

APPRAISAL OF
Market Rental Value
City Tidelands and Submerged Land
Newport Beach, California

Date of Value:

March 15, 2016

Date of Report:

April 7, 2016

Our File No.:

815-1

Submitted To:

Dave Kiff
City Manager
City of Newport Beach
100 Civic Center Drive
Newport Beach, CA 92660

Submitted By:

George Hamilton Jones, Inc.



George H. Jones, MAI
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April 7, 2016

Mr. Dave Kiff
City Manager
City of Newport Beach
100 Civic Center Drive
Newport Beach, CA 92660

Re: Appraisal of Market Rental Value of City of Newport Beach Tidelands,
as Dedicated to Commercial Marina Use

Dear Mr. Kiff:

In accordance with your request and authorization, we have made an investigation and analysis of various tideland parcels in Newport Harbor for the purpose of rendering an opinion of the market rental value of those State of California Tidelands, currently held in Trust by the City of Newport Beach, (“City Tidelands”) and proposed to be leased to private upland owners for commercial marina purposes.

The date of value for this appraisal is March 15, 2016.

This appraisal includes the *extraordinary assumption* that the following lease conditions were in place at the date of value:

Term:	50 Years
Rent:	Based on percentage rent of gross revenue and/or price per square foot of tidelands
Rent Adjustment:	Annually by C.P.I (L.A- Riv.- O.C.) Adjust to market rental value by appraisal every ten years.

It is recognized that, over the course of more than half a century, Newport Harbor has been developed with a wide range of commercial marinas. These existing operations vary widely in terms of overall size, improvement configuration, access to and character of upland amenities, conformance with current legal/land use standards, harbor location, and other key features. This valuation is not (and cannot be) based upon the specific characteristics of the tidelands associated with any particular existing marina in the harbor.

Accordingly, for this assignment, and in order to provide as balanced and equitable an analysis of the tidelands in a harbor-wide context as possible, we based the valuation of market rent for the subject tidelands upon a “typical” commercial marina. This theoretical amalgam¹ of tidelands area, uplands area, and marina and upland improvements is intended to be representative of standard commercial marina tidelands use throughout Newport Harbor under current market conditions.

The specific configuration and characteristics of this “typical” marina were based upon our investigation, inspection and analysis of existing marinas within the harbor; reference to operative city, state and federal construction regulations; as well as a market analysis designed to judge prevailing boat-owner/tenant demand. Included in the conditions considered to be in place at the subject tidelands are the following *extraordinary assumptions*:

1. That the subject tidelands is considered to be unimproved, vacant water area only. The subject tidelands has access to and from the uplands, and the upland property owner has direct access to the tidelands from the adjacent land by virtue of littoral rights.
2. Legal restrictions upon the use of the tidelands for commercial marina purposes (city, state, and federal regulations) include minimum requirements for the dedication of portions of the adjacent privately held uplands to support the marina operation. These land area requirements include, but are not limited to, vehicle access and parking, storage and restrooms, and marina office space.

¹ This is a *hypothetical condition* per Standard Rule 1-2 (g) of USPAP.
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The definition of market rent used in this assignment is consistent with that set out in the Dictionary of Real Estate Appraisal, Sixth Edition:

The most probable rent that a property should bring in a competitive and open market reflecting the conditions and restrictions of a specified lease agreement, including the rental adjustment and revaluation, permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options, and tenant improvements (TIs.)

As requested, the market rent conclusion is expressed in terms of both a percentage of gross revenue and annual rent per square foot of tidelands.

As a result of our investigations and analyses, we formed the opinion, that, as of March 15, 2016, market rent for the subject tidelands was 8.50% of the gross revenue generated by the commercial marina operation, or \$1.17 per square foot of tidelands per year.

MARKET RENT CONCLUSION:

**8.50 % of gross revenue, or
\$1.17 per square foot of tidelands per year**

The following Appraisal Report is in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP). The report sets forth, in brief, premises and limiting conditions, descriptions, exhibits, factual data, discussions, computations, and analyses which form, in part, the basis of our value conclusions. Supporting documentation and analyses are retained in our files.

Respectfully submitted,


George Hamilton Jones, MAI


Casey O. Jones, MAI
(Calif. License No. AG041862)

EXECUTIVE SUMMARY

The subject of this appraisal is the tidelands of Newport Harbor that are dedicated to commercial marina use. The purpose of the appraisal is to express an opinion of the market rent for those tidelands when they are leased by private parties from the City of Newport Beach and committed to marina use.

Commercial marinas are typically characterized by a combination of water area (tidelands) and generally adjacent land area (uplands) operating in association. While there are exceptions, most jurisdictions in Southern California lease the tidelands and uplands *together* for marina use. In Newport Harbor, however, the uplands are almost exclusively owned by private parties, while the tidelands are, as indicated above, held in trust by the City of Newport Beach.

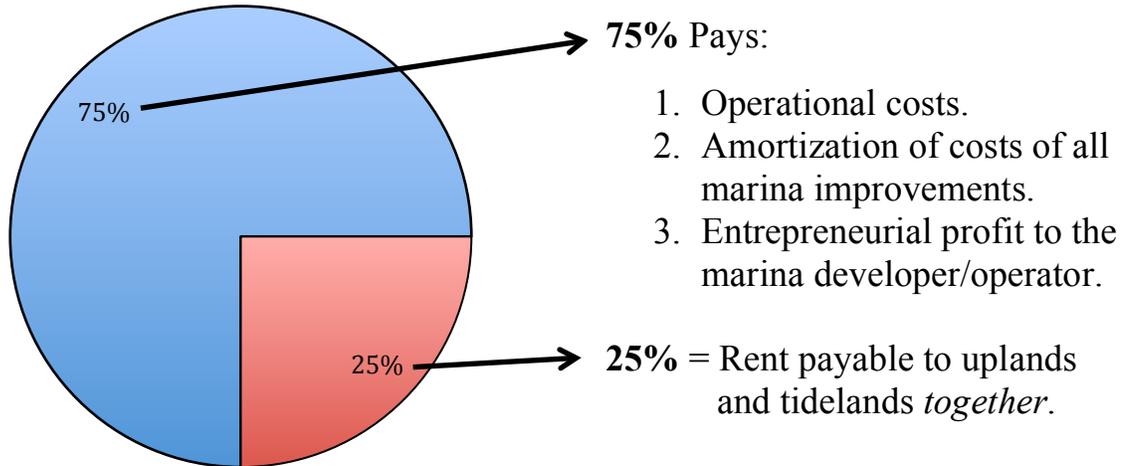
The appraisal problem, therefore, is to determine market rent for the tidelands alone, in recognition of the economic reality that both the tidelands and uplands ownerships must receive a fair and equitable return for the dedication of their respective properties to a combined commercial marina use. Further, that return in joinder *must be greater* than the return each could receive individually; otherwise, there would be no incentive to undertake the cost, effort and risk involved in a commercial marina operation. This is particularly true for the uplands owner, who is assumed to be motivated by personal economic priorities rather than serving the public interest, as the City might be.

As the following report will show, we addressed this problem from the perspective of both market data and economic analyses. In the market data approach, we compared tidelands to tidelands. A study was made correlating the subject tidelands, as dedicated to marina use, with the relatively limited number of tidelands only leases (with no uplands included in the leased premises) for marina use.

The cornerstone of the economic analyses was based upon empirically supported market evidence that the appropriate rent for *both* tidelands and uplands *together* should be 25% of the gross income realized from the marina operation. This benchmark rate has been

repeatedly tested and upheld in various jurisdictions throughout Southern California in numerous arbitrations and other litigation contexts.

Marina Gross Income



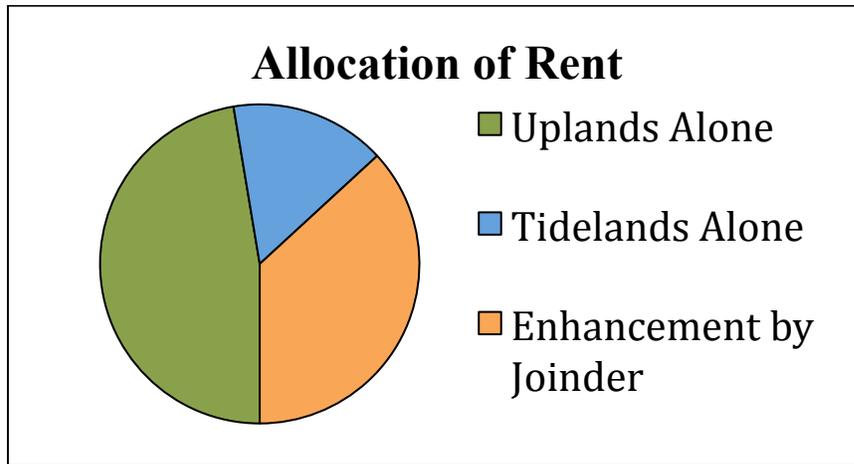
In order to determine how the total rent payable for the marina operation should be divided between the tidelands and the uplands in the specific circumstances of Newport Harbor, several approaches were utilized. These complementary analyses were intended to serve as useful checks on one another and to reflect the range of thinking of well-informed investors in this very specific market segment.

In one instance, a residual analysis was performed. In this study, the annual return that the uplands owner/investor would, based upon market evidence, need to receive to be motivated to dedicate his land to marina use was deducted from the total rent in joinder. The resulting residual amount represented an indication of the tidelands rent that a marina operator could afford to pay. This takes into account the prevailing economics of a marina operation and the unique real estate context of Newport Harbor.

This can be summarized as follows:

Less: Total Rent to Uplands and Tidelands in Joinder
 - Investment Return (Rent) Required for Uplands
 Indicated Rent for Tidelands

In another approach the benefit that joinder provided over the projected aggregate income of each as independent sites was measured. It was confirmed that there was, in fact, an increase in income (or return on ownership in the property) as a combined marina operation. This increment above the sum reasonably obtainable as individual sites was designated the “enhancement by joinder” and quantified.



Analyses were then undertaken to study various methods for making an equitable allocation of this enhancement (a “fair share” of the pie) between the two property interests (tidelands and uplands).

As a check on these indications, we undertook a further analysis that allocated the rent between land and water by equalizing the rate of return to each at its highest and best use as an existing marina operation.

The final step in our analysis was to reconcile the various market rental indications for the subject tidelands developed through these analyses to a final value conclusion. In so doing, we weighed a variety of factors. These included the historic utilization of the Newport Harbor tidelands for commercial marina use, prevailing market conditions impacting recreational boating activities, zoning regulations that influence marina design and land use requirements, as well as a wide range of empirical economic data that would be considered by well-informed investors analyzing a commercial marina operation.

The reader is invited to the following pages which set out the details of each step in the valuation summarized above.

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INTRODUCTION TO THE APPRAISAL PROBLEM

Purpose:

The purpose of this appraisal is to render an opinion of the market rent for those State of California tidelands currently held in trust by the City of Newport Beach (“City Tidelands”) under the proposed use of being leased to adjacent upland private owners for commercial marina purposes.

The opinion of market rent shall be expressed in terms of both a percentage rent of annual gross revenue of the marina operation as well as annual rent per square foot of tidelands.

Date of Value:

March 15, 2016

Client/Intended User:

Dave Kiff, City Manager for the City of Newport Beach.

Intended Use:

The intended use of the report is to assist in setting the market rental rate for the commercial use of the tidelands for marina purposes.

Property Rights Appraised:

The market rent of the fee simple interest of the tidelands within the lower bay of Newport Harbor allocated for commercial marina use.

Definitions:

Tidelands:

For the purpose of this study, the public tidelands are considered to consist of that water area extending from the established U.S. Bulkhead Line to the Pierhead Line.

Market Rent¹ (Fair Rental Value):

The most probable rent that a property should bring in a competitive and open market reflecting the conditions and restrictions of a specified lease agreement, including the rental adjustment and revaluation, permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options, and tenant improvements (TIs.)

Description used in the San Diego Union Port District for Long Term Lease.

“Rent, which the lessor would derive from the lessor’s property if it was vacant land, without any improvements there on, and made available on the open market for new leasing purposes at the commencement of the rental period.”

Market Value²:

The most probable price that 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:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in U.S. dollars or in terms or in terms of financial arrangements comparable thereto; and

¹ *The Dictionary of Real Estate Appraisal*, The Appraisal Institute, Sixth Edition, 2015.

² This definition of market value is used by agencies that regulate financially insured financial institutions in the United States.

- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. (12C.F.R. Part 34.42(g); 55 *Federal Register* 34696, August 24, 1990, as amended *Federal Register* 12202, April 9, 1992; 59 *Federal Register* 29499, June 7, 1994.)

Leasehold Interest³:

The right held by the lessee to use and occupy real estate for a stated term and under the conditions specified in the lease.

Leased Fee Interest⁴:

The ownership interest held by the lessor, which includes the right to receive the contract rent specified in the lease plus the reversionary right when the lease expires.

Fee Simple Estate (Fee)⁵:

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

Lease Term:

This appraisal of market rent considers the subject tidelands to be available in the open rental market as of March 15, 2016, under a lease contract briefly described as follows:

Term of Lease: Fifty (50) years

³ *The Dictionary of Real Estate Appraisal*, pg. 128.

⁴ *Ibid.*

⁵ *Ibid.*, pg. 90.

Rental Adjustment:

- (a) Annually by C.P.I. (L.A. – Riv. – O.C.)
- (b) Adjust base rent to fair market value (market rent) every 10 years, as established by appraisal, in accordance with an agreed upon resolution process.

Rent: Based on percentage rent of gross revenue and price per square foot of tidelands

Scope of the Appraisal:

In order to provide a credible analysis of the market-derived economic influences on the tidelands when dedicated to commercial marina use, it was necessary to utilize a “typical” commercial marina as a representative basis for this study. After an extensive investigation of a variety of factors, it was our conclusion that a 56,000 square foot tidelands area (700 feet of frontage x 80 feet of depth) would be the most appropriate dimensions and total size to employ as the specific physical characteristics of the subject of this appraisal. The existence of this representative tidelands area is a *hypothetical condition* of this appraisal.

It is recognized that the existing marinas throughout Newport Harbor differ, often substantially, from this “typical” marina standard. However, given that it is the tidelands themselves that are the subject of this analysis – not a uniquely specific marina configuration – this was judged to be the most reasonably balanced and equitable approach to valuing tidelands market rent in a harbor-wide context.

As will be shown in this report, our conclusion as to the highest and best use of the subject tidelands property is development of the site *in joinder* with the adjacent uplands to a commercial marina consistent with market demand and the configurations and uses of existing commercial berthing facilities within Newport Harbor.

This appraisal relies, in part, upon a market data approach. In this case, the comparable data, drawn from marinas throughout Southern California, is market rent expressed as a percentage of the gross income generated by the marina/ boat berthing use. As with any other appraisal,

a critical component in determining the appropriate data to rely upon in forming an opinion of subject value is that the data conform to key definitions of market value.

In particular, it is essential to confirm that the buyer and seller were “each acting prudently and knowledgeably, and *assuming the price is not affected by undue stimulus.*” This is consistent with the California Code of Civil Procedure (126.320) which states that a determination of fair market value requires that the seller be “willing to sell but under no particular or urgent necessity for so doing, nor obliged to sell, and a buyer, being ready, willing, and able to buy *but under no particular necessity for so doing*, each dealing with the other with full knowledge of all the uses and purposes for which the property is reasonably adaptable and available.”

These criteria are critical because our investigations have revealed that certain potential tidelands data items in Newport Harbor are, in our judgment, not reflective of market value. Fundamentally, this conclusion was based upon the fact that they did not qualify as open market transactions in that the buyers/lessees *were* “affected by undue stimulus” and “under particular necessity” for accepting the terms of the lease. This circumstance arose from the fact that the lessees had made large capital investments in the marina improvements, the land was already dedicated to marina use, and the operation was serving an established tenancy. The potential data items that fail to meet these standards of market value are Bayshores Marina and Swales Anchorage and will be discussed more fully in the report.

As will be presented in the following pages, the vast majority of the data providing empirically supported indications of market rent for the typical commercial marina include *both* water area (tidelands) *and* uplands combined. However, the subject property (tidelands only, as part a hypothetical marina) includes the *water area only*, no uplands.

Accordingly, adjustments of these market data items, which included water and uplands, were required to reflect the subject condition of being water area only. As will be seen, these adjustments were analyzed using empirically supported economic criteria.

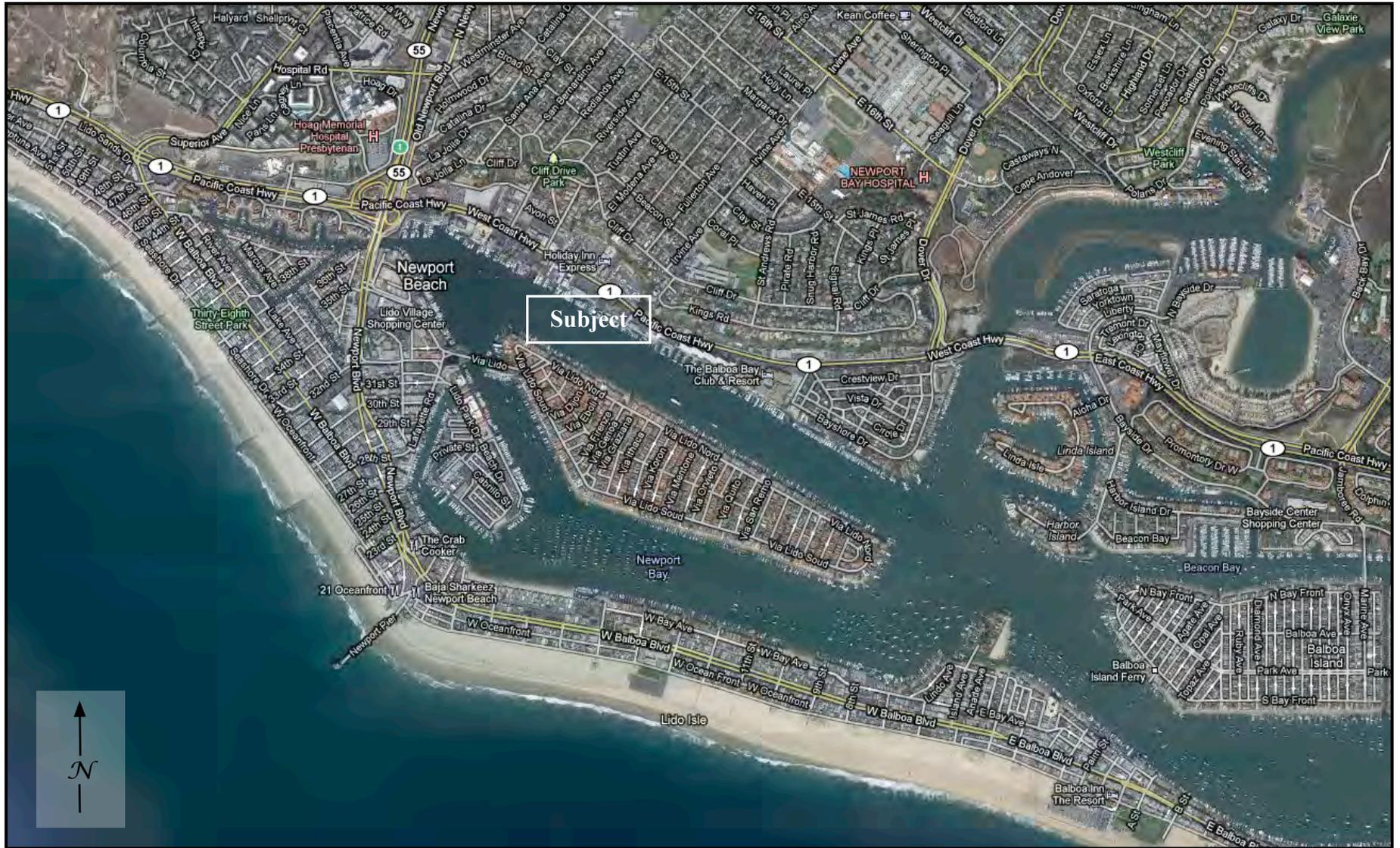
The scope of work for determining market rent for the subject property will include, but not be limited to, the following:

- I. Undertake a Market Data Approach to tidelands market rent:
 - a. Obtain and verify information of California State Lands Commission benchmark rates for tideland leases.
 - b. Obtain and verify information of the limited number of public leases for marina purposes of *tidelands only*.
- II. Undertake an Economic Analysis of tidelands market rent through a market-based allocation of the enhanced contribution of the upland and tidelands parcels *in joinder*:
 - a. Obtain and verify information regarding the far more plentiful public leases of *land and water in joinder* for marina purposes. These data came from Orange County, Los Angeles, Ventura and San Diego Counties and were expressed as a percentage of the gross income of the marina operation.
 - b. Undertake a market survey to form a supportable opinion of the retail rental rate of slips (amount per lineal foot per month), prevailing occupancy levels, and the economics of the operation of a standard marina in Newport Harbor. This will be applied to the subject property as determined by the aforementioned criteria and result in a stabilized gross income estimate at the date of value.
 - c. Through analysis of lease rates of tidelands (water area only) being employed to offshore moorings, form an opinion of the lease rate of the tidelands as an *independent site*, without the enhancement created by joinder with the uplands.
 - d. Form an opinion of the market value of the uplands that current land use regulations require be dedicated to marina support uses. Analyze market evidence of the level of return reasonably anticipated by a well-informed owner of the uplands as an independent site (not in joinder with the tidelands).

- e. Determine the level of enhancement of income created by joinder of the independent tidelands with the independent supporting uplands in a unified marina operation.
 - f. Allocate the enhancement in the income stream generated from the marina use between the tidelands area and the upland area in accordance with the principles of a *bilateral monopoly*⁶ under three scenarios:
 1. Determine the tidelands rent level as a residual amount, after considering the increased level of return and opportunity cost that a well-informed owner of the uplands would require in order to devote such land to marina uses.
 2. As an equally divided share of the enhancement piece of the “pie” of gross revenue generated by joinder in a marina operation.
 3. Allocate the income stream between the land and water based on a premise that the land and water are already dedicated to joinder and will equally share the enhancement relative to each highest and best use.
- III. Reconcile the various tidelands market rent indications to a final conclusion, expressed as a percentage of effective gross income and on a per square foot of tidelands basis.

⁶ “A market in which a single seller (a monopoly) is confronted with a single buyer (a monopsony). Under these circumstances, the theoretical determination of output and price will be uncertain and will be affected by the interdependence of the two parties.” *The Dictionary of Real Estate Appraisal*, 6th Edition.

LOCATION MAP



PROPERTY DESCRIPTION

Introduction:

The subject property is a hypothetical tidelands parcel in Newport Harbor that is intended to represent the water area that would be required for a typical commercial marina operation. It is an extraordinary assumption that this tidelands parcel has access to the adjacent uplands for access to utility services and the supporting land area necessary to a marina operation.

A number of factors were considered in forming an opinion of both the physical characteristics of the independent tidelands parcel itself and the size, configuration, and economic potential of the marina with which it could be improved based upon the hypothetical assumption.

In order to arrive at an empirically supported basis for our conclusion as to the key characteristics defining the subject property, we performed a survey of the existing marinas in Newport Harbor, analyzed the operative land use regulations and guidelines impacting marina use of the tidelands at both the local and state level, and performed a market analysis in order to judge highest and best use of the subject property.

As a result of these investigations and analyses, our judgment of the pertinent property characteristics for the hypothetical tidelands parcel that is the subject of this valuation analysis were developed and are described below.

Location:

The subject tidelands property is considered to be adjacent to commercially oriented land in the northwesterly portion of Newport Harbor in the general vicinity of Mariner's Mile.

Apparent Owner:

Fee Interest:

The subject tidelands are held in fee by State of California, in Trust to the City of Newport Beach. There has been no change in the ownership of the fee interest for in excess of 10 years.

Leasehold Interest:

The leasehold interest in the subject tidelands is considered to be held by a well-informed marina operator who is capable of developing the property to its highest and best use. The subject tidelands are considered to be vacant, unencumbered by existing lessee improvements or any real property right restrictions beyond those inherent in the police powers to which it is naturally subject and the lease itself.

Parcel Size and Shape:

The subject property consists of unimproved tidelands only. Our survey of the existing marinas focused on marinas with 30 or more slips. As a result of that study, the following empirical information relative to the tidelands for those marinas was developed:

Frontage along U.S Bulkhead Line:

Range:	430 to 2,245 Feet
Median:	700 Feet
Example:	Ardell Marina, 700 Feet

We have used 700 feet for the water frontage of the subject parcel along the U.S. Bulkhead line.

Depth from U.S. Bulkhead Line to U.S. Pierhead Line:

Range:	50 to 100 Feet
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Depths from the U.S. Bulkhead line to the U.S. Pierhead Line differ throughout Newport Harbor due to

variations in channel widths and other factors; however, reference to City of Newport Beach mapping of the main harbor area indicates that the preponderance of the depths from the U.S Bulkhead Line to the U.S. Pierhead Line is 80 feet. There is an area in the northwest portion of the harbor (Lido Marina Village) where a Harbor Permit allowed an extension out an additional 20 feet to the Project Line wherein marina improvements were permitted. This is not considered to be representative of a “typical” commercial marina. Accordingly, we have used the standard 80-foot depth in considering the size and shape of the subject tidelands parcel.¹

As a result of this study, our judgment of a subject property that appropriately represents a “typical” marina within Newport Harbor has the following physical characteristics:

Frontage along U.S Bulkhead Line:	700 feet
Depth from U.S. Bulkhead Line to U.S. Pierhead Line:	80 feet
Total Area:	700 feet x 80 feet = 56,000 square feet

Utilities:

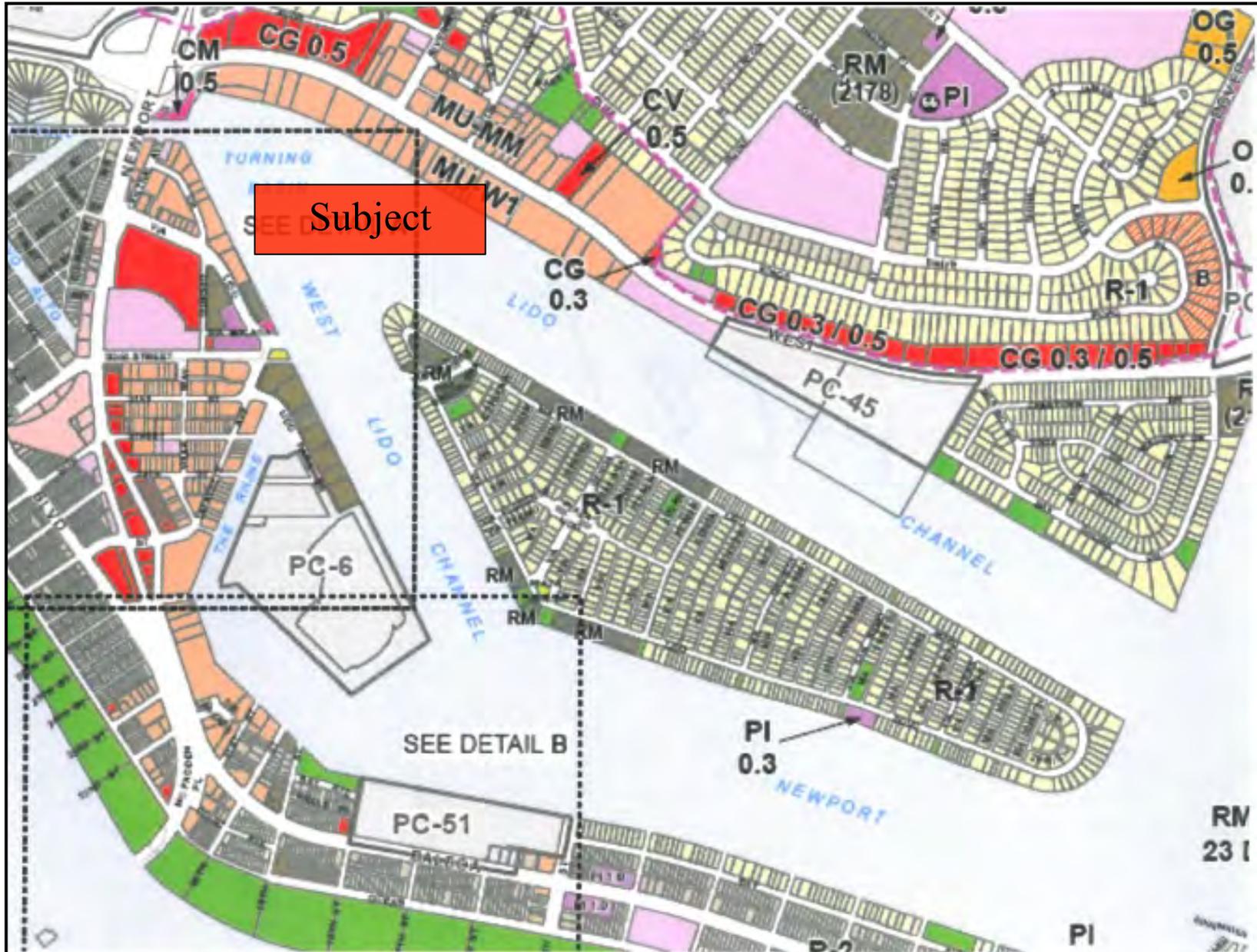
As an independent parcel, the subject tidelands has no access to public utilities because it has no legal access to the adjacent uplands from whence the utilities can be obtained. In order to value the subject property for marina purposes, it is an extraordinary assumption of this appraisal that access to utilities from the adjacent uplands is permitted.

Access:

The subject property possesses legal rights of access from the bayward water area only. Littoral rights of access to the water from the

¹ It should be noted that the U.S. Pierhead Line defines the limit within which marina improvements are permitted to be constructed. In practice berthed vessels are allowed to extend beyond the Pierhead Line as a “sidetie”, or to the beam of a vessel. This “overhang” has been considered in our valuation analysis.

ZONING MAP



uplands reside within the property rights of the upland property adjacent to the subject. Again, in order to develop a meaningful indication of subject value for marina purposes, it is an extraordinary assumption of this appraisal that the subject tidelands parcel will have access from the uplands.

Land Use Regulations:

The subject tidelands are under the regulatory supervision of several entities in addition to the City of Newport Beach. These include the State of California Division of Boating and Waterways, the California Coastal Commission, as well as oversight by the Army Corps of Engineers, the California Department of Fish and Wildlife and others.

The standards of development for the tidelands is set out in Section 17 of the City of Newport Beach Municipal Code. However, in order to develop the subject tidelands with a commercial marina, it is necessary for the tidelands to be supported by sufficient uplands area that has been dedicated to parking, restrooms, showers, and office use.

Section 20.40 of the Municipal Code under Transportation Communities and Infrastructure Uses describes required parking for marinas as 0.75 parking spaces per slip, or 0.75 spaces per 25 feet of mooring space. However, our investigations have indicated that there is a reasonable probability that this uplands parking requirement could be reduced to 0.60 per slip to conform to other relevant jurisdictions.

Section G1.2.1 of the Department of Boating and Waterways guidelines requires 0.60 single vehicle parking spaces per recreational berth. Additionally, On December 12, 2010 the Dana Point Harbor Revitalization Plan Commission approved the minimum designated boater parking for the 2,409 boat slips of the project at 0.60 parking spaces per slip or side tie.

In November 2011, the California Coastal Commission approved 0.60 parking per slip ratio for the marina portion (Parcel 43) of the Marina Del Rey Hotel and Marina project. This designation is to serve a proposed 277-slip project. In an interview with Tom Hogan, the developer of this project, it was reported that 0.60 parking to slip ratio is being approved throughout the state.

It is recognized that the City of Newport Beach offsite parking code currently requires a minimum of 0.75 parking spaces per marina slip. However, in recognition of the fact that the subject tidelands and adjacent uplands are considered to be unimproved and available for their highest and best uses, it is our judgment that the well-informed potential developer of the subject property would believe there to be a reasonable probability that the City and Coastal Commission would, upon proper application, approve marina parking on the 0.60 spaces per slip rate.

In addition to the parking requirement, development of a commercial marina requires restroom facilities which “typically include toilet compartments, urinals, lavatories, mirrors, showers, interior/exterior lighting, drinking fountains, benches and walkways” per Section G2.1 of the Department of Boating and Waterways guidelines. Beyond a regulatory requirement, provision of these facilities/amenities is a generally accepted market standard. We have allocated 550 square feet of land to serve this portion of the uplands requirement.

Our investigations, which included a review of current ADA standards, indicate that, within two two-story buildings, the 1,100 square feet of potential building area will accommodate both the required improvements per prevailing land use codes and be consistent with market standards. Two buildings with a 275 square foot footprint (25' x 11') will allow separate gender restrooms and a shower room on the first floor along with approximately 275 square feet of offices on the second floor. These requirements could also be readily fulfilled in a single 550 square foot footprint. (See Department of Boating and Waterways Guidelines.)

Because the estimated value of the uplands independent of the tidelands is a required step in the valuation methodology to be presented in the following sections of this report, the zoning standards applicable to those uplands must be considered when analyzing the highest and best use of the upland property as an independent site.

For the purposes of this analysis, the uplands adjacent to the representative subject property is considered to be zoned either MU-W1 or MU-W2, which are both mixed-use water-related zones. This designation applies to waterfront properties in which non-residential and

residential units may be intermixed. Marine-related and visitor serving land uses are encouraged.

The standards of development differ markedly between MU-1 and MU-2, with minimum lot sizes significantly larger in the MU-1 zone that is found primarily along Mariner's Mile. Both have a minimum Floor Area Ratios of 0.35 and maximums of 0.50. MU-1 has a maximum of 50% residential use, whereas MU-2 permits a 0.75 residential FAR.

It should be noted that the land uses for the uplands adjacent to the existing commercial marinas throughout Newport Harbor range from R-1, to mixed-use, to strictly commercial land use designations. In our judgment, the general mixed-use water-related zone is most appropriate to consider for the representative subject property.

Current Improvements:

The representative subject tidelands is considered to be unimproved water area only. It is an extraordinary assumption that the subject property is adjacent to an uplands parcel with an existing bulkhead. This bulkhead is considered to be an improvement of the uplands parcel.

Marina	Total Slips	Average Slip Length
Cabrillo Isle Marina, San Diego 1976	406	38.0
2005	404	39.4
Dana Point Marina, Dana Point 1969	1,467	33.0
Proposed	1,285	33.4
Sunset Aquatic Park, Hunt. Beach Before Reconfiguration	252	30.5
After Reconfiguration	237	32.8
Peter's Landing Marina, H. B. Before Reconfiguration	300	39.0
After Reconfiguration	286	40.5
Long Beach Downtown Marinas Existing	1,769	35.9
Proposed	1,679	36.7
Alamitos Bay Marina, L.B. Existing	1,997	31.5
Proposed	1,647	35.8
Cabrillo Way Marina, San Pedro Existing	625	34.3
Proposed	697	45.6
Marina del Rey 2008	4,731	33.9
Proposed	4,255	36.4
Anacapa Isle Marina, Oxnard 1974	504	30.2
1987	389	33.4
Bahia Marina, Oxnard 1973	70	38.0
2009	82	52.8
Peninsula Marina, Oxnard 1970	341	33.7
2009	292	47.3
Ventura Isle Marina, Ventura 1973	625	31.5
1992	519	38.8
Treasure Isle Marina, San Francisco 1950	105	31.5
2009	403	38.8
Ballena Isle Marina, Alameda 1974	442	34.5
2010	373	43.8
Total All Marinas (ex. MdR) Before	8,903	33.6
After	8,293	38.0

Source: Marina del Rey Slip Sizing Study, Noble Consultants, Inc., 3/11/09.

MARKET ANALYSIS AND HIGHEST AND BEST USE

Property Productivity:

Under the extraordinary assumption that the subject tidelands will have access to the adjacent uplands, the property is considered to be well suited to a commercial marina development. It has 700 feet of bulkhead frontage and a depth from the U.S Bulkhead Line to the U.S. Pierhead Line. The total area of the subject tidelands is 56,000 square feet, which offers reasonable marina design flexibility.

The subject property is considered to be situated in a mixed-use/commercial portion of Newport Harbor. Located on the central coast of Orange County, this landmark destination is one of the largest pleasure boat harbors in the world, with more than 2,200 marina slips, 1,200 offshore and onshore moorings, and 1,200 private residential piers. There are 25 miles of frontage in Newport Harbor. Tourism is an important part of the economy with estimates of daily visitors from the summer months ranging from 20,000 to in excess of 100,000.

Newport Harbor traditionally has the highest slip rents of any of the harbors of Southern California. Nonetheless, despite ever increasing rates, occupancy has remained generally steady at 95% to 100% for decades, with lengthy waiting lists for slips 35 feet and greater. The demand has been due to the beauty of the harbor itself, the proximity to a wide range of amenities and yachting support services, as well as the affluence of the surrounding communities that can afford involvement in boating.

As a consequence of the 2007/08 recession, a decline of demand for boat/slips occurred. While slip rates declined slightly, vacancy factors increased significantly. Even as recently as 2012 vacancies were from 5% to 10%, and greater in some instances. Since 2012, however, there has been a continued decrease of vacancy such that many marinas now show full occupancy

Marina Demand Factors:

The table below shows the pattern of pleasure vessel registration within the State and Orange County over the last four years. The counties of Orange, Los Angeles, Riverside and San Bernardino, which may be served by Newport Harbor marinas, represents more or less 25% of the total registrations. The data appears to be erratic and difficult to interpret. It is interesting that the 2014 registration at 50,534 vessels is the lowest amount in four years.

Pleasure Vessel Registrations

Year	Orange County	Total State
2011	60,457	835,743
2012	55,158	764,341
2013	56,552	807,537
2014	50,534	716,885

Source: California Department of Motor Vehicles

Boat Sales

Source: National Marine Manufacturing Association (NMMA)

California pleasure boat sales were up 17% from 2012 and powerboat sales were up 30% from 2013. National total boat sales for 2014 were \$428,956,622, a 2.2% increase from 2012. The lowest recorded sales period was in 2006.

One phenomenon that has become apparent, as the boating community has evolved over the past 30 – 40 years, is that vessel size has steadily increased, with a corresponding demand for larger slips, in terms of both length and beam. Over time, portions of various marinas have been repaired and reconstructed to meet this changing character in slip demand, with the result that the average slip length in most marinas has increased.

MARINA RENTAL RATES

HARBOR TOWER MARINA Newport Beach		
	Slip Length (Lineal Feet)	Monthly Rent/L.F.
	20 to 29 Feet	\$22.00
	30 to 39 Feet	\$30.00
	40 to 49 Feet (inside slip)	\$35.00
	40 to 49 Feet (outside slip)	\$37.00
	50 to 59 Feet	\$44.00
	60 to 69 Feet	\$45.00

BELLPORT LIDO YACHT ANCHORAGE Newport Beach		
	Slip Length (Lineal Feet)	Monthly Rent/L.F.
	6 to 15 Feet	\$20.00
	16 to 20 Feet	\$21.00
	21 to 31 Feet	\$21.50
	20 to 32 Feet	\$24.00
	32 to 33 Feet	\$26.50
	34 to 37 Feet	\$28.50
	37 to 39 Feet	\$28.50
	40 to 44 Feet	\$37.00
	50 to 59 Feet	\$39.00
	60 to 63 Feet	\$44.00
	73 to 79 Feet	\$46.00
	83 to 86 Feet	\$52.50
110 to 135 Feet	\$54.50	

VILLA COVE MARINA Newport Beach		
	Slip Length (Lineal Feet)	Monthly Rent/L.F.
	22 Feet	\$31.00
	30 Feet	\$36.00
	45 Feet	\$51.00
	60 Feet	\$55.00

Competitive Supply:

There are thirteen marinas in Newport Harbor with over thirty slips. The primary elements of comparison that distinguish the different commercial marinas in Newport Harbor from one another are location, the physical features of the marina, and access to amenities. For example, the subject's theoretical location in the mid-to-northwesterly portion of the harbor requires more running time to the harbor entrance than might some other marinas, yet the immediate surrounding influences, with a variety of shore-based amenities, is of considerable appeal to many users who come from outside the immediate Newport Beach area.

Our judgment of those marinas that would most directly compete with the subject are presented below. These facilities are strictly commercial marinas, without the influences of club membership, or other, non-market issues.

HARBOR TOWER MARINA:

Number of slips:	51
Occupancy:	100%
Time to Harbor Entrance:	45 minutes
Amenities:	Restrooms
Remarks:	Adjacent PCH. Impacted by traffic noise and pollution. Positive adjacency to amenities in Mariner's Mile.

LIDO YACHT ANCHORAGE (BELLPORT):

Number of slips:	265
Occupancy:	100%
Time to Harbor Entrance:	45 minutes
Amenities:	Dock box, showers, and restrooms, free parking.
Remarks:	Adjacent to Lido Peninsula amenities. Includes some very large (>90') slips.

MARINA RENTAL RATES

BAYSHORES MARINA
Newport Beach



Slip Length (Lineal Feet)	Monthly Rent/L.F.
20 Feet	\$34.00
23 Feet	\$34.00
26 Feet	\$34.00
32 Feet	\$41.00
39 Feet	\$47.00
60 Feet	\$69.00
68 Feet	\$70.00
83 Feet	\$73.00

BALBOA MARINA
Newport Beach



Slip Length (Lineal Feet)	Monthly Rent/L.F.
25 Feet	\$34.00
28 Feet	\$39.00
32 Feet	\$41.00
34 Feet ET	\$41.00
36 Feet	\$44.00
40 Feet	\$50.00
50 Feet	\$61.00
58 Feet	\$67.00

BAYSIDE MARINA
Newport Beach



Slip Length (Lineal Feet)	Monthly Rent/L.F.
20 Feet (inside side tie)	\$27.00
20 Feet (outside side tie)	\$33.00
22 Feet (side tie)	\$33.00
30 Feet	\$43.00
35 Feet	\$45.00
42 Feet	\$57.00
45 Feet	\$60.00
48 Feet ET	\$63.00
60 Feet	\$67.00
65 Feet	\$72.00
74 Feet	\$76.00

MARKET ANALYSIS AND HIGHEST AND BEST USE – continued

VILLA COVE MARINA:

Number of slips:	40
Occupancy:	100%
Time to Harbor Entrance:	20 - 35 minutes (power – sail)
Amenities:	Dock box, showers, and restrooms, free parking.
Remarks:	Adjacent to Balboa Island amenities. West side of bridge, so longer travel time to harbor entrance if sail.

BAYSHORES MARINA:

Number of slips:	134
Occupancy:	100%
Time to Harbor Entrance:	30 minutes
Amenities:	Dock box, showers, and restrooms, free parking. Basic but well maintained.
Remarks:	Located in gated community. Off-site amenities not within walking distance.

BALBOA MARINA:

Number of slips:	132
Occupancy:	100%
Time to Harbor Entrance:	25 - 35 minutes (power – sail)
Amenities:	Dock box, showers, and restrooms, free parking.
Remarks:	Adjacent to PCH Bridge/ Linda Isle. Airport over flight.

MARINA RENTAL RATES

BALBOA YACHT BASIN		
Newport Beach	Slip Length (Lineal Feet)	Monthly Rent/L.F.
	20	\$21.44
	25	\$23.15
	31	\$26.51
	32	\$27.00
	34	\$29.05
	35	\$29.93
	37	\$29.93
	40	\$31.79
	45	\$34.23
	50	\$40.10
	60	\$42.22
	75	\$44.99

NEWPORT DUNES RESORT MARINA		
Newport Beach	Slip Length (Lineal Feet)	Monthly Rent/L.F.
	Under 29'	\$25.00
	30' to 33'	\$29.00
	34' to 39'	\$34.00
	40' to 45'	\$42.00
	Over 46'	\$48.00

DEANZA BAYSIDE VILLAGE MARINA		
Newport Beach	Slip Length (Lineal Feet)	Monthly Rent/L.F.
	Under 20'	\$21.00
	20' to 24'	\$21.00
	25' to 29'	\$20.00
	30' to 32'	\$25.00
	33' to 39'	\$26.00
	40' to 45'	\$32.00
	46' to 50'	\$35.00
	Super Slips	\$35.00
	Dbl Loaders	\$38.00

MARKET ANALYSIS AND HIGHEST AND BEST USE – continued

BAYSIDE MARINA:

Number of slips:	102
Occupancy:	100%
Time to Harbor Entrance:	10-15 minutes
Amenities:	Dock box, showers, restrooms, free parking.
Remarks:	Good street access, close to Balboa Island amenities.

BALBOA YACHT BASIN:

Number of slips:	173
Occupancy:	100%
Time to Harbor Entrance:	20 - 35 minutes (power – sail)
Amenities:	Dock box, showers, and restrooms, free parking.
Remarks:	Good land access, adjacent marine supply store and boatyard. City owned and operated. Bridge forces longer journey to harbor opening for sail and many powerboats.

NEWPORT DUNES RESORT MARINA:

Number of slips:	450
Occupancy:	95%
Time to Harbor Entrance:	40 minutes (must pass under bridge)
Amenities:	Dock box, showers, and restrooms, free parking.
Remarks:	Clubhouse, pool/spa, boat launch, dry storage and wash rack. Good parking and security. Major negative influence of being inland of the bridge.

MARINA RENTAL RATES

LIDO MARINA VILLAGE

Newport Beach



Slip Length (Lineal Feet) Monthly Rent/L.F.

30 to 39 Feet	\$35.00
40 to 49 Feet	\$38.00
50 to 59 Feet	\$41.00
60 Feet & Over	\$45.00

ARDELL

Newport Beach



Slip Length (Lineal Feet) Monthly Rent/L.F.

20' to 29'	\$26.50
30' to 39'	\$30.00
40' to 49'	\$34 to \$38
50' to 60'	\$39.00
Over 60'	\$42.00

DEANZA BAYSIDE VILLAGE MARINA:

Number of slips:	220
Occupancy:	95%
Time to Harbor Entrance:	40 minutes (must pass under bridge)
Amenities:	Dock box, showers, and restrooms, free parking.
Remarks:	Limited amenities, standard features. Inland side of bridge.

LIDO MARINA VILLAGE

Number of slips:	60
Occupancy:	N. A.
Time to Harbor Entrance:	45 minutes
Amenities:	Restrooms, showers, parking in multi-story structure at tenant's expense.
Remarks:	With 100 feet pierhead lines, marina includes four 100-foot cruise ships, one 80-foot cruise ship, 21 spaces exceeding 50 feet in length. Various lagoon slips. Dock and pier in poor condition. Close to restaurants, theater and retail.

ARDELL MARINA

Number of slips:	53
Occupancy:	100%
Time to Harbor Entrance:	30 minutes
Amenities:	Dock boxes, restrooms, free parking. Well landscaped.
Remarks:	Attractive, well-maintained slips and uplands. Close to many restaurants, retail and marina shops.

Residual Demand:

Our investigation indicates that there has been an improvement in the marina business over the last year or so. This has been reflected in higher slip rentals and lower vacancies. Many of the larger marinas report near-full occupancies while smaller facilities and the Back Bay marinas still have space available.

The following table describes the slip rate change for a 40' to 49' foot slip over the last three years.

Marina	2012 Rate	2015 Rate
Harbor Tower	\$37.00	\$37.00
Lido Yacht Anchorage	\$31.50	\$37.00
Villa Cove (45')	\$39.00	\$51.00
Bayshores (60')	\$53.40	\$69.00
Balboa Marina	\$47.80	\$50.00
Balboa Yacht Basin	\$26.71	\$34.23
Ardell Marina	\$32.50 - \$36.00	\$34.00 - \$38.00

As a further measure of the current trend of slip rental demand we have been able to interview operators and/or examine confidential slip rental revenue information of their operations for the last three years.

However, it is important to recall that only a few years ago vacancies up to 10% existed and some boat owners were moving to other harbors with more favorable slip rates. Further, reported vacancy rates may not truly measure the losses due to credit matters that may arise.

For this study, it was important to form an opinion of a stabilized basis of slip rates and vacancy/credit losses that would be consistent with the analyses of well informed lessee, marina owner or investor, who is evaluating the investment over a longer term.

Subject Capture:

As an unimproved tidelands site with assumed access to the adjacent uplands, the subject property is available for development to a commercial marina facility that could be most efficiently designed to meet prevailing market demands. The following highest and best use section will set out our analysis leading to our conclusion of the configuration of the marina which, in our opinion, would be the maximally productive utilization of the subject site for marina purposes.

From our review of the data and interviews with well-informed persons involved in the commercial marina industry, it appears reasonable that a well-informed lessee at the subject property would anticipate an occupancy rate of 95% as of the date of value.

As will be seen further on, we used a 95% occupancy rate at the subject property in our valuation analyses.

Highest and Best Use – Defined:

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

(Source: The Appraisal of Real Estate, 14th Edition, Appraisal Institute)

Highest and best use is appropriately analyzed through the filter of the four following criteria:

Physically Possible:

The subject property's overall size and dimensions must be of sufficient magnitude to accommodate the proposed use. For improved properties, the size, design, and condition of the structure must be able to accommodate the use without unjustified expense.

Legally Permissible:

The proposed use must conform to existing land use regulations such as general plan designation, zoning ordinances, environmental restrictions, building codes, or other governmental regulations. The use must also be compatible with private limitations such as deed restrictions, easements, leases, and any Covenants, Conditions and Restrictions (CC&R's), if applicable.

Financially Feasible:

Uses that first meet the above criteria of physically possible and legally permissible are then tested for financial feasibility. Uses that are expected to produce a positive return are considered financially feasible. A positive return is generated when income exceeds the amount required to pay operating expenses, financial obligations, and capital amortization expenses.

Maximally Productive:

The highest and best use is that financially feasible use, which is both physically possible and legally permissible, and which produces the highest value as of the effective date of the appraisal.

Highest and Best Use – Independent Site:

The highest and best use of the subject tidelands, *as an independent site*, is severely restricted by its lack of access to the uplands for support of any commercial use. It would be available for swimming, boating, or fishing as an extension of the main channels in Newport Harbor. The tidelands could potentially be used for offshore moorings;

however, lack of uplands parking, restrooms, and dinghy launching facilities would present problems of approval from local citizens' groups and certain regulatory agencies. Therefore, as an independent site, the subject property is considered to be of limited economic value.

Accordingly, its highest and best use is considered to be *in joinder* with the adjacent uplands to create an integrated unit that could be developed to a commercial marina. Because the subject does not possess the property right of joinder with the adjacent uplands, it is an *extraordinary assumption* of this appraisal that it has obtained rights of joinder and can be developed to a commercial marina consistent with prevailing development standards of the affected regulatory agencies, the physical characteristics of the site, and with current market forces.

Highest and Best Use of the Tidelands *In Joinder*, as Though Vacant:

The purpose of this study was to determine what, given a vacant tidelands site, the appropriate marina configuration would be that would yield the greatest return, considering factors such as slip size, potential rent, and vacancy.

In order to perform this analysis, the following matters had to be investigated and considered:

1. Determine the total lineal slip length potential of the subject tidelands based upon empirical water area per lineal foot rates established within other marinas within the harbor.
2. Estimate number of potential slips from empirical water area per slip ratios.
3. Estimate the maximally productive mix of slip sizes (marina configuration) based upon physical constraints, empirical evidence, and market demand.
4. Compute the upland land area requirement based on 0.60 parking spaces per slip plus area for restrooms, showers and other marina support amenities.

As indicated previously, we performed a survey of the existing marinas in Newport Harbor with 30 or more slips. Some examples of water and improvement area allocations within these data are as follows:

Bahia Corinthian Yacht Club – new marina 1993

Water Area:	87,325 sq. ft.
79 Slips:	1,105 sq. ft. water area per slip
3,017 lineal feet:	38.2 lineal feet per slip
Water area/ lineal foot:	28.9 sq. ft.

Balboa Marina:

This marina facility was recently upgraded. The total number of slips was reduced from with 132 spaces to 105 spaces in order to accommodate increased boat beams and handicap mandated improvements.

Water Area:	122,000± sq. ft.
105 Slips:	1,162 sq. ft. water area per slip
3,486 lineal feet:	33.2 lineal feet per slip
Water area/ lineal foot:	35.0 sq. ft.

Bayside Marina:

Water Area:	129,000 sq. ft.
102 Slips:	1,265 sq. ft. water area per slip
3,732 lineal feet:	36.6 lineal feet per slip
Water area/ lineal foot:	34.6 sq. ft.

Ardell Marina:

Water Area:	56,000 sq. ft. (tidelands), 84,746 gross (includes water area in fee interest)
53 Slips:	1,599 sq. ft. gross water area/slip
2,544 lineal feet:	48 lineal feet per slip
Water area/ lineal foot:	33.31 sq. ft.

Villa Cove Marina:

Water Area: 49,080 sq. ft.
 42 Slips: 1,169 sq. ft. water area per slip
 1,438 lineal feet: 34.2 lineal feet per slip
 Water area/ lineal foot: 34.1 sq. ft.

As a result of these analyses we formed the opinion that a well-informed lessee of the subject representative tidelands parcel, under the extraordinary assumption of joinder with the uplands, would consider the following marina configuration reflective of the highest and best use of the parcel given the physical characteristics of the site, prevailing land use regulations and market demand.

U.S. Bulkhead Line Length: 700 Feet

U.S. Pierhead Line Depth: 80 Feet

Total Tidelands Area: 56,000 Square Feet

Subject Marina Configuration

Size of Slips	Number of Slips	Total Lineal Feet
Up to 20'	4	72
20' to 29'	6	150
30' to 39'	12	420
40' to 49'	15	638
50' to 59'	5	270
60' and Larger	3	195
Totals	45	1,745

Water Area: 56,000 sq. ft.
 45 Slips: 1,244 sq. ft. water area per slip
 1,745 lineal feet: 38.8 lineal feet per slip
 Water area/ lineal foot: 32.1 sq. ft.

This opinion of the highest and best use configuration of the subject tidelands carries with it an implicit uplands land area requirement to support the marina operation. As set out in the discussion of parking

requirements presented earlier, it is our judgment that a well-informed lessee of subject tidelands would anticipate that there is a reasonable probability that the current City of Newport Beach zoning code parking ratio requirement of 0.75 parking spaces per slip could be reduced to 0.60 spaces per slip. This is consistent with approvals in a variety of jurisdictions through the State.

Therefore, under the highest and best use marina configuration presented above, the uplands land area requirement can be computed as follows:

45 slips x 0.60 = 27 parking spaces required

27 parking spaces @ 350 sq. ft./ space =	9,450 sq. ft.
Bathrooms, showers, office =	<u>550 sq. ft.</u>
Total uplands land area required:	10,000 sq. ft.

Highest and Best Use as Improved:

The subject is considered to be a vacant tidelands parcel with no improvements.

VALUATION

Introduction:

Newport Harbor is unusual in the Southern California region in that the supporting uplands of nearly all its marinas are held by private owners, while the tidelands are vested in public entities. Further, because of the limited supply of waterfront property in the dynamic Newport Beach real estate market, the value of the supporting uplands is considerable.

The property that is the subject of this market rent valuation analysis is an independent, vacant tidelands parcel. As an independent site, it has no rights of access to the uplands for utilities or marina-supporting land uses such as parking, restrooms and showers. As has been discussed previously, in order to develop a meaningful analysis of the market rent of the subject tidelands as dedicated to commercial marina use, we have invoked the *extraordinary assumption* that this vacant tidelands site has joinder with the adjacent uplands and/or reasonably proximate uplands in order to satisfy the needs of parking, restrooms and other support facilities for the marina tenants. This assumption implies that the uplands owner and tidelands owner have reached a negotiated agreement as to the terms of the collaboration of their two property interests.

It is recognized that there are existing marinas in Newport Harbor that don't meet the development standards of the City of Newport Beach Municipal Code in terms of fulfilling the uplands requirement to support a commercial marina use. As stated previously, this analysis does not address the specific circumstances of any particular marina that may have been "grandfathered in" to a legal non-conforming use. Rather, this valuation considers what is legally permitted (and required) in the current regulatory environment. In our judgment, basing our analysis on the highest legal utility of the subject is the most balanced measure of determining market rental value for the tidelands.

Accordingly, assuming an open market context, the economic motivations for and implications of the joinder of uplands and tidelands necessary for an integrated commercial marina operation in Newport Harbor must be investigated from the perspective of both the uplands owner and the tidelands owner. This process begins with an understanding of the value of each as independent sites.

As the following pages will show, the value (and anticipated annual return) of the uplands as an independent site dramatically exceeds that of the tidelands as an independent site. It is one of the key tenets of highest and best use that the well-informed owner of a property will seek the maximally productive use of his property. Therefore, it is implicit in any well-informed joinder of properties that both parties should benefit by this joinder in the form of an enhancement on their annual return as independent sites. If either of the properties did not benefit by the joinder, there would be no motivation for that property to engage in joinder.

The unique set of circumstances pertaining to this particular assignment creates interdependence between a specific independent tidelands owner and an equally specific adjacent uplands owner. This interrelationship between parties is termed a *bilateral monopoly* (as defined earlier). If the joinder of two properties creates an increment in value that is greater than the sum of the two parts as independent sites, then the allocation of that increment becomes the reasonable nexus of negotiations between the parties.

This appraisal will use various approaches to explore the basis of that enhancement in forming an opinion of market rent for the subject tidelands as considered in joinder with the adjacent uplands.

Because the vast majority of the tidelands leases in Southern California are by jurisdictions that control both land and water, there is a limited supply of tidelands-only rental data. We will discuss the pertinent data available and analyze the relevance of each item as true open market indicators and their appropriateness in shedding light on market rent for the subject.

We will also investigate the economic implications of joinder for both parties, measure the enhancement created by joinder, and analyze the various criteria upon which an allocation of that enhancement between the uplands and tidelands parcels can reasonably be made.

Finally, we will analyze the indications developed from the various approaches to subject market rent and reconcile them to a final value conclusion based upon the relative reliability of each approach. This will be

expressed as a percentage of effective gross income and on an annual price per square foot basis.

Market Data Approach:

The subject tidelands are held in fee interest by the State of California, in Trust to the City of Newport Beach. Accordingly, the benchmark standards of lease rates used by the California State Lands Commission (CSLC), which has ultimate oversight over State-owned real estate, should appropriately be considered in this analysis.

On December 5, 2011, the CSLC issued an update of their 2005 benchmark General Lease – Recreational Use for Southern California. This General Lease was intended to be primarily applied to privately owned docks and piers and other mooring related facilities. Because these privately owned facilities offer amenities similar to commercial marinas, the “Principle of Substitution”¹ was invoked as the basis for setting this rent. This widely accepted appraisal methodology considers a “fair return and fair rental value” to be measured by what an individual would pay at “a comparable site in a commercial marina.”

The state collected data from 53 commercial marinas in Southern California and compiled an average slip size and rate. The annual tidelands rent rate was then computed utilizing a 5% annual rate of return times the average slip rental income, then dividing by the average slip size to yield the rental rate per square foot.

Further information on relative tideland percentage rental rates was obtained from a paper “Corporation Files for the Use of State Owned Submerged Lands by Commercial Marinas (MASGP-09-008-06). This report, dated May 4, 2009, was prepared by the National Sea Grant Law Center of the University of Mississippi. It provided a nation-wide survey of the “comparative fees for the use of state-owned submerged land by commercial marinas” that focused on eight coastal states.

¹ The Principle of Substitution states that when several similar or commensurate commodities, goods, or services are available, the one with the lowest price attracts the greatest demand and widest distribution. *The Appraisal of Real Estate*, 14th Edition.

In the section applicable to the State of California (paragraph 4, page 2) the following was reported:

“To determine the minimum annual rent for new commercial marinas, the California State Lands Commission (CSLC) multiplies a projected gross income by a rental percentage to determine the minimum annual rent that will be charged. The CSLC typically charges 5-7% of gross income for boat berthing for sites leased to commercial marina operators, with most of the leases set at 5% of gross income.”

Accordingly, these empirical data sources indicated a range of 5% to 7% of gross income as a basis for determining appropriate rent for State-owned submerged land (tidelands).

Indicated Tidelands Rental Rent as Percent of Gross Income
State of California

5% - 7%

As discussed above, our search for market data of directly comparable leases of tidelands only (as distinct from tidelands and uplands together) for marina use revealed only a limited number of potential data items throughout all of Southern California. According to the records of the Department of Boating and Waterways, a state agency, less than 10% of the berthing spaces in Southern California involve privately owned uplands. Most of these privately owned marinas are in Newport Harbor.

Our investigations uncovered only six leases that were potentially comparable to the subject for meaningful analysis. Three of these were in Newport Harbor, two in San Diego, and one in Huntington Harbor. In our judgment, two of the leases in Newport Harbor did not represent open market transactions, as defined by the criteria wherein each party was “acting prudently and knowledgeably, and assuming the price was unaffected by undue stimulus.”² We will provide a short discussion of each

² Definition of Market Value: *The Dictionary of Real Estate Appraisal*, Sixth Edition.

of the leases to be followed by analysis. We will begin with the three leases in Newport Harbor.

Bahia Corinthian Yacht Club:

Date:	May 7, 1998
Term:	35 Years – New Lease
Area of Tidelands:	76,550 Square Feet
Rental:	9% of Gross Slip Rental

This was a new lease when written and was based upon an appraisal prepared by an independent appraiser (George Hamilton Jones, MAI). The lessor was the City of Newport Beach and the lessee was the Bahia Corinthian Yacht Club. It is considered an open market transaction with neither lessor nor lessee affected by undue stimulus.

Bayshores Marina:

Date:	December 7, 2004
Term:	20 Years with Option
Area of Tidelands:	2.297 AC – 100,057 Square Feet
Rental:	20% of Gross Slip Rental

This lease agreement is an outgrowth of an original lease, which was entered into in 1974, between the County of Orange as lessor and The Irvine Company as lessee. One of the undersigned, George Hamilton Jones, MAI, has personal knowledge regarding the terms of the original lease. In that agreement, rental value was based upon a formula, expressed as percentage rent, which was to be adjusted to account for increasing upland values. It has been reported to this office that there was confusion in implementing these adjustments. As a consequence, by failing to make the appropriate adjustments for increases in land value, the inflationary increases in effective gross rental income (increasing slip rental rates) over time resulted in ever increasing percentage rental rates for the tidelands.³

³ All other elements being equal, a decrease in uplands value results in an increase in indicated percentage rent to the tidelands. Likewise, an increase in uplands land value results in a lower indication in percentage rent for the tidelands. Therefore, if rental rates rise, without a corresponding adjustment of uplands land value, the result is in an increase in residual percentage to the tidelands.

It has been reported that the 20% figure was reached through this misunderstanding and had no basis arising from independent analysis or reference to supporting market evidence. Our interviews with involved parties indicated that when the new (2004) lease was entered into, no independent appraisal was performed to establish market rent and the prevailing rate of 20% was simply continued.

In our judgment, this transaction does not represent an open market exchange for several reasons. First, there was no independent appraisal undertaken to provide an unbiased opinion of market rent. Second, the lessee had a large capital investment in an operating marina, which it could not readily walk away from, for both economic reasons and the fact that it had an obligation to serve existing tenants.

Finally, the lessee was California Recreation Company, a subsidiary of The Irvine Company, which is a very large property owner with a wide range of business and property interests throughout the Orange County community. This marina is a small part of a very large operation. Therefore, this is considered to be a special buyer/lessee, not reflective of the market generally.

The uplands property was purchased in excess of fifty years prior to entering the lease, and it has been essentially dedicated to marina support use. Because of the nominal effective investment in land for this particular lessee, the economic considerations of the lessee are not comparable to those of a well-informed owner of vacant land at the date of value seeking to develop that land to its highest and best use. In essence, the lessee was not “typically motivated” per the definition of market value.

As an illustration, it is noted that after the time of this 2004 lease extension at Bayshores, the County of Orange entered into a lease amendment with the Dunes Marina in August 2009 for *both tidelands and uplands in joinder* at 25% of gross slip revenue. This transaction supports the 25% benchmark for land and water combined as seen throughout the Southern California region. However, in the Bayshores context, after paying 20% of the marina revenue for the tidelands rental, it would leave only 5% of the gross revenue as the return on 32,000± square feet (282 waterfront feet and five legal lots) of very high-end residential property that has been dedicated to upland parking area to support the marina.

VALUATION – continued

To place this in an economic context, waterfront residential property of this size and at this location in Bayshores would, based on our extensive review of comparable market data, sell at a minimum of \$750 per square foot of land. This reflects at total value on the order of \$24,000,000 for these 32,000 square feet of uplands that are used to support the marina.

After a survey of the prevailing market-level slip rates and occupancy rates, the gross revenue from the marina operation at Bayshores was estimated to be on the order of \$2,000,000. The 5% return of that amount, which would be directed to the uplands (after 20% is given to the tidelands: 25% - 20% = 5%), is estimated to be approximately \$100,000.

Based on the \$24,000,000 land value, a 0.42% return to the uplands results. A minimal return of this nature is, in our judgment, neither reasonable nor consistent with the expectations of well-informed investors in an open market context.

For the above reasons this lease transaction was judged not to meet the standards of a “competitive and open market” and was given nominal weight in this analysis.

Swales Anchorage

Date of Lease:	November 25, 2011
Term:	3-Year Interim Lease
Area of Tidelands:	1.15 AC – 50,094 Square Feet
Rental:	\$6,000 per Month

These tidelands were originally leased from the County of Orange to the Farwell Family, which was leasing the uplands from The Irvine Company, in 1971.

When the County raised the percentage rent to 20% without any supporting analysis or appraisal being made, Mr. Farwell actively challenged this level of rent; however, there was no established forum or court for seeking adjudication by any third party entity. Lessee’s attorney, Mr. Don Adkinson, sought a hearing in which expert testimony providing an independent opinion of market rent could be presented to the County Board of Supervisors for their consideration. This request was denied.

With no other legal recourse available, the Farwell Family had no option but to accept the rent terms. Prior interviews with the principal lessee and his counsel indicated these circumstances created substantial economic hardships that had negative long-term consequences. The 1991 revaluation, which set the rent at 20% of the gross income, is not considered to have had a willing lessee nor was it, in our judgment, reflective of an “open and competitive market.”

The lease at Swales Anchorage is between the County of Orange and Palmo Investments as lessee. It was an interim lease with a three-year term, commencing July 1, 2011. The rent was a flat rate of \$6,000 per month and not directly based upon a percentage rent; however, it does represent 20% of the estimated gross revenue. The tenant is challenging the ownership of the tidelands by the County.

An August 27, 2015 interview with the lessee (Palmo Investment) indicated that the lease remains on a temporary basis. The lessee is in the process of dredging, sea wall repair and marina improvement upgrades. Negotiation as to a new lease is progressing.

Because of the conditions of the 1991 revaluation, with an unwilling lessee who sought to challenge the 20% rent terms but could not have the matter heard for independent adjudication (as is the case in other jurisdictions), and the interim nature of the current lease agreement which is based on a flat monthly rate and is concurrently being contested, this is not judged to be an transaction that occurred in an “open and competitive market” with a lessee in circumstances anywhere analogous to having a vacant site available for its highest and best use. Thus, it is not judged to be an open market data item and is given nominal consideration in the market rent analysis.

Sunset Aquatic Marina

Date of Lease:	January 1, 2000
Term:	40 years
Area of Tidelands:	A tidelands portion of substantially larger (50± acres) Sunset Aquatic Marina project
Rental:	8.5% of gross revenue generated from boat berthing.
Lease No.:	PRC 4076.1

This marina is located in the westerly portion of Huntington Harbor adjacent to Anaheim Bay in Seal Beach. Access to the open ocean is from Anaheim Bay. This is part of the much larger Sunset Aquatic Marina, which includes a wide range of water-oriented recreational activities and services. In addition to the commercial marina, these uses include a launch ramp, dry storage, RV storage, parks, and an on-site shipyard. The lease was of the tidelands-only, for 40 years with the State of California as lessor and County of Orange as lessee. The rent is 8.5% of the gross revenue generated from marina berthing.

Glorietta Bay Marina

Date of Lease:	July 1, 2012
Term:	40 years
Area of Tidelands:	144,555 sq. ft. / 3.32 ac. of tidelands only
Rental:	11.0% of gross revenue generated from slip rental with a three-year build-up at \$11,616 per year to a \$95,000 per year minimum against the 11% of the gross.

This forty-year lease agreement is of the tidelands only portion of the Glorietta Bay Marina. The tidelands are occupied by a 100-slip marina at a density of approximately 1,400 square feet per slip. It has a total water area of approximately 3.32 acres. Because the tidelands area made up approximately 50% of the total marina area, the San Diego Unified Port District prorated the Board-adopted rate of 22% (for land and water) at 50% to obtain the 11% for the tidelands alone.

The lease was adopted at the San Diego Unified Port District Board Meeting August 14, 2012, and was verified as being operative at 11% of the gross by Jerome Torres, City of Coronado (8/25/15) and Ryan Donald, San Diego Port District (8/18/15).

Coronado Yacht Club

At the time of an earlier tidelands appraisal performed by this office, August 2012, the San Diego Port District and the Coronado Yacht Club (1631 Strand Way) were considering entering into an expansion of its existing land and water lease, which included a 264-slip marina within

Summary of Tideland Lease Data

Marina	Location	Date	Percent of Slip Rental	Comments
State Land Commission Benchmark Return	State Tidelands	12/11/11	5% - 7%	Source: Return of Commercial Marina Tidelands as Percent of Slip Income 2011 Benchmark Report and the University of Mississippi National Sea Grant Law Center Survey.
Bahia Corinthian Yacht Club	Newport Beach	5/7/98	9%	New lease with 35-year term.
Bayshores Marina	Newport Beach	12/7/04	20%	20-year term. Not considered open-market.
Swales Anchorage	Newport Beach	11/25/11	\$6,000 per month	3-year term. Old lease expired. Under negotiations.
Sunset Harbor Marina	Huntington Harbor	1/1/00	8.50%	40-year term with State/County.
Glorietta Bay Marina	San Diego	7/1/12	11%	40 years.
Coronado Yacht Club	Coronado	2012	8.5% to 11%	Lease rental rate terms agreed to but proposed expansion of marina withdrawn due to Coastal Commission public access issues.

10.35± acres of tidelands. The proposed increase of the facility was to add 108 new slips. The additional tidelands were to be leased by the Port District and subleased to the Yacht Club. It was reported that the tidelands would have a lease rate of 8.25% of slip rental stepping up to 11% over several years.

Our review of the negotiations as of August 20, 2015, indicated that the Yacht Club had withdrawn its application for expansion due to issues related to the California Coastal Commission's requirements for public access impacting improvement design. Therefore, while the deal was not consummated, negotiated terms of 8.25% to 11.0% were indicated.

Reconciliation – Market Data Approach:

On the facing page is a panorama of the percentage rents market data considered helpful in forming an opinion of market rent for the subject tidelands based on the market data approach.

These data, which involve tidelands only, reflect a lower end limit of 5% of gross slip rental income. This is the CSLC Benchmark and is a minimum amount, based on the principle of substitution, wherein the rental rate “with the lowest price will attract the greatest demand.” Information indicated that a 7% rate was also used at times by the CSLC. The balance of the other Southern California market-based tidelands-only lease rates ranged from 8.25% to 11.0% of gross slip rental income.

The Orange County tidelands leases of Bayshores and Swales (now expired) were at a percentage rate more than double the other data. They were both known to have had unusual circumstances that impacted the setting of the rate. Further, the fact that there was no independent analysis that would support these higher rates, led us to the conclusion that they did not meet the standards of an open market as defined by agencies that regulate federally insured financial institutions in the United States and by the Appraisal Institute⁴, the standard of market rent as defined by The Appraisal Institute, and California Code of Civil Procedure (1263.320). Accordingly, they were not given weight in our reconciliation of the market data indications.

⁴ *The Appraisal of Real Estate*, The Appraisal Institute, 14th Edition, pg. 58.

Because there is such a limited amount of tidelands-only market available that can be considered directly comparable to the subject, we provide this information as one prism through which to view the empirical data leading to a market rent conclusion. In our judgment, an economic analysis, which is sensitive to the specific characteristics of the subject property, will also be necessary to fulfill the objective of this assignment.

This market data approach, then, provides a framework in which to investigate the economic characteristics of the subject tidelands within the context of Newport Harbor, and all the surrounding influences, including real estate values, associated therewith.

Accordingly, the market data approach provides a wide range of indications of market rent from 5.0% and 11.0% of gross slip rental. These will be borne in mind as we undertake further economic analyses.

Market Data Approach Indication

Rent as a Percentage of Gross Income: 5.0% to 11.0%

Economic Approach:

In order to undertake an economic analysis of the appropriate market rent for the tidelands in joinder with the adjacent uplands, it is necessary to first analyze the market rent for each parcel as independent sites. This step is required to provide a basis for judging whether joinder is, in fact, the highest and best use for each property. This, in turn, will provide an indication of the level of return in joinder that it would be reasonable for each property to expect to warrant the act of joinder and all that is attendant to such a commitment.

The Tidelands As an Independent Site

As was discussed in the Highest and Best Use Section of this report, the subject tidelands as an independent site has limited economic utility because it has no access to the uplands. It could be used for recreational activities such as swimming, boating or fishing, but this would simply be an extension of general harbor uses.

The subject tideland does have potential to generate an offshore mooring fee as an independent site. While its utility for that use may be somewhat constricted by its narrow dimensions (80 feet wide by 700 feet in length) and the need for a public dinghy launching site for access, a review of the City of Newport Beach offshore mooring fee schedule offers an economic measure of the subject tidelands value if put to such a use.

There are 734 offshore moorings in Newport Harbor, broken out into 12 separate fields. Mooring sizes range from 35 to 45 feet in length. The average size is 40 feet. To provide a historical perspective, the following information was investigated⁵:

No. of Moorings:	734
Total Mooring Area (Tidelands):	5,531,803 square feet
Average Tidelands/ Mooring:	7,537 square feet

2013/2014 Revenue:

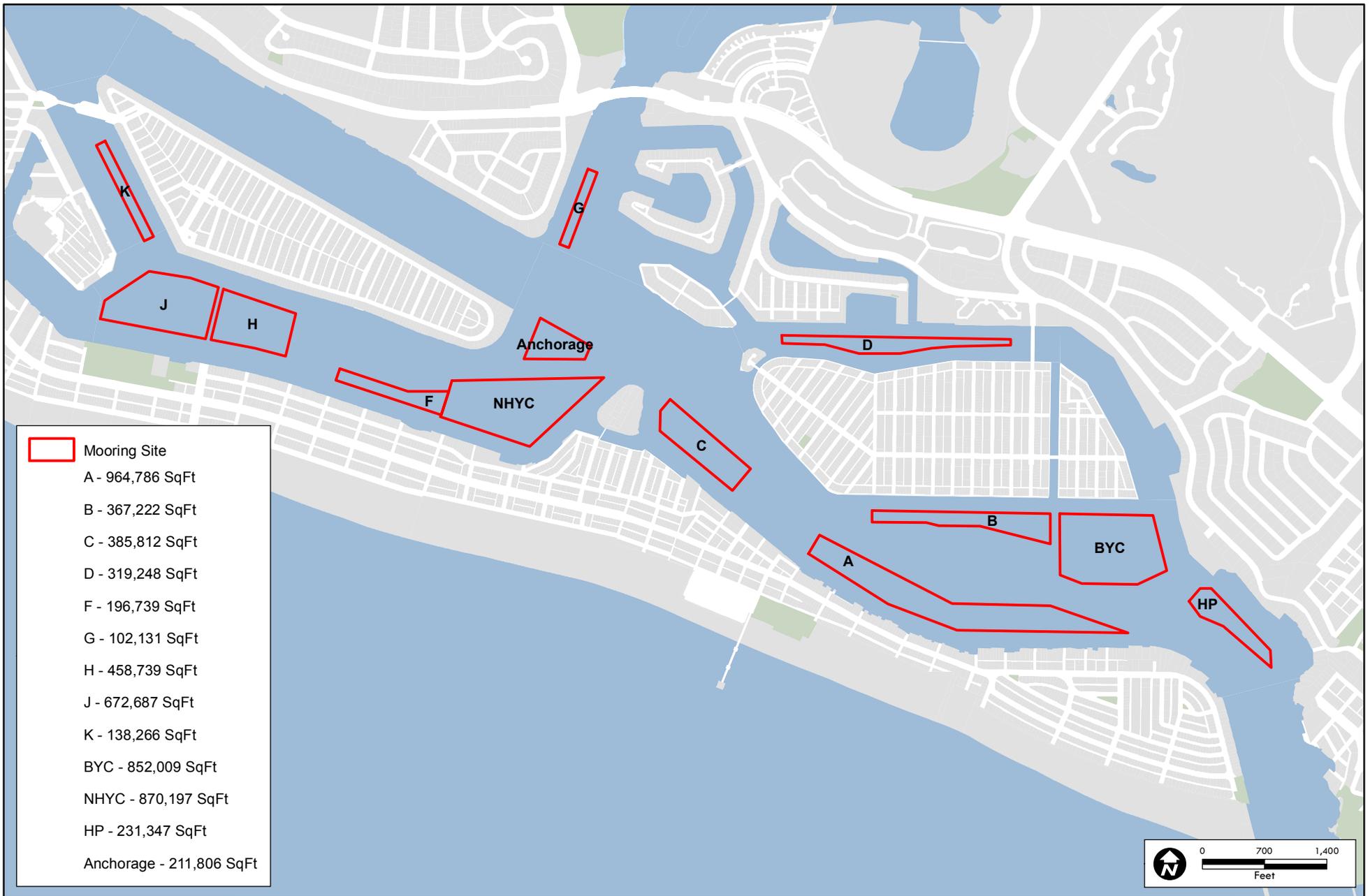
Total Annual Revenue:	\$623,171
Revenue/ Square Foot:	\$0.113
Annual Revenue/ Mooring:	\$849

As the result of a Council Study Session on January 27, 2015, a report called “Harbor Fees, Moorings, Commercial and Residential Piers” was prepared. The rates proposed for 2015 was \$55.43 per lineal foot per year.

However, after a presentation by the Newport Mooring Association at a Harbor Commission meeting on April 7, 2015, a consensus of opinion concluded that the 2015 rate should be reconsidered.

An Appraisal of the Fair Market Rent of Off-Shore and On-Shore Moorings, dated January 6, 2016, was prepared by Netzer & Associates. This report indicated a conclusion of the Fair Market Rent for the Off-Shore

⁵ Source: City of Newport Beach Tide and Submerged Lands Fund Statement of Revenues, Year End June 13, 2014
Chris Miller, Harbor Manager; Sally A. Cooper-Jehangiri



Newport Harbor Mooring Sites



City of Newport Beach
GIS Division
September 30, 2015

Moorings ranging from \$32.00 to \$38.00 per lineal foot of mooring annually.

At a meeting of the City of Newport Beach City Council on January 26, 2016, Resolution No. 2016-17 was passed in which an annual mooring rate of \$35.00 per lineal foot of mooring was adopted. Section 2 of the Resolution indicated that the findings of the City Council were “made by the City Council in its exclusive discretion but are based, in part, on the information in the appraisal of the City-selected appraiser and, in addition, on other testimony and documents in the record for this matter.”

However, there appears to remain some controversy regarding the adoption of this rate.⁶ Therefore, in order to insure a breadth of analysis, we will carry out this study of the revenue potential of the tidelands as an independent site at both the \$35.00 per lineal foot rate, as well as the previously proposed \$55.00 (rounded) per lineal foot rate.

Though larger in total area than the subject, Mooring Fields F and K (opposite page) have a generally analogous shape to the appraised property. Both have 22 moorings. Mooring Field F has an average area per mooring of 8,942 square feet. Mooring Field K has an average area of 6,285 square feet per mooring. The average tidelands area per mooring throughout the harbor, as indicated on the previous page, is just over 7,500 square feet.

An additional density measurement was obtained after an in-depth discussion with Chuck South of South Mooring Company. His firm has extensive experience of serving the installation, relocation and maintenance needs of all the mooring fields in Newport Harbor. His estimate was on the order of 8,000 to 8,500 square feet per mooring.

By employing the area calculations generated from Chuck South’s data and experience, the empirical information of the existing mooring fields in the harbor, as well as other sources, we have concluded that approximately 7,500 square feet of the gross tideland area would be required to serve a 40-foot mooring within subject tidelands.

⁶ Daily Pilot newspaper: <http://www.latimes.com/social/daily-pilot/news/tn-dpt-me-0127-mooring-rates-20160126-story.html>

VALUATION – continued

Application of the two rental rates discussed above yields the following income information for a 40-foot mooring with a total tidelands area of 7,500 square feet:

\$35.00 per lineal foot per year

\$35.00 x 40 lineal feet =	\$1,400 per year
\$1,400 ÷ 7,500 sq. ft. =	\$0.1867 per square foot
Rounded to:	\$0.19 per square foot

\$55.00 per lineal foot per year

\$55.00 x 40 lineal feet =	\$2,200 per year
\$2,200 ÷ 7,500 sq. ft. =	\$0.2933 per square foot
Rounded to:	\$0.29 per square foot

The theoretical subject tidelands site has 56,000 square feet of water area. It follows that if the subject tidelands were put to its highest and best use as an independent site by providing offshore mooring space, it would return approximately \$10,640 to \$16,240 per year.

56,000 s. f. × \$0.19 per s. f. =	\$10,640
56,000 s. f. × \$0.29 per s. f. =	\$16,240

Based upon a capitalization rate of 5%⁷, this represents a range of value for subject tidelands as an independent site from:

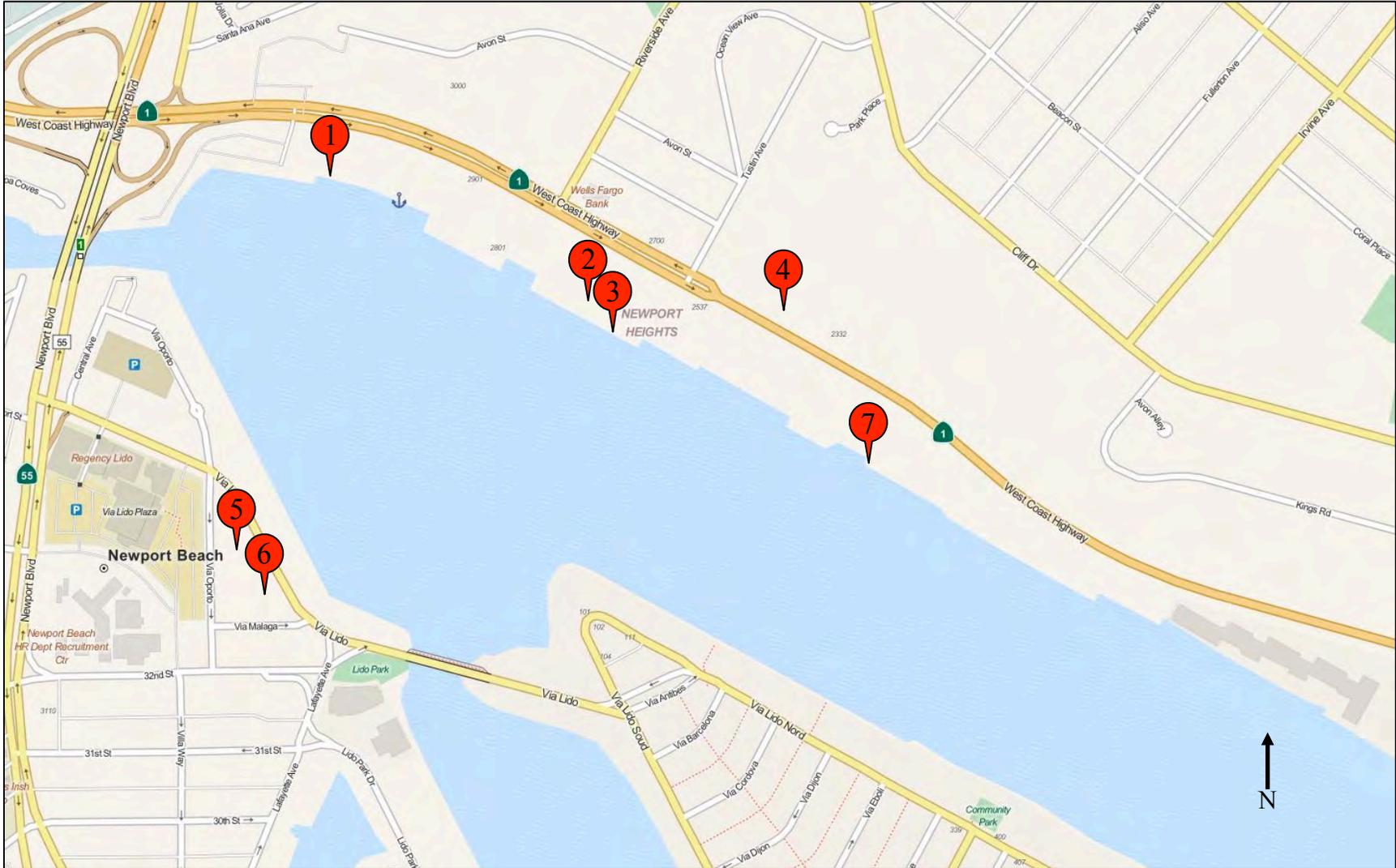
\$10,640 ÷ 0.05 = \$212,800,
or 56,000 square feet at \$3.80 per square foot.

To

⁷ The 5% capitalization rate was chosen to reflect the nature of the proposed income, its risk, prevailing demand in the market, stability, and management as these factors relate to alternative market capitalization rates:

Commercial Mortgage Rate: 5%
Apartment Capitalization Rate: 4-6%
Office Building Capitalization Rate: 5-6%

UPLANDS SALES DATA MAP



VALUATION – continued

$\$16,240 \div 0.05 = \$324,800$,
or 56,000 square feet at \$5.80 per square foot.

Tidelands As An Independent Site: \$212,800 - \$324,800.

Fee Value of The Uplands as An Independent Site

The uplands parcel adjacent to the theoretical tidelands is considered to be vacant land with a zoning of MU-W1 or MU-W2, both of which provide for mixed-use (commercial and residential) and water-related uses. The sales comparison (market data) approach was used to form an opinion of the value of the uplands adjacent to the subject property as a site independent from the tidelands.

Waterfront sites such as these upland properties are considered to have littoral rights of access to the tidelands. The only improvements are the bulkhead, which is the responsibility of the uplands owner to maintain. It should be noted that the littoral rights of the uplands owners do not provide exclusive rights of use to the tidelands. As with any other party, in order to acquire exclusive use of the tidelands they must obtain proper authorization (e.g. leases, permits) from the appropriate public agency.

Four of the seven sales set out on the facing page are situated with frontage on the waterfront. The other three non-waterfront sales are in the sphere of influence of the Harbor. These data were selected from amongst the limited supply of commercial/residential sales in the harbor area because, in our judgment, they were most helpful in shedding light on the value of subject's required upland area.

During our firm's many years of experience of valuing lands within Newport Harbor, we have observed the value relationship between bay-fronting and adjacent non-bay fronting parcels. While these ratios may vary depending upon specific locations and intended land use, the relationships are clear enough to be helpful to study the market indications from both of these classifications to test an opinion of value of either of them.

A comparability analysis of this data relative to the subject uplands was carried out. Adjustments were made for the differences between the sale and the subject for relevant elements of comparison. These included

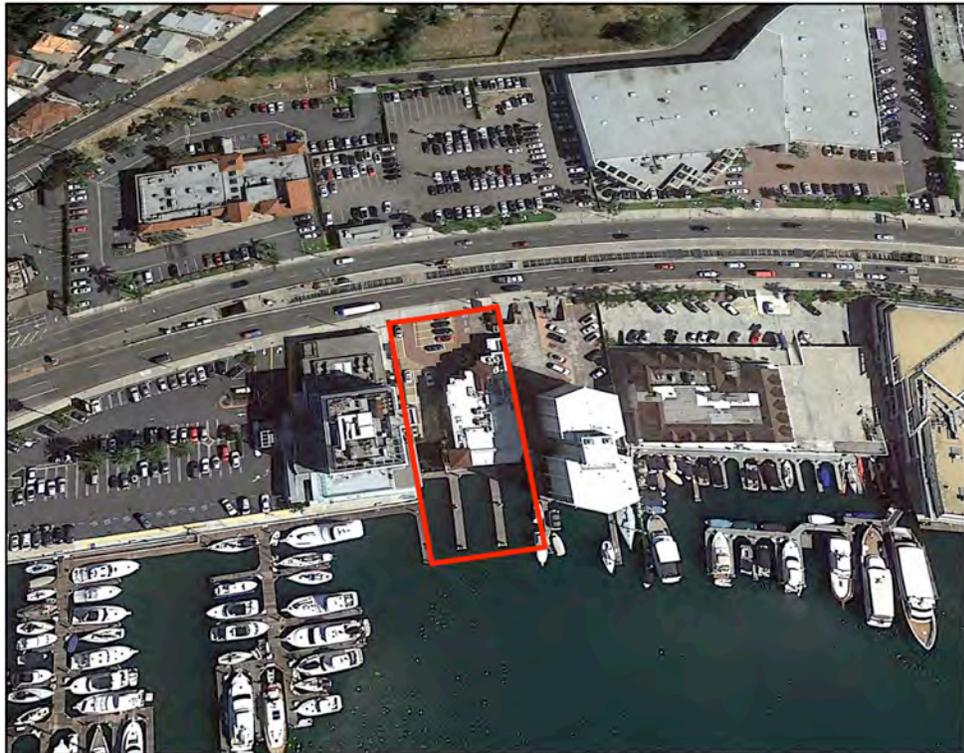
Summary of Pertinent Sales Data

Sale No.	Location APN	Date of Sale Doc. No.	Price	Size Sq. Ft. WFF	Price per Sq. Ft. WFF	Remarks
Waterfront						
1	3131 W. Coast Hwy 049-130-21	4/2/13 198468	\$6,798,000	20,768 ^{Gross} 14,713 ^{eff.} 86.5	\$462.04 \$78,590	Sale included 8,000 s.f. older restaurant substantially reconstructed by buyer. Upland net area to Bulkhead is 14,713 s.f. and 6,055 s.f. private tidelands. 1,075 s.f. of City tidelands.
2	2633 W. Coast Hwy. 049-150-01; 049-130-11	1/18/11 30551	\$5,800,000	23,996 ^{Gross} 18,000 ^{eff.} 100.0	\$322.22 \$58,000	Older restaurant and retail. 20 older slips. Bulkhead recessed 68 feet. 6,000± s.f. of private tidelands with 8,000 s.f. of City tidelands. After adjustment, indicates \$280 p/s.f. for land.
3	2607 W. Coast Hwy 049-150-27	1/14/10 21499	\$8,030,000	27,113 112.99	\$296.17 \$71,068	Crab Shack Restaurant plus 400 lineal feet of side ties - sale 68 months prior to date of value limits reliability as a current value indication.
Non Waterfront						
4	2430 W. Coast Highway 425-471-19	9/29/14 393513	\$4,000,000	26,663	\$150.02	Minor improvements. Prior sale 5/7/12 at \$1,580,000. Size 75 l.f. x 382 ft. Zoned MU MM.
5	Villa and 32nd St. and 3355 Via Lido 047-031-19 & 428-112-03	10/28/11 544538	\$7,262,500	47,916	\$151.57	Two parcels - residential and minor commercial. Major demolition of multi-story office building. Zoned RM, CV0.5, M6 CV.
6	3303 Via Lido 423-112-02	12/10/12 763662	\$2,500,000	17,424	\$143.48	Prior Christian Science Church requires demolition. Zoned RM/Multi/Residential from P.I. (Private Institution).
Ardell's						
7	2101 W. Coast Highway 049-150-26+	1/5/16 2793	\$71,700,000	N/A	N/A	Including 3.0 ± acre waterfront parcel, 4.0 ± acre inland parcel and marina.

VALUATION – continued

date of sale (trend), location, size, shape, zoning, and improvement contribution. The inland data were considered useful as lower limit indicators and to note the ratio of value of bay front lands to neighboring non-waterfront parcels.

Waterfront Sales Data:



Sale 1: 3131 West Coast Highway, Newport Beach
Sold 4/2/13; 14,713 effective sq. ft. @ \$462 / sq. ft.

Sale 1 has total gross fee area of 20,768 square feet, with 86.5 feet of frontage on the bay and a total depth of 240 feet. However, 6,055 square feet of this fee area is in tidelands. This results in an effective land area of 14,713 square feet, with a depth from the bulkhead to the street of 170 feet. There are 1,075 square feet of City tidelands in the marina water area.

Sale 1 was improved with an old 8,000 square foot restaurant building (Villa Nova Restaurant). The new buyer has extensively reconstructed the restaurant buildings.

VALUATION – continued

Adjustments downward were made for sale conditions, contributions to value of restaurant structure, the docks, and the private tidelands within the fee area. An upward adjustment was indicated for trend. After analyzing all these elements, a price indicating the market value of the subject uplands on the order of \$335 per square foot resulted.



Sale 2: 2633 West Coast Highway, Newport Beach
Sold 1/18/11; 18,000 effective sq. ft. @ \$322 / sq. ft.

Sale 2 is a Mariners Mile site in the mixed-use zone. The gross area is 24,000± square feet with 6,000± square feet of fee water area. The land was unencumbered by leases at the date of sale. There is an additional 8,000 square feet of City tidelands with a total of 20 to 21 older slips. The commercial improvements are in excess of 50 years of age and are of below average construction quality.

The recent mixed-use zoning enhanced marketability. The buyer also acquired the adjacent parcel, Sale 3. A downward adjustment was made for the interim contribution of the older retail/commercial building and dock improvements. This sale

occurred 55 months prior to the date of value of this report. Therefore, an upward adjustment for market trend is warranted. In our opinion, this sale reflects a value of subject at date of value at \$315 per square foot.



Sale 3: 2607 West Coast Highway, Newport Beach
Sold 1/14/10; 27,113 sq. ft. @ \$296 / sq. ft.

Sale 3 is the transfer of the Crab Shack restaurant site. It contains 113 feet in frontage with total uplands of 27,103 square feet. City tideland area is 9,040 square feet with 6 to 8 older slips.

In the sales comparison analysis, a downward adjustment was made for the contribution of the restaurant improvements and marina improvements. A market trend adjustment upward was applied. This market data item reflects a value of subject in the order of \$310 per square foot.

Non-Waterfront Sales Data:



Sale 4: 2430 West Coast Highway, Newport Beach
Sold 9/29/14; 26,663 sq. ft. @ \$150 / sq. ft.

Situated on the inland side of the Pacific Coast Highway, Sale 4 is an unusually shaped parcel, with a street frontage of 75 feet and a depth of 382 feet. Zoning is MU-MM, which allows commercial and residential uses.

There are three small, older buildings towards the front of property. This \$4,000,000 sale transferred previously (5/7/12) for \$1,580,000 or \$59 per square foot. No changes on the property were apparent during intervening three years. It was reported that the buildings are to be demolished, and the land improved to a two-story medical building.

Sale 4 is negatively impacted by its narrow frontage and great depth, which impacts developmental flexibility. Further, there is no access to rear line of the property. This \$150 per square foot 2014

sale reflects a significant price trend. Applying a reasonable range of the ratio of bay front to inland land value, the sale reflects subject uplands land value in excess of \$300 per square foot.



Sale No. 5: Villa Way and 32nd Street, Newport Beach
Sold 10/28/11; 47,916 sq. ft. @\$152 / sq. ft.

Sale 5 includes two independent parcels. 3355 Via Lido, which comprises 34,848 square feet of land, was improved with a 3-story commercial/office building that was subsequently torn down in 2015. The zoning is RM-20 acres (multi-family). The site is planned for development in conjunction with Sale 6 with the proposed Lido Villas, a 23-unit multi-family townhome project.

The Villa Way and 32nd Street parcel is a 13,068 square foot site. It has been serving as an improved parking lot for several years. Zoning is CV 0.5 - Commercial Visitor Serving on the corner, with the balance of the site zoned MU-CV. 15th Street is a mixed-use vertical category. No separate value allocations between the sites were made. This sale is offered to indicate the value of multi-family and mixed-use lands adjacent to bay fronting properties.



Sale No. 6: 3303 Via Lido, Newport Beach
Sold 12/10/12; 17,424 sq. ft. @ \$143.50 / sq. ft.

This is the First Church of Christ Scientist Church property at the northwest corner of Via Lido and Via Malaga in Newport Beach. It was improved with an estimated 12,000 square foot church building, reportedly constructed in 1947, but well maintained. The structure was demolished in 2015.

The site is of 17,424 square feet in area with two street frontages. The coastal commission approved its rezoning from Private Institutes (P.I.) to its current zoning of RM-20. The land is to be joined with Sale No. 5 for the development of 23 multi-family townhomes.

With subject uplands having a hypothetical mixed-use (commercial/residential) zone classification, Sale 6 was helpful in providing and indication of the level of value of waterfront associated but non-bay fronting properties.

VALUATION – continued

As with Sale 5 the indicated price per square foot price was adjusted upwards for trend from date of sale to date of value. Upward adjustments were also indicated for the builder's cost of demolition, and, perhaps most importantly, for the non-waterfront/ waterfront ratio.



Sale 7: 2101, 2200, 2201 & 2241 Pacific Coast Highway
Sold 1/5/16 for \$71,700,000

This sale included 129,652 square feet (2.97 acres) of uplands waterfront parcel area with approximately 700 feet of frontage, 4.39 acres of inland land area, as well as a 57-slip marina. While it is recognized that it is somewhat speculative to distill out the contribution of the inland and marina components to yield a residual to the waterfront parcel, it is reasonable to anticipate that a well-informed investor would give consideration to such an analysis, particularly given the location and characteristics of this sale property.

Based on analysis of comparable data, including those presented above, we allocated approximately \$140 per square foot to the inland portion of this sale. By capitalization of the projected income of the marina, we estimated that its contribution to value would be on the order of \$7.5M to \$8.0M. After deducting the upland area required to support the marina, the 120,000± square foot residual waterfront upland portion of this sale property indicated a land value on the order of \$315 per square foot.

Reconciliation and Conclusion:

Bay front commercial and mixed-use land sales have traditionally been scarce due to the relatively limited supply of these property types in Newport Harbor and their infrequent exposure to the market. As a result of these circumstances, several of the data items are less current than would typically be ideal. However, in regards to empirically measuring trend, there is solid evidence from Sale 1, as well as recent improved sales at 2751 W. Coast Highway and 2801 W. Coast Highway, that there has been a marked increase in prices in this market segment. Also, increases in price and sales activity for adjacent non-waterfront parcels has been noted and verified. These trend indications are supported by the overall growth in real estate values throughout Newport Harbor in all market segments. Our detailed records of bay fronting residential sites over the last three years shows growth on the order of 6% to 8% per year.

A comparability analysis of the above and other market indicators was made. Adjustments were applied to the data for differences between the sale and the subject for elements of comparability such as date of sale, location, size and shape, zoning and improvement contribution or cost of demolition.

As a result of this investigation and analysis, we concluded that as a land site independent from the tidelands, the market value of the 10,000 square feet of uplands necessary to support the tidelands was equivalent to \$315 per square foot.

$$10,000 \text{ sq. ft.} \times \$315 \text{ per sq. ft.} = \$3,150,000$$

Uplands As An Independent Site: \$3,150,000

Economic Considerations of Joinder:

As will be shown, there is an enhancement in the return to each parcel as independent sites by virtue of joinder to a marina use. This creates the *bilateral monopoly* situation explained earlier. We will investigate the economic consequences of allocating this enhancement between the subject tidelands and uplands according to three basic principles:

1. Market rent for the tidelands as a residual after consideration of the increased return and opportunity cost that the uplands owner would require in order to engage in joinder.
2. As a 50/50 share of the enhancement piece of the “pie” created by joinder in a marina operation. In this approach, the benefit of the enhancement is split equally between the two parties.
3. Allocate the income stream between land and water based on an equal allocation reflecting the highest and best use of each.

Tidelands Residual Analysis

In order to gauge the level of return that an uplands owner would reasonably require to engage in joinder, we need to first determine his anticipated return as an independent site. Only then can we assess the necessary enhancement.

Our review of recent sales of waterfront commercial/ residential land devoted to restaurants, offices and associated purposes indicates that the return on land value, based on price paid by the sales transaction, rarely achieves more than a 3.0% annual return on the investment. We have observed this phenomenon along the commercial waterfront in Newport Harbor over several decades. (As example, see Addenda, Analysis of Return to Land for Waterfront Commercial Site)

While this is below the rate of return that the typical investor in commercial land would anticipate, we have observed these properties being bought and sold at this level of annual return by well-informed buyers and sellers several times over the years. This phenomenon is explained by the fact the finite supply of waterfront commercial land creates underlying capital appreciation over time. Therefore, the investor does, in fact, realize an appropriate return on his investment, albeit not primarily through annual

cash flow; rather, the market-accepted profit is ultimately realized at the time of resale by increased price. This is particularly true at the present time where the mixed-use zoning holds out increasing prospects for redeveloping the land with a significant residential component, which provides a greater profit yield.

As was presented in the Highest and Best Use Section of this report, our conclusion of the anticipated uplands area required for marina support was 10,000 square feet. The value of this land, based on the foregoing sales comparison analysis, was judged to be \$315 per square foot.

$$10,000 \text{ sq. ft.} \times \$315 \text{ per sq. ft.} = \$3,150,000$$

The anticipated annual return as an independent site would therefore be calculated as follows:

$$\$3,150,000 \times .03 = \$94,500$$

Because the current level of annual cash flow to the investment in the uplands as an independent site is relatively low, there does not need to be a major increment in that return to reach the threshold of motivation for considering an alternative highest and best use.

From the perspective of the uplands owner, risk factors that would influence deliberations regarding development of a marina include a long-term commitment of the land to a specific use and the potential uncertainties and costs associated with a marina operation. Dedication of land to marina use effectively takes it out of commission for alternative uses. This, in turn, could impact its availability for the capital appreciation that could be realized if it were not so dedicated.

After review of these and other factors, we reached the conclusion that a level of enhancement to a 5% return could motivate the well-informed uplands owner to consider joinder with the tidelands parcel to create an integrated marina operation. This 2% increment over the more passive 3% return discussed above is a measure of the entrepreneurial incentive that an investor dedicating his land to this use (and taking it out of circulation for other uses, including resale) would reasonably expect in order to move forward with the long-term project of marina development.

Summary of Slip Rental Rates 2015

Item No.	Marina Name and Location	Per Lineal Foot Per Month				
		Boat Length				
		20' - 29'	30' - 39'	40' - 49'	50' - 60'	61' and Longer
Pacific Coast Highway Influences						
1	Harbor Tower Marina 3335 W. Pacific Coast Highway	\$22.00	\$30.00	\$33.00 - \$34.00	44	\$45.00
2	Ardell Marina Inc. 2101 W. Pacific Coast Highway	\$26.50	\$30.00	\$34.00 - \$38.00	39	\$42.00
3	Balboa Marina 201 E. Coast Highway	\$34.00 - \$39.00	\$41.00 - \$44.00	\$50.00	\$61.00 - \$67.00	
4	Lido Yacht Anchorage - Bellport 151 Shipyard Way		\$35.00	\$37.00	\$40.00	\$45.00
5	Bayshore Marina 2572 Bayshore Drive	\$34.00	\$41.00 - \$47.00			\$69.73
6	Balboa Yacht Basin 829 Harbor Island Drive	\$21.44	\$27.00 - 29.93	\$31.79 - \$34.30	\$40.10 - \$42.22	\$44.99
Close to Jetty						
7	Bayside Marina 1137 & 1135 Bayside Drive	\$27.00 - \$33.00	\$43.00 - \$45.00	\$57.00 - \$60.00	\$67.00	\$72.00 - \$76.00

This enhancement would represent a 67% increase (3% to 5%) in returns over that which would be anticipated with more traditional commercial uses.

$$\$3,150,000 \times .05 = \$157,500$$

This 5% return to the uplands, representing our judgment of an appropriate level of return to warrant joinder by a well-informed uplands owner, was used in the following residual analysis to determine market rent for the tidelands.

Marina Revenue Estimate in Joinder

In forming our opinion of the highest and best use of the tidelands in joinder we considered the physical characteristics of the site, the appropriate land use regulations, and the likely slip rental income that would create the maximally productive marina operation. We reviewed prevailing slip rates throughout the harbor and considered the market preference for larger slips in the current environment. (The subject is considered to be vacant and available to development to its highest and best use, which reflects the market preference for slightly larger slips. It should be noted that existing marinas can and do perform renovations to replace older improvements to more appropriately meet market desires.)

A summary of slip rental rates by various harbor locations is presented on the facing page. After review and analysis of this panorama of data, we formed the following conclusions as to the likely slip rents to be obtained at the subject property given prevailing market conditions as of March 15, 2016.

Potential Gross Income Estimate

Size of Slip	Number of Slips	Total Lineal Feet	Rate per Lineal Foot	Potential Gross Income
Up to 20'	4	72	\$25.00	\$1,800
20' to 29'	6	150	\$27.00	\$4,050
30' to 39'	12	420	\$35.00	\$14,700
40' to 49'	15	638	\$38.00	\$24,225
50' to 59'	5	270	\$40.00	\$10,800
Larger	<u>3</u>	<u>195</u>	\$46.00	<u>\$8,970</u>
	45	1,745		\$64,545
Additional 5% for overhang/sideties:				\$3,227
Potential Gross Income per Month:				\$67,772
Annual Potential Gross Income:				\$813,267

Occupancy:

As discussed earlier in the Market Analysis section of this report, we concluded that a well-informed operator of the subject marina would anticipate a 5% stabilized vacancy rate, which is equivalent to 95% occupancy.

Potential Gross Income:	\$813,267
Less Vacancy (5%):	(\$ 40,663)
Effective Gross Income:	\$772,604

Accordingly, it is our judgment that the well-informed lessee of the subject tidelands would anticipate that, at highest and best use in joinder with the adjacent uplands, a marina operation would generate an effective gross income of \$772,604 per year.

Annual Effective Gross Income: \$772,604 per year

Percentage Rent of a Marina (Uplands and Tidelands in Joinder)

In Southern California, most marina developments are constructed as part of publicly owned projects under the jurisdiction of a governmental entity, such as City, County, or Port District, that controls both land and water. The improvements are typically built by the lessee pursuant to long-term leases of the land and water in joinder.

We made an extensive investigation of these existing leases, the details of which provided empirical evidence of the level of percentage rent accepted by the market for land and water in joinder for marina purposes throughout Southern California. The marina projects and governmental jurisdictions that were surveyed are:

PROJECT	JURISDICTION
San Diego Bay	Port of San Diego
Mission Bay	City of San Diego
Oceanside Harbor	Oceanside Harbor District
Newport Harbor	Private/ City/ County
Sunset Aquatic Park	County of Orange/ Private
Long Beach Marina	City of Long Beach
Downtown Shoreline Marina	City of Long Beach
Los Angeles Harbor	Port of Los Angeles
Marina del Rey	County of Los Angeles
King Harbor	City of Redondo Beach
Channel Islands Harbor – Oxnard	County of Ventura
Ventura Marina	Ventura Port District
Santa Barbara Harbor	City of Santa Barbara

The survey data for specific marina percentage rents found at various harbors throughout Southern California are summarized below. This market information was confirmed with managers, lessors and operators.

Jurisdiction	Slip Rents
San Diego Port District	15% - 22%
City of San Diego	25%; Some 20%
Dunes, Newport Beach	25% Bridge Restricted
Bay Club Newport	31% (Pt. Bay Club Lease)
Huntington Harbor	Graduated 25% to 35%
Marina del Rey	25%
Redondo Beach	25.5%
Ventura Harbor	23.5%
Channel Islands Harbor	25%

These market data items represent negotiated transactions in which both lessee and lessor were acting prudently and knowledgeably and neither was under any undue compulsion to consummate the lease.

In an interview on September 14, 2015, with James Allen of Redondo Beach, it was learned that they have recently reduced the percentage rate for the Portofino Marina in King Harbor from 27% to 25.5% of gross slip revenue. Of the 23 marinas in Marina Del Rey, at the date of value all but three were at 25%. The others were at 20%.

There is no evidence that these percentage rents will be adjusted in the near future even though slip rates in the newer projects are currently at levels approaching those found in Newport Harbor. The recently constructed Marina del Rey Hotel Marina is subject to a rental at 25% of the gross revenue.

From the panorama of empirical data presented above, it is apparent that 25% of slip revenue is widely accepted as an appropriate percentage to be applied to leases of marinas with uplands and tidelands operating in joinder. This 25% multiplier has been tested many times over the years and upheld by numerous arbitrations, hearings, etc. Its general acceptance has resulted in far fewer serious disputes between lessor and lessee occurring. The rate has been analyzed and accepted as being a residual component of the four elements that make up the principal components of the monetary obligations that a marina operation must meet. These are:

1. Amortization of costs of marina improvements (docks, berths, walkways, utilities, upland structures, parking facilities, etc.).
2. Operational costs.

3. A return to entrepreneurial incentive (risks, profit, time, etc.). This being necessary to attract a developer to the investment.
4. Return to tidelands and upland values.

The first three items can be accommodated by 75% of gross slip revenue. The 4th item is the residual 25% available for payment of rent to the uplands and tidelands.

Accordingly, we concluded that a rental rate of 25% of gross revenues at the subject property would be well supported if the tidelands and appropriate uplands were available in joinder.

Percentage Rental Rate – Tidelands & Upland in Joinder: 25%

Allocation of Market Rent Between Uplands and Tidelands

The foregoing discussions have set out the pertinent criteria, based upon market evidence, that would reasonably be considered in developing an indication of market rent for the subject tidelands by a residual analysis. The approach is intended to develop a supportable estimate of what portion of total revenue generated by the marina should be appropriately allocated between the uplands and the tidelands.

The procedure to achieve this end involves the following steps:

1. Form an opinion of the Effective Gross Income of the marina operation (land and water in joinder).
2. Determine the market rent due for land and water in joinder by application of the market-derived percentage rent factor of 25%.
3. Deduct the appropriate return to the uplands that would reflect the enhancement that accrues to the property by virtue of joinder (above the anticipated return as an independent parcel).
4. The residual amount represents the market rent for the tidelands at its highest and best use in joinder with the uplands for marina use.

Tideland's Residual Analysis

Size of Slip	Number of Slips	Total Lineal Feet	Rate per Lineal Foot	Potential Gross Income
Up to 20'	4	72	\$25.00	\$1,800
20' to 29'	6	150	\$27.00	\$4,050
30' to 39'	12	420	\$35.00	\$14,700
40' to 49'	15	638	\$38.00	\$24,225
50' to 59'	5	270	\$40.00	\$10,800
Larger	<u>3</u>	<u>195</u>	\$46.00	<u>\$8,970</u>
	45	1,745		\$64,545
			Additional 5% for overhang/sideties:	\$3,227
			Potential Gross Income per Month:	\$67,772
			Annual Potential Gross Income:	\$813,267
Occupancy: 95.0%				
				Vacancy and Collection Loss (5.0%)
				(40,663)
				Annual Effective Gross Income:
				\$772,604
				Percentage Rent to Land and Water @ 25%:
				\$193,151
Upland's Allocation:				
			Uplands Land Area (sq. ft.):	10,000
			Value of Uplands per Sq. Ft.	\$315.00
			Indicated Total Value of Uplands:	\$3,150,000
			Percent Return to Uplands:	5.00%
			Indicated Return to Uplands:	\$157,500 (\$157,500)
				Indicated Residual Allocation of Rent to Tidelands:
				\$35,651
				Tidelands Rent as % of Effective Gross Income:
				4.61%
				Indicated Annual Tidelands Rent per Sq. Ft.:
				\$0.64

5. Express the market rent for the tidelands as a percentage of the Effective Gross Income and as Price per Square Foot of tidelands.

A summary of these steps is set out below. The details of this analysis are presented on the page opposite.

1. Annual Effective Gross Income:	\$772,604
2. Market Rent for Uplands and Water in Joinder @ 25%:	\$193,151
3. Allocation Rent to Uplands:	\$157,500
4. Residual Rent to Tidelands:	\$35,651
5. Market Rent as % of Gross:	4.61%
Market Rent as \$/sq. ft. tidelands:	\$0.64

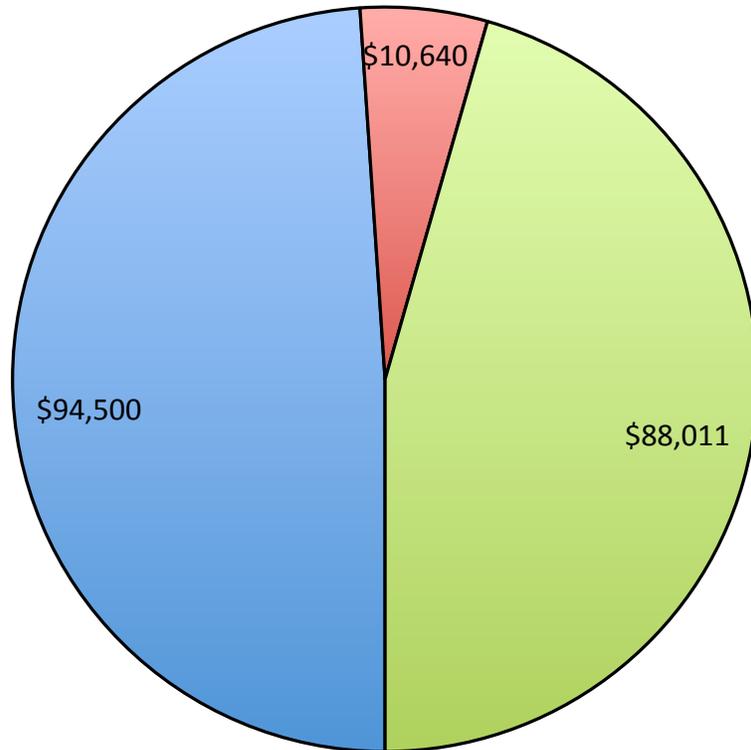
As discussed earlier, the unique situation of having a single seller/lessor (a monopoly) and a single buyer (monopsony) creates a bilateral monopoly in which the price (market rent of the tidelands) will be affected by the interdependence of the parties. It is assumed that, as in all open market conditions, both entities are acting in their own best interests with no undue compulsion to complete the transaction, which, in this case, is joinder for marina purposes. The motivation for each party in joinder is to obtain a return greater than they would have received as independent sites.

To judge whether the indication of market rent for the tidelands expressed above is reasonable in the light of these bilateral monopoly dynamics, the follow analysis was undertaken.

First, the expected annual return for each parcel as an independent site was determined. This has been discussed in the pages above⁸.

⁸ The independent tidelands parcel was studied based on the current \$35.00 per lineal foot rate and the previous \$55.00 per lineal foot rate. The flow-through implications for both bases will be shown in the following analyses.

Total in Joinder: \$193,151



- Upland's Independent Income
- Tideland's Independent Income
- Enhancement by Joinder

VALUATION – continued

At \$35.00/ lineal foot rate for tidelands:

Uplands Parcel:	\$94,500
Tidelands Parcel:	<u>\$10,640</u>
Total Both Parcels:	\$105,140

The total enhancement by virtue of joinder was determined.

Total Revenue in Joinder:	\$193,151
Total Both Parcels as Independent:	<u>(\$105,140)</u>
Indicated Enhancement:	\$88,011

Therefore, from the “pie” of total rental income owing to the uplands and tidelands together, an \$88,011 “piece” is the enhancement above and beyond the income to the sites individually that is created by virtue of the joinder. This enhancement “piece of the pie” should, therefore, be divided between the two parties in an equitable manner that recognizes the bilateral monopoly influences discussed earlier.

In the residual analysis above, \$63,000 of the enhancement was allocated to the uplands (\$94,500 to \$157,500). This was considered to be a reasonable threshold level of motivation to entice a well-informed owner of the uplands to commit to joinder for marina use.

This \$63,000 represents 71.6% of the “enhancement piece” (\$63,000/\$88,011), and it also represents a 67% increment on the expected return for the uplands owner as an independent site (\$94,500 to \$157,500).

Correspondingly, the tidelands benefits by receiving 28.4% of the “piece of the pie” (\$25,011/\$88,011). While this is less than a 50/50 split of the actual enhancement amount, the relative income to the tidelands by virtue of joinder is increased 3.35 times, or 235% (\$10,640 to \$35,651).

As discussed, the same study was tested at the recently repealed \$55.00 per lineal foot rate for the economic measure of the tidelands as an independent site:

At \$55.00/ lineal foot rate for tidelands:

Uplands Parcel:	\$94,500
Tidelands Parcel:	<u>\$16,240</u>
Total Both Parcels:	\$110,740

The total enhancement by virtue of joinder was determined.

Total Revenue in Joinder:	\$193,151
Total Both Parcels as Independent:	<u>(\$110,740)</u>
Indicated Enhancement:	\$82,411

In this case, the \$63,000 of the enhancement that is allocated to the uplands (\$94,500 to \$157,500) represents 76.4% of the “enhancement piece” (\$63,000/\$82,411). Again, it is a 67% increment on the expected return for the uplands owner as an independent site (\$94,500 to \$157,500).

In this case, the tidelands benefits by receiving 23.6% of the “piece” (\$19,411/\$82,411). While this is less than a 25/75 split of the actual enhancement amount, the relative income to the tidelands by virtue of joinder is increased 2.20 times, or 120% (\$16,240 to \$35,651).

Therefore, while a greater share of the total enhancement is allocated, in whole number terms, to the uplands, the benefit to the tidelands, relative to its value as an independent site, is proportionately greater than for the uplands: 2.20 to 3.35 times (for tidelands) compared to 1.67 times (for uplands).

Allocation of the Enhancement as a 50/50 Share Between Tidelands and Uplands

The total enhancement of joinder with the tidelands value based on a \$35.00 per lineal foot per year mooring rental rate was shown to be \$88,011. If this total amount were shared equally between the two parties, each would receive \$44,005 above their income as independent sites. The total income to the tidelands would, therefore, be \$54,645 (\$44,005 + \$10,640). This would represent 7.1% of the gross revenues of the entire marina operation (\$54,645/ \$770,800).

The same analysis applied to the \$55.00 per lineal foot per year mooring rental rate yields a total enhancement of \$82,411, but with an income for the tidelands as an independent site of \$16,240. A 50/50 split of the \$82,411 enhancement for joinder in a marina operation between the tidelands and uplands would result in each receiving \$41,205 more than they would have as independent sites. The total income to the tidelands would then be $\$16,240 + \$41,205 = \$57,445$. This is equivalent to $7.5\% \pm$ of the projected gross income of \$770,800.

As the definition of a bilateral monopoly states, there is no market-based method for judging the appropriate allocation of enhancement; it is a matter of negotiations between parties and is best analyzed through a test of reasonableness, while acknowledging that both parties must benefit by the transaction. In our judgment, most market participants would consider the analyses shown above to be fair and equitable approaches for determining a means of allocation of the total enhancement by joinder of the two properties in a marina development.

These studies indicated a range for the market rent applicable to the subject tidelands of approximately 4.6% to 7.5% of the gross revenue of the marina operation.

Allocation of The Income Stream Based Highest and Best for Each as Established Marina:

This methodology is designed to give weight to the fact of the ongoing existence of commercial marinas in Newport Harbor and the established partnership between the uplands and tidelands. This approach allocates the rent between the land and water based on an equalized rate of return for each, considering the highest and best use of each parcel.

This approach employs a 9-step analysis, which results in an indication of market rent for subject tidelands generated by the marina at its highest and best use. The first three steps in this process are the same as those employed in residual analysis. The subsequent steps are designed to reflect the established relationship between tidelands and uplands as joined to a commercial marina use. In effect, this considers that joinder has already occurred and is operative.

The steps are initially listed below, with an explanation of their application following.

1. Estimate the value of the tidelands independent of the uplands.
2. Estimate the value of the uplands independent of the tidelands.
3. Estimate the market rent of the uplands and tidelands in joinder as a marina.
4. Analyze the arithmetic distribution of that rental to the tidelands by the relative area of the tidelands relative to the total area of the tidelands and uplands in joinder (as a marina).
5. Estimate the market rent of the uplands at its highest and best use, expressed as a dollar amount return on the value of the property.
6. Determine the ratio of the arithmetically allocated market rent of the tidelands considered in joinder to the combined market rent of the tidelands and uplands at their respective highest and best use values.
7. Develop a preliminary indication of the apportioned rent to tidelands.
8. Adjust apportioned rent in accordance with each component's relative relationship to the actual total rent in joinder.
9. Allocate fair rental value (market rent) between uplands and tidelands as a dollar amount.

1. Estimate the Value of Tidelands Independent of the Uplands:

This step was discussed in the residual analysis, and the conclusion was as follows:

$$56,000 \text{ sq. ft. @ } \$0.19 \text{ per sq. ft.} = \$10,640 \text{ annual rent}^9$$

⁹ This analysis will use the prevailing \$35.00 per lineal foot basis for tidelands independent value.

Capitalized @ 5% = \$212,800, or \$3.80 per square foot¹⁰

2. Value of the Uplands Independent of the Tidelands:

This step was discussed in the residual analysis, and the conclusion was as follows:

10,000 sq. ft. @ \$315 per sq. ft. = \$3,150,000

3. Market Rent of Uplands and Tidelands in Joinder as Marina:

This computation derives the total dollar amount of rental due for the subject marina operation at its highest and best use based on the market evidence presented earlier that the appropriate rent for the land and water areas necessary to the operation of a modern marina facility is equivalent to 25% of the total gross slip rental generated within the project.

This step was presented in Approach 1 as well. It was derived by multiplying the Effective Gross Income by the market-based percentage rent of 25% as follows:

Effective Gross Income:	\$772,604
Percentage Rent (25%):	_____ x .25
Market Rent in Joinder:	\$193,151

4. Determine the Arithmetic Distribution of the Tidelands Relative to the Total Area of Tidelands and Uplands in Joinder:

This is simply a mathematical calculation. It distributes the rental to the tidelands in accordance with its area in relation to the combined area of upland and tidelands. The subject tidelands comprise 56,000 square feet of water area. It requires access to 10,000 square feet of uplands to accommodate the required 27 parking spaces

¹⁰ Note: The California Code of Regulations indicates that public lands shall be leased either at a percentage of annual gross income, or 9% of the appraised value of the leased land. Based on the capitalized value of the tidelands as an independent parcel of \$3.80 per square foot, this 9% criterion would reflect rent of \$0.34 per square foot per year.

and an additional 550 square feet of land for bathrooms, showers, and walkways/office to serve the marina use. The total required area for the marina operation is 66,000 square feet.

$$\text{Arithmetic proportion of tidelands} = \frac{56,000}{66,000} = 85\%$$

Relative distribution of rental to the tidelands as a proportion of the total marina area (land and water) =

$$0.85 \times \$193,151 = \$164,178$$

Arithmetic Distribution of Rental to Tidelands by Area: \$164,178/yr.

5. Fair Rental Value Uplands In Joinder with the Tidelands:

The market indicates that in the Newport Harbor area the well-informed investor can anticipate a far lower return on land value than would be the case in many other locations. This is reasonably ascribed to the capital appreciation potential of the sites, which arises from the limited supply and the lack of comparable alternative locations.

Accordingly, based on market evidence, we believe a 5% rate can be supported as market rent for the uplands as of the date of value in joinder with tidelands. As discussed earlier, this reflects the appropriate enhancement of the return to the uplands by reason of joinder for marina use above the return as an independent site.

The equation applicable to this step is:

$$\text{Fair Rental Value Uplands} = \text{Value Uplands} \times 5\%$$

Application to Subject Uplands:

$$\$3,150,000 \times .05 = \$157,500/\text{year}$$

Fair Rental Value Uplands in Joinder with Tidelands: \$157,500/ year

6. Ratio of the Arithmetically Distributed Market Rent of Tidelands to the Combined Market Rents of the Tidelands and Uplands at Their Respective Highest and Best Uses:

As shown in Step 4 above, the maximum dollar rent allocation that can be placed on the tidelands is that which can be calculated as an arithmetic distribution of the rental value of the water and the uplands in accordance with the area of each element. This requires joinder of the two. Without joinder, the value of the tidelands independently, as stated in Step 1 above, is limited.

The function of this step is to adjust this arithmetic relationship between the parts so that the uplands receives an appropriate share of the revenue that is reflective of its highest and best use, with the residual apportioned to the tidelands. This requires an adjustment in distribution of rental revenue from a strictly arithmetic basis to an economic basis reflecting the uplands highest and best use.

In order to accomplish this, it is necessary to measure the relationship (ratio), in terms of rent allocation, of the tidelands at its highest and best use (in joinder) to the combined contribution of each part at their individual highest and best uses.

The equation applicable to this step is as follows:

$$\text{Ratio} = \frac{\text{Tideland Rent Apportioned by Area}}{\text{Tideland Rent Apportioned by Area} + \text{Upland Rent in Joinder}}$$

$$\text{Ratio} = \frac{\$164,178}{\$164,178 + \$157,500} = \frac{\$164,178}{\$321,678} = 51.04\%$$

Ratio of the Rental of the Tidelands by Area to Combined Rental of Each Component at Highest and Best Use: 51.04%

7. Preliminary Indication of Apportioned Rental to Tidelands:

This step is simply the application of the above ratio to the tidelands arithmetic portion of the total land and water (in joinder) market rent indication (Step 4). In this way, the uplands receive a return commensurate with its highest and best use while operating in joinder with the tidelands. The equation for this step is:

Arithmetic Tidelands Rental by Area x Ratio

$$\$164,178 \times 0.5104 = \$83,793$$

Preliminary Apportioned Rental to Tidelands: \$83,793/ year

This is not the final allocation, since an adjustment must be made to further equalize the return to each component in relation to the actual total revenue generated by the marina use (land and water in joinder).

8. Adjustment of Apportioned Rent:

Up to this point, we have three rental estimates available. They are:

- a) Fair Rental Value Tidelands and Uplands in Joinder as a Marina (Step 3): \$193,151/year.
- b) Fair Rental Value of Uplands at Highest and Best Use in Joinder (Step 5): \$157,500/year.
- c) Preliminary Indication of Apportioned Rental to Tidelands Reflecting Joinder (Step 7): \$83,793/year.

It has been established that the tidelands and uplands in joinder have a provable market rental value. That fair rental value was \$193,151 per year.

This total rent must therefore be apportioned respectively so that the tidelands and uplands each receive an adjusted portion of this amount. The relative relationship of the rents should be equivalent to

the same proportion to their relative rental values as shown in Items (b) and (c) above.

Saying it another way, the summation of the ultimate fair rental values of each element, when in joinder and restricted to the use as a marina, cannot exceed the \$193,151 per year. This is the economic rental value of the combined properties. Therefore, a factor must be developed which will adjust each of the independent rental indications so that combined values are equivalent to the total rent for the marina. This is best shown through the following:

Total Fair Rental Value Uplands and Tidelands in Joinder as a Marina:	\$193,151
Preliminary Tidelands Rent:	\$83,793
Market Rent Uplands at H & B Use:	+\$157,500
Total:	\$241,293

$$\text{Required Adjustment Factor} = \$193,151 \div \$241,293 = 0.8005$$

$$\text{Equalization Adjustment Factor:} \quad 0.80$$

9. Allocation of Fair Rental Value:

This final step is carried out by applying the adjustment factor to the two proportionate rental estimates previously calculated.

The equation is therefore:

$$\text{Market Rental Value Tidelands} =$$

$$\text{Adjustment Factor} \times \text{Preliminary Tidelands Rent}$$

and

$$\text{Market Rental Uplands} =$$

$$\text{Adjustment Factor} \times \text{Market Rent of Uplands}$$

at H & B Use

VALUATION – continued

$$\begin{aligned} \text{Market Rental Value Tidelands} &= 0.80 \times \$83,793 \\ &= \$67,034 \text{ per year} \end{aligned}$$

and

$$\begin{aligned} \text{Market Rental Value Uplands} &= 0.80 \times \$157,500 \\ &= \$126,000/ \text{ year} \end{aligned}$$

Check:

$$\$67,034 + \$126,000 = \$193,034/ \text{ year}$$

Tidelands Market Rent Conclusion: \$67,000 per year

This is equivalent to:

8.67% of Effective Gross Income ($\$67,000 \div \$772,604$), or

56,000 square feet @ \$1.20± per square foot per year

Reconciliation:

This valuation analysis includes a market data approach and economic analyses derived from empirical data. These studies recognized that the subject property is an independent tidelands parcel with no rights of access to the adjacent uplands. Because such access is necessary for the operation of a commercial marina, this valuation invoked the extraordinary assumption that the subject has access to the adjacent uplands. This allowed us to carry out a meaningful analysis of the tidelands as dedicated to commercial marina use.

The market data approach involved analyses of tidelands-only leases. Included among these was the California State Lands Commission (CSLC) benchmark studies, which indicated that most submerged lands (tidelands) owned by the State of California and used for dock purposes would be leased at a rate of 5% - 7% of the gross income generated by similar commercial marina uses. This methodology was based on the foundational appraisal concept of the Principle of Substitution.

While relatively limited in number, other open-market, tidelands-only lease data in the Southern California coastal region represented a range of 8.5% to 11.0% of gross income as a basis for tidelands rent. In our review and analysis of these data, we formed the opinion that greatest weight should be given to the BCYC lease at 9.0% because both parties were well-informed, acting in their own best interests, and based their acceptance of lease terms on an independent (3rd party) assessment of market rent.

The economic analyses that were considered used market evidence to value the tidelands and the uplands as independent sites as a starting point. This was done in order to gain a frame of reference of the economic benefits that joinder of the two parcels for marina purposes would generate. Discussions were presented regarding the economic considerations of a bilateral monopoly, and the reasonable expectations of the two parties who undertake joinder. It was recognized that, in joinder, both parties would require an enhancement in the returns over what would be expected as independent sites.

The allocation of the enhancement, as set out in the analysis using a residual approach to equitable tidelands income was shown to be reasonable and consistent with what would be expected by well-informed participants acting in their own best interests. This analysis used two rates (the prevailing \$35.00 per lineal foot and a recently repealed \$55.00 per lineal foot rate) as a basis for independent tidelands value. In both cases, the increment to the tidelands through allocation of the enhancement was shown to be greater, relative to its independent value, for the tidelands than for the uplands even though the total amount was greater for the uplands.

This approach resulted in an indication of market rent for the subject tidelands of 4.6% of the gross rental income, or \$0.64 per square foot of tidelands area. This is very close to the 5.0% return on tidelands employed in the State Lands Commission Benchmark Rent Analysis.

A second method of analyzing how to equitably allocate the enhancement in gross revenue created by joinder in a marina operation was to split that quantified enhancement equally between the uplands and tidelands. This resulted in an indication of market rent for the tidelands ranging from 7.1% to 7.5%.

The final economic approach was premised upon the same fundamental principles as the residual approach, but also included elements designed to equalize the return to each parcel (at its highest and best use in joinder). This approach gave increased weight to the subject tidelands as already effectively joined to the uplands. This is recognized to be a benefit to the tidelands, especially in light of earlier discussions regarding the relative value of the parcels as independent entities.

This approach is judged to more closely reflect the condition of an established marina, as opposed to the assumption of vacant land and tidelands that is implicit in the other analysis. This approach resulted in an indication of market rent for the subject property of 8.67% of the gross rental income and \$1.20 per square foot of tidelands area.

Summary of Indications of Return to Tidelands:

Market Data Approach:

California State Lands
Commission: 5% - 7% of gross revenue

Southern California Marinas –
Tidelands Only: 8.25% - 11.0% of gross revenue

Economic Residual Analysis: 4.6% of gross revenue

50/50 Split of Enhancement: 7.1% - 7.5% of gross revenue

Existing Marina/Joinder: 8.67% of gross revenue

The market data approach offers compelling evidence for the middle portion of the range between 5% and 11% as a balance between State Lands Standards (fee owner of subject) and negotiated terms for generally comparable property to the subject tidelands.

The economic approaches address the uncertainty and inherent subjectivity associated with a bilateral monopoly situation. The range – from 4.6% to 8.67% - reflects the variability inherent in a bilateral monopoly analysis.

In our final reconciliation we concluded that the open-market tidelands-only data should be given considerable weight, as these reflect the terms in which much of the analysis that goes into well-informed negotiations by both parties are conducted.

The most meaningful in our opinion were the Sunset Aquatic Marina (Huntington Harbor) lease at 8.5%, the Bahia Corinthian lease in Newport Harbor at 9.0%, the Glorietta Bay Marina at 11%, and the negotiated lease at the Coronado Yacht Club from 8.25% to 11.0%. (It is our understanding that, while this lease was not consummated due to Coastal Commission issues, both parties agreed to the percentage rental terms.)

The California State Lands Commission published benchmark rate of 5% was also carefully considered since the State is the fee owner of the subject property. It was recognized that, in some instances, the State reportedly applies a 7% rate as well.

The economic analyses were used to address the implicit variability of a true, open-market bilateral monopoly and were fundamentally intended to provide support for the financial logic underlying the market data evidence. This data was well-supported, at one end showing the State Lands benchmark at 5% to be consistent with the residual to the tidelands approach. An analysis based on a 50/50 split of the enhancement created by joinder resulted in tidelands rental indication of 7.1% - 7.5%, which was in line with the upper end of State Lands data. Finally, the lower end of the market data range – 8.25% to 9.0% - was supported by the economic allocation designed to equalize the return to each parcel at its highest and best use in joinder. It was in this range that the nexus of the various approaches was, in our opinion, best supported.

In light of all the foregoing, and other less pertinent factors, we formed the opinion that market rent for the subject tidelands property, as dedicated to marina use and considering the extraordinary assumption of joinder with the adjacent uplands parcel, was, as of March 15, 2016, equivalent to:

8.50% of the annual gross slip rental revenue

VALUATION – continued

This conclusion leads to the following calculations of subject tidelands market rent:

Assumed gross revenue:	\$770,800
% Rent to tidelands:	8.5%
Tidelands annual rent:	\$65,520
Tidelands area:	56,000 square feet
Rental per square foot:	\$1.17 per square foot per year

MARKET RENT CONCLUSION

8.50% of annual gross revenues, or

\$1.17 per square foot of tidelands per year

Addenda

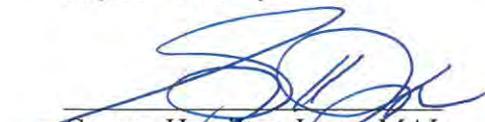
Analysis of Return to Land for Waterfront Commercial Site

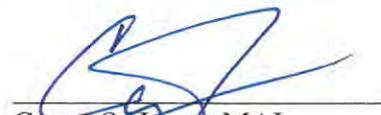
Location:	West Coast Highway, Newport Beach Mariners Mile
Land:	100' x 216 (21,600 s.f.) bay front
Improvement:	5,750 s.f. restaurant
Lease:	Long term, amended 2009
Rental:	2011-2016: \$330,000 per year with option to extend at a graduated rate
Percentage Rate Prior to Amendment:	2011-2016: 6% of gross income from restaurant
Effective Gross Sales at Amended Rates:	$\$330,000 \div .06 = \$5,500,000$ per year
Market Percentage Rent to Land Only:	3.5% of gross sales
Estimated Rental to Land Only:	3.5% of \$5,500,000 or \$192,500 per year
Land Appraised Value 2013:	\$6,400,000
Indicated Cap Rate:	$\$192,500 \div \$6,400,000 = 3.01\%$

CERTIFICATION

The undersigned hereby certify that:

1. Mr. George H. Jones, Mr. Casey Jones have inspected the Newport Harbor tidelands and adjacent uplands parcels on numerous occasions over several decades. The most recent was in the several weeks before and after the date of value.
2. To the best of our knowledge and belief, the statements of fact contained in this report, upon which the analyses, opinions, and conclusions expressed herein are based, are true and correct.
3. The reported analyses, opinions, and conclusions are limited only by the assumptions and limiting conditions stated herein, and are the personal, unbiased professional analyses, opinions, and conclusions of the undersigned. Those limiting conditions (imposed by the terms of the assignment or by the undersigned) considered to affect the analyses, opinions, and conclusions are contained in this report.
4. We have no present or prospective interest in the property that is the subject of this report. We have no personal interest or bias with respect to the subject matter of this report or the parties involved. We performed a similar appraisal of the Newport Harbor tidelands, for a different client and different intended user, presented in a report dated August 31, 2012.
5. The compensation for this assignment 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 directly related to the intended use of this appraisal.
6. This report is not conditioned upon a requested minimum valuation, a specific valuation, or the approval of a loan.
7. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice (USPAP).
8. No one other than the undersigned prepared the analyses, conclusions, and opinions or provided other significant real property appraisal assistance concerning the real property interests that are the subject of this report.
9. The Appraisal Institute conducts a program of continuing education for its designated members. As of the date of this report, Mr. George H. Jones and Mr. Casey Jones have completed the continuing education program of the Appraisal Institute.
10. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.


George Hamilton Jones, MAI
(Calif. License No. AG005632)


Casey O. Jones, MAI
(Calif. License No. AG041862)

LIMITING CONDITIONS

The Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute require that all assumptions and limiting conditions that affect the analysis be clearly and accurately set forth. To assist the reader in interpreting this report, the primary assumptions and limiting conditions affecting the analysis of the subject properties are set forth below. Other assumptions and conditions may be cited in relevant sections of the following report.

1. That the date of value to which the conclusions and opinions expressed in this report apply is March 15, 2016. Further, that the dollar amount of any value opinion herein rendered is based upon the purchasing power of the American dollar existing on that date.
2. That the appraisers assumes no responsibility for economic or physical factors which may affect the opinion herein stated occurring at some date after the date of value.
3. That the appraisers reserve 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.
4. That no opinion as to title is rendered. Data related to ownership and legal description was obtained from public records, and is considered reliable. Title is assumed to be free and clear of all liens and encumbrances, easements and restrictions, except those specifically discussed in the report. The property is appraised assuming it to be under responsible ownership and competent management, and available for its highest and best use.

Investigation of the property's history is confined to examination of recent transactions or changes in title or vesting, if any, and does not include a "use search" of historical property utilization.

5. That no engineering survey has been made by the appraiser. Except as specifically stated, data relative to size and area was taken from sources considered reliable and no encroachment of real property improvements is considered to exist.
6. That maps, plats, and exhibits included herein are for illustration only as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced, or used apart from this report.
7. As a premise of this report it is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the following analysis.

LIMITING CONDITIONS - continued

8. That no opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate appraisers. It is assumed that there are no hidden or unapparent conditions of the property that render it more or less valuable. No responsibility is assumed for such conditions or for the arranging of studies that may be required to discover them.

The function of this report is to provide an opinion of the value of the real property as herein defined. Under no circumstances should this report be considered as providing any service or recommendation commonly performed by a building inspector, structural engineer, architect, pest control inspector, geologist, etc.

9. That no soil reports concerning the subject property were available. This valuation is based upon the premise that soil and underlying geologic conditions are adequate to support standard construction consistent with highest and best use.
10. That no specific information was available for our review relating to hazardous materials or toxic wastes that may affect the appraised property. Unless otherwise stated in the report, we did not become aware of the presence of any such material or substance during our investigation or inspection of the appraised property. However, we are not qualified by reason of experience or training to identify such materials or substances. The presence of such materials and substances may adversely affect the value of subject property. This valuation is predicated on the assumption that no such material or substance is present on or in the subject properties or in such proximity thereto that it would prevent or impair development of the land to its highest and best use or otherwise affect its value. The appraisers assume no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or knowledge required to discover the presence of such substance or material. Unless otherwise stated, this report assumes the subject property is in compliance with all federal, state, and local environmental laws, regulations, and rules.
11. This Appraisal Report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
12. Disclosure of the contents of this appraisal report is governed by the By-Laws and Regulations of the Appraisal Institute.

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser or the firm with which he is connected, or any reference to the Appraisal Institute, or to the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media, or any other public means of communication without the prior written consent and approval of the author.

QUALIFICATIONS OF GEORGE H. JONES, MAI

Member of the Appraisal Institute
Certified General Real Estate Appraiser, State of California, No. AG005632
Certified General Real Estate Appraiser, State of Nevada, No. 04192

Educational:

- High School: Pomona High School
- College: Pomona Jr. College - 1941 - 1942
Stanford University - 1942 - 1943
University of California at Berkeley (U.S.N.R. transferee) - June 1943 to June 1944
Graduated Bachelor Applied Science (Engineering) - June 1944,
University of California at Berkeley
(non-interrupted four-year curriculum in three years).
- Advanced Study: American Institute of Real Estate Appraisers - Candidate Study Courses I and II, August - September, 1950; U.S.C. Engineering School, 1949-1950

Professional:

- 10/51 to Date: Independent fee appraiser, primarily serving general Southern and Central California areas, but with experience in Nevada, Arizona, Utah, and Hawaii. Valuation of all classes of real property: residential, residential income, commercial, industrial, agricultural and special purpose.
- Experienced in problems of fair market value estimations, condemnation, value of lease interests, fair rental estimates, economics of property utilization and others.
- 1948 - 10/51: Real Estate Appraiser, Bank of America, Los Angeles Headquarters. Valuation of all classifications of real property for mortgage loan and fair market value purposes throughout Southern California.
- 1946 - 1948: Estimator - Engineer and Chief Estimator - Engineer
Southern California area, Bank of America - Los Angeles Headquarters
Appraisal, secondary duty
- 1946 - 1946: Stress Group (Engineering) - Douglas Aircraft, Santa Monica
- 1944 - 1946: United States Navy, Structures Officer, U.S. Navy Air Corps

Qualified for court testimony as expert witness on real estate valuations in Superior Courts of Orange, Los Angeles, Riverside, San Diego, San Bernardino, Santa Barbara, San Luis Obispo Counties and Salt Lake City, Utah. Also U.S. Federal Court in Fresno and Los Angeles; U.S. Tax Court in Los Angeles; U.S. Court of Claims in Los Angeles and Honolulu. Appointed as court appraiser within Superior Courts of Los Angeles and Orange Counties and Federal Courts of Los Angeles and Orange Counties.

Served as instructor at UCLA between 1952-1959. Extension courses on Real Property Valuations, primary and advanced.

Since 1963 – 1985, Instructor for American Institute of Real Estate Appraisers at various campuses throughout the United States, primary subjects taught: Investment Analysis and Litigation Valuation. Lecturer at various seminars for Appraisal Institute and International Right-of-Way Association.

Representative appraisal clients include, in part, the following:

Industrial:

Union Pacific R.R., Las Vegas
Johns Manville Corp., Corona
Cabot, Cabot, and Forbes
Beeco Corporation
U.S. Motors, Anaheim
National Cash Register Co.
The Irvine Company
Los Angeles County Transit District
Port of Los Angeles

Yellow Cab Company, Los Angeles
Ford Motor Co., Newport Beach
LAX Intercontinental Airport, Palmdale
Bixby Ranch Company
Southern Pacific Company
American Can Company
Orange County Transit Company
Nevada Department of Transportation

Commercial:

John B. Kilroy Company
Southern Counties Gas Co.
Frank H. Ayres and Son
Sheraton Hotel
Disneyland, Anaheim
Bank of America
Santa Catalina Co.
Frazee Paints

Los Angeles Community Redev. Agency
Beverly Hills Develop. Co., Beverly Hills
Southern California Edison Company
The Irvine Company
East Anaheim Shopping Center
Cagney Estate
Curci-Turner Company

Agricultural:

M.B.M. Farms, Cucamonga, Etiwanda
Bell-Pitzer Groves, Claremont
Agro Phosphate Co., Imperial Fresno Counties
Santa Catalina Co.

Rancho Mission Viejo, Orange County
George Kinsey, Antelope Valley
The Irvine Company

Residential, Residential Income, Subdivision Acreage:

Hercules Powder Co., San Fernando	Southern California Gas Company
General Motors Real Estate Division	The Irvine Company
Southern California Edison Co.	Crown Zellerback Company
Pacific Electric Co. - S.P.R.R.	Gersten Corporation
Fritz Burns Foundation	Estate of William Cagney
Citation Builders	Ayres Hotels
L.A. County Department of Beaches & Harbors	Morro Bay Land Co.
Santa Catalina Company	

Governmental Bodies:

California State Attorney General's Office
California State Department of Transportation (Caltrans)
State Department of Finance
County Counsel - Santa Barbara & Ventura
County Counsel - San Diego
Orange County Harbor District
San Diego United Port District
State Division of Highways, Districts VII & VIII
Los Angeles Dept. of Water & Power
State Division of Beaches & Parks
U.S. Department of Justice, Lands Division, So. District of California
County of Orange, Flood Control District, County Counsel, Right-of-Way Dept., G.S.A.
County of Los Angeles, Flood Control District, County Counsel
County of Los Angeles, Department of Beaches & Harbors
Kern Delta Water District
Riverside County Flood Control District
City of Buena Park
City of Cathedral City
City of Corona
City of Costa Mesa
City of Fullerton
City of Hermosa Beach
City of Laguna Beach
City of Newport Beach
City of Redondo Beach
City of San Clemente
City of Santa Ana
City of Santa Barbara

School Districts:

Westminster School District
Newport-Mesa School District
Savanna School District
Fullerton School District
San Clemente School District

Anaheim City Schools
Magnolia School District
Placentia School District
Capistrano School District
Chino Unified School District

Lending Institutions:

Bank of America, Trust Depts.
City National Bank and Trust Co. of Chicago
Newport-Balboa Savings and Loan
Union Bank and Trust Company of Los Angeles

Security Pacific Bank
Pico Citizens Bank
Crocker - Citizens Bank

Attorneys:

Best, Best & Kreiger, Riverside - Barton Gaut
Santa Fe Southern Pacific Corp., Los Angeles - Anthony P. Parrille
Gibson, Dunn & Crutcher, Los Angeles - William Steinhart, Jr.
Gibson, Dunn & Crutcher, Beverly Hills - Robert D. Burch
Harwood, Adkinson and Meindl, Newport Beach - Don R. Adkinson
Latham & Watkins, Los Angeles - John C. Hall
O'Melveny & Myers, Los Angeles - Richard S. Volpert
O'Melveny & Myers, Los Angeles - Ed Szczepkowski
Nossaman, Guthner, Knox & Elliott - Alvin S. Kaufer, John Murphy
Rutan & Tucker - Clifford Frieden, Mike Rubin
Berger & Norton - Richard Norton
Robert Waldron - Santa Ana
Donald J. Drew - Pasadena

Other:

South Laguna Sanitation District
Laguna Beach Co. Water District
Wildlife Conservation Board

Orange County Irrigation District
Anaheim Union Water Company

Specialized Assignments:

In addition to the above general classifications, the undersigned has made valuations of less common properties including, in part, the following:

Undeveloped Islands - Upper Newport Harbor, California
Beachfront Properties - excess of 200,000 lineal feet of ocean or bay frontage involving over 1,000 parcels between San Luis Obispo County and the Mexican border
Proposed Marinas - San Elijo Lagoon, Imperial Beach, San Diego County - Harbor Island, City of San Diego

Existing Marinas -Newport Beach - Lido Peninsula Yacht Anchorage - 228 slips
Bayshores Marina - 134 slips
Balboa Yacht Club Marina - 72 slips
Balboa Corinthian Yacht Club Marina - 83 slips
Lido Marina Village Yacht Anchorage - 99 slips

Marina del Rey - Aggie Cal Marina - 113 slips
Parcel 44 Marina - 251 slips
Parcel 10R Marina - 198 slips
Tradewinds Marina - 157 slips
Holiday Harbor Marina - 196 slips
Catalina Marina - 160 slips
Marina del Rey Hotel Marina - 377 slips
Fisherman's Wharf
Villa del Mar Marina - 209 slips
Windward Yacht Center Marina - 53 slips
Marina Harbor Marina - 614 slips
Marina City Marina - 339 slips
California YC Marina - 307 slips

King Harbor - King Harbor Marina - 852 slips

County of Ventura - Anacapa Isle Marina - 483 slips

Lyon Copley Corona Assoc. - 950 acre planned community
Rancho Mission Viejo - 52,000 acres ranch
Santa Cruz Island, California - 58,000 acres
108,000 acres - portion Twenty Nine Palms Marine Base
Montana de Oro Ranch - 4,450 acres - Morro Bay Area
Eight cemeteries - Los Angeles, San Bernardino, Orange County, Honolulu
Dry lake bottomland and desert properties, Antelope Valley
Tidelands: Newport Beach, San Diego County, and Santa Barbara County
Duck Clubs - Antelope Valley
Wildlife Habitats, Wetlands - San Diego County, Orange County, Padilla Bay, Washington
Sanitary Landfills - Monterey Park, Huntington Beach, Dairyland
Real Property Damages: Soil subsidence, slippage, critical soils
Division Lessor - Lessee Interests - Oil producing properties
Valuation of stock in closely held corporations, Orange, Los Angeles Counties, and Honolulu
Estimated damages to residential, commercial, industrial, and park land arising from Santa Barbara offshore oil spill (excess of 500 parcels)
Rights-of-Way: power transmission lines, sewer, drainage, aviation easement, railroads (operating, abandoned)
Golf Courses: Riverview, Irvine Coast, Newport Beach, South Laguna Hills, Hillcrest, Los Angeles Country Clubs, Rancho Mirage Country Club, Cresta Verde Golf Course
Chandler's Sand & Gravel Mine - Corona
200 acre ocean tidelands lease, El Segundo

Membership in Professional Organizations:

The Appraisal Institute (formerly the American Institute of Real Estate Appraisers)
President - Southern California Chapter No. 5 (1978)
Governing Counselor (1980-1983)

International Right-of-Way Association

The Appraisal Foundation:

Member Board of Trustees (1987-1992)
Vice Chairman (1991)

Revised 5/23/13

QUALIFICATIONS OF CASEY O. JONES, MAI

Member of the Appraisal Institute
California Certified General Real Estate Appraiser, License No. AG041862

Education:

University of Southern California, Bachelor of Arts

Advanced Study - University of Southern California, Master of Fine Arts, 1978

Real Estate Appraisal Courses (*Appraisal Institute*):

Appraisal Principles
Appraisal Procedures
Basic Income Capitalization
Standards of Professional Practice
Business Practices and Ethics
Apartment Valuation
Advanced Income Capitalization
General Market Analysis and Highest and Best Use
Advanced Sales Comparison and Cost Approaches
Report Writing and Valuation Analysis
Advanced Applications
Comprehensive Appraisal Workshop
Litigation Professional Program
Federal and California Statutory and Regulatory Law Course

Real Estate Appraisal Seminars (Partial List)

Litigation Seminars, 2007, 2009-2012, 2014
Conservation Easement Valuation
Real Property Damages Valuation
Project Delay Economics
Hydraulic Fracking and Property Rights

Professional Affiliations:

Appraisal Institute (MAI Member No. 12935)

Regional Representative (Region VII), 2012-2015

International Right of Way Association

Chapter 67 Valuation Chair, 2011-2012, 2014-2015

Employment:

1/91 - Present: Real Estate Appraiser and Consultant
George Hamilton Jones Inc., Newport Beach, California

Scope of Experience (Partial List):

Appraisal experience includes valuations of most categories of real property and appraisal reviews. Interests appraised include fee simple, leased fee, leasehold, fair market rent, partial acquisitions, easements and rights-of-way. Work has been primarily carried out throughout Southern California.

Property Types:

Single Family Residences	Apartments
Condominiums	Residential Subdivision Acreage
Commercial Buildings	Retail Buildings
Industrial Buildings	Office Buildings
Retail Centers	Service Stations
Vacant Lots/ Land (All types)	Medical Buildings
Mobile Home Communities	Marinas
Conservation/Mitigation Land	Leasehold/ Leased Fee (Residential and Commercial)
Church	Waterfront and Oceanfront Properties
Hotels	Yacht Clubs
Right of Way Corridors	Wetlands
Tidelands	Shipyards

Speicalized Properties and Assignments (Partial List):

Marina Pacifica – 569-unit condominium underlying land revaluation, Long Beach
Kilroy Airport Center Office Complex, Long Beach
Leasehold Residential Subdivision Land, Custom Waterfront Lots, Newport Beach
Tidelands, fair rental value at Harbor Island, Newport Beach
Tidelands, Lido Marina Village, Newport Beach
Colonies Parkway, Upland – commercial/residential planned community/water rights
Inland Center Mall – partial acquisition freeway on/off ramp
Residential Subdivison – Regulatory Taking, Inverse Condemnation, San Juan Capistrano
BNSF Railway – aerial and other easement acquistions, Anaheim
Valley View Grade Separation – land and easement acquisitions, Santa Fe Springs
245 acres of conservation/mitigation land, San Diego County
100 acres wetlands, Huntington Beach
Avalon Canyon Road right of way acquisition, Avalon, Catalina Island
Mt. Ada Historic Property, value restricted to elemosynary purposes, Avalon
Residential subdivision land for mitigation/low-cost housing, Avalon
H.U.D Apartment Project, Downey
12-acre vineyard and residence, Bel-Air
Dana Point Yacht Club, fair market rent

Newport Beach Tennis Club
Lyon Copley Corona Association – 950-acre planned unit community
Port of San Pedro, Terminal and Wharf Facility, leasehold interest
Properties with soils, subsidence or construction defects issues in Southern California
Fair rental land valuations in Marina del Rey

Clients – Attorneys & Corporations (Partial List):

Anglin, Flewelling, Rasmussen, Campbell & Trytten, LLP – John Anglin, Attorney
Ayres Hotels
The Bixby Ranch Company
Barger & Wolen – Don Adkinson, Attorney
Curci Companies
Endangered Habitat League
The Irvine Company
The Kilroy Realty Corporation
La Jolla Bank
Nossaman, Guthner, Knox & Elliott – Alvin S. Kaufer, James C. Powers, Attorneys
Mira Mesa Shopping Centers
Munger, Tolles & Olson LLP – Richard Volpert, Attorney
Murphy & Evertz – John Murphy, Jennifer Dienhart, Attorneys
Palmieri, Tyler, Wiener, Wilhelm & Waldron – Michael H. Leifer, Attorney
The Santa Catalina Island Company
Waldron & Bragg, LLP – Gary Waldron, John Olson, Attorneys

Clients – Public Agencies, Governmental (Partial List):

City of Newport Beach
City of San Juan Capistrano
City of Long Beach
County of Orange
County of Los Angeles Beaches and Harbors
County of Los Angeles Board of Harbor Commissioners
State of California Department of Transportation (Caltrans)
State of Nevada Department of Transportation (NDOT)
University of California