APPRAISAL OF

Market Rental Value
City Tidelands and Submerged Land
(Fuel Dock Use)
Newport Beach, California
Phase 3

Date of Value:

March 15, 2016

Date of Report:

October 30, 2017

Our File No.:

417-1(b)

Submitted To:

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

Submitted By:

George Hamilton Jones, Inc.

GHJ GEORGE HAMILTON JONES Inc.
Real Estate Appraisers & Consultants

George H. Jones, MAI
Stuart D. DuVall, MAI
Casey O. Jones, MAI

October 30, 2017

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 the Commercial Sale of Marine Fuels – Phase 3 Appraisal Report

Dear Mr. Kiff:

In accordance with your request and authorization, I have made an investigation and analysis of tideland parcels in Newport Harbor and other jurisdictions 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 the commercial sale of marine fuels.

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

This appraisal is undertaken in consideration of the general facts and conditions prevailing at the date of value and as set out in two previously submitted Appraisal Reports, entitled "Market Rental Value City Tidelands and Submerged Land". These reports were submitted by our office as Phase 1, dated April 7, 2016, and Phase 2, dated July 12, 2017.

In these previous assignments, we were instructed to form an opinion of market rental value for the Newport Beach tidelands for various commercial uses, as a "flat rate" of annual rent, and expressed on a price per square foot basis. Those analyses took into account a variety of factors which are discussed in detail in the reports. The considerations included, but were not limited to, the following:

- The unique situation found in Newport Harbor wherein the lands supporting the tidelands uses (uplands) are privately owned while the tidelands themselves are owned in public trust by the City of Newport

Beach. (This is distinct from nearly all harbors and ports along the Southern California coast where a public entity owns both land and water.)

- Recognition of the fact that over nearly a century Newport Harbor has been developed with a wide range of commercial uses that vary widely in terms of overall size, improvement characteristics, upland land use standards and values, harbor location, and other key features. Accordingly, the appraisals did not emphasize the specific characteristics of the tidelands associated with any particular commercial operation; rather, the methodology was oriented towards providing as balanced and equitable an analysis for each commercial use of the tidelands in a harbor-wide context as possible.
- In acknowledgement of the fundamental interdependence of the components that make up the harbor environment as a whole, the conclusions of market rent reflected both the economic potential of each *individual* type of use as well as the synergistic relationship that exists *between* the uses.

The current assignment (Phase 3) is a supplement to the two earlier appraisals. This valuation is specifically focused on the market rent of the City Tidelands as used for the purpose of the commercial sale of marine fuels. Please refer to Scope of Services, Exhibit A from the Letter of Engagement, dated October 10, 2017, which is located in the Addenda of this report. The instruction is to express opinions of fair market rent in "three different forms."

1. A "flat rate" of an annual rent on a per square foot of tidelands basis;
2. Annual rent based on a price (unit rate) per gallon of fuel sold;
3. Annual rent based on a price (unit rate) per gallon of fuel sold in conjunction with a "flat rate" minimum requirement (distinct from #1 above) based on the square footage of the tidelands leased.

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 a result of all my investigations and analyses, I have formed the opinion, that, as of March 15, 2016, market rent for the City Tidelands used for the purpose of the commercial sale of marine fuels, expressed per the terms set out in the Scope of Work, was as follows:

1. "Flat Rate":	$0.76 per square foot per year
2. "Unit Rate" per gallon:	$0.01 per gallon sold
Not to Exceed:	$0.76 per square foot per year
3. "Unit Rate" with Minimum Rent:	
Minimum Rent:	$0.38 per square foot per year
"Unit Rate":	$0.01 per gallon
Not to Exceed:	$0.76 per square foot per year

Your attention is invited to the following Appraisal Report which was developed in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP) and written in conformance with Standards Rule 2-2 of USPAP. The report sets forth, in brief, premises and limiting conditions, descriptions, exhibits, factual data, discussions, computations, and analyses which formed, in part, the basis of my value conclusions. Supporting documentation and analyses are retained in my files.

Respectfully submitted,

Casey Jones, MAI
(State Certified General Real Estate
Appraiser No. AG041862)

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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 for the purpose of the commercial sale of marine fuels.

By instruction, the opinion of market rent shall be expressed in the following terms:

1. A "flat rate" of an annual rent on a per square foot of tidelands basis;
2. Annual rent based on a price (unit rate) per gallon of fuel sold;
3. Annual rent based on a price (unit rate) per gallon of fuel sold in conjunction with a "flat rate" minimum requirement (distinct from #1 above) based on the square footage of the tidelands leased.

Date of Value:

March 15, 2016

Client/Intended User:

Dave Kiff, City Manager for the City of Newport Beach, and other representatives of the City of Newport Beach.

Intended Use:

The intended use of the report is to assist the intended user(s) in setting the market rental rate for the tidelands in Newport Harbor as dedicated to the commercial sale of marine fuels.

Property Rights Appraised:

The market rent of the fee simple interest of the tidelands within the lower bay of Newport Harbor for the commercial sale of marine fuels.

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 Rent[1]:

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.)

Market Value[2]:

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
- The price represents the normal consideration for the property sold unaffected by special or creative financing or

[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.

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.)

Scope of the Appraisal:

The scope of the work required to formulate a reliable opinion of value for the appraised properties is outlined below.

Assignment Analysis:

Define the basic elements of the appraisal problem, and the purpose and intended use of the report. Identify the properties and research property history including current use, prior use, prior leasing information, and current market activity.

Site Description and Analysis:

While a non-site specific (harbor-wide) market rent conclusion is the objective of this assignment, it is acknowledged that there were three primary marine fuel docks in the harbor at the date of value that had very different physical characteristics. Accordingly, the subject sites and their surrounding influences were reviewed, inspected and documented. Investigate and interpret applicable zoning, general plan, and environmental restrictions that may apply to the subject properties.

Improvement Description and Analysis:

This assignment is to form an opinion of the market rent of the tidelands only, absent any improvements. However, the existing improvements were inspected and described for informational purposes and to form an opinion of their functional utility and remaining economic life.

Market Analysis:

Identify pertinent economic, governmental, social and environmental forces that may influence real property values and market rent considerations for the subject tidelands as dedicated to the commercial sale of marine fuels.

Highest and Best Use:

This analysis considers the use of the subject tidelands to be dedicated to the commercial sale of marine fuels. However, as will be discussed in the report, marine fuel sales can be a precarious business undertaking, and it was judged to be consistent with the analyses of a well-informed lessee to consider which alternative commercial uses at the site would be physically possible, legally permitted, and financially feasible and, further, how such an analysis could inform market perceptions of an appropriate level of rent.

Market Data:

Search and acquire market rental data of properties comparable to the subject as dedicated to the commercial sale of marine fuels.

Because the market data includes the rental of tidelands and uplands together, investigate market data that would be useful in measuring the contributory value of the uplands at the market data sites. By deducting this contributory amount from the total rent, an indication of the contribution to total rent made by the tidelands alone was indicated.

Valuation:

Extensive investigations were undertaken analyzing rental rates for fuel docks in harbors from Marina del Rey to San Diego. These jurisdictions typically charge rent for tidelands and supporting uplands in joinder. The rents charged generally have an annual minimum amount against which a "percentage rent" is applied. This rate is based on either a dollar amount (in practice, ¢) per gallon of fuel

pumped (volume) or as a percentage of the total revenue generated by fuel sales.

Information relating to gallons of fuel pumped, the retail price of the fuel and other factors comparing the data with the subject were considered. Adjustments were also made for the economics of the uplands requirements that operators in Newport Harbor face that are distinct from those in other jurisdictions where the uplands (and in some cases, improvements) are part of the leased premises.

Subject Tidelands Ownership Interests:

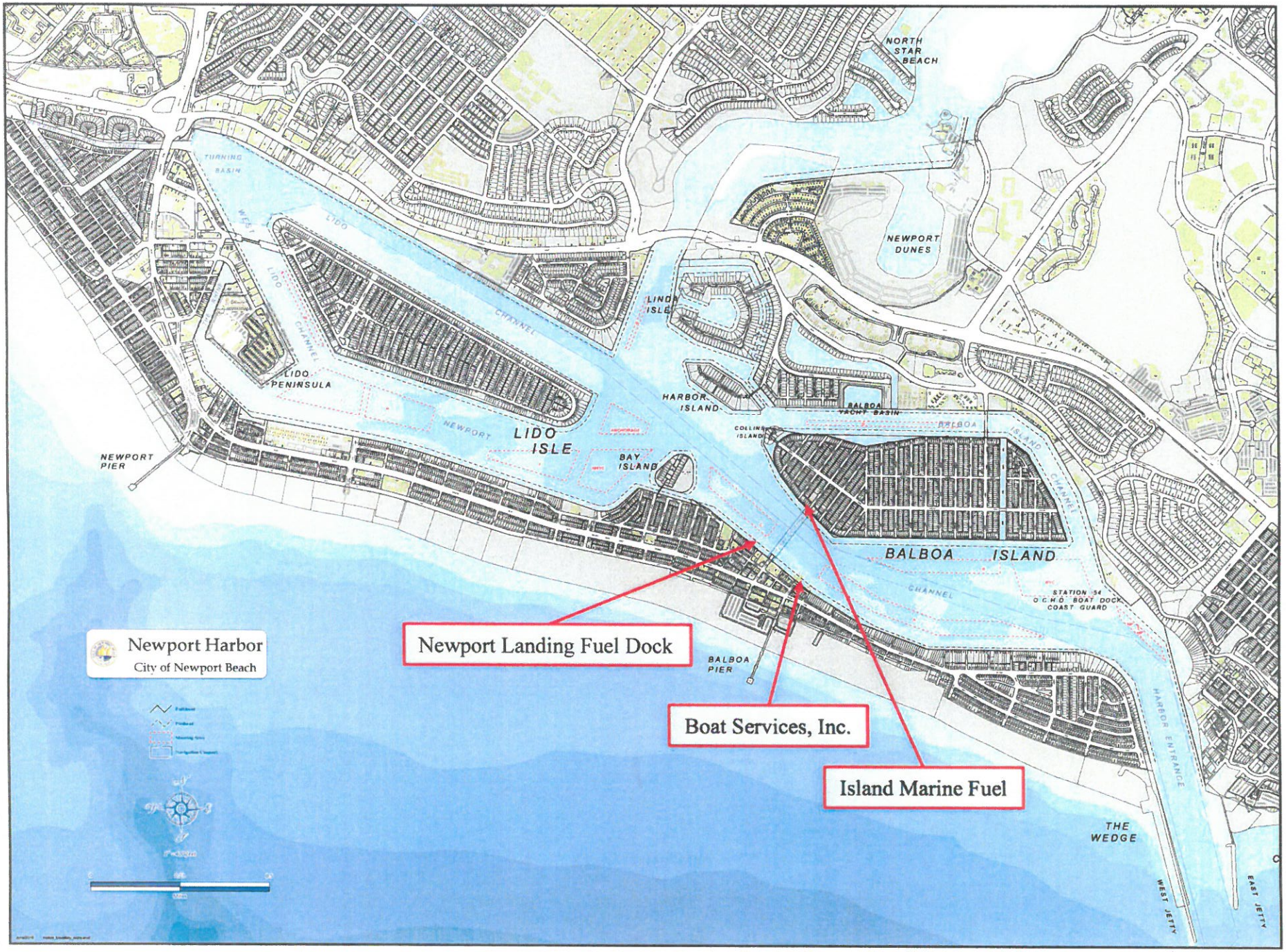
Fee Interest:

The subject tidelands are held in fee by the 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:

It is my understanding that the tidelands parcels that are the subject of this appraisal are not intended to be encumbered by conventional long-term leases, but, rather, by annual permits. It is an assumption of this report that the leasehold/permittee interest in the subject tidelands is held by a well-informed investor and/or operator.

LOCATION MAP



PROPERTY DESCRIPTION

Introduction:

At the date of value there were three marine fuel docks in Newport Harbor. As discussed previously, this assignment is not intended to be geared to the specific physical, legal and economic features of any one particular fuel dock. Rather, the goal of the assignment is to provide a market rental estimate for the tidelands that is equitable and balanced between the existing users and any hypothetical future users of the tidelands for the commercial sale of marine fuels.[1]

In general terms, the basic design of any marine fuel facility almost always includes the following:

- Piers and floats where the customers' vessels tie up temporarily so that the operator can dispense the fuel.
- Fuel storage tanks. These are typically subterranean, in concrete.
- Pipes, hoses and/or connecting cables that run from the upland tanks to the fuel dispensing pumps on the floats.

Further, with most marine fuel operations, the optimum utilization of the tidelands is generally to design the floats so that they can maximize the lineal footage of dock space available to service customers efficiently. The dedicated uplands area needs to be large enough to provide for a range of tanks to hold different fuel types and to have a sufficient supply on hand at all times. By placing the tanks underground, the dedicated uplands area can also be used for required parking and other interim uses.

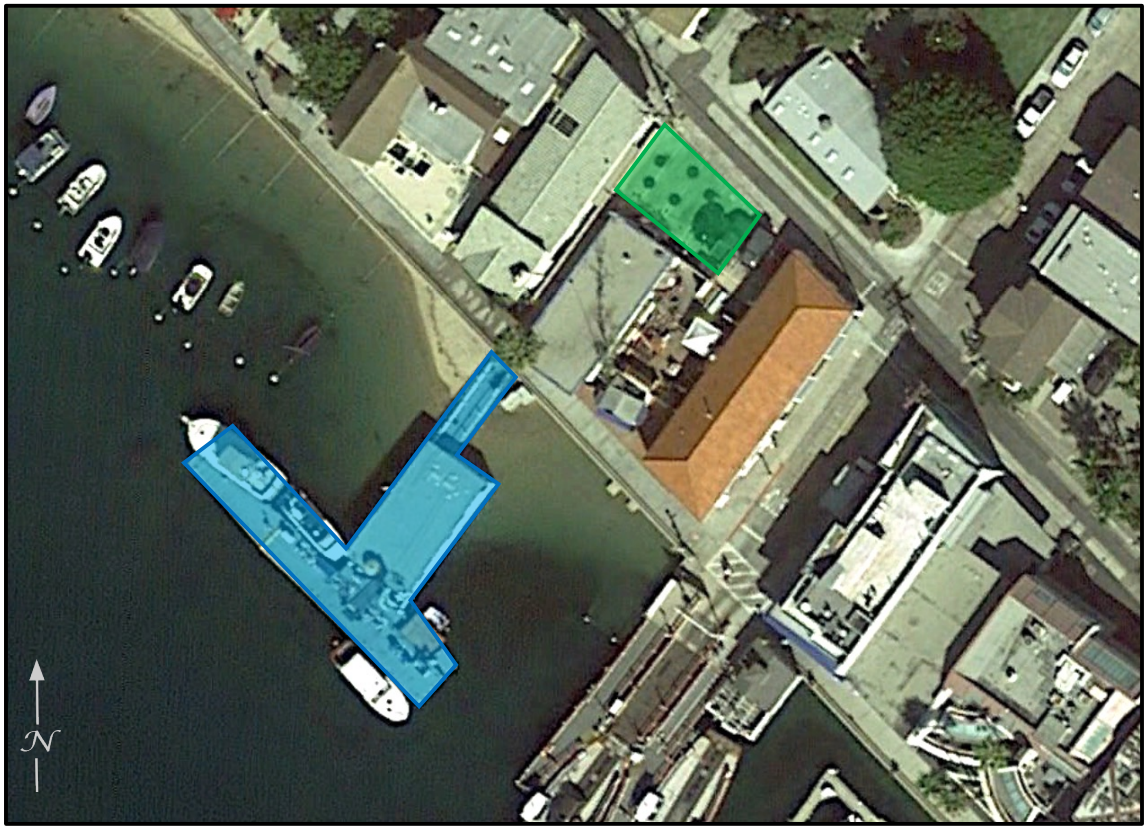
As discussed in the previous appraisals, a commercial lease of the tidelands in Newport Harbor (including fuel docks) is distinct from other comparable harbors and port districts in that the tidelands only are leased in Newport, whereas, for the most part in other jurisdictions, the land and water area necessary for the particular commercial operation are leased together.

[1] It is acknowledged that for a variety of reasons, not least of which is environmental, it is uncertain that a new fuel site would be permitted in the Newport Harbor.

Boat Services, Inc.

Tidelands: 6,793 sq. ft. Uplands: 900± sq. ft.

Island Marine Fuel



Tidelands: 3,617 sq. ft. Uplands: 1,200± sq. ft.

The economic implications of this "divided" ownership interest and its impact on market rent of the tidelands in Newport Harbor will be addressed in the Valuation Section of this report. At this point, for clarity and informational purposes, the entire operation (land and water) of the three fuel docks in Newport Harbor will be briefly described.

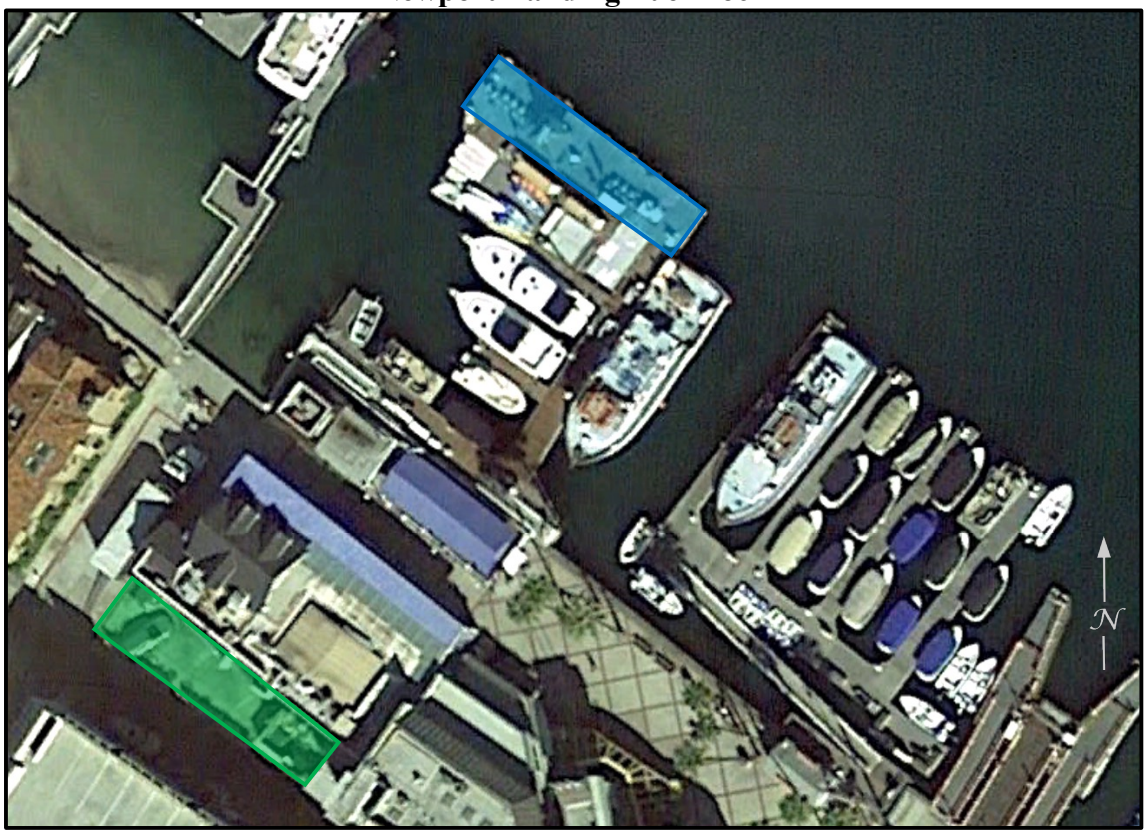
Boat Services, Inc.:

Address:	814 E. Bay Avenue, Balboa Peninsula
Parcel Size:	
Tidelands:	6,793 square feet
Uplands:	900± square feet. This is an estimate based upon appraiser's inspection and Google aerial measurements.
Zoning:	CV 0.75 (Visitor-serving commercial)
Location:	This site is well located to maximize access for boat traffic in the harbor.
Improvements:	This is a long-established, multi-purpose boat service facility offering a range of ship chandlery products along with marine fuels. The piers and floats are older, but well-maintained. It is immediately adjacent to and effectively operates with a small (5,767 sq. ft.) commercial marina. The subterranean fuel tanks are adjacent to the tidelands in an area that doubles as parking space with direct access to Bay Avenue.

Island Marine Fuel:

Address:	406 S. Bay Front, Balboa Island
Parcel Size:	
Tidelands:	3,617 square feet
Uplands:	1,200± square feet. This is an estimate based upon appraiser's inspection and Google aerial measurements.
Zoning:	MU-W2 (Mixed-use, Water)
Location:	This site is located adjacent to the ferry in a good harbor location that provides ready access for typical boat traffic in the bay.
Improvements:	This is part of an iconic commercial cluster on Balboa Island that is closely associated with Balboa Island/Balboa Peninsula ferry. This includes a workshop/garage for the ferry, offices and a small retail store. The fuel dock pier, which projects out from the South Bay Front sidewalk to the floating docks, is across the Balboa Island beach. It is sandy at low tide and not available for other uses. The subterranean fuel tanks are located at the rear (alley side) of 406 and 408 S. Bay Front lots.

Newport Landing Fuel Dock



Tidelands: 1,616 sq. ft. Uplands: 1,200± sq. ft.

Newport Landing Fuel Dock:

Address:	503 Edgewater Avenue, Balboa Peninsula
Parcel Size:	
Tidelands:	1,616 square feet
Uplands:	1,200± square feet. This is an estimate based upon appraiser's inspection and Google aerial measurements.
Zoning:	MU-V (Mixed-use, Vertical)
Location:	This site is located to the west of the ferry with ready access for typical boat traffic in the harbor.
Improvements:	This fuel dock is the most bayward portion of a combined tidelands area that includes a sportfishing charter and vessel rental uses as well. The piers and floats are well maintained. The subterranean fuel tanks are located adjacent to the alley behind the Newport Landing restaurant and offices. The space is also used for surface parking.

Market Analysis – Marine Fuel Docks:

In terms of location and physical characteristics, the subject fuel docks are well situated to attract customers. In comparison with many other ports along the Southern California coast, Newport Harbor is a dynamic and relatively affluent boating environment with a variety of recreational and commercial users. Within this network of yachting interests, the availability of marine fuel is critical. However, despite acknowledged demand for its services, the economic viability of a marine fuel enterprise can be problematic, in large part because these businesses are often dependent upon factors beyond the operators' control.

The uncertainties of ever-tightening regulations, fluctuating wholesale fuel costs, and irregular customer demand all contribute to creating a precarious environment for the marine fuel sales business. This circumstance is confirmed by the relatively recent permanent closure of the Cabrillo Marine Fuel Dock in Los Angeles Harbor, the closure and re-opening (with City of Huntington Beach intervention) of the marine fuel dock in Huntington Harbor and the closure of the subject Newport Landing facility in Newport Beach[2].

The National Association of Convenience and Fuel Retailing (NACS) reports that since 1994, while overall fuel demand in the United States has increased, the total number of fueling locations (including marine-oriented) has decreased by 25%. This phenomenon is partially explained by Dennis Kinsman in an article published by Marina Management Services, Inc. (1/30/12) wherein it is detailed how maintaining real margin levels (retail vs. wholesale costs) while underlying costs creep up can, due to percentage factors, decrease real profit over time.

This has particular consequences for marine fuel operators where seasonal impacts are significant. External forces can also be a major influence. As an example, in analyzing a fuel dock lease in Marina del Rey, economists for the County of Los Angeles presented the not-surprising empirical evidence that boaters will attenuate their yachting activities (and fuel consumption) when fuel costs, over which retailers have limited control, increase.[3] Should the notoriously wild volatility of the wholesale price of fuel strike during a period of peak demand (summer months), the resulting drop in sales can have a devastating effect on a marine fuel operator's annual bottom line. Counterintuitively, when prices increase, the operator's profit tends to decrease.

In contradistinction to the financial uncertainty associated with exposure to this variability is the indispensable role that fuel docks are acknowledged to play in the ongoing "economic health" of a harbor. An interview with Kellee Fritzal, Deputy Director of the Office of Economic

[2] Calls to the offices of the Newport Landing indicated that there were no plans to resume operations at the fuel dock.
[3] Approval of Amendment No. 1 to Lease No. 75629, County of Los Angeles (Marina del Rey), June 30, 2009, pg. 3.

Development for the City of Huntington Beach, indicated that genuine concerns were expressed by government representatives and residents alike that the shutdown of the fuel dock in Huntington Harbor would negatively impact both local home prices and the value of marinas. Active intervention by the City was required to coordinate the re-opening of the marine fuel dock with a new operator to avert the consequences of a prolonged, or permanent, shutdown.

Newport is a very active harbor, and demand for ready access to marine fuel is well-established. The issue that is central to this analysis is correlating the level of that demand with the economics of a marine fuel operation in the specific context of Newport Harbor, and then utilizing that information in comparison with rental data for marine fuel sales found in other harbor/port districts in the Southern California region to form an opinion of market rental in Newport for tidelands only.

Historical information regarding the volume of fuel sales in Newport Harbor is not available. In my July 2017 report, I discussed how empirical information of the annual volume (total gallons) of fuel sales at the sole marine fuel facility in Marina del Rey could potentially provide a meaningful indication of the volume level of fuel sales in Newport Harbor.[4] In the following Valuation Section of this report, I will expand upon that and provide further details of projected fuel volumes, revenue indications and rental rates at various jurisdictions reviewed.

A critical, market-sensitive consideration that arises in this analysis is the return that a well-informed investor would anticipate receiving for dedicating the uplands land area necessary to support a marine fuel dock operation. As discussed previously, all three subject fuel docks are long-established facilities. At the time that they were constructed, the relationship between permitted uses (zoning) and land values was very different than the current situation. As a result, the anticipated return to the land for a marine fuel dock operation was viewed through a different set of analytics than would be the case today.

In summary, Newport Harbor is a dynamic maritime environment with established demand for readily obtainable marine fuels for a

[4] *Market Rental Value City Tidelands and Submerged Land*, dated July 12, 2017, by George Hamilton Jones, Inc., pg. 28.

diversity of users. However, because the nature of the business of the retail sale of marine fuels is fraught with great variability and uncertainty, the economics of these operations can be unpredictable. Unlike all other harbor/port jurisdictions in Southern California, where land and water are leased together, in Newport Harbor the tidelands only are leased to marine fuel operators. The cost of the supporting uplands, expressed as a market-based return on value, must be borne by the business operator. As will be discussed, this has potential implications for highest and best use, and, by extension, the appropriate annual rent for the tidelands as dedicated to the commercial sale of marine fuels.

Highest and Best Use:

Highest and best use is that use or combination of uses, selected from reasonably probable and legal alternatives, that results in the highest land value as of the date of value. The definition of highest and best use is as follows:

> *The reasonably probable and legal use of vacant land or an improved property, which is physically possible, legally permissible, appropriately supported, financially feasible, and that results in the highest value*[5].

Having been in existence for many decades, the subject fuel docks are demonstrably physically suited to and legally permitted for the commercial sale of marine fuels. However, it should be noted that, to a significant degree, it is the long-term ownership and consequent low-cost basis in the uplands real estate that allows the two ongoing operations to approach financial feasibility.

As was discussed in our earlier reports, in the Newport Harbor context, market rent for the tidelands must take into account a market-level return for the supporting uplands in order for the uplands owner to be motivated to commit his land to joinder with the tidelands.

The return to the uplands, expressed as a percentage of fee value, must be based on the market value of the land *as of the date of value*. As

[5] *The Appraisal of Real Estate*, 14th Edition, Appraisal Institute.

detailed in the previous reports, it is my judgment that the minimum return that a well-informed investor would expect for dedicating waterfront uplands to joinder in support of any commercial operation in the harbor, including fuel docks, would be 5% of the land value per annum.

This amount must then be deducted from indications of market rent taken from other jurisdictions where land and water are included in the leased premises to yield a supportable indication of market rent for the subject tidelands alone.

An analysis of the highest and best use of the subject as vacant – meaning vacant supporting uplands as well as the tidelands - must address the high land value levels for waterfront property in Newport Harbor. The Island Marine Fuel dock and the Newport Landing operation are both in Mixed-Use zones, which permit residential development above commercial. The unit (per square foot) value of mixed-use land on the waterfront is some of the most costly in Newport Harbor. There is abundant empirical evidence in the form of new development, particularly in the westerly portion of the harbor, supporting strong demand for residential property in a mixed-use configuration.

The Island Marine parcel, which is zoned MU-W2, is considered adaptable to development of a mixed-use property, with residential above and commercial on the ground level. Such a project was recently completed at nearby 508 South Bay Front, which is also in the MU-W2 zone. While some adjustment downward on a unit basis would likely be indicated for subject's mixed-use designation, recent waterfront residential land sales in the immediate vicinity of the Island Marine parcel transferred at $1,700 - $1,800 per square foot of land.[6]

In my judgment, the necessary return for land this valuable could not reasonably be generated by use of the land in joinder with the tidelands dedicated to the commercial sale of marine fuels. Further, having a fuel dock in front of an expensive residence (or multiple residential units) would not be consistent with market expectations.

[6] 304 S. Bay Front sold 11/23/15 for $4,750,000, or $1,702.51/ sq. ft. It had a shared pier. 542 S. Bay Front sold 1/6/16 for $4,606,000, or $1,802.27, with no pier rights.

Therefore, development of this site, as vacant, with a marine fuel facility would not, in my judgment, be reasonably considered to be the highest and best use of the property. The same reasoning would apply to the Newport Landing site considered as vacant. It is zoned MU-V and is located immediately across Adams Street from a well-established residential (R-2) district.

The Boat Services, Inc. uplands site is located in a commercial (CV) zone. Therefore, it is both physically and legally suited to supporting a commercial marine fuel sales operation.

Two recent sales in the immediate vicinity, analyzed through a land residual study, support land values of approximately $500 to $600 per square foot. These sales are as summarized below:

<u>702 E. Bay Avenue</u>

Date of Sale:	4/22/16
Sale Price:	$1,850,000
Lot Area (buildable):	3,000 square feet
Improvement Size:	3,850 square feet
Improvement Condition:	Built in 1945, average
Improvement Allocation:	$75 to $100 per square foot
Land Residual Indication:	$490 to $520 per square foot

<u>706 E. Bay Avenue</u>

Date of Sale:	4/28/16
Sale Price:	$1,992,000
Lot Area (buildable):	3,000 square feet
Improvement Size:	3,250 square feet
Improvement Condition:	Built in 1915, average
Improvement Allocation:	$60 to $75 per square foot
Land Residual Indication:	$580 to $600 per square foot

I have concluded that a well-informed investor, in developing an opinion of the highest and best use of a commercial property, would consider it appropriate to anticipate a minimum return of 5% on $550 per square foot at this location.

By their very existence up and down the coast, it is self-evident that a marine fuel dock can undoubtedly be a successful business operation. However, as will be seen in the following Valuation Section of this report, this is in part contingent on the level of rent charged. In my judgment, it remains speculative and uncertain, based strictly on market parameters prevailing at the date of value, as to whether a marine fuel sales operation could provide the necessary level of return to the supporting uplands to which it must necessarily be joined in Newport Harbor to warrant such an undertaking. This economic uncertainty is, of course, exacerbated when multiple operations compete for a finite supply of potential customers.

While these circumstances are acknowledged, this assignment is to form an opinion of the market value of the subject tidelands, in a Newport Harbor-wide context at the date of value, for the commercial sale of marine fuels. Therefore, it is an extraordinary assumption of this report that the highest and best use of the subject tidelands is for the commercial sale of marine fuels.

VALUATION

Introduction:

The purpose of this appraisal is to form an opinion of the market rent of the City Tidelands proposed to be leased to private upland owners for the commercial sale of marine fuels. Lengthy discussions of the appraisal methodologies, economic influences, governmental restrictions, and environmental factors that need to be considered in forming an opinion of market rent for the City Tidelands were presented in the Phase 1 and Phase 2 reports submitted previously. The reader is directed to those reports as reference. This report is considered a supplement thereto.

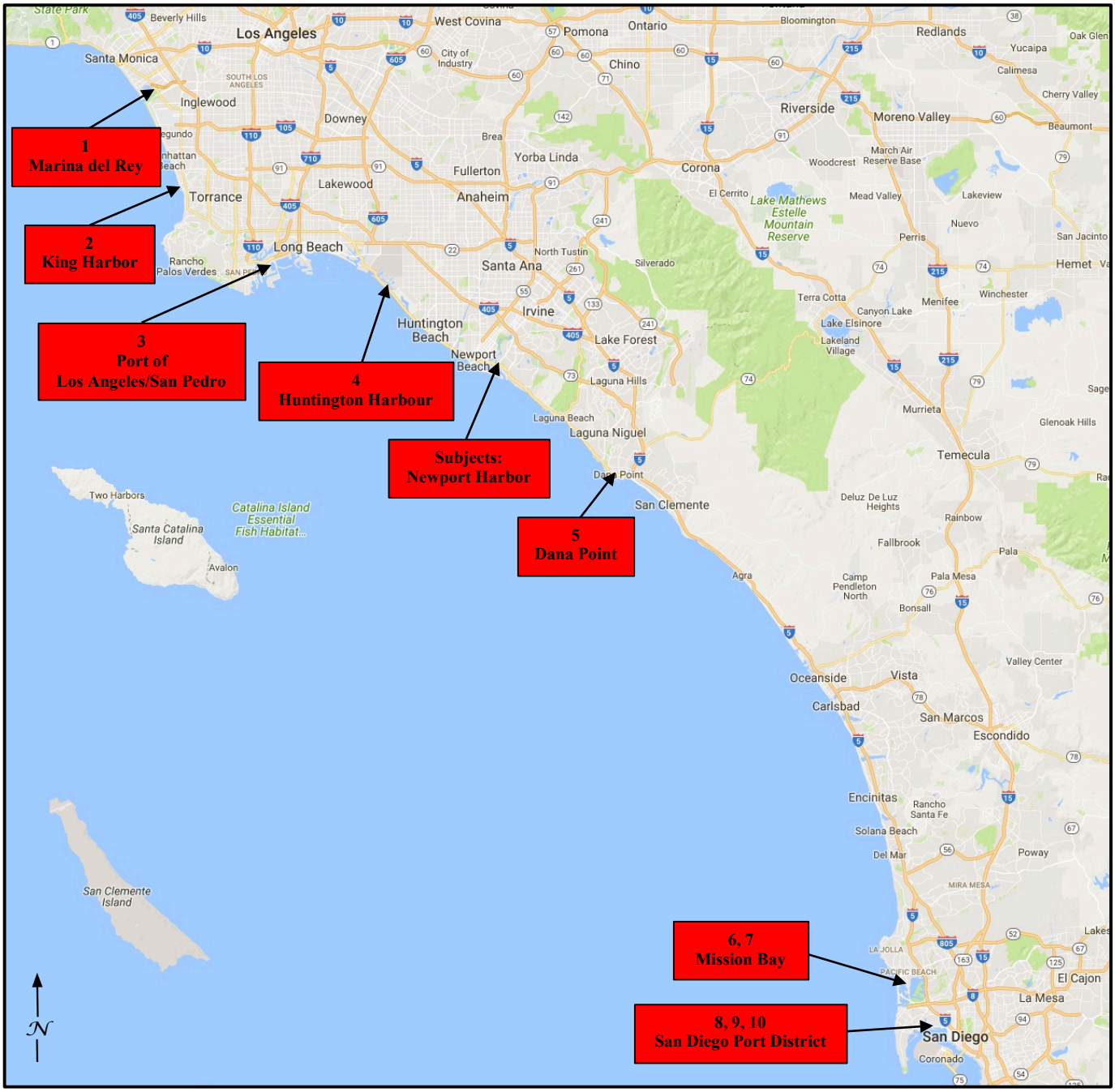
By instruction, the conclusion as to market rent for the City Tidelands as dedicated to the commercial sale of marine fuels is to be expressed in three forms:

1. A "flat rate" of an annual rent on a per square foot of tidelands basis;
2. Annual rent based on a price (unit rate) per gallon of fuel sold;
3. Annual rent based on a price (unit rate) per gallon of fuel sold in conjunction with a "flat rate" minimum requirement (distinct from #1 above) based on the square footage of the tidelands leased.

Fundamentally, the objective of this assignment is to form an opinion of market rent for marine sales purposes that reflects the economic factors attendant to this use as well as the synergistic relationship that marine fuel docks play in the network of commercial, recreational and residential uses that comprise Newport Harbor as a whole. In light of this perspective, the appraisal conclusion is intended to provide an equitable balance, supported by economic analysis and reference to market data, between the State/City's requirement (and obligation) to receive an appropriate return for the use of public lands/tidelands by a private enterprise and the lessee/operator's economic imperative to establish and maintain a viable business, the existence of which benefits the public.

The market data found throughout the Southern California region for fuel dock purposes is, for the most part, inclusive of *both tidelands and supporting uplands.* The fuel dock operations are also quite often only a part

REGIONAL MAP



of a larger marina and yachting-oriented facility offering a range of products and services to customers.

As was discussed at length in our earlier reports, this is not the situation in Newport Harbor, where the subject tidelands are "owned" by the City of Newport Beach and the supporting uplands are under private ownership. Therefore, a direct correlation of the market data (tidelands and uplands) cannot properly be made with the subject *tidelands only* without adjustments.

An additional complexity in the analysis arises from the fact that the market data for fuel dock use is most commonly tied to either the volume (in gallons) of fuel pumped or a percentage of the gross income that is generated by the sale of the fuel. It is generally not directly tied to the square footage of the area leased, which is the first "form" ("flat rate") in which, by assignment instruction, the conclusion is to be presented. As was done in the Phase 2 report, adjustments were required to correlate these volume and percentage indicators of market rent into an annual price per square foot "flat rate" conclusion.

Discussions regarding reconciliation of the three "forms" in which the market rent conclusion is to be expressed will be presented at the end of the valuation analysis.

Market Data – Overview:

Market data for fuel dock leases from Marina del Rey to the San Diego Port District were reviewed. Brief discussions of the various data items will be presented in the following pages. As will become apparent, a wide range of factors influence the prevailing rates within the various jurisdictions. The reasons behind these differences are myriad, complex and beyond the scope of this report; however, they will be presented and analyzed where practical. Further details are held in my files.

SUMMARY OF MARKET DATA
RETAIL FUEL SALES COSTS & RENTAL RATES
OCTOBER 2017

Item	Fuel Dock	Gasoline*	Diesel*	Rental Basis
Subject	Hill's Boat Services, Inc. 814 E. Bay Avenue Newport Beach	$3.35	$2.96	TBD
Subject	Island Marine Fuel 406 S. Bay Front Balboa Island	$3.45	$3.16	TBD
Subject	PetroSea Fuel (Newport Landing) 503 Edgewater Place Newport Beach			(Currently non-operational.)
1	Del Rey Fuel 13800 Bora Bora Way Marina del Rey	$5.10	$4.52	Minimum with $0.15/gallon of all fuel sales
2	Rocky Point Marine Fuel 310 Portofino Way King Harbor, Redondo Beach	$5.65	$4.90	5.5% of all fuel sales, includes improvements
3	Jankovich and Son Berth 74 Port of Los Angeles / San Pedro	$3.77	$2.69	Flat rate of $0.97/sq. ft. - tidelands only
4	Maxum Marine Fuels 15922 Pacific Coast Highway Huntington Harbour	$3.69	$2.94	$0.015/gallon up to 100,000 gallons $0.02/gallon > 100,000 gallons Adjusted 2/9/16 to flat $10,300 annual rent
5	Dana Point Fuel Dock 34661 Puerto Place Dana Point	$4.16	$3.77	Diesel = 2.5% of sales Gasoline = 3.0% gross
6	Dana Landing 2590 Ingraham Street Mission Bay, San Diego	$4.19	$3.69	Diesel = 1.5% gross Gasoline = 3.0% gross
7	Hyatt Regency Islandia 1441 Quivira Road Mission Bay, San Diego	$4.31	$3.93	Diesel = 1.5% gross Gasoline = 3.0% gross
8	Harbor Island West 2040 Harbor Island Drive San Diego Port District	$4.37	$4.64	Diesel = $0.02/gallon Gasoline = $0.04/gallon
9	Pearson Marine Fuels 2435 Shelter Island Drive San Diego Port District	$4.22	$4.40	Diesel = $0.02/gallon Gasoline = $0.04/gallon
10	High Seas 2540 Shelter Island Drive San Diego Port District	$4.53	$3.88	Diesel = $0.02/gallon Gasoline = $0.04/gallon

* Each fuel dock discounts for volume to individual customers at varying rates.

Marina del Rey:

Del Rey Fuel, Marina del Rey

Tidelands: 11,500 sq. ft. Uplands: 1,950 sq. ft.

The Del Rey Fuel Dock is located on Parcel 1 near the entrance to the Marina del Rey harbor. The leased area includes 14,744 square feet of land and 46,510 square feet of tidelands under the supervision, as lessor, of the County of Los Angeles Beach and Harbors. This is a multi-purpose marine facility with boat slip rentals and other marine-related services providing more than 50% of the rental income. It is the only fuel dock in Marina del Rey.

The area dedicated to fuel dock purposes is approximately 11,500 square feet of tidelands and just under 2,000 square feet of uplands. The entire property was redeveloped in 2006 with a new 55-year lease entered into under the unique and specific terms particular to Los Angeles' long-term management of Marina del Rey. The cost of the new improvements was in excess of $4,000,000.

The lease terms were based, in part, on rent at 6% of fuel sales. (Other uses, such as boat slip rental, retail sales, bait sales were charged at other, varying rates.) In Marina del Rey an ongoing annual capital improvement deposit is also required of all lessees. This was originally 0.375% of fuel

sales. In 2009 these terms were amended to $0.15 per gallon of fuel sales for annual rent and $0.01 per gallon for the Capital Improvement Fund.

As can be seen by a review of the summary of the market data, the rent charged at Parcel 1 in Marina del Rey appears to be well above the preponderance of the other data along the coast. Not surprisingly, the retail fuel rate is at the upper end of the range being charged at other locations as well. This may compensate, relative to the other data, for the comparably higher rental rate.

The Department of Beach and Harbors provided information regarding the volume (in gallons) of fuel sales for 2014 – 2016 and the corresponding rent charged for *tidelands and uplands*.

Year	Gallons Sold	Rent Charged
2014	575,266	$86,290
2015	671,086	$100,663
2016	743,963	$111,954

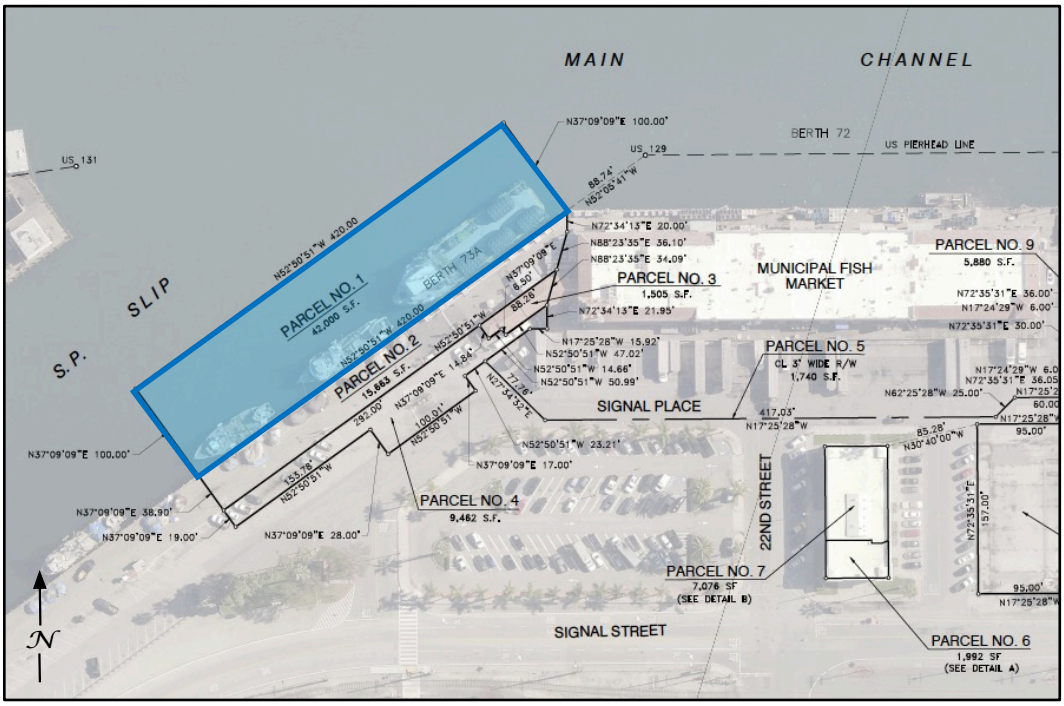
Because this is the only fuel dock in Marina del Rey, and the harbor reportedly is home to more than 5,000 vessels, this data was considered a useful indication of the potential gallonage that could apply in Newport Harbor. It should be noted that Newport Harbor has more commercial vessels with year-round activities than does Marina del Rey. These require greater amounts of fuel than typical recreational yachts. Further, though there is no ready empirical information supporting this, it appears to this appraiser, who has good familiarity with both harbors, that, in comparison with Newport, there is a higher percentage of smaller boats and sailboats in Marina del Rey that consume less fuel.

King Harbor:

The Rocky Point Marine Fuel Dock is the only source of marine fuels in King Harbor. We were unable to obtain detailed information other than the fact that rent is charged at 5.5% of the revenue generated from fuel sales. It is my understanding, based upon previous discussions with representatives of the City of Redondo Beach, that the leased premises include improvements, as well as uplands and tidelands. Limited weight was given to this data item, and it is included for informational purposes only.

Port of Los Angeles/San Pedro:

Jankovich and Son, Port of Los Angeles/San Pedro



Tidelands: 42,000 sq. ft.

Jankovich and Son is the only remaining fuel dock in L.A. Harbor that provides both gasoline and diesel fuel. With the closure of the Cabrillo Marine Fuel Dock on November 1, 2015, Jankovich is of necessity shared between recreational boaters and larger commercial (shipping) vessels. According to Jack Boyt, the operator of Cabrillo Marine Fuel "every effort was made to keep the dock operational but meeting code compliance became increasingly burdensome and costs to keep the fuel tanks up to date had started to become cumbersome… this is a very tough business to run in California."[1]

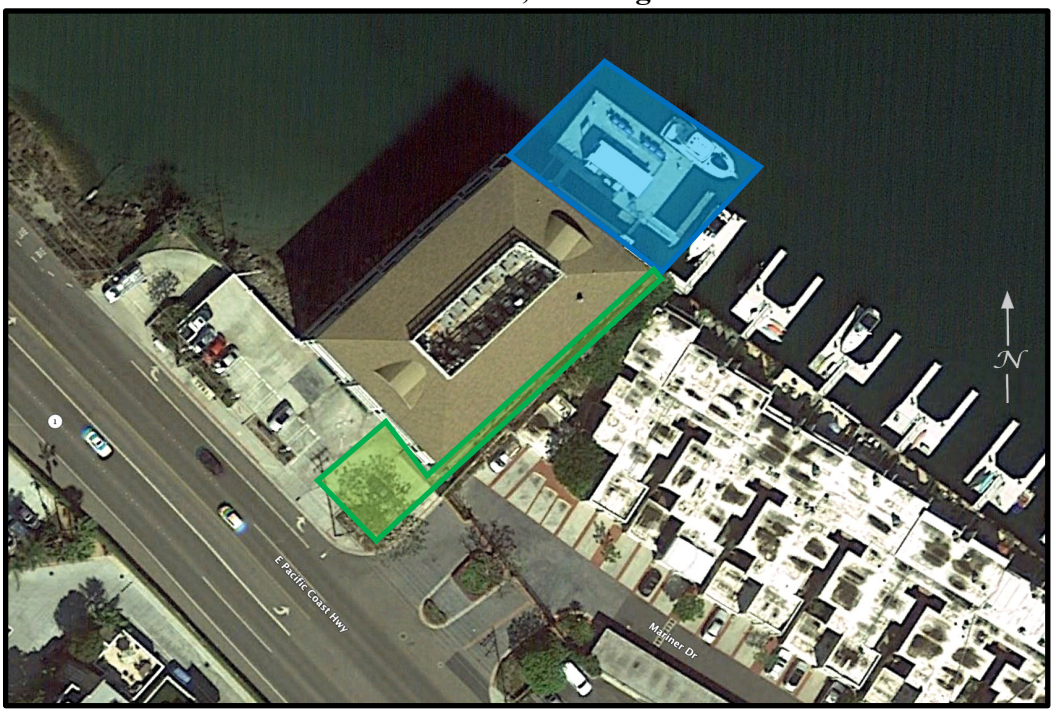
An interview with Elizabeth Solario of the Port of Los Angeles on April 19, 2017, indicated that the Port was charging rent for marine fuel facilities at the rate of $0.025 gallon for gasoline and mixed fuels and $0.005 per gallon for diesel. Ms. Solario confirmed that this was based on a Leasing Policies and Procedures document dated 9/23/05. The Port of Los Angeles Leasing Policy document, dated 8/8/13 was also reviewed.

[1] The Log, 11/19/15.

A subsequent interview with Kevin Kim (10/11/17), also of the Port of Los Angeles, provided detailed information regarding a new lease being prepared for Jankovich and Son. The existing marine fuel operation is currently located at Berth 74, but will be relocated to Berth 73 to make way for harbor upgrades. The new lease breaks out the various components of the leased premises by property type and lease rate. Pertinent to the present analysis, there will be a 42,000 square foot tidelands (submerged land) that will be charged at a flat annual rate of $0.97 per square foot. It should be noted that this is a very high-volume fuel dock serving large commercial vessels.

Huntington Harbor:

Maxum Marine Fuels, Huntington Harbour



Tidelands: 7,500 sq. ft. Uplands: 1,200± sq. ft.

Huntington Harbor experienced a shutdown of its sole marine fuel dock, Mariner's Point, on October 1, 2015. Kellee Fritzal, Deputy Director of the Office of Economic Development for the City of Huntington Beach, was involved with the transfer of the leasehold interest from the former owner to the current lessee, Maxum Petroleum.

It was reported in an interview (10/13/17) that the former owners were concerned about potential toxic issues and wanted to divest themselves of the facility with the attendant responsibilities. Because city officials and residents were concerned with the impact of the closure on property values for both residences and marinas, the City of Huntington Beach intervened and acquired the leasehold interest with the intention of finding a new lessee/operator as soon as possible.

The initial lease terms offered by the California State Lands Commission was a minimum annual rent of $8,900 against $0.015 per gallon of fuel up to 100,000 gallons and $0.02 per gallon thereafter as well as 5% of the gross income for all other sales.

Maxum Petroleum purchased the leasehold for $25,000, but with the understanding that there were to be expenditures in the first three to four years on the order of $500,000 to upgrade the facilities and to replace the underground storage tanks. The final lease terms to Maxum Petroleum, presented as Calendar Item C71 (2/9/16), was for a 10-year term at an annual flat rent of $10,300 per year with CPI adjustments. This included 7,500 square feet of tidelands area; an easement for pipes running along the southerly boundary of the uplands property with an estimated area of approximately 450 square feet; a subterranean tank storage area of approximately 750 square feet in the driveway/parking lot area fronting on Pacific Coast Highway. The total uplands supporting area is approximately 1,200 square feet. Thus, the lease effectively includes both tidelands and uplands, as with most port districts.

I reviewed five commercial land sales and lightly improved properties that transferred near the date of value in the subject market area. While no detailed comparative analysis was performed, these data appeared to indicate that the uplands land value at the location of the gas dock would be on the order of $200 to $250 per square foot. Because the uplands rights are in the form of easements, I allocated a 50% discount to the base value on a per square foot basis. Calculating the necessary return to the uplands at 5% on the same basis as presented in the previous reports results in the following:

1,200 sq. ft. x $200/ sq. ft. x 50% x .05 return =	$6,000
1,200 sq. ft. x $250/ sq. ft. x 50% x .05 return =	$7,500

The indication of the remainder available for rental payment of the tidelands is calculated as follows:

$10,300 – $6,000 = $4,300/ 7,500 sq. ft. = $0.57/ sq. ft.
$10,300 – $7,500 = $2,800/ 7,500 sq. ft. = $0.37/ sq. ft.

Dana Point Fuel Dock:

Dana Point Fuel Dock, Dana Point

Tidelands: 8,000 sq. ft. Uplands: 8,500 sq. ft.

The Dana Point facility includes approximately 8,000 square feet of tidelands and approximately 8,500 square feet of uplands land. Additionally, the leased premises also include improvements on both land and water. These consist of a 900± square foot office/retail building, ramps, dock, landscaping, refuse area, storage area, storage fuel tanks and parking area.

The rent is based on a minimum against 2.5% of revenue from diesel and 3.0% from gasoline and 10% of non-fuel items. The total rent paid for 2015-2016 was $98,469. This included minimum rent and percentage rent.

In order to judge the residual contribution made to total rent by the tidelands for the sale of marine fuel purposes, it was necessary to calculate a market based return to the uplands and the annual amortization costs and return on the improvements.

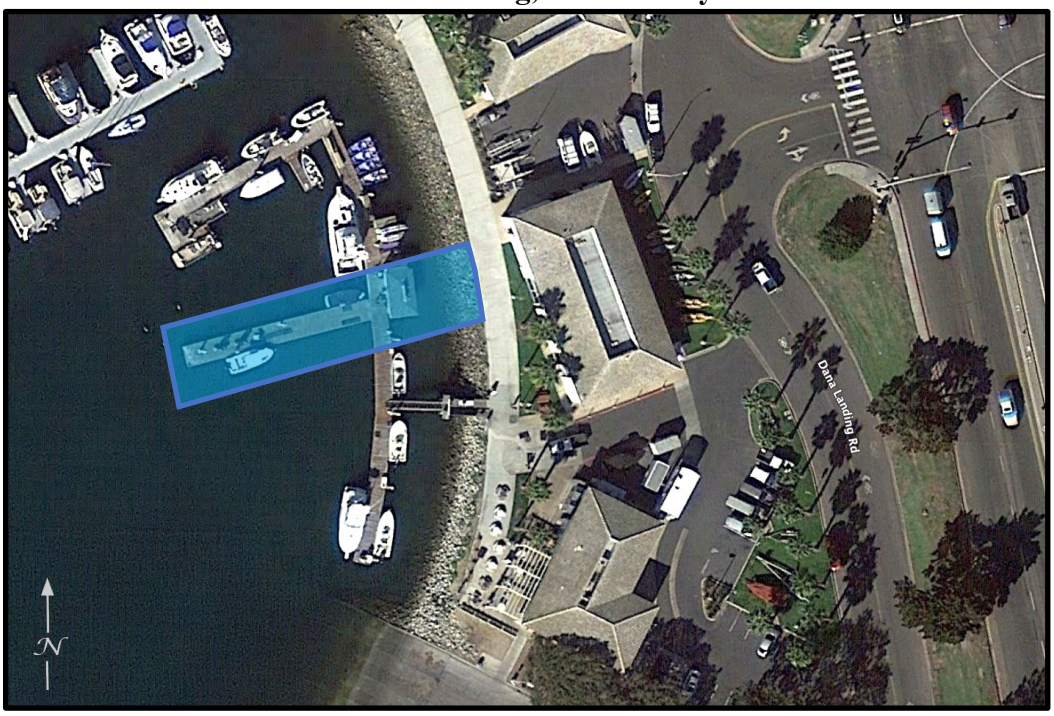
Total Rent 2015-2016:		$98,469
Less 10%± for other income sources:		($10,000)
		$88,469
Estimated Uplands Land Value:	$900,000	
Return @ 5%:	$45,000	($45,000)
Improvements Costs:		
Storage Tanks:	$225,000	
Office and land improvements:	$100,000	
Pier, ramps, floats:	$75,000	
Marine fuel pumps, dispenser, equip.:	$25,000	
Sub-total improvements:	$425,000	
Amortized costs/return @ 9%:	$38,000	($38,000)
Residual to tidelands:		$5,469

Round to: $5,500/ 8,000 sq. ft. = $0.69/ sq. ft.

Mission Bay:

Dana Landing

Dana Landing, Mission Bay



Tidelands: 6,000± sq. ft.

The Dana Landing facility is a multi-purpose marina that includes 80 slips and other marine-related uses. It has a total tidelands area of 4.127 acres and an uplands area of 3.467 acres. The area dedicated strictly to marine fuel sales is estimated to be 6,000± square feet of tidelands and 1,000 square feet of uplands. Rent is based upon 3.00% of revenue from gross sales of gasoline and 1.50% of diesel income.

I was able to review the audited income and rent for the four years from December 2007 through November 2011. The average annual rent for fuels sales over that period was $19,758 per year. I was also able to review the rent report from August 2015 through July 2016. The rent from fuel sales over that year was $24,196.

Analyzing the contribution made by the uplands to total rent is complicated by the fact that nearly all potential commercial waterfront property in Mission Bay is under the ownership of the City of San Diego. However, I did research surrounding real estate values, particularly of residential properties, in Mission Bay. While acknowledged to be an indirect

basis for comparison, it was noted that the price levels for comparable properties in Mission Bay were generally similar to those in the various neighborhoods in the immediate vicinity of Newport Harbor. This was particularly true for those on the Balboa Peninsula, which is analogous to the peninsula in Mission Bay.

With a slight adjustment downward for the large size of the parcel of which the marine fuel area is a part, it seemed reasonable, based upon the data available, to allocate a value of $400 per square foot for the waterfront commercial property in Mission Bay. If the uplands area is judged to be 1,000± square feet in size, then the required return to the uplands would be calculated as follows:

$400/ sq. ft. x 1,000 sq. ft. = $400,000
Return @ 5% = $20,000

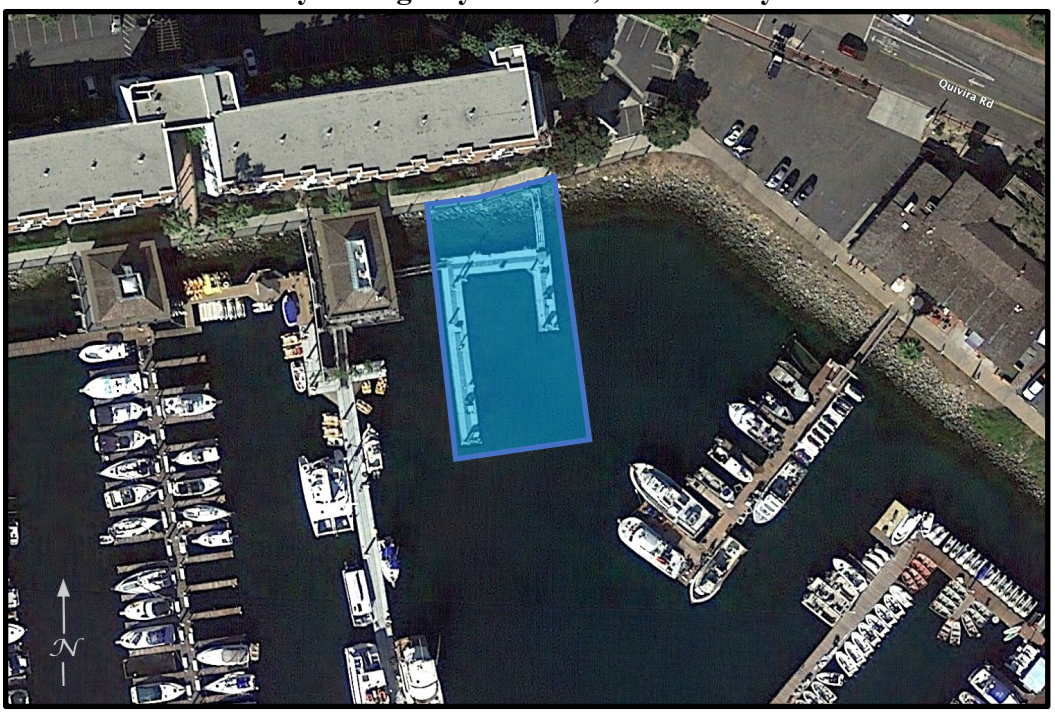
Based on the empirical data of rent generated from marine fuel sales discussed above, it appears that the upper end of anticipated rent would be on the order of $25,000 for land and water.

Total Rent:	$25,000
Required return to uplands:	($20,000)
Residual to tidelands:	$5,000

$5,000 / 6,000 sq. ft. = $0.83 per square foot

Hyatt Regency Islandia

Hyatt Regency Islandia, Mission Bay



Tidelands: 11,500± sq. ft.

This is a large multi-purpose property that is anchored by a Hyatt Regency Hotel and large commercial marina. It cannot be directly compared to the subject properties, but it is included for informational purposes. Like Dana Landing, rent is based upon 3.00% of revenue from gross sales of gasoline and 1.50% of diesel income.

The tidelands area dedicated to the sale of marine fuels is approximately 11,500 square feet in size. I reviewed audit information from September 2008 through August 2012. During this period, the average annual rent per the audit was $9,219. This is equivalent to $0.80 per square foot without consideration of the required return to the uplands.

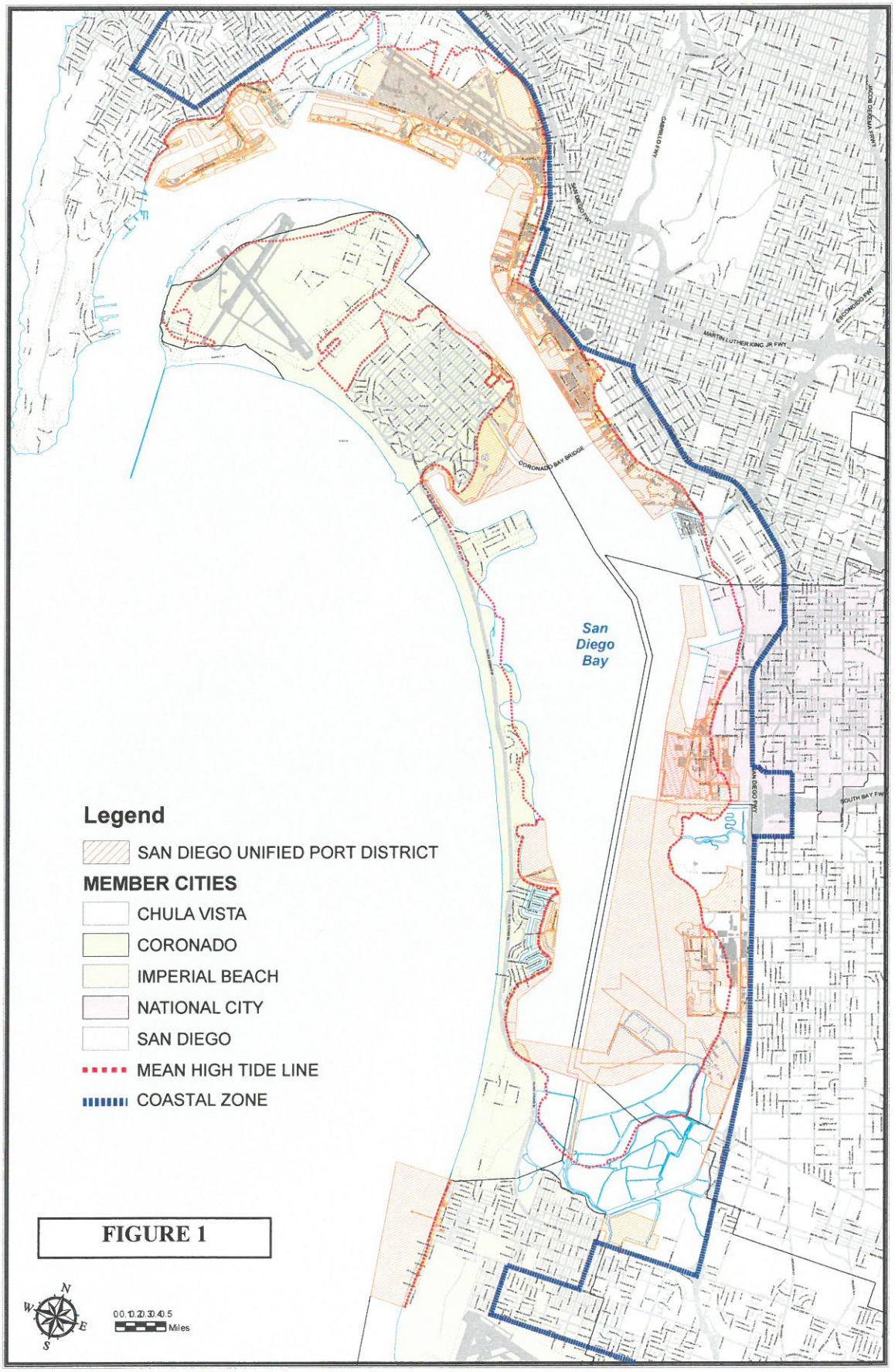

San Diego Bay
CORONADO BAY BRIDGE
MARTIN LUTHER KING JR FWY
SAN DIEGO FWY
SOUTH BAY FWY
Legend
SAN DIEGO UNIFIED PORT DISTRICT
MEMBER CITIES
CHULA VISTA
CORONADO
IMPERIAL BEACH
NATIONAL CITY
SAN DIEGO
MEAN HIGH TIDE LINE
COASTAL ZONE
N
W
E
S
0 0.1 0.2 0.3 0.4 0.5
Miles

FIGURE 1

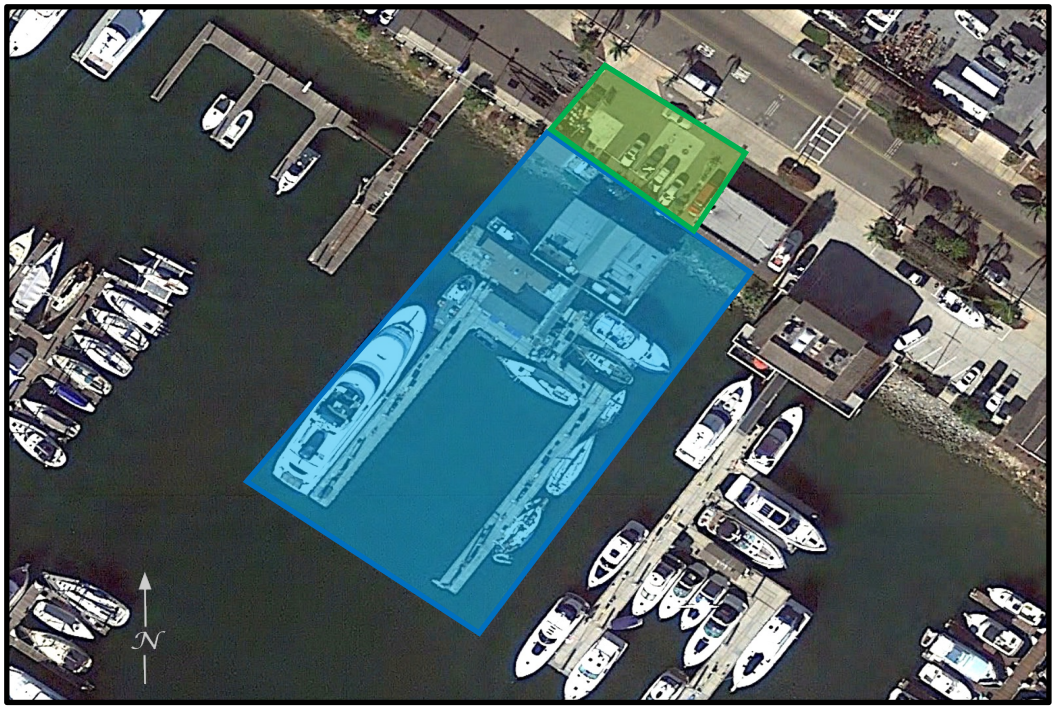
San Diego Port District:

I was able to obtain considerable factual information from the Real Estate Division of the Port of San Diego on the three primary marine fuel sales facilities operating in the San Diego Port District. As will be seen in the following data, it appears that location, with a corresponding proximity to potential customers, is a critical influence in the volume of sales obtained at a particular fuel dock.

Rental for land and water in the San Diego Port District for the commercial sale of marine fuels is based on $0.02 per gallon for diesel and $0.04 per gallon for gasoline. The San Diego Port District owns and controls much of the commercial waterfront and there is, correspondingly, limited sales activity to measure open-market indications of the value of uplands as dedicated to the support of the commercial sales of marine fuels. Surrounding real estate values in the residential sector are relatively high, as discussed above with nearby Mission Bay.

Pearson Marine Fuels

Pearson Marine Fuels, San Diego Port District



Tidelands: 32,900 sq. ft. Uplands: 4,000 sq. ft.

The leased premises include 4,000 square feet of uplands and 32,900 square feet of tidelands. The annual volumes of fuel sold and the corresponding rent are presented below:

	Fuel Type	Volume	Rent
2014	Diesel	649,398	$12,988
	Gasoline	131,142	$5,246
2014 Totals		780,540	$18,234
2015	Diesel	759,014	$15,180
	Gasoline	135,398	$5,416
2015 Totals		894,412	$20,596
2016	Diesel	742,315	$14,846
	Gasoline	122,197	$4,888
2016 Totals		864,512	$19,734

It appears that $20,000 per year for the rental of land and water would be reasonably anticipated for this site. Allocating 750± square feet of the 4,000 square feet of uplands to fuel dock support (tank storage), at $350/ square foot and a 5% return indicates $13,125 of the projected total rent going toward dedication of the uplands to support the fuel dock use of the tidelands. This leaves a residual to the tidelands of $6,875.

$6,875 / 32,900 square feet = $0.21 per square foot

Considering the low end of the range for waterfront commercial land at $200 per square foot results in a market based return to the land of $7,500.

$20,000 - $7,500 = $12,500
$12,500/ 32,900 square feet = $0.38 per square foot

The indicated rent for the *tidelands only* of $12,500, generated on the basis of the volume of fuel (gallons) dispensed, is as follows:

$12,500 / 865,000 = $0.0145 per gallon

High Seas Marine Enterprises

High Seas, San Diego Port District

Tidelands: 33,079 sq. ft. Uplands: 6,000± sq. ft.

The leased premises include 13,802 square feet of uplands and 33,079 square feet of tidelands. It appears that approximately 6,000 square feet of the uplands is utilized for fuel tank storage. The annual volumes of fuel sold and the corresponding rent are presented below:

	Fuel Type	Volume	Rent
2014	Diesel	2,427,029	$46,541
	Gasoline	73,486	$2,939
2014 Totals		2,500,515	$49,480
2015	Diesel	2,775,121	$55,502
	Gasoline	82,447	$3,298
2015 Totals		2,857,568	$58,800
2016	Diesel	2,766,786	$45,533
	Gasoline	73,066	$2,923
2016 Totals		2,839,852	$48,456

It appears that $50,000 - $55,000 per year would be reasonably anticipated for this site for the rental of land and water. Allocating land value at the low end of the range ($200 per square foot) results in the following:

$200 per square foot x 6,000 sq. ft. = $1,200,000
$1,200,000 x .05 = $60,000

Therefore, it appears that a market-based return on the land ($60,000) is greater than the total indicated rent for land and water ($50,000 - $55,000). This seems to suggest that there is some implicit subsidization operating where the land and water are controlled by a public entity that is mandated to provide a balanced harbor environment where there is a stable blend of interdependent services providing both commercial and recreational opportunities.

Harbor Island West

Harbor Island West, San Diego Port District

Tidelands: 14,500 sq. ft.

The leased premises of Harbor Island West include extensive land and water area to support a large marina in addition to a fuel dock. According to Port District information, the total leased area is

3.76 acres of land and 21.97 acres of water area. As shown in the aerial image above, the portion of the tidelands dedicated to fuel dock use is approximately 14,500 square feet. It appears that approximately 1,000 square feet of the uplands is used for underground tank storage purposes. The annual volumes of fuel sold and the corresponding rent are presented below:

	Fuel Type	**Volume**	**Rent**
2014	Diesel	1,042,883	$20,658
	Gasoline	392,255	$15,690
2014 Totals		1,435,138	$36,348
2015	Diesel	1,229,176	$24,584
	Gasoline	430,728	$17,229
2015 Totals		1,659,904	$41,813
2016	Diesel	1,267,426	$25,348
	Gasoline	416,247	$16,649
2016 Totals		1,683,673	$41,997

Based upon the above data, it is reasonable to conclude that, at the date of value, rental income on the order of $42,000 per year could be anticipated for this site, inclusive of land and water. Allocating land value is considered particularly speculative at this site as the Harbor Island land area is used for a complex of planned, inter-related uses. These include marina support, marine-related retail and large, destination hotel facilities. I performed a capitalized rent analysis taken from empirical information available for the multi-story Hyatt Hotel in Mission Bay on a 9.7± acre site, reviewed general real estate and commercial values in the area, and adjusted for size to conclude that a $350 per square foot basis for dedication of the land for marine fuel purposes at this Port District location, as was employed elsewhere, was reasonable.

Based upon these criteria, the following indication of rent applicable to the tidelands at this site is developed as follows:

$350 per square foot x 1,000 sq. ft. = $350,000
$350,000 x .05 = $17,500
$42,000 - $17,500 = $24,500
$24,500 / 14,500 = $1.69

The indicated rent for the *tidelands only* of $24,500, generated on the basis of the volume of fuel (gallons) dispensed is as follows:

$24,500 / 1,685,000 = $0.0145 per gallon

Data Analysis and Reconciliation:

Analysis of the market data provides a range of indications for the contributory value of the tidelands only to total rent for the commercial sale of marine fuels. The relative relationship between the data items can be impacted by the unit value used in expressing the basis for the rent.

As an example, comparison of Pearson Marine Fuels and Harbor Island West, both in the San Diego Port District, provides an interesting illustration. The indicated rent for tidelands only at Pearson's was $0.38 per square foot while it is $1.69 at Harbor Island West. A significant difference, yet when the same results were expressed in terms of the volume of fuel pumped, the indicated rental rate was the same - $0.0145 per gallon. The following analysis and reconciliation will attempt to bring these disparate facts and analyses to a final conclusion for the subject tidelands as dedicated to the commercial sale of marine fuels.

The proposed Jankovich lease in the Port of Los Angeles is the only flat rate lease of tidelands only. It should be noted that it is also leased in conjunction with other adjoining land uses at different rates to create the total "package" of the premises. The rate for 42,000 square feet of tidelands is $0.97 per square foot. As opposed to making a conventional upward adjustment for size and marginal utility, it should be borne in mind that the size of this facility permits the berthing of large commercial vessels with far greater fuel consumption potential than would be available in Newport Harbor. This is recognized to be an advantage. It seems reasonable that the increased volume of sales potential, rather than being expressed on a price per gallon basis, is embedded in the price per square foot. Therefore, this would appear to be a reliable upper limit indicator for the subject when considered on a per square foot basis.

The Del Rey Fuel Dock in Marina del Rey appears to pay significantly more rent for the tidelands than at any other location on the Southern California coast. Reference to the chart of the Market Data Retail Fuel Sales Costs presented previously shows that the gasoline price at Del Rey is well above any other fuel dock in Southern California, with the exception of King Harbor. In both cases, these facilities are the sole marine fuel operations in the respective harbors creating a "captive audience" dynamic. The diesel price is at the upper end of the range of competitive facilities as well. Interviews with professionals in the area have indicated that larger yachts with greater fuel capacities will travel to Port of Los Angeles/San Pedro to fill their boats with cheaper fuel.

No data was available distinguishing between the ratio of gasoline to diesel sales at the Del Rey Fuel dock. Typically, older sailboats, which make up a significant percentage of the marina population in Marina del Rey, have gasoline engines. Speedboat/outboards also use gas. Accordingly, it appears possible that the apparent higher rental rate for the marine fuel dock facility is accommodated by the relatively higher retail fuel prices. In other words, the higher rent is passed on to the customers.

Because this assignment is to form an opinion of market value in Newport Harbor for fuel dock use of the tidelands *in synergistic relationship with other commercial uses in the harbor*, the Del Rey Fuel Dock rental rate was given lesser weight in a direct correlation to subject fair market rent.

The Rocky Point Marine Fuel Facility in King Harbor included improvements, as well as uplands and tidelands. It was not considered directly comparable to the subject and was included for informational purposes only.

The saga of the fuel dock operation in Huntington Harbor was instructive for a number of reasons. Widely held perceptions of the critical role that marine fuel docks play in the economic vitality of a harbor was illustrated by the extraordinary measures taken by the City of Huntington Beach, at the behest of its residents, to make certain that a new operator was attracted to the harbor when Mariner's Point Fuel dock closed down.

The terms of the final lease – a flat rate – reflected the fact that the lessor recognized the new tenant would be obliged to make major upgrades to the facilities. Due to the existing facilities, which were purchased for a

nominal $25,000, this situation was less onerous than it would be at a theoretical vacant subject site, where all the costs of improving both the uplands and the tidelands to standards consistent with current regulations and market expectations would need to be considered. A range of $0.37 to $0.57 per square foot per year for rent attributable to the tidelands only resulted from this analysis.

The lease at Dana Point included the improvements for the uplands office, the dock facilities, underground storage tanks and other site improvements. Adjustments for this required the development of a residual indication of the tidelands contribution to total rent. The costs are judged to be well-supported; nonetheless, it is recognized that a significant degree of leverage was involved in this analysis. The result was $0.69 per square foot.

The Dana Landing fuel dock facility in Mission Bay, being part of a much larger whole, was generally consistent with the size and nature of the subject fuel docks. Allocation of land value for the uplands was based upon indirect criteria, but judged to be reasonable. The result of $0.83 per square foot of tidelands was generally consistent with the other indicators.

The Hyatt Regency gas dock, which is part of a complex assembly of uses, indicated that the tidelands contribution to rent for the commercial sale of marine fuels should be *less than* $0.80 per square foot.

Good empirical information for the volume of fuel sold and the rent charged was provided by the San Diego Port District for its three primary fuel docks. Because the locational influences and the size and configuration of the facilities vary, indications of the contribution of the tidelands to total rent likewise varied when employing the same methodology. However, viewed on a rental rate per gallon of fuel pumped, there was consistency at $0.0145 per gallon for rental of tidelands only.

After eliminating apparent anomalies at the high and low end of the indicators, a range of $0.37 to $0.97 per square foot resulted.

Application to Subject Tidelands:

Discussion was presented in an earlier section of this report relative to the fundamental imperative that the conclusions of fair market rent for the subject tidelands for the commercial sale of marine fuels cannot properly be considered in isolation from the tidelands rents of other commercial users in Newport Harbor. In summary, the underlying objective of this assignment is to form an opinion of market rent for marine sales purposes that is logically and supportably integrated within the network of commercial, recreational and residential uses that comprise Newport Harbor as a whole.

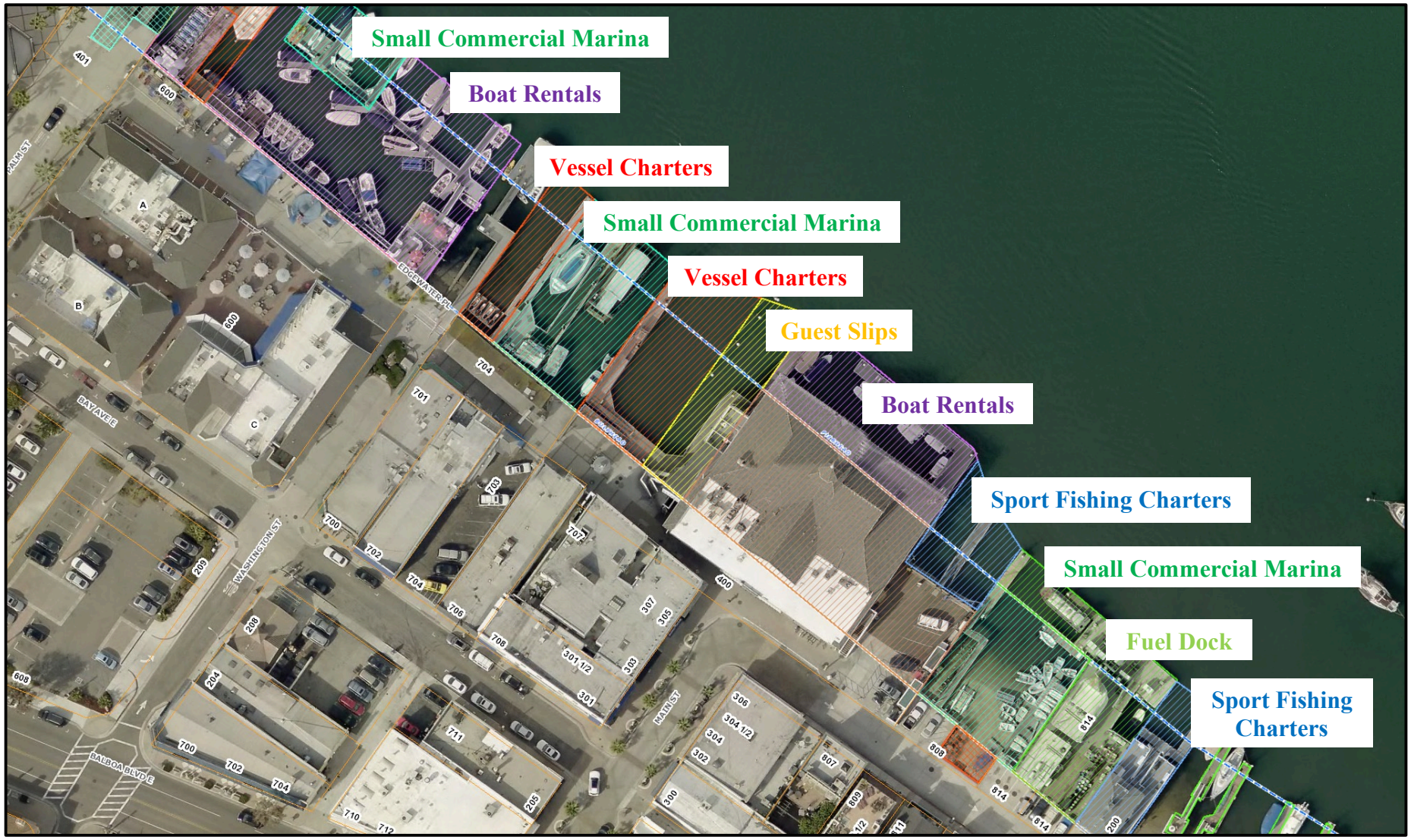
The instructions set out in the Scope of Services was to present "conclusions of fair market rent of the city tidelands, as used for the purpose of the commercial sale of marine fuels… expressed in three different forms." Accordingly, the three following "expressions" of my conclusion of market rent are presented:

1. A "flat rate" of an annual rent on a per square foot basis:

   The foregoing analysis of fuel dock market data at other jurisdictions up and down the Southern California coast indicated a reconciled range of rental indications *for tidelands only* from $0.37 to $0.97 per square foot per year. The majority of that data was between $0.57 and $0.80 per square foot.

   Extensive analysis was presented in the Phase 2 report indicating how an annual market rent conclusion for small commercial marinas (< 13,000 sq. ft.) was supported at $0.76 per square foot. This indication was then correlated to similarly sized commercial operations where the real "engine" of the enterprise – that without which the business could not function - was in the tidelands. A similar $0.76 per square foot annual rental rate conclusion was obtained in these cases as well.

   The intuitive rationale for this common rate across uses is perhaps best illustrated by the exhibit of the commercial tidelands in the Pavilion area of the Balboa Peninsula. The tidelands areas leased are essentially similar. The uses vary, but they are all (with the exception of the guest slips) integral and indispensable to the



Balboa Peninsula – Pavilion Area – Commercial Tidelands

different commercial businesses of which they are a part. And they are effectively interchangeable.

While fully aware that different uses can, and in some cases, should be charged at different rates, within this band of tidelands size and highest and best use potential, it is my judgment that a $0.76 per square foot annual rental rate should be applied consistently. Therefore, I have concluded that market rent for the subject tidelands, as dedicated to the commercial sale of marine fuels, is expressed as a "flat rate" of $0.76 per square foot per year.

This conclusion is consistent with the analysis of the market data as well as with established rates for other similarly configured commercial uses of the tidelands in Newport Harbor.

"Flat Rate" Conclusion: $0.76 per square foot per year

2. Annual rent based on a price (unit rate) per gallon of fuel sold:

In my judgment, application of a percentage rent, or price per gallon basis for fuel dock use, while a useful tool, must be applied with caution. This method could potentially create a non-equitable situation if done without reference to the basic "flat rate" conclusions to which other commercial uses in the harbor are subject.

It must be remembered that the market data in other jurisdictions for non-fuel dock commercial uses are also typically expressed on a percentage of revenue basis. It was the work of the Phase 2 report to bring those various indicators to fair and equitable "flat rate" rental conclusions on a harbor-wide basis. This balance should not be lost.

That said, integrating a unit rate (price per gallon) basis in setting market rent presents an opportunity to recognize and accommodate the uncertainties inherent to the marine fuel dock business. The permanent closure of Cabrillo Marina Fuel Dock and the closure and re-opening of the Huntington Harbor facility, facilitated by the intervention of the City of Huntington Beach and the apparent involvement of the State Lands Commission in adjusting lease terms, highlights the challenges of such a business enterprise.

Utilizing a rental rate based on effective "productivity" (gallons dispensed) could provide implicit support to fuel dock enterprises experiencing low sales volume. This would be beneficial in a harbor-wide context by indirectly contributing to the economic health of an essential fuel sales operation.

By the same token, in my judgment a "ceiling" should be placed on a price per gallon unit rate that is consistent with other commercial uses of the tidelands of similar size and general character. This is the established "flat rate" of $0.76 per square foot of leased tidelands already discussed.

To expose the operator of a marine fuel dock to rent above that level based on a highly volatile gallonage standard would seem to be inconsistent with the overarching assignment to set market rent at an equitable level, reflecting use, for all commercial uses in the harbor.

For example, to penalize a successful operator of a marine fuel business with an open-ended rental rate while a (theoretically) equally successful operator of a vessel charter business would be assured a fixed rental amount appears to be at variance with an integrated standard of market rent throughout the harbor.

Alternatively, the effective rent paid by a successful operator of a marine fuel business, subject to an open-ended rent amount, could be dramatically different from that of a less successful competitor in the marine fuel business for, theoretically, equivalent space and for the same use. Such a circumstance would fundamentally contradict basic principles of market rent. Setting a reasonable cap on the unit rate basis of rent at the "flat rate" standard resolves this situation.

I was able to obtain reliable sales volume (gallonage) information from Marina del Rey and the Port District of San Diego. As discussed, the Marina del Rey information was useful as an indicator of potential volume in Newport Harbor, but the unit rate itself, being much higher than all other market indicators, was difficult to correlate.

Analysis of two of the Port District facilities appeared to indicate that tidelands rent, expressed on a price per gallon basis, was on the order of $0.0145. This was based on indirect estimates on the anticipated return to the uplands that was required at the respective locations.

In Newport Harbor the high value intrinsic to waterfront property presents the commercial tidelands users with the burden of providing a market based economic return to the uplands necessary to support the tidelands use. We have further seen how the value of the uplands affiliated with two of the three existing fuel dock facilities is two to three times greater than the third (mixed-use vs. commercial), and significantly more than the uplands associated with the market data in the San Diego Port District or Marina del Rey.

Accordingly, in my judgment, the $0.0145 per gallon rate developed from the data should be adjusted downward to reflect the upland values in Newport Harbor. I have concluded at $0.01 per gallon as the applicable unit rate for the subject tidelands as dedicated to commercial marine fuel sales. Further, it is my opinion that this rate should be applied up to a level not to exceed the equivalent of $0.76 per square foot of tidelands leased.

Unit Rate Conclusion:	$0.01 per gallon
Not to Exceed:	$0.76 per square foot

3. Annual rent based on a price (unit rate) per gallon of fuel sold in conjunction with a "flat rate" minimum requirement (distinct from #1 above) based on the square footage of the tidelands leased:

In my judgment, the minimum rent requirement for the commercial sale of marine fuels should be consistent with the low end of tidelands rent concluded elsewhere in the harbor. Just as with shipyards, a marine fuel dock can be considered an "essential" component of the overall health and stability of the harbor, and the minimum rate should reflect this.

The analysis for the minimum rent requirement, as exemplified by shipyards, was presented in the Phase 2 report along with the conclusion at $0.38 per square foot. In my judgment, this is also an

appropriate minimum requirement to apply to the lease of the tidelands for fuel dock use.

Therefore, my conclusion to the third "expression" of market rent of the Newport Harbor tidelands for the commercial sale of marine fuels is as follows:

Minimum Rent:	$0.38 per square foot
Application of Unit Rate @	$0.01 per gallon
Not to Exceed:	$0.76 per square foot

Addenda

EXHIBIT A
SCOPE OF SERVICES

Consultant shall provide an appraisal of the following:

Supplement to the Appraisal Report "Market Rental Value City Tidelands and Submerged Land", dated April 7, 2016, (Phase 1) and a Phase 2 Appraisal Report, dated July 12, 2017, both reports prepared by Consultant.

The same date of value used in those previous reports, March 15, 2016, shall be used. Consultant's conclusions of fair market rent of the city tidelands, as used for the purpose of the commercial sale of marine fuels, shall be expressed in three different forms:

1. A "flat rate" of an annual rent on a per square foot of tidelands basis;

2. Annual rent based on a price (unit rate) per gallon of fuel sold; and

3. Annual rent based on a price (unit rate) per gallon of fuel sold in conjunction with a "flat rate" minimum rent requirement (distinct from # 1 above) based on the square footage of tidelands leased.

Consultant's work shall be performed in accordance with Uniform Standards of Professional Appraisal Practice (USP AP), and in conformance with Standards Rule 2-2 of USPAP. Consultant shall provide City with an electronic copy of the Appraisal Report at the completion of the assignment.

CERTIFICATION

The undersigned hereby certifies that:

1. I have made personal inspections of the subject properties and the Newport Harbor tidelands generally on various occasions over the past 25 years.

2. To the best of my 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. I have no present or prospective interest in the properties that are the subject of this report. I have no personal interest or bias with respect to the subject matter of this report or the parties involved. This report is Phase 3 of an appraisal of City of Newport Beach Tidelands. Phase 1 was submitted by this office on April 7, 2016. Phase 2 was submitted by this office on July 12, 2017. Otherwise, I have not performed any services, as an appraiser or in any other capacity, regarding the properties that are the subject of this report within the three-year period immediately preceding the acceptance of this assignment.

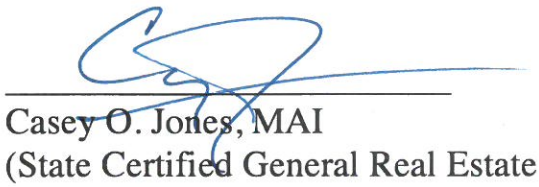
5. The engagement of my firm and the compensation for this assignment are not contingent upon the development or reporting of a predetermined value or result, or direction in value, that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence 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. This report, and the analyses, opinions, and conclusions contained herein, have been made in conformity with and are subject to the requirements of the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute, and the Uniform Standards of Professional Appraisal Practice.

8. No one other than the undersigned prepared the analyses, conclusions, and opinions, or provided other significant professional 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, I have completed the requirements of the continuing education program of the Appraisal Institute.



Casey O. Jones, MAI
(State Certified General Real Estate
Appraiser 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 appraiser 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 appraiser reserves the right to make such adjustments to the valuation herein reported, as may be required by consideration of additional data or more reliable data that may become available.

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.

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 my review relating to hazardous materials or toxic wastes that may affect the appraised property. Unless otherwise stated in the report, I did not become aware of the presence of any such material or substance during our investigation or inspection of the appraised property. However, I am 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 appraiser assumes 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 CASEY O. JONES, MAI

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

Mr. Jones is a partner with the real estate appraisal and consulting firm of George Hamilton Jones, Inc., in Newport Beach, California. He has been appraising real property since 1991. His appraisal experience covers a broad range of assignments that, in addition to standard property types, includes railroad rights of way, transmission line corridors, acquisitions for freeways, wetlands/ conservation land, vineyards and wineries, tidelands, marinas, ranches, subdivision land, real property damages and various waterfront property types.

Property interests appraised include fee simple, leased fee, leasehold, fair rental value, partial acquisitions, eleemosynary interests, and easements of various types and rights of way. Mr. Jones has served as an expert witness in courtroom and judicial arbitration settings in Southern California.

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 Staturory and Regulatory Law Course

Real Estate Appraisal Seminars (Partial List)

Litigation Seminars, 2007, 2009-2012, 2014-2016
Market Trends Seminars: LA/ OC/ Inland Empire
Conservation Easement Valuation
Real Property Damages Valuation
Project Delay Economics
Hydraulic Fracking and Property Rights
Entitlements in Real Property Appraisals

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, 2014-2017

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

Specialized Properties and Assignments (Partial List):

Rancho Mission Viejo, 1,100-acre Planning Area 5, Trampas Reservoir site
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, fair rental value, various commercial uses, Newport Beach
Colonies Parkway, Upland – commercial/residential planned community/water rights
Inland Center Mall – partial acquisition freeway on/off ramp

Residential Subdivision – Regulatory Taking, Inverse Condemnation, San Juan Capistrano
BNSF Railway – aerial and other easement acquisitions, 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
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
Mt. Ada/Wrigley Estate (Catalina Island) – eleemosynary valuation

Clients – Attorneys & Corporations (Partial List):

Anglin, Flewelling, Rasmussen, Campbell & Trytten, LLP – John Anglin
Ardell Investment Company
Ayres Hotels
The Bixby Ranch Company
Barger & Wolen – Don Adkinson
Borchard Redhill, LP
Curci Companies
Endangered Habitat League
Greenberg Traurig, LLP – Cris K. O'Neall
Hines Hampton LLP – Brian Pelanda, Nicole Hampton
The Irvine Company
Jeffer Mangels Butler & Mitchell LLP - Gordon A. Schaller
Kasdan Lippsmith Weber Turner, LLP – Celene S. Chan
The Kilroy Realty Corporation
La Jolla Bank
Lanphere Law Group – Michael A. Lanphere
Nossaman, Guthner, Knox & Elliott – Alvin S. Kaufer, James C. Powers
Michael D. May – Attorney at Law
Mira Mesa Shopping Centers
Munger, Tolles & Olson LLP – Richard Volpert, Attorney
Murphy & Evertz – John Murphy, Jennifer Dienhart, Attorneys
O'Hara & Greco – Thomas A. Greco, Attorney
Palmieri, Tyler, Wiener, Whilhelm & Waldron – Michael H. Leifer
The Santa Catalina Island Company
Rutan & Tucker, LLP – Stephen A. Ellis
Southern California Edison Company
Stephens Friedland LLP – Todd Friedland
Waldron & Bragg, LLP – Gary Waldron, John Olson

Clients – Public Agencies, Governmental (Partial List):

Capistrano Unified School District
City of Long Beach
City of Newport Beach
City of San Juan Capistrano
County of Orange
County of Los Angeles Beaches and Harbors
County of Los Angeles Board of Harbor Commissioners
Orange County Transportation Authority (OCTA)
San Bernardino Associated Governments (SANBAG)
Santa Margarita Water District
State of California Department of Transportation (Caltrans)
State of Nevada Department of Transportation (NDOT)
University of California

(Updated 8/17)