11311 Back Bay Drive	-	Westerly of Newporter Inn
226 21st Street	-	Easterly of S. Coast Boat Yard

Boat Participants:

A summary of boats which have obtained Marine Charter Permits over the last three years is set out on the facing page.

Permit Fee Activity in Newport:

The following table summarizes the Permit Fee activity in accordance with Chapter 5.18

Year	1998	1999	2000
Permits Issued:	1,494	1,782	2,006
Number of Passengers:	83,151	98,852	111,177
Fee:	$51,260	$61,579	$63,205
Tax:	$67,113	$80,380	$94,175
Total Fees:	$118,373	$141,959	$157,380

Experience Within Other Harbors:

A review of public agency revenue from tour boat/harbor cruises or other harbor use permit fees has been made for the following Southern California harbors:

San Diego Port District - City of San Diego
City of Long Beach - Marine Bureau
City of Avalon
County of Los Angeles, Department of Beaches & Harbors, (Marina del Rey)
Oceanside Harbor (City)

A basic distinction exists between these jurisdictions and that of Newport Harbor. In all the above either the City, District or County as the lessor offers some wharfage, dockage, or slip space as part of the package.

The City of Newport Beach has no such accommodation. Cruise boats must obtain such rights from private bayfront ownerships. Obviously the ability to have available passenger loading and unloading areas is extremely important to such operations.

The City of Newport Marine Charter Permit (Chapter 5.18) sets out specific requirements within the application to assure that such upland facilities are available before the permit is approved.

San Diego County:[1]

Hornblower Cruises and San Diego Harbor Cruises are operating under lease from the San Diego Port District. Both leases include small upland areas (382 sq. ft.) and dockage area with 11,316 sq. ft. and 22,863 sq. ft. of water area respectively.

Besides substantial minimum rents they pay percentage rents based upon the operator's gross revenue as follows:

Beverages:	5.5% - 5.0%
Food:	3.5% - 3.0%
Charters & Excursion tickets:	6.5% - 6.0%

(Plus other miscellaneous charges)

Total rents to the district in 1999 were $423,000 and $475,000 respectively. This represented a 5.1% and 5.2% of gross sales revenue from the operations.

The city of San Diego's multi-use leases include substantial upland land and water areas. In these instances, the boat charters and excursions are charged rentals of 7% of gross as part of the master lease.

Oceanside Harbor has a limited tour boat activity. Percentage rents for Boat Charters and Excursions is 7% of gross. However, again, this is a part of a master lease including uplands and water area within a multi-use facility.

In year 2000 the percentage rent income from tour boats was on the order of $50,000/year at Oceanside.

Dana Point:

Similarly at Dana Point, Dana Wharf functions under a multi-use master lease with uplands and water area included. Percentage rent for boat charters and excursions is 5% of gross.

[1] Source: John Wallace, Dick Winchip, Tom Marshall, S.D. Port District; Andy Miles, City of Oceanside

City of Long Beach:[2]

Long Beach harbor has a limited number of harbor cruises. However, they have several offshore tours, Catalina, whale watching, sportfishing, diving, etc.

Some harbor cruise boats are berthed in Long Beach. They pay slip fees of 20% greater than that for private boats or about $12.00 per lineal foot per month. In addition to berthing fees they pay 5% of all revenue from the tour/cruise (tickets, food, beverage).

Boats may come from other harbors and board passengers at several locations (Alamitos Bay, Downtown Marina, and Rainbow Harbor).

Application for docking and picking up passengers must be made 5 days in advance to assure insurance coverage. Rates for one day for loading and unloading are $100 application fee plus $0.75 per lineal foot of boat (total $175 for a 100' boat). They must also pay 5% of gross revenue to the city. Only 6-12 dinner boats from outside Long Beach utilize this service. Hornblower loads and unloads in Long Beach approximately 10 times a year.

City of Avalon:[3]

Avalon imposes both a Harbor Use Fee and a Wharfage fee. Use fee permits are reviewed annually and holders pay 7% of gross receipts to the city. There is no application fee but a $500 non-refundable deposit to the city. Wharfage fees are charged at a rate of $1.00 per head each way for cross channel carriers and $1.50 per head on 80% of the cruise ship passengers less crew.

The history of the fees collections for the past three years is summarized as follows:

Year	Wharfage Fees	Use Fees
1998	$1,486,737.60	$189,892.59
1999	$1,382,324.00	$192,976.18
2000	$1,422,388.40	$229,507.73

[2] Source: David Kinley, Marine Bureau, Gale Wassil, City of Long Beach
[3] Source: Mary Monroe -City of Avalon, Mary Salsbury, Avalon Harbor Department

Reference to Sec. 10-242 of the Avalon Municipal Code clearly indicates that the section relates to "Use of Harbor Related Facilities" being the city owned pier and other water front improvements.

It is apparent that these permit fees are significantly influenced by the city's ownership of physical improvements which serve the users. This data therefore has limited application to the Newport Harbor situation where no city owned marina facilities are involved.

Marina del Rey:

The County of Los Angeles, Department of Beaches and Harbors leases include a classification "N" for touring and sight seeing boats. The primary locations are at Fisherman's Village (Parcel 56) and Marina City (Parcel 125).

These involve multi-use master leases with this classification being one of several. Current percentage rate is 6% of gross revenue from ticket revenue if the ticket includes food, beverage, etc. If tickets are sold separately for tour only, food and beverage are considered as separate revenue and differing rates apply.

Embarkation and disembarkation is available upon the uplands and water area of the master lease. Floating and upland improvements are owned by lessee.

Reconciliation and Conclusion:

From review of the empirical data above it is clear that percentage rents are being charged either as part of master leases or as a Harbor Use Permit for tour/sightseeing boating activities. Typical rates run from 5% to 7% of gross revenue.

Some entities separate the percentage rent to 5% to 6% for ticket sales and a 3% to 5% for food/beverage percentage rental rate.

San Diego Port District which is experiencing major tour boat activity, averages 5.1% of gross revenue as effective percentage rent for all classifications of revenue from their operations.

The City of Long Beach's experience involving transient tour boats, which use city dock facilities, is most similar to the Newport situation since the user does not own or lease the upland or water facilities. A per day $0.75 per foot wharfage fee plus a $100 application fee is charged In addition a payment of 5% of all revenues

from the tour boat operation that day is required. The cost of parking in nearby public facilities is the responsibility of the individual customer.

It is our understanding that within Newport Harbor some form of dockage fee is being paid to private upland owners by the tour boat operators and parking is arranged as a condition of the Marine Charter Permit.

It should be noted that in Long Beach the preponderance of tour boat activity is from boats berthed in that harbor who pay the 20% surcharge for slip space plus the 5% percentage rent from all tour revenue (tickets, food and beverage)., In either event within Long Beach Harbor the tour operator pays the 5% of gross sales without regard to the manner of berthing or customer boarding.

In consideration of the above and other less significant factors it is our opinion that the fair rental/permit value for tour boat operators with the Newport Harbor is 5% of total revenue generated by the individual boat's operation.

Empirical data, especially the Long Beach experience shows that exclusive of the manner of dockage or berthing an additional charge of 5% for tour boat operation within the harbor is warranted.

The lack of available city owned boarding facilities is offset by the unique additional influence of the presence of these craft on public enjoyment of the tidelands within Newport Harbor.

Conclusion - Tour Boats
Fair Market / Permit Value: 5% of Gross Revenue

Fuel Docks:

Description of existing fuel docks:

The following three fuel docks are currently operating on city tidelands parcels:

a) Boat Services Inc. (Chevron) Tidelands Permit No. 11208131

Located at 813 E. Bay Avenue on the Balboa Peninsula, east of the Pavilion, this permittee is functioning exclusively as a fuel dock. There is no boat berthing or boat rentals at this location.

The gross area of the tidelands parcel is 12,000 square feet, however the effective area of occupancy by the fuel dock operation is approximately 5,600 square feet. Fuel dock improvements located in the tidelands parcel include pier, floats, office, storage, refrigerated box. Float frontage on the pierhead line is 80± feet. The uplands used for support (fuel tanks, parking and access) are approximately 1,200 square feet. Approximately 3,400 square feet of the tidelands is not utilized. The westerly 3,000 square feet of the site is occupied by a single pier and side tie float and is not part of the fuel dock operation.

b) Island Marine - Beek (Union) Tidelands Permit No. 256040611

Located at 406 S. Bayfront, Balboa Island, west of the ferry landing, this permittee is also functioning exclusively as a fuel dock. There is no boat berthing or boat rentals at this location. East of the pier for a depth of 45 to 50 feet the tidelands are under lease from the city to the Balboa Island Ferry.

The gross tidelands area, exclusive of the ferry lease is approximately 8,450 square feet, however the effective area of occupancy is approximately 3,175 square feet. Improvements located in the tidelands parcel include pier, floats, office, store, refrigerated box. Float frontage on the pierhead line is 110± feet. The uplands used for support (fuel tanks and parking) are approximately 1,000 square feet. Approximately 5,275 square feet of tidelands are available for public use.

c) Landing Associates (Shell) Tidelands Permit No. 11205031

Located at 503 E. Edgewater on the Balboa Peninsula, west of the ferry landing, this fuel dock parcel area is also used for boat rentals and sport fishing. The fuel dock is located along the pierhead line with approximately 72 feet of float frontage. The other uses are located landward of the fuel dock, with a side tie for sport fishing boats perpendicular to the bulkhead on the south.

The gross tidelands area is 9,033 square feet, however the effective area of occupancy by the fuel dock is approximately 2,000 square feet. The boat rental and sport fishing uses occupy the balance or 7,033 square feet. The uplands used for support of the fuel dock (fuel tanks and parking) are approximately 1,500 square feet.

Valuation:

Our investigation of the market included a survey of other harbors in Southern California. Rental is typically comprised of a minimum rental versus either a percentage of gross sales or specified cents per gallon of gasoline and/or diesel.

Similar to leases for marina purposes in other harbors, leases for fuel docks include both uplands and water areas combined and under common ownership. For meaningful comparison with the Newport Harbor sites being appraised wherein the uplands are privately owned, an allocation between land and water is required.

The most recent lease involving a fuel dock was found on a San Diego Port District site on Shelter Island in San Diego Harbor. The lease was to Pierson Marina (lease parcel 003-006) located at 2435 Shelter island Drive. The lease is for a term of 20 years from January 1, 1994 to December 31, 2013. Minimum rent is $23,000 per year, based on a 9% return on land and water value (water is considered at a value of 25% of upland value. Upland value was based on non-waterfront industrial parcels. The minimum rent attributable to the water is equivalent to $0.48 per square foot of water per year for the 32,000 square feet of tidelands (water) area. Overage rent is based upon $0.0075 per gallon of diesel and $0.04 per gallon of gasoline sold.

Union Oil fuel dock in Marina del Rey (Parcel 1S) is leased at rental of 6% of gross for fuel and 5% of gross for other products. 1997-1999 rental for fuel dock including upland ran between $66,000 and $74,000. Site includes 11,744 square feet of uplands and 35,710 square feet of water area.

For application to the annual Newport Harbor Permit fee, our methodology considers a flat rental amount for a typical fuel dock. The three existing fuel docks are sufficiently similar in physical characteristics to consider fair market rental on such basis. The characteristics of the typical fuel dock used in our calculations are as follows:

Tidelands:	4,000 square feet
Uplands:	1,250 square feet
Gross Sales:	$1,100,000 per year (avg. of three existing)
Total Gallons:	679,000 gallons per year

In Newport Harbor, the estimated ratio of fuels is about 70% diesel and 30% gasoline. Based on these characteristics, the rental is

calculated as follows in a two step process, including allocation between land and water:

Diesel:	70% x 679,000 gallons = 475,300 x $0.0075 =	$3,565
Gasoline	30% x 679,000 gallons = 203,700 x $0.0400 =	$8,160
Total:		$11,725
Less return to land 7.0% x $85 x 1,250 sq. ft. =		-$7,438
		$4,287

Indicated Annual Rent for the water (rounded): $4,250

Application to Specific Parcels:

I. Chevron (Permit #11208131) and Union (Permit #256040611)

The 9,000 square feet of tidelands at the Chevron (Boat Services) site and the 8,450 square feet of tidelands within the Union (Island Marine-Beek) parcels are devoted solely to fuel dock and public beach purposes.

Fair rent value of the tidelands devoted to fuel dock purposes is estimated at a lump sum of $4,250 per year. The Chevron operation also uses 3,000 square feet adjacent to the west for a separate dock. The rental for this use is based on the rate applicable to marinas generally, or $0.53 per square foot.

Chevron (Boat Services, Inc.)

Fuel Dock/Public Purposes (9,000 sq. ft.):	$4,250/year
Westerly non-fuel dock use (3,000 sq. ft.),	
3,000 sq. ft. @ $0.53/sq.ft./yr =	$1,590/year
Total Fair Market Rent:	$5,840/year

Union (Island Marine)

Fuel Dock/Public Purposes (8,450 sq. ft.)	
Total Fair Market Rent:	$4,250/year

II. Shell (Permit #11205031 - Landing Associates)

The Shell (Landing Associates) site comprising 9,033 square feet of tidelands is under joint use, being fuel dock, boat rentals and sport fishing. These uses fully occupy the total area.

As a result, the fuel dock segment comprises a smaller portion of the site (±2,000 square feet) than a typical fuel dock facility, but the balance of the site is densely occupied by commercial activity.

As a result we have recognized that joint use in the rental estimate as follows:

Fuel Dock - 2,000 sq. ft. lump sum:	$2,125/year
Balance 7,033 sq. ft. @ $0.53/sq. ft./yr.	$3,727/year
	$5,852/year
Total Fair Market Rent (rounded):	$5,850/year

Boat Repair Yards:

There are nine boat repair yards in Newport Harbor, including Basin Marine which is on a city lease including uplands and water area, and is not included in this study. The balance of the eight yards are located on private uplands and city tidelands parcels, and are considered in this section of the report. Six of the yards are generally located on the Rhine Channel and two are on Mariner's Mile. The yards are summarized as follows:

Yard Name	Address	Permit #	Water Area
1. Balboa Boat Yard	2414 Newport Blvd.	#12024141	1,500 s.f.
2. Sea Spray Boat Yard	230 21st Street	#11902301	5,400 s.f.
3. South Coast Inc.(former Newport Harbor Shipyard)	223 21st /Street	#11902231	3,878 s.f.
4. South Coast Shipyard/Design	2300 Newport Blvd.	#12021221	*7,200 s.f.
5. Newport Harbor Shipyard (part of Lido Peninsula permit)	101 shipyard Way	#22207171	*8,000 s.f.
6. VMA Mariners Mile	2439 W. Coast Hwy.	#12955051	*6,000 s.f.
7. Larson's Boat Yard (part of Newport Bay Mgt.)	2703 W. Coast Hwy.	#12927031	*4,000 s.f.
8. W. D. Shock	2818 Lafayette	#22128181	974 s.f.

*area in larger parcel allocated to boat repair

Most of the Southern California rent comparables indicate that boat repair yards pay minimum rent calculated as a fraction of prior total rent, and pay percentage rent based on 4.0% of gross receipts from boat haul out and repair (includes materials and labor). Please see summary on the facing page. This rent is for both the required uplands and water area. Basin Marine in Newport Harbor also pays 4.0% of gross receipts.

The Ports of Los Angeles and San Diego generally don't use percentage rent and make an allocation between land and water for boat yards.

San Diego - Shelter Island:

This data involved an agreement on rent adjustment for the Shelter Island Yachtways boat repair yard. The lessor is the San Diego Port District. The yard is located at 2330 & 2390 Shelter Island Drive adjacent to other boat yards.

Percentage rent is not used on boatyards in San Diego. The adjustment was effective on March 1, 2000 and the basis for rent was 9.25% of land value, based on $18 per square foot for industrial land for the upland. The water parcel is leased for 25% of the upland value, or 9.25% of $4.50 per square foot, which equates to rental of $0.42 per square foot of water. The review period to the next adjustment is 30 months (60 months is typical for San Diego and for the longer period, the Port would have asked for a 9.5% return).

Rent per square foot of water: $0.42 per square foot

Port of Los Angeles:

The four boat yards which do work most comparable to the yards in Newport, are Wilmington Marine Service, Al Larson Boat Yard, Colonial Yacht Marina and San Pedro Boat Works. Percentage rent for these boat repair yards in the Port of L. A. is 3.5% of gross receipts for haul and repair including materials. However, the yards typically don't do sufficient business to pay rent above the minimum.

Minimum annual rent is similar to the San Diego approach, and is currently based on 10% of $13 per square foot for upland value and 10% of $4.80 per square foot water value. If the lessee elects to also be subject to percentage rent, the minimum is reduced to 7.5% of the indicated values. Recently, an additional 25% discount has been provided for yards participating in an environmental program, which

requires the lessee to provide a detailed description of the work done on the site and materials used, do sampling and testing, and some remediation. The participating yards are not required to close or materially suspend operations during the environmental work.

Rent per square foot of water:

Base rent if no percentage:	$0.48 per square foot
If subject to % rent, minimum is:	$0.36 per square foot
with environmental participation:	$0.24 per square foot

These data indicate water rent based on a percentage return on value, where water value is 25% of upland value based on nearby (but not water front) industrial land. Industrial or related land types in good locations are considered most comparable.

A search for recent land sales in Newport Beach, Costa Mesa, Huntington Beach, and Irvine disclosed a panorama of data including five sales reflecting the following characteristics:

Range of Sale Price per Square foot:	$15.15 to $19.88
Range of Parcel Sizes:	3,329 s.f. to 73,181 s.f.
Range of Dates of Sale:	10/1998 to 03/2000

To better reflect local market conditions, we have considered land values at the upper end of the range, from $18 to $20 per square foot. To be consistent with the San Diego data and rates on non-waterfront industrial land, we have used 9.25%. This rate on the lower value industrial land is considerably higher than indicated rates of return on the more valuable adjoining uplands in Newport, which range from $65 to $125 per square foot for commercial usage.

The range of indications, based on the Ports of L. A. and San Diego data are:

$18/s.f. land x 25% for water = $4.50/s.f. x 9.25% return = $0.42/s. f. rent
$20/s.f. land x 25% for water = $5.00/s.f. x 9.25% return = $0.46/s. f. rent

The indications by the data are checked by considering Basin Marine minimum rent and percentage rents based on 1999 historical gross receipts and actual rent paid. The rent is divided by the allocated square footage of the parcel to reflect a return to the land per square foot, which can be compared generally with land sales and other data. For comparison

purposes, the land rent per square foot is capitalized at 8.0% to show indicated land value at that rate.

For comparison with rent indicated by the San Diego data, the water area may be considered to contribute 25% of the value per square foot as the uplands. This ratio is used to allocate the rent between land and water as follows:

Allocation of Basin Marine Shipyard Rent Between Land and Water
Considers Water Value at 25% of Land Square Foot Value

	Minimum	Percentage
Land Rent	$51,200	$92,856
Land Area (sq. ft.):	37,342	37,342
Rent/sq. ft.	$1.29	$2.34
is 9.25% return on	$13.97	$25.34
Water Area:	9,074	9,074
Rent/sq. ft.	$0.32	$0.59
is 9.25% return on	$3.49	$6.34

Indicated annual tidelands rent for boat repair: $0.44 per s.f.

The Balboa Pavilion:

This tidelands parcel (Permit #11204001) is unique to the bay primarily due to its historic significance and the nature of its occupancy. The subject tidelands parcel is a total of 36,540 square feet in area. Of this area, approximately 15,000 square feet is occupied by the pier/platform structure supporting the Pavilion building and 13,130 adjoining on the east is occupied by a pier structure used for parking and access. The balance of the parcel is used for boat berthing. The subject tidelands parcel adjoins a relatively narrow privately owned upland parcel (260± feet x 25± feet, or about 6,500 square feet). A portion of the Pavilion structures are located on these uplands.

Another distinction of this parcel is that by reason of a 1903 "Wartime Permit" the parcel extends out an additional 40 to 50 feet beyond the more standard 80 foot pierhead line.

We have investigated empirical rental data involving special purpose tideland uses in San Diego, Marina del Rey as well as other harbors and have held discussions with informed persons at the state level concerning the basis of fees, cost estimates for piers and structures on tidelands. The

data was found to be of limited assistance because it reflected older negotiations or more importantly included leases of tidelands and adjacent uplands in joinder. Subject uplands are privately owned.

It was necessary, therefore, to develop a rental estimate recognizing the appropriate rate for more standard tideland uses as estimated elsewhere in this report and make adjustments for the economic differences pertinent to this parcel. Factors pertinent to any adjustment upward or downward from the typical boat berthing use, if such is warranted, are as follows:

A. Exclusivity of Private Use:

Both the subject and other private improvements within the tidelands restrict the public, to varying degrees, from the availability of such water area. However the Pavilion differs from the norm due to its prominent location, ease of pedestrian access, unique architecture and historical identification.

These features are attractions to public visitation not possessed by other sites. It is perceived by many as a quasi public facility. Therefore, although similar in to a marina where the water area is restricted to private occupancy, the Pavilion allows the general public to enjoy the unique character of the property. This does not disregard the fact that the owners may carry on commercial activity with economic benefit.

B. Economic Viability:

The basic tidelands fee estimated in this report for the typical parcel has been based on an economic use of the tidelands for boat berthing use.

The Pavilion is a special purpose property. It is improved with a pier, platform and structure which houses several commercial operations including restaurant, bar, tackle shop/general store, sales/ticket offices, etc., with banquet area and offices on the second floor.

To test the economic viability of this existing use of the property to return a residual value to the tidelands upon which it is situated we have done the following:

1. Interviewed cost estimator with Manson Construction to ascertain the reasonable cost to reproduce the pier/platform structure within the site.

2. Used cost indices to further check and judge the reproduction cost of the structures.

3. Reviewed the expectable income from the various tenants.

4. Applied the empirical evidence of percentage rents being paid for land underlying this type of operation. In this case the residual is to the pier/platform structure and tidelands.

5. Deducted amortization of estimated value of pier/platform.

6. Allocated return to value of 6,500 square feet of uplands.

7. Obtained residual to 28,130 square feet of tidelands area occupied by Pavilion (total parcel size is 36,540 square feet).

This analysis resulted in a range of rental value indications from $0.40 to $0.60 per square foot of tidelands parcel

Conclusion - Fair Market Rental Value for Pavilion Tidelands Use:

The residual process is subject to variation in indicated values depending on the parameters selected and reasonableness of the various estimates made within the process. While the methodology is not employed to quantify a specific conclusion it is helpful as a test of the indications obtained from other sources.

We have concluded in this report that fair market rent for tidelands parcels within the largest classification of use (boat berthing) is $0.53 per square foot per year. This rental is within the range $0.40 to $0.60 per square foot of tidelands parcel indicated by the residual method for the Pavilion Tidelands Parcel. Based on the foregoing analysis and other factors, it is our opinion that the fair market rental value for the Pavilions tidelands parcel is $0.53 per square foot per year.

Indicated annual tidelands rent for Pavilion: $0.53 per s.f.

VALUATION - LONG TERM LEASE

Introduction:

Our assignment includes consideration of factors involved in estimating fair market rent when a long term lease is implemented, in lieu of the annual permit.

Fair market rent under a long term lease reflects the conditions and circumstances of the individual parcel and lease. In order to demonstrate the factors involved in a long term lease valuation we have considered a hypothetical marina with characteristics typical of commercial marinas in the harbor with the following basic lease terms:

Term:	25 years
Minimum Rent:	An amount fixed for a set period, subject to periodic adjustment, which is intended to provide the lessor assurance of a minimum return on investment. It also considers the lessee's ability to meet the rental obligation during periods of reduced income due to cyclical downturns and other unforeseeable events beyond lessee's control
Percentage Rent:	The percentage rent component of the fair rental value estimate is the excess (if any) over the minimum rent generated by multiplying the appropriate percentage rate times the monthly gross slip rents.
Rental Payment:	Minimum rent is payable in advance on the first of each month. Percentage rent is payable 15 days after the close of each calendar month.
Rent Adjustment:	Minimum and percentage rents are subject to review and adjustment at specified periods.

Minimum Rent:

This component of fair market rental value affords protection to the lessor by identifying a return to the land and water which is reasonably assured, while also considering the lessee's ability to meet the rental obligation during periods of reduced income due to cyclical downturns, improvement replacement or renovation, or other causes beyond the lessee's control.

Our survey of marina-oriented projects indicated that most leases provide for periodic adjustment of minimum rent to a percentage (from 75% to 80%) of the average of the actual total rent paid for previous years. The data is summarized below:

Name / Date / Period	Minimum Rent
Marina del Rey:	
Parcel 13, Villa del Mar (2000) 1997-2007	75% of prior three year's average rent, adjusted every 3 years.
Parcel 21, Holiday Harbor (1999) 1996-2006	75% of prior three year's average rent, adjusted every 3 years.
Parcel 113 Mariners Village (1999) 1998-2008	75% of prior three year's average rent, adjusted every 3 years.
Parcel 132, Calif. Yacht Club (2000) 1996-2006	75% of prior three year's average rent, adjusted every 3 years.
King Harbor (Harbor Cove) (1999) 1998-2003	75% of prior three year's average rent, adjusted every 3 years.
Channel Islands Harbor (N/A) N/A	80% of prior five year's average rent, level for 5 years.
Port of Los Angeles (Ports O'Call, 1994) 1994-1999	75% of prior year or minimum of $1.20 per sq. ft. of land; $0.45 per sq. ft. of water
City of Long Beach (1988) N/A	80% of prior five year's average rent, level for 5 years.
Orange County, Dana Point (N/A) N/A	75% of prior five year's average rent, level for 5 years.
City of San Diego, Mission Bay (1988,1995) N/A	75% to 80% of prior 2 to 5 year's average rent, level for 5 years
Ventura Harbor (1989-1992) 1991-2002	75% of prior five year's average rent, level for 5 years.
Newport Harbor (Balboa Bay Club) (1996 option) 25 years	75% of prior five year's average rent, level for 5 years.

Reconciliation of Minimum Rent Indications:

The preponderance of empirical data supports an annual minimum rent of 75% of the average total rent paid for a period of prior years. The period of prior years ranges from one to five years. The most recent negotiations in Marina del Rey call for minimum rent adjustments every three years based upon 75% of the average of the prior three years total rent paid.

It is our opinion that a three year adjustment period, with minimum rental based on an average of the prior three years total rent paid is most strongly supported, provides some sensitivity to economic conditions, and provides some stability in rental revenue.

Minimum Rent Conclusion:

75% of the average annual total rent paid during the preceding three (3) years, adjusted every three years. For the first three years of the lease, minimum rent may be calculated as 75% of what total rent would have been for the preceding year based on actual gross rental income and the applicable rental percentage.

Percentage Rent:

Percentage rent is calculated by multiplying the applicable percentage times gross rental income generated by the marina. Therefore, the dollar amount of rent fluctuates with the gross income and tends to be "self adjusting" with swings in the economy. However, because of the leverage resulting from relatively fixed amortization costs and operating expenses, higher slip rents tend to support higher percentages, and vice versa.

In a preceding section of this report entitled "Fair Market Rental of Land and Water Combined" the analysis indicated fair market percentage rent for land and water combined ranged from 27.5% to 31.0% of gross rental income.

Fair Market Rental of Land and Water Combined:	27.5% to 31.0% of gross rents

Having formed an opinion of market rent for land and water combined, it is the purpose of this analysis to allocate these rental percentages between land and water. The analysis is similar to the allocation of rent for the harbor permits considered in the preceding section, however

the lower capitalization rate is used and the rental percentage is allocated rather than the dollar amount of rent as in the Harbor Permit.

The characteristics of the "typical marina" used in the economic analysis included 100 slips with average slip size of 35.5 feet, requiring 0.75 parking space per slip. The same hypothetical marina is considered in this analysis. However, the long term lease provides greater assurance of continuity to the leasehold such that the reduced risk element lowers the overall capitalization rate by 500 basis points to a range of 7.75% to 8.25%.

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

The formula for this equalization is based on dividing marina land and water lease income per lineal foot of slip space by the combined value at highest and best use of the land (7.3 s.f.) and water (35.2 s.f.) required to support the lineal foot of slip space.

Formula for Equalized Return =

Marina Lease Income/L.F. ÷ (value of 7.3 s.f of land + value of 35.2 s.f. of water)

The values for each element in the formula have been derived in ranges in the prior section of this report as follows:

Slip Rents after vacancy:	$13.30 to $19.95 per lineal foot per mo.
% Lease Rent (land & water)	27.5% to 31.0% of Gross Slip Rents
Value of Supporting Uplands:	$65 to $125 per square foot.

Therefore, Marina Lease income for land and water, per lineal foot of slip space is calculated:

27.5% x $13.30 per l. f. per mo.= $3.66 x 12 mos. = $43.89 /year
31.0% x $19.95 per l. f. per mo.= $6.18 x 12 mos. = $74.21 /year

This net rental income to the land and water is capitalized at the indicated rates of 7.75% to 8.25%, indicating capitalized value of land and water combined per lineal foot of berthing space to be $566.32 to $899.56. This amount is allocated from 44.95% to 49.71% to water, or $281.53 to $404.34 before equalization of return for joinder (see Addenda Section for summary of all computations).

The indicated value of the water and supporting uplands, each at highest and best use, required to support a lineal foot of berthing space is as follows:

Value of 35.2 s. f. of Water ranges from:	$281.53 to $404.34
Value of 7.3 s. f. of Uplands ranges from:	$474.50 to $912.50
Net Annual Income to land and water per Lineal Foot of berthing space::	$43.89 to $74.21

Using these elements, the following is a summary of the equalization adjustments. The complete calculations are set out in the Addenda Section of this report.

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

Marina Inc./L.F./Yr.:			Unrestricted Land		Water Value
From:	$43.89	÷	$474.50	+	$281.53
To:	$74.21	÷	$912.50	+	$404.34

Equalized Return Calculation:

From:	$43.89	÷	$756.03	=	5.81%
To:	$74.21	÷	$1,316.84	=	5.64%

	From:	To:
Equalized Rate of Return	5.81%	5.64%

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

Equalized Allocation of Rental Percentage to Land and Water:

Return to Land (range):	5.81%	x	$474.50	=	$27.55 per L.F.
	5.64%	x	$912.50	=	$51.43 per L.F.
Return to Water (range):	5.81%	x	$281.53	=	$16.34 per L.F.
	5.64%	x	$404.34	=	$22.79 per L.F.

Allocation of Percentage Rent:

	From:	To:	
Income to Land & Water:	$43.89	$74.21	per L.F. of Slip Space per Year
As % of Gross:	27.50%	31.00%	of Gross Slip Rent
Income to Land:	$27.55	$51.43	per L.F. of Slip Space per Year
As % of Gross:	17.26%	21.48%	of Gross Slip Rent
Income to Water:	$16.34	$22.79	per L.F. of Slip Space per Year
As % of Gross:	**10.24%**	**9.52%**	**of Gross Slip Rent**
Equivalent $ Rent	$0.46	$0.65	per s.f. of water area

Reconciliation:

The relatively tight range of percentage rental indications (9.52% to 10.24%) results in the much broader range of dollar amount of rent produced ($0.46 to $0.65 per square foot of water) since the rental percentages are applied to different levels of gross slip rent. The lease generates higher rent than the permit fee due primarily to the lower capitalization rate supported by the lease.

We have performed a sensitivity analysis using the same variables employed in the analysis of fair market rent for the Harbor Permit Fee, which is set out below:

Variables	From:	To:	
Market Slip Rental Rate:	$13.30	$15.50	per L.F. per month
Economic Rent (Land & Water)	27.5%	30.0%	of Gross Slip Rent
Overall Capitalization Rate:	7.75%	8.25%	Net Rental (Land & Water)
Value of Uplands at Highest and Be	$65.00	$75.00	per Sq. Ft. of Land Area
Indicated % of Gross Rents			
Tidelands Fair Rental Value:	**10.24%**	**11.54%**	**of gross rental income**
Equivalent $ Rent:	$0.46	$0.61	per Sq. Ft. of Water Area

Variables	From:	To:	
Market Slip Rental Rate:	$15.50	$17.50	per L.F. per month
Economic Rent (Land & Water)	30.0%	30.0%	of Gross Slip Rent
Overall Capitalization Rate:	7.75%	8.25%	Net Rental (Land & Water)
Value of Uplands at Highest and Be	$90.00	$100.00	per Sq. Ft. of Land Area
Indicated % of Gross Rents			
Tidelands Fair Rental Value:	**10.28%**	**9.81%**	**of gross rental income**
Equivalent $ Rent:	$0.54	$0.59	per Sq. Ft. of Water Area

Variables	From:	To:	
Market Slip Rental Rate:	$17.50	$19.50	per L.F. per month
Economic Rent (Land & Water)	30.0%	31.0%	of Gross Slip Rent
Overall Capitalization Rate:	7.75%	8.25%	Net Rental (Land & Water)
Value of Uplands at Highest and Be	$100.00	$125.00	per Sq. Ft. of Land Area
Indicated % of Gross Rents			
Tidelands Fair Rental Value:	**10.45%**	**9.29%**	**of gross rental income**
Equivalent $ Rent:	$0.62	$0.62	per Sq. Ft. of Water Area

The higher land values tend to reduce the allocation of income to the water. However, the higher upland values also tend to be associated with higher slip rents, resulting in a partially offsetting influence. The marinas with lower slip rents and lower upland values generally have a somewhat greater percentage of the total rent allocated to the water.

An appraisal of actual marinas which are considered for long term lease would take these factors into consideration.

Alternative To Percentage Rent:

Virtually all of the leasehold marinas in the survey pay land and water rent as a percentage of gross rental income. However, if the city and tenant wished to structure a lease of the tidelands parcel based on a fixed rental amount rather than a percentage, it could be accomplished using an analysis similar to the above with the lower capitalization rate. There would be no need for "minimum rent" under such circumstance. Periodic rental

adjustments could be based either on CPI, or on percentage changes in gross rent collections from benchmark marinas.

A rental adjustment method based on benchmark marinas is more sensitive to the marina market than CPI. In the past few years marina rents have increased at a much greater rate than CPI. However, during the recession years, the reverse was true. The city owned Basin Marina may be a candidate for such a benchmark, since the financial records are public.

The above sensitivity analysis for the long term lease shows a range of equivalent rents from $0.46 to $0.62 per square foot of water. This compares to $0.44 to $0.59 for the annual Harbor Permit Fee, or about 5% more rent for the reduced risk associated with the lease. The rental adjustment mechanism in the lease could incorporate a provision ensuring that any adjustment result in rent not less than 5% above the then current Harbor Permit Fee.

RENT ALLOCATION FOR 25 YEAR LEASE - SUMMARY OF CALCULATIONS

Physical Criteria for Typical Marina Development:

Land Area Requirement:	7.30	Sq.Ft. per L.F. of Slip Space (0.75 parking spac
Water Area Requirement:	35.20	Sq.Ft. per L.F. of Slip Space
Total Land and Water Area Required:	42.50	Sq.Ft. per L.F. of Slip Space

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

	From:	To:	
Market Slip Rental Rate:	$13.30	$19.95	per L.F. per month
Economic Rent (Land & Water)	27.5%	31.0%	of Gross Slip Rent
Overall Capitalization Rate:	7.75%	8.25%	
Uplands Value @ H&B Use:	$65.00	$125.00	
Tidelands Fair Rental % of Gross:	10.24%	9.52%	
Equivalent $ Rent:	$0.46	$0.65	

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

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

	From:	To:	
Per Lineal Foot per Month:	$3.66	$6.18	of Slip Space
Per Lineal Foot per Year:	$43.89	$74.21	of Slip Space
Per Square Foot per Year:	$1.03	$1.75	Per Sq. Ft. of Land & Water

	From:	To:	
Indicated Capitalized Value:	$13.33	$21.17	Per Sq. Ft. of Land & Water

First Step Value Allocation - Before Equalization for Joinder:

	From:	To:	
Value of Uplands at Highest and Best Use*:	$65.00	$125.00	per Sq. Ft. of Land Area
Value of Land and Water (Marina Use)**:	$13.33	$21.17	per Sq. Ft. (Land & Water)
Marina Upland Area (Sq.Ft.):	7.30	17.18%	of Land & Water Area
Marina Water Area (Sq.Ft.):	35.20	82.82%	of Land & Water Area
Combined Upland + Water (Sq.Ft.):	42.50	100.00%	Sq. Ft. per L.F. of docks

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

	From:	To:	
Indicated Value of Combined Land & Water For Marina Use:	$566.32	$899.56	per L.F. of Slip Space

Value at Highest and Best Use:

Upland Value (Unrestricted):	$474.50	$912.50	per L.F. of Slip Space
Water (pro rata of combined marina value):	$469.05	$745.05	per L.F. of Slip Space
Sum of Above:	$943.55	$1,657.55	per L.F. of Slip Space

	From:	To:
Proportion of Water Value to Sum:	49.71%	44.95%

	From:	To:	
Value Allocation to Water Area (per L.F.)*:	$281.53	$404.34	per L.F. of Slip Space
Value Allocation to Water Area (per Sq.Ft.)*:	$8.00	$11.49	per Sq. Ft. of Water Area

	From:	To:	
Value Allocation to Land Area (per L.F.)*:	$284.80	$495.22	per L.F. of Slip Space
Value Allocation to Land Area (per Sq.Ft.)*:	$39.01	$67.84	per Sq. Ft. of Upland Area

*Vaue allocations before equalization for economic effect of joinder.

	From:	To:	
Net Rental Income to Land & Water (Marina Use) :	$43.89	$74.21	per L.F. of Slip Space per Year
Allocated to Water Area:			
% Allocated to Water:	49.71%	44.95%	of Rental Income (Marina Incom
Income to Water Area:	$21.82	$33.36	per L.F. of Slip Space per Year
Allocated to Land Area:			
% Allocated to Land:	50.29%	55.05%	of Rental Income (Marina Incom
Income to Land:	$22.07	$40.86	per L.F. of Slip Space per Year
Indicated Rate of Return on Water Value Before Effect of Joinder*:	7.75%	8.25%	
Indicated Rate of Return on Land Value Restricted to Marina Use:	7.75%	8.25%	
Indicated Rate of Return on Unrestricted Land Value:	4.65%	4.48%	

*Assumes upland restricted to Marina Use

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

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

Marina Income/L.F./Yr.:			Unrestricted Land		Water Value
From:	$43.89	÷	$474.50	+	$281.53
To:	$74.21	÷	$912.50	+	$404.34

Equalized Return Calculation:

From:	$43.89	÷	$756.03	=	5.81%
To:	$74.21	÷	$1,316.84	=	5.64%

	From:	To:
Equalized Rate of Return*:	5.81%	5.64%

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

Equalized Allocation of Rental Percentage to Land and Water:

Return to Land (range):	5.81%	x	$474.50	=	$27.55 per L.F.
	5.64%	x	$912.50	=	$51.43 per L.F.
Return to Water (range):	5.81%	x	$281.53	=	$16.34 per L.F.
	5.64%	x	$404.34	=	$22.79 per L.F.

Allocation of Percentage Rent	From:	To:	
Income to Land & Water:	$43.89	$74.21	per L.F. of Slip Space per Year
As % of Gross:	27.50%	31.00%	of Gross Slip Rent
Income to Land:	$27.55	$51.43	per L.F. of Slip Space per Year
As % of Gross:	17.26%	21.48%	of Gross Slip Rent
Income to Water:	$16.34	$22.79	per L.F. of Slip Space per Year
As % of Gross:	**10.24%**	**9.52%**	**of Gross Slip Rent**

Test by $ Income to Land & Water:	From:	To:	
Income to Land:	$27.55	$51.43	per L.F. of Slip Space
Income to Land:	$3.77	$7.04	per Sq. Ft. of Upland Area
Income to Water:	$16.34	$22.79	per L.F. of Slip Space
Income to Water:	$0.46	$0.65	per Sq. Ft. of Water Area

RENT ALLOCATION FOR HARBOR PERMIT - SUMMARY OF CALCULATIONS

Physical Criteria for Typical Marina Development:

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

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

Variables

	From:	To:	
Market Slip Rent (after vacancy):	$13.30	$19.95	per L.F. per month
Economic Rent (Land & Water)	27.5%	31.0%	of Gross Slip Rent
Overall Capitalization Rate:	8.25%	8.75%	Net Rental (Land & Water)
Value of Uplands at Highest and Best Use*:	$65.00	$125.00	per Sq. Ft. of Land Area
Indicated Income to Water or Tidelands Fair Rental Value:	$0.44	$0.61	per Sq. Ft. of Water Area

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

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

	From:	To:	
Per Lineal Foot per Month:	$3.66	$6.18	of Slip Space
Per Lineal Foot per Year:	$43.89	$74.21	of Slip Space
Per Square Foot per Year:	$1.03	$1.75	Per Sq. Ft. of Land & Water

	From:	To:	
Indicated Capitalized Value:	$12.52	$19.96	Per Sq. Ft. of Land & Water

First Step Value Allocation - Before Equalization for Joinder:

	From:	To:	
Value of Uplands at Highest and Best Use*:	$65.00	$125.00	per Sq. Ft. of Land Area
Value of Land and Water (Marina Use)**:	$12.52	$19.96	per Sq. Ft. (Land & Water)
Marina Upland Area (Sq.Ft.):	7.30	17.18%	of Land & Water Area
Marina Water Area (Sq.Ft.):	35.20	82.82%	of Land & Water Area
Combined Upland + Water (Sq.Ft.):	42.50	100.00%	Sq. Ft. per L.F. of docks

*Highest and best use of uplands is for non-marina use

**Capitalized value for marina use before allocation to land and water.

	From:	To:	
Indicated Value of Combined Land & Water For Marina Use:	$532.00	$848.16	per L.F. of Slip Space
Value at Highest and Best Use:			
Upland Value (Unrestricted):	$474.50	$912.50	per L.F. of Slip Space
Water (pro rata of combined marina value)	$440.62	$702.48	per L.F. of Slip Space
Sum of Above:	$915.12	$1,614.98	per L.F. of Slip Space

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

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