflects the monthly rent for a 190 square foot (10' x 19') garage at a mini-storage facility on the west side of Costa Mesa. The unit has an exterior entry door; however, it is a "man door" and not a full size garage door like the subject. The project has gated access and the security is good; however, the overall location is significantly inferior for a marine user.

Based on the market data presented above and the interviews conducted during the course of completing this assignment I have concluded that the subject storage garages have the following market rent.

| Size (Sq.Ft.) | Total Units | Market Rent | Total Monthly Rent |
|---------------|-------------|-------------------|--------------------|
| 200 | 29 | \$350 | \$10,150 |
| 160 | 2 | \$320 | \$640 |
| Total | 31 | \$348 avg. | \$19,790 |

Addenda - Section C

Subject Photographs



A view of the Bayside Marina apartments, with storage garage on ground level.

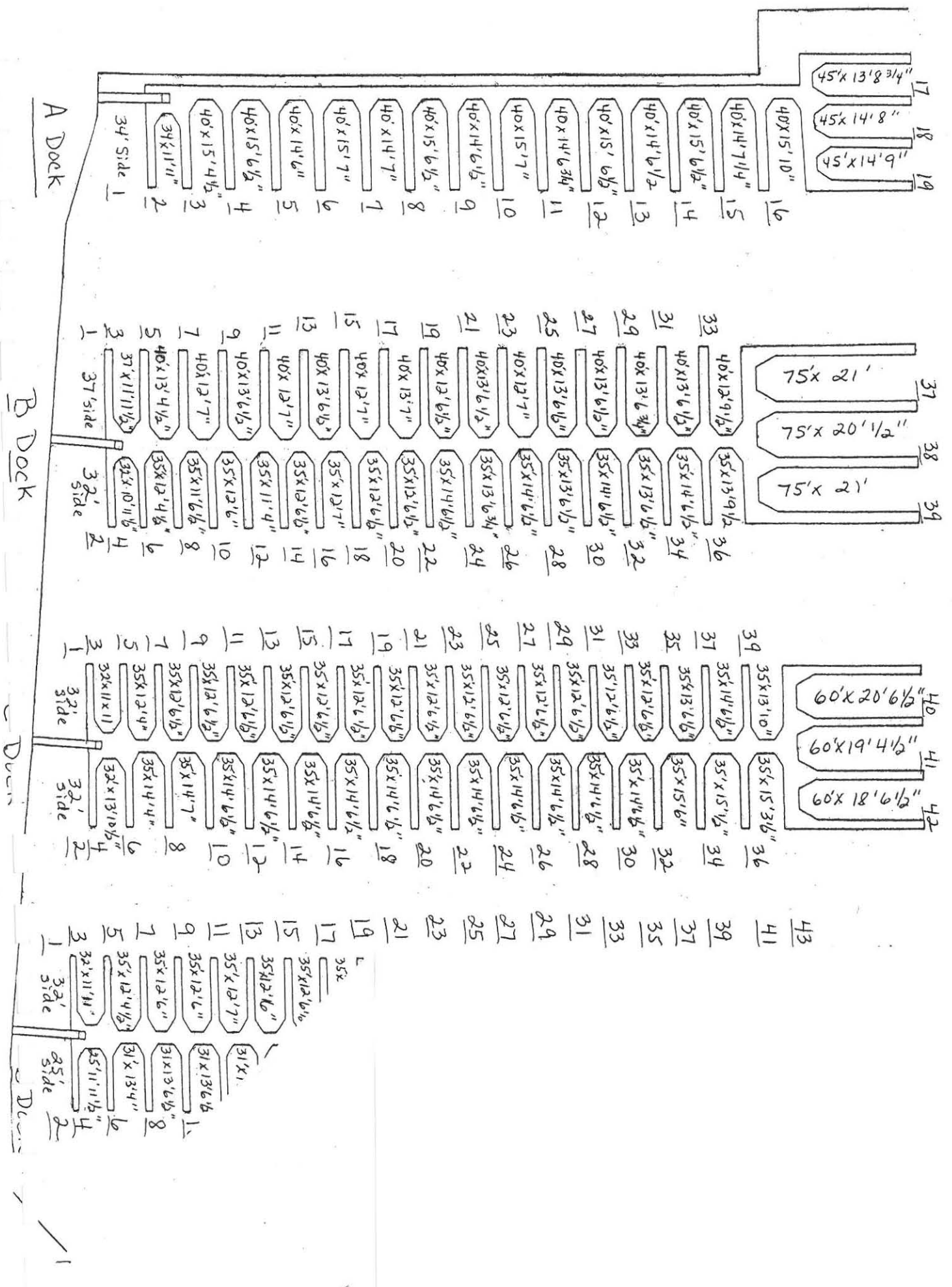


A view of the parking area at Bayside Marina. The apartments and garages are on the left with the slips and docks on the right.



A view of the marina from the water.

Bayside Marina Slip Map



SECTION D - Commercial Piers

Introduction

This section is identified as “Commercial Piers” which are defined in Chapter 17.33 of the City Municipal Code as:

... a pier with multiple slips or floats which are rented or leased to boat owners, including any pier used in connection with apartments, marinas and yacht clubs. For purposes of this chapter, multiple piers which are adjacent to a lot or parcel of land occupied by a multi-family dwelling or dwelling units, and structures over the waters of Newport Harbor that are business or income generating in nature shall be deemed commercial.

For clarification purposes only, Chapter 17.33 of the Municipal Code defines a “noncommercial pier” as:

...a pier used for private recreational purposes by the owner or occupant(s) of the abutting upland property without payment of a separate rental or lease fee.

Newport Harbor is unique in that the City of Newport Beach controls and administers the tidelands properties; however, they do not control and administer the upland property as the upland properties throughout most of the harbor are privately owned. In most harbors in Southern California the entity that has jurisdiction and control of the tidelands also controls the uplands parcels and they are generally developed in conjunction with each other. The marinas generally require that parking and facilities for the boat owners (showers, restrooms, etc...) be provided to maximize the rent that they can command and to meet zoning codes.

There is very limited data with respect to the rent the rental rates that are paid for just the tideland properties for the development of commercial piers and/or commercial marinas. There are two marinas within Newport Harbor that are administered by the County of Orange as the Lessor and they do not include the uplands parcel. The first is Swales Marina and the second is the Bayshore Marina, both of which are located in the Bayshores neighborhood of Newport Beach and were included in the rent survey in the previous section. According to the agent for the county both of these tidelands properties are leased for 20-percent of the gross revenue, while a county controlled property (Newport Dunes) that includes both tideland and upland parcels is leased for 25-percent of the gross revenue. It was reported that all three of the leases are somewhat dated; however, their commencement dates and overall terms are relatively similar and reflective of the overall difference associated with not controlling the uplands parcel.

The operator of Swales Anchorage confirmed that they are paying 20-percent of the gross income to the County and that the County asked for 25-percent of the gross. The operator of Swales

responded that since they did not control the uplands they should pay a reduced percentage as they have to lease the uplands parcel also.

Description

There are several commercial piers within the harbor with 12 approved boarding locations located throughout the harbor and the list of the Commercial pier permits and the approved boarding locations are included in the Addenda to this section. In general, the commercial piers located in the city are those that are not associated with a residence on the upland parcel.

Commercial Pier Rental Survey

The following table is a summary of the marina's that were surveyed to establish the current market rent for the commercial piers located in Newport Harbor. A discussion of each data items is presented on the pages following the summary table.

| COMMERCIAL PIER/MARINA RENTAL SUMMARY SEPTEMBER 2006 | | |
|--|---|---|
| Data No. Jurisdiction Location | Rental Range As Percent of Gross Revenue | Comments |
| 1/ Unified Port of San Diego San Diego (Pier 32) | Base Rent or 22.0% | 2005 lease, base rent adjusted by CPI every 5 years, percentage rent reviewed every 5-years |
| 2/ City of Los Angeles San Pedro (East Basin) | Base Rent or 22.5% | Base rent calculated on 2001 leases at \$1.40/Sq.Ft. of upland and \$0.325/Sq.Ft. of tidelands. |
| 3/ City of Redondo Beach Portofino Marina | 27.0% | New 55 year lease commenced 2005, tenant required to set aside 1.0% for capital improvements and 1.0% for renovation. |
| 4/ City of San Diego Mission Bay | 20.0% - 25.0% | Rate based on older leases in Mission Bay. Also renegotiating all adjustments to the higher rate. |
| 5/ Ventura County Peninsula Yacht Anchorage Peninsula Yacht Anchorage East Bahia Cabrillo Marina Channel Islands Harbor | 25.0% | Two marinas were re-negotiated with no exercise of option or lease extension. One was newly bid out via an RFP. All previous marina leases were at 20% of gross |
| 6/ Point Loma Marina San Diego Harbor (Marina Green) | Base Rent or 22.0% | Option agreement for the development of a new 50 slip marina in San Diego Harbor. |

Conclusion – Commercial Piers

Rental Data One is a recently negotiated lease (signed between the Unified Port of San Diego and a developer/operator) for approximately 175,975 square feet of land area and approximately

724,412 square feet of water located in the Port District's jurisdiction in National City. The developer intends to develop a 250 slip marina with four buildings totaling approximately 8,650 square feet and 220 parking spaces. The lease is effective as of February 2006.

Rental Data Two applies to ten marinas and anchorages (Permit Nos. 800 thru 808 & 825) located in the East Basin/Cerritos Channel area of Los Angeles Harbor (San Pedro). The ten marinas occupy a combined 15.29 acres of land and 48.42 acres of water and represent a total of 1,451 boat slips. The permits became effective in November 1995 and each permit requires that the compensation be reset every five years. The data in the table applies to the readjustment that became effective November 2005. Each marina permit requires that the permittee prepare and implement a plan to repair, refurbish or replace older improvements and the work was to be completed by July 2006; however, due to the potential for the reconfiguration of the East Basin and Cerritos Channel, the operators of the marinas were notified to cease work on their improvements pending the decision regarding the reconfiguration. The current base rent for each leasehold is based on an annual rent of \$1.40 per square foot of land and \$0.325 per square foot of water discounted by 25% for the Districts participation in gross receipts. For 2005 through 2010 the District receives 22.5% of the gross receipts from vessel berthing and anchorage. This rate compares with 20% from the prior five year period (2000-2005).

Rental Data Three is a new lease agreement between the City of Redondo Beach and the operator of the Portofino Marina. The lease encumber both tidelands and uplands parcels that are developed with a marina, hotel and several retail outlets. The Lessee had previously operated the marina and it was reported by the City that they negotiated a new 55 year lease that commenced in 2005 and there was no renewal or options involved in the new lease.

Rental Data Four is the rate reported by the real estate representative for the City of San Diego for older leases (over 10 years old) that are between 20-percent and 25-percent of the gross slip rentals. He also reported that they have started negotiations with all marina operators with older leases and that they are pegging the new lease rate at 25-percent of the gross slip rents. No further specifics were disclosed.

Rental Data Five is the renegotiation of two marina/anchorage leases and one new marina/anchorage in Channel Island Harbor. The Lessor is the County of Ventura and they reported that the two renegotiations did not involve any options or lease extensions and that the new lease was negotiated after an RFP had been sent out to interested parties. The properties involved are the Peninsula Yacht Anchorage (PYA), the Peninsula Yacht Anchorage East and the Bahia Cabrillo Marina. The PYA East lease also incorporates the Villa Sirena I, Villa Sirena II and Anchorage parcels. The Lessees will have the option to extend the leases for up to 40-years

and they are required to replace (in phases) all the existing docks on each leasehold and failure to complete the improvements will be a default of the lease. It was reported that the County anticipates that the Lessee's will spend approximately \$10-million. The County is also negotiating with the lessee of the Channel Islands Landing and Channel Islands Boatyard to consolidate two leases into a single lease. The percentage rent on new slips is to be 25% and under the current lease they are 11.0-percent and 20.0-percent. As this transaction is still being negotiated no more specific terms were disclosed.

Rental Data Sic is a recently negotiated (March 2005 & Amended February 2006) Option to Lease between the Unified Port of San Diego and a developer/operator for tidelands/upland parcel that is proposed to be developed with a 50-space marina and associated commercial and restaurant space (26,000 Sq.Ft.), marine related offices (15,100 Sq.Ft.), marina support facilities (2,200 Sq.Ft.), a public park with amphitheater, pedestrian pier, promenade and parking lot. The upland parcel contains approximately 75,650 square feet with approximately 163,285 square feet of water.

In addition to the market data presented above, two leases in Newport Harbor that were previously identified are considered relevant to the determination of market rent for commercial piers in Newport Harbor. The Balboa Bay Club pays 31-percent of its gross slip rent for its marina (commercial pier), while the American Legion pays 40-percent of its gross slip rent for its marina (commercial pier). Both leases include the upland and tideland parcels.

As was previously discussed, Newport Harbor is unique in that most tidelands suitable for commercial piers in Newport Harbor are not leased in conjunction with the adjoining upland parcel. The parties interviewed during the course of completing this assignment did not have a consensus as to whether the percentage rent should be discounted because the tidelands/uplands are not leased together. The representative for the County of Orange (Mike Hentzen) that leases County properties in Newport Harbor reports that the County discounts the two parcels they have that are not joined to their uplands parcel – Swales Anchorage and Bayshore Marina lease at 20-percent of the gross without the uplands, while the Newport Dunes is leased for 25-percent of the gross and includes the upland parcel.

One party interviewed suggested that there would be no discount because the slip rental rates that could be commanded would be impacted by the inability to provide upland amenities and in absolute dollars, the rent to the jurisdiction would be lower. A second suggested that the percentage rent for the tideland parcel without the upland should be that same as a tideland/upland parcel, but that an offset should be made based on the rent required to provide

the upland amenities including parking facilities. If the amenities could not be provided the rent to the slip users would be lower, but it should not impact the percentage paid.

The market data uncovered indicate that current market rent for commercial piers range from 22.0-percent to 27.0-percent of the gross slip income, with two leases in Newport Harbor at 31.0-percent and 40.0-percent including both upland and tideland parcels.

Based on the market data uncovered and the interviews conducted during the course of completing this assignment I have concluded that **the submerged tidelands in Newport Harbor that are not leased in conjunction with the adjoining upland parcel have a current market rent of 22.0-percent of the gross income.**

I have further concluded that **the submerged tidelands in Newport Harbor that are leased in conjunction with the adjoining upland parcel have a current market rent of 27.0-percent of the gross income.**

Addenda – Section D

Subject Photographs



A view of a typical commercial pier along Mariner's Mile.



A view of another typical commercial pier along Mariner's Mile.



A typical commercial pier in the Rhine Channel at 28th Street.



A typical commercial pier in the Balboa neighborhood.

Commercial Pier Permits & Approved Boarding Locations

COMMERCIAL PIER PERMITS

| 2004 HC # | Commercial Permit # | Customer Name | Service Address | Contact | Mailing Address | Phone | Permits Customer No. |
|---------------|------------------------|--|--------------------------------|----------------------|--|-------------------|----------------------------|
| 45 | CTY 0180056/0110300 | Newport Dunes | 101 N. Bayside Dr. NB 92660 | Wade Kurley | same | 729-1100 | 147040 |
| 22 | CTY 01101001 | De Anza Bayside Village | 300 E. Coast Hwy, NB 92660 | Dolly | same | 673-1331 | 10188 |
| 28, 30, 31 | CP10111371 | Cal Recreation - Bayside & BYC | 1137 Bayside Dr., NB 92660 | James Mills | same | 720-2141 | 73207 |
| 1 | CP10216011 | Bahia Corinthian Yacht Club | 1601 Bayside Dr. CDM 92625 | John Richard | same | | 6163 |
| 27 | County 1041801 | Balboa Yacht Club | 1801 Bayside Dr. CDM 92625 | Bob Hatch | same | 548-2070 | 6179 |
| 46 | CP10525251 | Channel Reef Comm. Assn. | 2525 Ocean Blvd. CDM 92625 | Jeannie Kelly | same | 673-1788 | 21653 |
| 72 | CP11203251 | Newport Bay Towers | 310 Fernando, NB 92661 | John O'Donnell | 310 Fernando, NB 92661 | 675-8551 | 80700 |
| 69 | CP11204001 | Balboa Pavilion Co. | 400 Main St, NB 92661 | Bob Black | same | 673-3014 | 18757 |
| 65 | CP11205031 | Newport Landing Marina | 503 E. Edgewater Ave. NB 92662 | Doug Salisbury | 17042 Gillette Ave. Irvine 92614 | 251-4880 | 12801 |
| 8 | CP11205111 | Balboa Boat Rentals - Vallely (Rodheim) | 510 Edgewater Pl. Balboa 92662 | Vivian Vallely | 508 So. Bay Front (Also send to Ralph Rodheim) | 714-557-5100 x 12 | 143102 |
| 68 | CP11206041 | Fun Zone Boat Co. | 600 Edgewater Pl. NB 92661 | Henk Wiessner | same | 673-0240 | 80701 |
| 68 | CP11207051 | Fun Zone Boat Co. | 600 Edgewater Pl. NB 92661 | Henk Wiessner | same | 673-0240 | 80701 |
| 49 | CP11208131 | Hill's Boat Service | 814 E. Bay Ave, Balboa 92661 | Gary Hill | PO Box 660, Balboa 92661 | 675-0740 | 163554 |
| 42 | Leases 112814 | Balboa Angling Club | 200 A St. Pier, Balboa 92661 | Dara | same | 673-6316 | 2477 |
| 50 | CP11607201 | Newport Harbor Yacht Club | 720 W. Bay Ave, Balboa 92661 | Tom Gilbertson | same | 723-6854 | 52459 |
| 44 | Leases 118215 | American Legion | 215 15th Street, NB 92663 | Linda | same | 673-5070 | 567 |
| 32 | CP11902231 | South Coast Shipyard | 223 21st Street, NB 92663 | Pete Stewart | same | 675-2837 | 20672 |
| 4 | CP11902271 | Sullivan Trust | 227 20th Street, NB 92663 | Bob Sullivan | same | 678-5402 | 921 |
| 3 | CP11902301 | Sea Spray Boat Yard | 226 21st Street NB 92663 | Paulette Pappas | same | | 948 |
| 56 | CP12021221 | Etco Investments, LLC | 2122 Newport Blvd, NB 92663 | Jynvy Urteaga | 9952 S. Santa Monica Blvd. Ste. 200 Beverly Hills, CA 90212 | 310-691-5511 | 21111 |
| 53 | CP12023181 | Woody's Wharf | 2318 Newport Blvd, NB 92663 | Ralph Furra | 1418 W. Bay Ave NB, 92661 | 675-0474 | 5252 |
| 14 | CP12024061 | James, Steve ???? (New owner)??? | 2406 Newport Blvd, NB 92663 | Hooters-Steven James | same | 714-914-6711 | 123939 |
| 17 | CP12024141 | Balboa Boat Yard | 2414 Newport Blvd, NB 92663 | Art Lewis | same | 673-6834 | 20684 |
| 34 | CP12406111 | Vista Del Lido | 611 Lido Park Dr, NB 92663 | Skip Smith | same | 675-6244 | 17933 |
| 13 | CP12406331 | Lido Park Place Marina | 633 Lido Park Dr, NB 92663 | George Ross | PCM Management Co., 23726 Birtcher Dr, Lake Forest 92630 | 465-2416 | 17960 |

COMMERCIAL PIER PERMITS

| 2004 HC # | Commercial Permit # | Customer Name | Service Address | Contact | Mailing Address | Phone | Permits Customer No. |
|-----------|---------------------|--|----------------------------------|---|---|------------------|----------------------|
| 64 | CP12433001 | Lido Sailing Club | 3300 Via Lido NB 92663 | Norm Rest | same | 230-5570 | 31582 |
| 66 | CP12434001 | Lido Marina Village - Marvin Eng. | 3366 Via Lido, NB 92663 | Donna Larson | 3400 Via Oporto #104 92663 | 675-8662 | 32140 |
| 47 | CP12534561 | Elks Lodge #1767 | 3456 Via Oporto, NB 92663 | Tracy Burik | same | 673-6110 | 32144 |
| 52 | CP12829011 | Waterfront Newport Beach LLC | 2901 W. Coast Hwy #200, NB 92663 | <i>John Dominguez</i> Robin Lombardo | same | 258-4388 | 10157 |
| 67 | CP12830171 | Mariners Mile Professional Building | 3101 W. Coast Hwy, NB 92663 | Margaret Ferrigno | 3191-D Airport Loop Dr, Costa Mesa, CA 92626 | 714-433-7300x212 | 96115 |
| 62 | CP12831211 | Newport Towers HOA | 3121 W. Coast Hwy, NB 92663 | Superintendent - David | same | 650-0507 | 10259 |
| 37 | CP12831311 | Villa Nova | 3131 W. Coast Hwy, NB 92663 | Susan Emmett | same | 642-7880 | 10265 |
| 23 | Leases 1291221 | Balboa Bay Club | 1221 W. Coast Hwy, NB 92663 | Bob Wilson | same | 630-4422 | 9859 |
| 40 | County 1291801 | OCC, Intercollegiate Sailing & Rowing | 1801 W. Coast Hwy, NB 92663 | Brad Avery | same | 645-9412 | 163936 |
| 41 | County 1291931 | Newport Sea Base | 1931 W. Coast Hwy, NB 92663 | Catherine Malm | same | 949-642-5031 | 51824 |
| 24 | CP12920011 | Duffy Electric Boat Company | 2001 W. Coast Hwy, NB 92663 | Marshall Duffy | same | 645-6812 | 165638 |
| 15 | CP12921011 | Ardell Marina | 2101 W. Coast Hwy, NB 92663 | Dan Daniels | same | 642-1626 | 126406 |
| 9 | CP12924311 | VMA Mariners Mile LLC- Hornblower | 2439 W. Coast Hwy, NB 92663 | Mark Murrel | 2439 W. Coast Hwy #200 | 722-1131 x203 | 61640 |
| | CP12924311 | VMA Mariners Mile LLC - Olympic | 2439 W. Coast Hwy, NB 92663 | Mark Murrel | 2439 W. Coast Hwy #200 | 722-1131 x203 | 61640 |
| 11 | CP12925051 | VMA Mariners Mile LLC - Bayport | 2505 W. Coast Hwy, NB 92663 | Mark Murrel | 2439 W. Coast Hwy #200 | 722-1131 x203 | 61640 |
| 19 | CP12925271 | Goodin Family Trust | 2527 W. Coast Hwy, NB 92663 | Norm Goodin | POB 2736, NB 92659 | 244-9832 | 13924 |
| 33 | CP12925471 | Viking's Port | 2547 W. Coast Hwy, NB 92663 | Don Pedersen | 423 Redlands Ave, NB 92663 | 548-3024/5481202 | 26327 |
| 21 | Cty RP12925721 | Cal Rec - Bayshore Marina | 2572 Bayshore Dr, NB 92663 | James Mills | 1137 Bayside Dr, NB 92660 | 720-2141 | 6030 |
| 63 | CP12926011 | Primm Family Trust | 2601 W. Coast Hwy, NB 92663 | Roy Newhouse | PO 94825, Las Vegas, NV 89193 | 702-795-1715 | 143113 |
| 59 | CP12926071 | Marina Properties | 2607 W. Coast Hwy, NB 92663 | Jim Parker | 2633 W. Coast Hwy, NB 92663 | 887-5755 | 17938 |
| 58 | CP12926331 | Port Calypso | 2633 W. Coast Hwy, NB 92663 | Jim Parker | same | 887-5755 | 71934 |
| 5 | CP12927031 | Newport Bay Management - Larson's Shipyard | 2703 W. Coast Hwy, NB 92663 | Ted Robinson | 2717 W. Coast Hwy | 646-5055 | 112658 |
| 26 | CP12927351 | Dick Dock LLC (Rusty Pelican) | 2735 W. Coast Hwy, NB 92663 | Dave Winkler- 497-2487, 212-4241 | 668 N. Coast Hwy #193, Laguna Beach, Ca 92651 | 497-2487 | 71929 |
| 57 | CP12927511 | Crow's Nest - Gordon Barienbrock | 2751 W. Coast Hwy, NB 92663 | Gordon or Kirk Temple | 2801 W. Coast Hwy #260, NB 92663 | 723-0300 | 71925 |
| 57 | CP12928011 | Crow's Nest - Gordon Barienbrock | 2801 W. Coast Hwy, NB 92663 | Gordon or Kirk Temple | 2801 W. Coast Hwy #260, NB 92663 | 723-0300 | 71925 |

SECTION E – Residential Docks

Introduction

Newport Harbor is one of the largest pleasure craft harbors in California, and many of the residential properties surrounding the harbor include the ownership rights to a residential dock. The assignment is to determine the market rent for 1) residential piers that are being used for “commercial” uses, i.e. the residential property owner is leasing the dock to a third party on a monthly or quarterly basis, and 2) residential piers that are being used solely for non-commercial use.

Residential Dock Rental Survey

The following table is a summary of residential docks that are rented to third parties for “commercial” use (non-resident). Due to the sensitive nature of the information, in most cases the parties interviewed would not disclose exact location of the property or requested that it not be disclosed.

| RESIDENTIAL DOCK SPACE SUMMARY SEPTEMBER 2006 | | | |
|--|---------------------------------|-------------------------|--------------------------------|
| DATA NO. LOCATION | LENGTH (Lineal Feet) | MONTHLY RENT | MONTHLY RENT /L.F. |
| 1/ Bayside Drive Carnation Cove | 85' | \$3,000 | \$35.29 |
| 2/ Bayside Drive Near Bahia Corinthian Y.C. | 55' | \$2,200 | \$40.00 |
| 3/ Evening Star Dover Shores | 36' to 56' Under 35' | \$3,000 \$2,500 | \$83.33 to \$53.57 \$71.42+ |
| 4/ Behind Newport Boulevard Bridge Balboa Coves | 37' | \$700 | \$18.91 |
| 5/ Lido Isle East end of island | 65' | \$3,000 + Electric | \$46.15 |

Conclusion – Residential Pier for Commercial Use

Rental Data One is an 85-foot dock that is being offered for lease at a rate of \$3,000 per month, or \$35.29 per lineal foot. The owner requires an annual, pre-paid lease, and will only consider a single boat and a single lessee, regardless of the boat length. This dock is close too the harbor entrance, but is subject to wind and tides and is beyond all the commercial services in the harbor.

Comparable Rental Two is a 55-foot U-shaped dock that is located near the Bahia Corinthian Yacht Club on Bayside Drive. The owner includes the electric and water service. The owner reported that he is looking for a “low-impact” user and is not willing to allow two small boats and would like a minimum of a 35-foot vessel.

Comparable Rental Three is located in the Dover Shores neighborhood and is a “parallel” dock that will accommodate up to a 56-foot vessel. The asking rent is \$2,500 per month for a vessel 35-feet and under and \$3,000 per month for a vessel between 36- and 56-feet. The rent includes the utilities.

Comparable Rental Four is a 37-foot dock that is 11-feet wide and is located in Balboa Coves. The location behind the Newport Boulevard Bridge limits the boats that it can accommodate. The monthly rent includes the water and electrical service.

Comparable Rental Five is a dock that accommodates a 65-foot power boat. The monthly rent is \$3,000 per month (\$46.15/LF), plus electric service (separately metered). The Lessee reported that he looked at all of the marina’s in the harbor and there was a wait list for a slip that would accommodate his boat and was essentially at the Lessor’s mercy and believes he is paying a lease rate that is in excess of what he would be charged in a commercial marina.

The rental data suggests that the rent that a third party is willing to pay is somewhat dependent on the size of the boat and the availability of the similar size space in the commercial marinas in the harbor. In general, the rental rates reflected in the above survey are for larger (over 35-feet) piers. Based on the market data uncovered it appears that the “market rent” for private piers used for commercial purposes are generally similar to those outlined in Section C.

In terms of the upland property owner’s interest and the “rent” that they should be paying for the “commercial” use of the tidelands associated with a single-family residence and the upland parcel, the survey data presented in Section D pertaining to commercial piers is in the range of 20- to 27-percent of the gross income. Based on the market data uncovered and the interviews conducted I have concluded that **a residential property owner that leases a residential pier for “commercial” uses would pay 20-percent of the gross rental income as market rent.**

For example only, the following is the calculation of the annual rent for a 40-foot residential pier that is leased for “commercial” use to a third party for \$25.00 per lineal foot:

| | |
|--|--------------------|
| Monthly Pier Rent - \$25/LF x 40 Feet: | \$1,000 |
| Annualized: | <u>x 12 months</u> |
| Total Annual "Commercial" Rent: | \$12,000 |
| Annual Rate For Commercial Pier | <u>x 0.20</u> |
| Indicated Annual Rent: | \$ 2,400 |

In the above example the property owner would pay an annual rent of \$2,400 for the "commercial" use of the tidelands associated with the upland residential property. The total annual rent would vary depending on the size of the pier and on the monthly rent being paid to the upland property owner and the rent for the "commercial" use of the pier would only apply while it is being rented to a third party.

Conclusion – Residential Pier Non-Commercial Use

A residential pier that is being used for "non-commercial" use is essentially the use of the pier by the uplands residential property owner. The market rent for this type of use is essentially equivalent to what is a reasonable fee to charge the upland property owner for the use of tidelands for the construction of a pier for the property owner's exclusive use.

As a property owner within Newport Harbor, many of the upland properties have rights to the tidelands for the construction of a residential pier and the pier length and configuration varies depending on the location in the harbor. Most upland property owner's with these rights exercise their rights and construct piers in the adjoining tidelands. These piers are available for their exclusive use and they can choose to place a vessel on the pier or leave it empty. Upland property owner's that do not enjoy the rights to the tidelands and wish to maintain a boat in Newport Harbor are required to lease from one of the marina's within the harbor. The upland property owner with the right to the tidelands has the alternative to not construct a pier and go lease dock space within one of the other marinas in the harbor – and pay rent to a marina owner. As set forth in Section C of this report my monthly market rent conclusion for dock space in the harbor ranges from \$20 to \$30 per lineal foot, depending on the slip length. The simple average is \$25.00 per lineal foot, which I have concluded is the fair market rent to apply to all residential dock space in the harbor. The upland property owner is analogous to the marina operator rather than a marina tenant (boat owner) and the rent that the upland property owner is paying is for the use of the tidelands similar to what a marina operator would pay – a percentage of the potential gross slip rents.

The appropriate return that an upland property owner would pay is less than what a commercial operator would pay as there is no “commercial” benefit to the upland property owner. A more appropriate rate of return would be what a property owner pays for a leasehold interest in a single upland residential lot or residential tideland property. Within Newport Harbor, most of the homeowners on Harbor Island lease the “filled” tidelands from either the City or the County. The rent for these tidelands is based on a formula for the revaluation that is set forth as follows:

$$\text{Value of the Upland Parcel} \times 0.375 \text{ (thirty-seven and one-half percent)} \times 0.09 \text{ (nine percent)}$$

This formula recognizes that the tidelands have less utility than the uplands parcel and the upland land value is multiplied by 37.5-percent and the resulting tidelands value is multiplied by a rate of return to derive the annual rent. In the case of the Harbor Island filled tidelands, the rate of return on the tidelands is 9.0-percent. This rate was established at the time of the lease; however, the rate of return varies depending on market conditions and overall return requirements. Historically these return requirements have ranged from 6.0-percent to 10.0-percent. In the current market, long-term return requirements are near historical lows; therefore, I have concluded that a return of 6.0-percent is appropriate to apply to residential piers being used by the upland property owner for non-commercial piers.

Using the same 40-foot pier as in the previous example the annual rent for the non-commercial use of the pier is calculated as follows:

| | |
|--|--------------------|
| Monthly Pier Rent - \$25/LF x 40 Feet: | \$1,000 |
| Annualized: | <u>x 12 months</u> |
| Total Annual “Commercial” Rent: | \$12,000 |
| Annual Rate For Commercial Pier | <u>x 0.06</u> |
| Indicated Annual Rent: | \$720 |

The indicated annual rent for a non-commercial pier is \$720 per year, or \$18.00 per lineal foot. Based on the market data an analysis presented **I have concluded that the market rent for a residential pier for non-commercial use is \$18.00 per lineal foot per year.**