

CONSULTIVE PRICING STUDY
POTENTIAL ACQUISITION PARCELS
BANNING RANCH – 400± ACRES
NEWPORT BEACH ANNEXATION

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December 23, 2008

City of Newport Beach
3300 Newport Boulevard
Newport Beach, CA 92268-8915

Resource Opportunity Group
811 6th Street, Suite 301
Santa Monica, CA 90403

Attn: Ms. Sharon Wood
Assistant City Manager

Mr. David Myerson
Proprietor

Re: Consultive Pricing Analysis
Potential Acquisition Components
Banning Ranch, Newport Beach

Our File No. 4262-08

Ladies & Gentlemen:

Buss-Shelger Associates has been requested to ascertain for the City the magnitude of capital funds from various sources that will be required to purchase all or portions of the Banning Ranch, depending on priorities. The current project proposes development on roughly one-half of the 402-acre Ranch; entitlements are being sought for 1,375 dwelling units, 75 hotel rooms, 75,000 square feet of commercial space plus visitor oriented facilities.

In order to assist the City in their deliberations, relevant market information has been assembled involving properties with features similar to the various Banning Ranch components. These price benchmarks have been applied to the subject components on both a conservative and optimistic basis. The market data program consists of the following broad categories.

- Larger coastal degraded wetlands purchases
- Sales of developable sites adjacent to wetlands
- Transfers of developable marine terrace
- Environmentally sensitive hillside acquisitions.

Extensive back up details on each data item has been retained in our files, to be included in a final appraisal report if required. In the interest of providing concise results, the information will be shown in summary form in our ensuing presentation with an analysis and pricing recommendations. In the interest of efficiency, the conclusions may be found in the table on the following page. Additionally, we have provided our judgment as to the "bulk price" in the event the entire Banning Ranch is sought for acquisition rather than smaller increments.

Parcel Index	Proposed Land Use Designation	No. Acres	Price Recommendations	
			Conservative	Optimistic
A	Lowland Open Space	134.1	\$ 8,000,000	\$ 8,700,000
B-1	Oil Recovery Site	11.7	1,300,000	1,500,000
B-2	Oil Recovery Site	4.8	900,000	1,000,000
B-3	Benchland Open Space	43.5	6,500,000	7,600,000
C-1	Benchland Development	85.4	111,000,000	128,100,000
C-2	Benchland Development	29.7	52,000,000	59,400,000
D	Hillside Open Space	<u>93.1</u>	<u>4,200,000</u>	<u>4,700,000</u>
TOTALS		402.3	\$184,000,000	\$211,000,000
BULK PRICE (25% Discount)			\$138,000,000	\$158,000,000

Set forth on the following pages may be found concise general land use comments, market information plus our recommendations pertaining to each land use category by parcel as shown above.

Respectfully submitted,
BUSS-SHELGER ASSOCIATES



Ronald L. Buss

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PARCEL A – LOWLAND OPEN SPACE (WETLANDS)**Background**

This designation is fairly self-explanatory as it encompasses all the lower, flat land areas that are heavily impaired with wells. The only exemptions are the two oil recovery sites (B-1 and B-2) located on the periphery of these degraded lands. Approximately 79 acres of the 134 acres in this category can be classified as wetlands, 42 acres are identified as wet meadows, the remaining 13 acres consist of trails, buffer zones and access corridors.

It should be noted that all of the wetlands purchases (except Sale Nos. 4 and 5) involve degraded acreage impacted primarily with both defunct and currently active oil wells plus the support pipelines, water injection wells and storage tanks. The market information does not show a price differential between the more pristine sites and the impaired parcels.

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Comparable Sales

Market Information

A search was undertaken for larger acquisitions of degraded lands and environmental sensitive wet meadows to ascertain prevailing price levels. The data program encompasses a five-year period, transactions uncovered varied in location from Ormond Beach to the north, southerly to the Del Mar estuary in San Diego County. The sales are listed chronologically below to ascertain price trends over time, the general location of each item is indicated on the facing Sales Map. Due to the size of the subject, a minimum size criterion of roughly 30 acres was adopted; the purchases ranged up to 275± acres.

<u>Sale No.</u> <u>Date</u>	<u>General Location</u>	<u>Acre Area</u>	<u>Buyer Site Condition</u>	<u>Purchase Price Price/Acre</u>
1 6/02	Arnold Road @ Edison Drive Ormond Beach, Oxnard	261.2	Coastal Conservancy Degraded Wetlands	\$9,700,000 \$37,136
2 4/03	N/O PCH, W/O Brookhurst Ave. Bolsa Chica, Huntington Beach	46.2	H.B. Wetlands Com. Degraded Wetlands	\$1,650,000 \$36,537
3 1/04	S/S Ballona Creek @ Culver Dr. Playa Vista (Area B Wetlands)	236.9	State Lands Com. Degraded Wetlands	\$14,500,000 \$61,207
4 6/04	W/S El Camino Real, S/O de La Valle, Del Mar	73.4	San Dieguito Auth. Mitigation Habitat	\$4,253,000 \$57,934
5 8/05	W/O Edison Dr., S/O McWane Ormond Beach, Oxnard	276.0	Nature Conservancy Mitigation Habitat	\$12,972,000 \$47,101
6 12/05	W/S Harbor Blvd., S/O Gonzales, Oxnard	28.3	City of Oxnard Mitigation Habitat	\$1,565,000 \$55,398
7 6/06	S/S 2 nd St. @ Studebaker Rd. Los Cerritos, Long Beach	41.4 (1)	Los Cerritos Auth. Degraded Wetlands	\$7,000,000 \$61,882
8 6/08	N/S Batiquitos Lagoon & Arenal Road, Carlsbad	18.11 (2)	Batiquitos Lagoon Foundation/Wetlands	\$2,400,000 \$67,567
9 8/08	E/S Long Beach Frwy., N/O Imperial, South Gate	7.81 (3)	Watershed Conserv. Auth. Reparian Welling	\$630,000 \$55,058

Footnotes

- 1) Wetlands portion is \$750,000 for 12.12 acres
- 2) Wetlands portion is \$500,000 for 7.24 acres
- 3) Wetlands portion is \$430,000 for 7.81 acres

Price Trends

An interesting price pattern emerges from the data assembled with the broad variance of \$36,537 to \$61,700 per acre attributable as much to location as the passage of time. Sale Nos. 1, 5 and 6 involve adjacent parcels at the more remote Ormond Beach, these items constitute the lower to mid-point of the price spectrum at \$37,136, \$47,101 and \$55,398 per acre respectively. It is noted that Sale No. 1 is without direct access. Sale No. 2 (\$36,537/acre) does reflect a dated acquisition as it occurred in early 2003, it also lacked direct access to Pacific Coast Highway, the same as Sale No. 1. Conversely, Sale No. 5 fronted Harbor Boulevard and accounted for the higher end of the Ormond Beach transactions. Sale No. 9 is situated further inland, but was included as it involves wetland areas adjacent the Los Angeles River purchased for habitat preservation, the lack of direct access accounted for the somewhat lower price of \$55,000± per acre.

Sale Nos. 3, 4, 7 and 8 all involve parcels with access, the price variance is fairly narrow at \$57,934 to \$67,567 per acre. Clearly parcel size and date of purchase did not reveal any price discrimination as the sites ranged broadly from 18.1 to 236.9 acres over a four-year period. These latter indicators are very relevant to the Banning Ranch wetlands and wet meadows, the following prices have been adopted. It should be noted that in none of the degraded wetlands purchases was there an allowance for future remediation expenses.

Conservative Price

134.1 acres @ \$60,000/acre \$8,000,000

Optimistic Price

134.1 acres @ \$65,000/acre \$8,700,000

PARCEL(S) B – OIL RECOVERY SITES/BENCHLAND OPEN SPACE**Background**

There are several parcels currently in use adjacent to the degraded wetlands that effectively are tank farms and distribution points (B-1 and B-2). These involve buildable parcels, but of odd configuration and not well located from a development perspective. These attributes likewise apply to B-3, which includes the 3.7 acres proposed as a Vernal Pool Area. The upper mesa land areas that are designated for parks, interpretation center and staging area involve lower valued lands that have not been indicated as future residential parcels. The same type of market information applies to this land use classification as well.

Market Information

Our investigation and search for this type of market acquisitions produced limited results, which was not surprising as this is not a type of property actively sought and exchanged in the marketplace. Three transactions were uncovered, fortunately they are all fairly current. Similar to the previous section, the data is displayed chronologically in the ensuing table, the location of each sale is indicated on the facing map. Comments for subject Parcels B-1 thru B-3 to follow.

<u>Sale No.</u> <u>Date</u>	<u>General</u> <u>Location</u>	<u>Acre</u> <u>Area</u>	<u>Buyer</u> <u>Site Condition</u>	<u>Purchase Price</u> <u>Price/Acre</u>
1 6/05	S/S Loynes Dr. & Palo Verde Ave., Long Beach	11.3	Bixby Long Beach, LLC Level, Street Grade	\$1,300,000 \$115,386
2 6/06	S/S 2 nd St. & Studebaker Los Cerritos, Long Beach	41.4 (1)	Los Cerritos Authority Land, Adj. Wetlands	\$7,000,000 \$213,383
3 11/07	S/S Main St. & Nivera Avenue, Chula Vista	12.5	R. Family Properties Level, Below Grade	\$2,500,000 \$200,000
4 8/08	N/S Batiquitos Lagoon, W/O Arenal Road, Carlsbad	18.1 (2)	Batiquitos Lagoon Former Nursery	\$2,400,000 \$174,793

Footnotes

- 1) Developable 29.29 acres purchased for \$6,250,000
- 2) Developable 10.87 acres purchased for \$1,900,000

Price Trends

Parcel B-1

This oil recovery site is effective land-locked with access restricted to connecting gravel roads through the degraded wetlands and meadows. Effectively a tank farm and distribution point, this parcel is clearly at the lower end of the price potential scale, being most similar to Sale No. 1 which does have street access but is in a remote location and a poorly shaped triangular holding. We have adopted prices of \$115,000 and \$125,000 per acre for this holding.

Conservative Price

11.7 acres @ \$115,000/acre \$1,300,000

Optimistic Price

11.7 acres @ \$125,000/acre \$1,500,000

Parcel B-2

Unlike parcel B-1, this smaller site fronts West Coast Highway and features favorable access and a fairly rectangular shape. Sale Nos. 2 and 3 are similar in terms of prominent street exposure and parcel configuration; their transfer prices are \$197,130 and \$200,000 per acre respectively. We have adopted prices of \$190,000 and \$210,000 per acre.

Conservative Price

4.8 acres @ \$190,000/acre \$ 900,000

Optimistic Price

4.8 acres @ \$210,000/acre \$1,000,000

Parcel B-3

This broad category includes all the designated park areas, interpretive center, boarding area and vernal pool. All these uses involve lower valued land; a portion is adjacent the lowland, however the bulk is on the upper mesa. Individual parcel size and shape value widely, a somewhat middle of the road price is suggested at \$150,000 to \$175,000 per acre; the latter benchmark indicated by Sale No. 4, a former nursery on level to undulating terrain.

Conservative Price

43.5 acres @ \$150,000/acre \$6,500,000

Optimistic Price

43.5 acres @ \$175,000/acre \$7,600,000

PARCEL(S) C – BENCHLAND DEVELOPMENT LANDS**Background**

After all of Parcels A and B are carved out, as well as the hillside terrain (Parcel D) that is both too costly to develop and environmentally sensitive, the remaining residential development areas are effectively two upper mesa benchlands at the same general elevation relative to the nearby improved areas of Costa Mesa.

Both Parcels C-1 and C-2 have view features, particularly from the perimeter homesites. It is pointed out that Parcel C-2 involves a much smaller holding which encompasses a promenade and fairly broad ridge that has excellent vistas in a number of directions. Clearly this holding has a much higher value per acre due to both reduced size and superior view characteristics.



Sales Map

Market Information

Since the final quantity of dwelling units to be approved for these two areas is not known, they are effectively unentitled lands designated for residential development. Accordingly, we have gathered larger land acquisitions involving parcels generally similar in condition to Parcel C. The purchases are summarized below. All have coastal orientation, ranging from Ventura on the north to Bolsa Chica on the south. Respective locations of each item may be found on the facing land Sales Map.

<u>Sale No.</u> <u>Date</u>	<u>General</u> <u>Location</u>	<u>Acre</u> <u>Area</u>	<u>Seller</u> <u>Buyer</u>	<u>Purchase Price</u> <u>Price/Acre</u>
1 10/02	W/S Lincoln Blvd., N/O Ballona Creek, Playa Vista (Area A)	78.3	Playa Capital Co. Wildlife Conservancy	\$92,000,000 \$1,174,818
2 10/02	NWC Lincoln & Jefferson Blvds., Playa Vista (Area B)	43.0	Playa Capital Co. Wildlife Conservancy	\$47,000,000 \$1,002,007
3 3/05	NEC PCH & Beach Blvd., Huntington Beach	22.6	Mills Land & Water JCC Homes	\$38,000,000 \$1,679,855
4 7/05	E/S Western Ave., S/O Palos Verdes Drive, San Pedro	61.2	United States Navy Bisno Development	\$125,000,000 \$2,042,484
5 1/06	SE Warner & Los Palos Avenue Bolsa Chica, Huntington Beach	15.0	Ocean View School State of California	\$12,320,000 \$821,333
6 Escrow	N/S Ventura Freeway, W/O Sanjon Road, Ventura	10/8	Lloyd Family Confidential	\$16,000,000 \$1,477,378

Price Trends

Parcel C-1

The prices shown vary widely depending on timing and circumstance. As a point of reference, Sale No. 5 involves the purchase of 15 acres from the Ocean View School District for \$821,333 per acre, however the parcel is land-locked. Obviously it is less meaningful to the subject's situation. Sale Nos. 1 and 2 were concurrent purchases at around the \$1,100,000 per acre

mark, however the acquisition(s) must be considered in light of the older date of purchase and the ownership agreeing to a 10% price reduction in order to discourage legal interference on developing the balance of Playa Vista. Similarly, these benchmarks are considerably low.

Sale No. 4 at slightly over \$2,000,000 per acre is judged as comparatively high as the acquired land involved much more level terrain and is easier to improve. It should be noted that the financial partner has recently assumed control of the asset. The most relevant benchmarks as related to Parcel C-1 are Sale Nos. 3 and 6 at \$1,679,855 and \$1,477,578 per acre, respectively. Sale No. 6 is also easier to develop as it is level and at street grade, however, these factors are practically offset by its location in Ventura which is not Newport Beach. Nevertheless, we have applied price indexes of \$1,300,000 to \$1,500,000 per acre respectively to Parcel C-1, in-part recognizing the quantity of land involved, the magnitude of capital required and related infrastructure expense.

Conservative Price

85.4 acres @ \$1,300,000/acre \$111,000,000

Optimistic Price

85.4 acres @ \$1,500,000/acre \$128,100,000

Parcel C-2

Clearly this is one of the finest, large parcels remaining on the South Coast with spectacular panoramic views. The area is proposed to be developed with both housing and a boutique hotel on a relatively small 29± acres, nevertheless infrastructure must be brought to the parcel. Sale No. 4 is the prime indicator, the price of \$2,042,484 per acre does involve a parcel roughly twice the size of the subject, however all utilities were in-place and the site is level site and thus easier to improve. The buyer also assumed entitlements would be readily obtainable. We have adopted prices of \$1,750,000 and \$2,000,000 per acre for Parcel C-2.

Conservative Price

29.7 acres @ \$1,750,000/acre \$52,000,000

Optimistic Price

29.7 acres @ \$2,000,000/acre \$59,400,000

PARCEL D – HILLSIDE OPEN SPACE**Background**

These hillside lands constitute about one-quarter of the entire Banning Ranch holding and effectively involve an elongated north-south parcel being the frontal downslope of the two developable benchland mesas with one major east-west canyon separating Parcels C-1 and C-2. A second canyon may be found on the north side of Parcel C-1. While portions of the surface topography has been disturbed due to the oil operations that have been ongoing for decades, there are sizeable areas in their natural state that exhibit environmentally sensitive habitat for a number of species. While lacking any realistic development prospects, this roughly 100 acres would not be a costly acquisition and would allow the City to create their own master trail system without requesting owner permission, insurance indemnification, etc.

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Development has occurred in the past on adjacent land with similarly challenging topography as evidenced by the housing trace abutting the northeast boundary of Banning Ranch. Currently the high cost of subdivision improvement makes this impractical at this juncture, disregarding any allowance for environmental concerns.

Market Information

Recognizing the size of this holding (93.1 acres), the market data program focused on coastal hillside purchases of roughly 40 acres or more, all with a similar environmental habitat overlay. The sales collected are also listed chronologically below, the price benchmarks are situated in either Los Angeles or Orange Counties as indicated on the facing map. A time frame covering the past three years was considered meaningful to current price levels.

<u>Sale No.</u>	<u>General Location</u>	<u>Acre Area</u>	<u>Seller Buyer</u>	<u>Purchase Price Price/Acre</u>
1 12/05	N/O Palos Verdes Drive S., W/O Narcissa, Rancho P.V.	462.9	P.V. Portuguese Bend City, Rancho Palos Verdes	\$17,000,000 \$36,725
2 11/06	N/S Latigo Canyon Road @ Wilmot Way, Malibu	125.0	Paul Rubens, et. al. Cyan Properties	\$6,250,000 \$50,000
3 11/07	E/S Laguna Canyon Rd., N/O Castle Rock, Laguna Beach	58.4	John Choa Trust City Laguna Beach	\$1,500,000 \$25,685
4 11/07	N/S/ Tuna Canyon Road, S/O Saddle Peak, Malibu	38.1	Walter Van Buskirk Justin Chancellor	\$2,750,000 \$72,210
5 1/08	N/S PCH, W/S Murphy Way, Malibu	85.0	O'Haru Trust, LLC Malitos Partners	\$2,675,000 \$31,456
6 Escrow	N/S Cinnamon Lane, Rancho Palos Verdes	191.2	York Long Point Assoc. City Rancho Palos Verdes	\$8,360,000 \$43,724
7 Escrow	N/S Palos Verdes Drive S., Rancho Palos Verdes	94.0	York Long Point Assoc. York Point View Prop.	\$4,250,000 \$45,213

Price Trends

Fortunately there were sufficient quantity of coastal oriented hillside sale items which allowed the data program to focus on recent transactions. If the extremes are eliminated (Sale Nos. 3 and 4), the price range narrows to roughly \$32,000 to \$50,000 per acre. Sale No. 3 is effectively a secondary comparable as it is landlocked; Sale No. 4 is superior as it has spectacular views and was purchased for two homesites.

Sale Nos. 2, 6 and 7 are considered the most meaningful as they involve similar size holdings and are current. The prices are \$50,000, \$43,724 and \$45,213 per acre respectively. Related to the subject 93.1 acres, prices of \$45,000 and \$50,000 per acre have been utilized for the subject hillside lands.

Conservative Price

93.1 acres @ \$45,000/acre \$4,200,000

Optimistic Price

93.1 acres @ \$50,000/acre \$4,700,000

CORRELATION

The aggregate of the individual parcels comprising the 400±-acre subject holding varies from \$210 to \$240 million, depending on market perspective. Clearly a discount for a bulk purchase is appropriate due in part to the odd mixture of property uses involved coupled with the total amount of capital required to purchase Banning Ranch in total. In the event the entirety is acquired, a discount on the magnitude of 20% to 30% is representative, 25% being typical under normal circumstances. In light of the current poor condition of the capital/credit markets, 25% may be judged as "light"; however it is reminded however that residential land market is fickle with rapid changes occurring as demand rises.

It is reminded that a major expense must be incurred to clear the terrain of contaminated soil, debris, defunct wells and pipelines, tanks, etc. The degraded wetlands price (\$8.5± million if paid) reflects the unsightly circumstances normally found with wetland acquisitions. The bigger issue is the cost of clean up for the balance of the Ranch which is a seller responsibility. A holdback of funds (escrow account) is recommended to ensure that this occurs.

PROFESSIONAL QUALIFICATIONS

RONALD L. BUSS

EXPERIENCE:

Buss-Shelger Associates, Los Angeles, California (since 1984).
President. Provides consulting, investment, valuation, advisory, brokerage and leasing services on all types of vacant and improved properties.

Landauer Associates, Inc., Los Angeles, California (1975-1984).
Senior Vice President. Real estate consulting services.

Shattuck Company, Los Angeles, California (1971-1975).
Real Estate Counselor and Consulting Appraiser.

State Board of Equalization, State of California (1963-1970).

PROFESSIONAL ACTIVITIES:

Member: Urban Land Institute, 1998 - To date

Member: Lambda Alpha International
Director, 1998 - To date
President - 2004

Member: Appraisal Institute, 1976 - To date
Southern California Chapter President, 1987

Member: Counselors of Real Estate, 1983 - 2004
Southern California Chapter President, 1988
National Vice President, 1996-1997

Member: Assessment Practices Advisory Council,
Los Angeles County Assessor's Office, 1980-1986

Member: Los Angeles Board of Realtors

Member: California Real Estate Association

Member: UCLA Center for Finance and Real Estate, 1993 - 1994

Member: National Association of Realtors

Member: American Industrial Real Estate Association

Advisor: Operating Engineers Pension Trust, 1983 - To date

Advisor: Electrical Workers Pension Trust, 1994 - To date

Advisor: Independent Directors, Irvine Apartment Communities

Investment
Advisor: United States Securities & Exchange Commission
Registered 2000 - 2004

CERTIFICATION:

Currently certified under The Appraisal Institute voluntary program of continuing education for its designated members (MAIs and RMs who meet the standards of this program are awarded periodic certification).

Certified as General Real Estate Appraiser in the State of California.
OREA Appraiser Certification No. AG009146

Licensed State of California Real Estate Broker

EDUCATION:

Bachelor of Science - California Polytechnic College (1963)

Certificate in Real Estate - University of California Extension