Rasmuson Appraisal Services

Gary L. Rasmuson, MAI, SRA
Wendy A. Rasmuson, MBA

A Summary Appraisal of

Newport Harbor Commercial Tidelands
Fair Market Rent Study
Newport Beach, CA

Prepared For

City of Newport Beach

Report Dated

August 8, 2012

Rasmuson Appraisal Services

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August 10, 2012 File No. 12525

Mr. Rob Houston
City Manager's Office
City of Newport Beach
3300 Newport Boulevard
PO Box 1768
Newport Beach, California 92658

Reference: Newport Harbor Commercial Tidelands Rent Study, Newport Beach, California

Dear Mr. Houston:

In fulfillment of our agreement and letter of engagement, we are pleased to present the attached report of our appraisal of the above referenced parcel of real estate, as of June 28, 2012. The report sets forth our opinion of market value along with supporting data and reasoning which form the basis of our opinion.

The value opinion reported is qualified by certain definitions, limiting conditions, and certifications which are set forth on pages 1 through 7 of this report.

The attached appraisal report has been prepared to comply with the Uniform Standards of Professional Appraisal Practice (USPAP) and the Code of Ethics and Supplemental Standards of the Appraisal Institute.

This appraisal report has been prepared for and our professional fee is billed to City of Newport Beach. It is intended only for your use for internal purposes. It may not be distributed to or relied upon by other persons or entities without our written permission.

It has been a pleasure to be of service to you in this assignment. I look forward to your review of this report, and welcome your further comments or questions.

Sincerely,

RASMUSON APPRAISAL SERVICES

Gary L Rasmuson, MAI, SRA
Certified General Real Estate Appraiser
State of California
OREA Appraiser I.D. No. AG 002571
Expiration Date: 2/4/2014

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SUMMARY AND CONCLUSIONS

Subject Property	The subject property is a generic benchmark tideland property assumed for the purposes of this appraisal. The tideland parcel is assumed to have an associated privately-owned land parcel available to provide marina-related upland use and land-side access to the parcel for the purposes of a marina use.
Purpose of Appraisal	To develop an opinion of the subject's fair market rental value for internal purposes.
Effective Date of Appraisal	June 28, 2012, date of subject property viewing
Value Conclusions	Benchmark Fair Market Rent Rates: <u>Larger Marinas</u> 17 percent of gross marina revenue $1.50 /SF of tideland area per year <u>Smaller Marinas</u> 17 percent of gross marina revenue $1.40 /SF of tideland area per year
Date of Report	August 8, 2012
Specific Assumptions	This valuation is based on a benchmark valuation using a generic tideland parcel as the basis for the fair market rent estimate. The benchmark tideland parcel used as a basis for this estimate of market rent for the subject tidelands parcels is assumed to have joinder with an adjacent land parcel providing required parking, restrooms and office area for a future marina development on the subject parcel. This is considered an extraordinary assumption to this valuation.
Appraiser	Gary L. Rasmuson, MAI, SRA

PART I - INTRODUCTION AND DEFINITIONS

Purpose of the appraisal

The purpose of the appraisal is to develop an opinion of benchmark fair market rent rates for commercial anchorage uses of the submerged tidelands located in Newport Harbor, in the City of Newport Beach, California. This appraisal is Phase I of a two-phase appraisal assignment. Phase 1 as per the Professional Services Agreement between Rasmuson Appraisal Services and the City of Newport Beach, is to estimate a benchmark fair market rent rate for commercial marina uses within Newport Harbor. Phase 2 analysis and conclusions will be presented in a separate appraisal report.

Scope of the appraisal

The scope of this assignment is to estimate a benchmark fair market rent rate for the commercial tidelands under lease from the City of Newport Beach for marina use. The market rent estimate is not intended to be property specific, rather a generic benchmark base rent rate for a "typical" marina lease parcel within Newport Harbor. It is my understanding that my client intends to use this fair market rent rate and apply it to specific leased parcels within Newport Harbor, subject to adjustments as required. The basis for this benchmark lease parcel will be described in this report as the "Subject Property". I have been asked by my client to differentiate market rental rates between two marina class sizes, larger and smaller. References in this appraisal to the Subject Property will apply to the described benchmark parcels within this report.

The benchmark tideland parcel used as a basis for this estimate of market rent for the subject tidelands parcels is assumed to have joinder with an adjacent land parcel providing required parking, restrooms and office area for a future marina development on the subject parcel. This is considered an extraordinary assumption to this valuation.

This is a Summary Appraisal Report which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice (USPAP) for a Summary Appraisal Report. As such, it presents only summary discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated above. The appraiser is not responsible for unauthorized use of this report.

The scope of this analysis included the following:

- reading of the request for appraisal services and related attachments;
- meetings with city commercial pier permittees, city staff and councilpersons;
- physical viewing of the subject parcels, neighborhood, and submarket;
- consideration and identification of the benchmark "generic" subject parcel
- research public records, or other sources deemed reliable, relative to the subject;
- research public records, or other sources deemed reliable, for sales and leases of comparable properties;
- market data verified where possible with buyer, seller or participating broker and viewed by appraiser;
- consideration of several specific client-requested potential valuation-influencing factors as per the appraisal contract agreement;
- present the results in this Summary Report.

The appraisers used only the most applicable approach(s) to value. Support for the approach(s) used is discussed in the Valuation Section. This Summary Appraisal Report summarizes the appraiser's data, analyses, and conclusions.

Identification of the intended use and users of appraisal

The intended use of this appraisal is for internal purposes by my client. It was prepared for the exclusive use of the City of Newport Beach and may not be used or relied upon by any other party. Any party who uses or relies upon any information in this report, without the preparer's written consent, does so at his own risk.

Interest appraised

The interest appraised is the fee simple interest in the subject property.

Fee simple estate defined as absolute ownership unencumbered by any other interest or estate, subject only to the limitations of eminent domain, escheat, police power, and taxation.

Effective date of appraisal

The effective date of this appraisal is as of June 28, 2012. This date is the date of my tour by boat of the submerged tideland parcels within Newport Harbor and is the date that will be used for the purposes of this analysis.

Definition of terms

Market Value

The term "market value", as used in this report, is defined as follows:

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

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

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their own 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 of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Source: OCC, 12 CFR, Part 34, Subpart C – Appraisals, 34.42 Definitions (f)

Market Rent

The term "market rent" or "fair market rent", as used in this appraisal report, is defined as follows:

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

Source: Appraisal Institute. Dictionary of Real Estate Appraisal, 5th Edition, (Chicago, 2010), p. 121

Extraordinary Assumption

An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions.

Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

Source: The Appraisal Foundation. Uniform Standards of Professional Appraisal Practice, 2012 Edition

Hypothetical Condition

A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.

Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

Source: The Appraisal Foundation. Uniform Standards of Professional Appraisal Practice, 2012 Edition

Bulkhead

The term "bulkhead" or "seawall" shall mean the retaining wall that separates dry land areas and water areas.

Source: City of Newport Beach Harbor Code, Chapter 17.01

Bulkhead Line

The term "bulkhead line" shall mean the harbor land/water perimeter lines established in Newport Harbor by the Federal Government which define the permitted limit of filling or solid structures that may be constructed in the Harbor. The establishment of bulkhead lines does not necessarily allow the property owner to build to the limits of the bulkhead line due to potential environmental considerations established by the State of California and/or the Federal Government.

Source: City of Newport Beach Harbor Code, Chapter 17.01

Pierhead Line

The term "Pierhead Line" shall mean the harbor water area perimeter lines established in Newport Harbor by the Federal Government that define the permitted limit of fixed pier, floating dock and other in-water structures which may be constructed in the harbor. The Pierhead Line typically shall define the limit of pier and floating dock structures and defines the limit of construction except as otherwise approved by City Council. Vessels may extend channelward of the Pierhead Line.

Source: City of Newport Beach Harbor Code, Chapter 17.01

Tidelands

The term “tidelands” shall mean lands that are located between the lines of mean high tide and mean low tide (from California Code of Regulations, Section 13577).

Source: City of Newport Beach Harbor Code, Chapter 17.01

Exposure Time

Exposure Time is defined as the estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal.

Source: The Appraisal Foundation. Uniform Standards of Professional Appraisal Practice, 2012 Edition

Limiting Conditions and Assumptions

This appraisal is made expressly subject to the following conditions and stipulations:

General Limiting Conditions and Assumptions

1. No responsibility is assumed for matters which are legal in nature, nor is any opinion on the title rendered herewith. This appraisal assumes good title, responsible ownership and competent management. The property has been appraised as though free and clear of any or all liens, encumbrances or indebtedness unless otherwise stated in this report.
2. The factual data utilized in this analysis has been obtained from sources deemed to be reliable; however, no responsibility is assumed for its accuracy.
3. Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyl, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, was not called to the attention of nor did the appraiser become aware of such during the appraiser's inspection. The appraiser has no knowledge of the existence of such materials on or in the property unless otherwise stated. The appraiser, however, is not qualified to detect or test for such substances. The presence of such hazardous substances may affect the value of the property. The value opinion developed herein is predicated on the assumption that no such hazardous substances exist on or in the property or in such proximity thereto, which would cause a loss in value. No responsibility is assumed for any such hazardous substances, nor for any expertise or knowledge required to discover them.
4. Except as noted, this appraisal assumes the land to be free of adverse soil conditions which would prohibit development of the property to its highest and best use.
5. This appraisal is of surface rights only, and no analysis has been made of the value of subsurface rights, if any.
6. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined, and considered in this appraisal report.
7. Disclosure of the contents of this appraisal report is governed by the By-Laws and Regulations of the Appraisal Institute.
8. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or this appraisal firm, or any reference to the Appraisal Institute or to its designations) shall be disseminated to the general public or be conveyed to any person or entity, other than the appraiser's or firm's client, by the use of advertising media, public relations media, news media, sales media or other media for public communications without the prior written consent of the signatory of this appraisal report. Further, the appraiser or firm assumes no obligation, liability, or accountability to any third party. If this report is placed in the hands of anyone but the client, client shall make such party aware of all the assumptions and limiting conditions of the assignment.
9. Possession of this report or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event only with the proper written qualification and only in its entirety.

10. Any sketch in this report may show approximate dimensions and is included to assist the reader in visualizing the property. Maps and exhibits found in this report are provided for reader reference purposes only. No guarantee as to accuracy is expressed or implied unless otherwise stated in this report. No survey has been made for the purpose of this report.
11. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless otherwise stated in this report.
12. The property which is the subject of this appraisal is within a geographic area prone to earthquakes and other seismic disturbances. Except as specifically indicated in this report, no seismic or geologic studies have been provided to the appraisers concerning the geologic and/or seismic condition of the property. The appraisers assume no responsibility for the possible effect on the subject property of seismic activity and/or earthquakes.

Specific Limiting Conditions and Assumptions

13. This appraisal of fair market rent is for a generic parcel located within Newport Harbor, as further described within this report and is not intended to value a specific parcel or ownership.

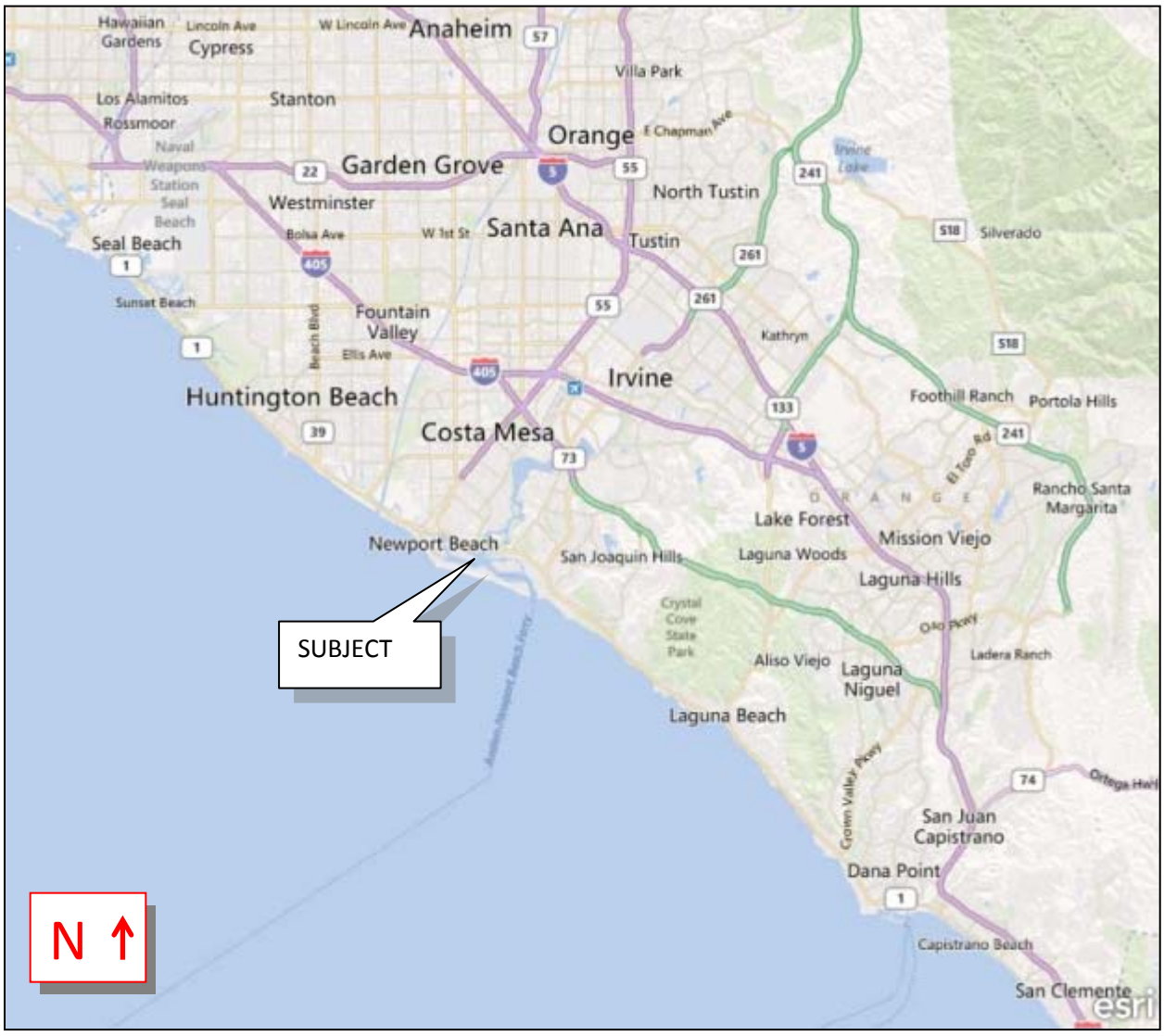
Extraordinary Assumptions

The benchmark tideland parcel used as a basis for this estimate of market rent for the subject tidelands parcels is assumed to have joinder with an adjacent land parcel providing required parking, restrooms and office area for a future marina development on the subject parcel.

Hypothetical Conditions

None

PART II – AREA DATA



Regional Location Map

Area Map


City of Newport Beach
Harbor Resources Division
Newport Harbor High School
NORTH STAR BEACH
Corona Del Mar High School
Newport Beach Police Department
FASHION ISLAND
TURNING BASIN
LIDO
WEST LIDO CHANNEL
CHANNEL
LIDO PENINSULA
NEWPORT
LIDO ISLE
HARBOR ISLAND
COLLINS ISLAND
BALBOA ISLAND CHANNEL
NEWPORT PIER
BALBOA ISLAND
BALBOA PIER
HARBOR ENTRANCE
THE WEDGE
BIG CORONA
LITTLE CORONA
WEST JETTY
EAST JETTY
PACIFIC OCEAN
N
W
E
S
0
0.25
0.5
Miles
1 inch equals 2,000 feet

Area description

The subject property is situated in the City of Newport Beach, one of 34 incorporated cities in Orange County in southern California.

Newport Beach is located about 85 miles north of San Diego and about 50 miles from downtown Los Angeles. Newport Beach surrounds Newport Bay where more than 9,900 boats of all types are berthed within the 21-square mile harbor area. The bay area and the city's eight miles of ocean beach offer opportunities for fishing, swimming, surfing and other aquatic activities. The City of Newport Beach was incorporated in 1906. The incorporated area is comprised of 26 square miles of land and approximately 25.5 square miles of bay, harbor and ocean waters.

In addition to the city's beaches and harbor activities, it also has several public and private golf courses. Commercial developments include the Balboa Peninsula, Balboa Island, Corona del Mar and the Upper Newport Bay. Newport Center is a mixed-use development that includes offices, hotels and Fashion Island, an open-air regional mall that contains 1.2 million rentable square feet.

Newport Harbor is formed by the Balboa Peninsula on the south and the mainland on the north and extends inland to Jamboree Road. The harbor is generally defined as the Upper Newport Bay and Lower Newport Bay with the Lower Newport Bay consisting of the water area south of the Coast Highway Bridge near the intersection of Coast Highway and Dover Drive. Traditionally, most of the boating activity within the harbor is concentrated in the Lower Bay as most of the Upper Newport Bay is an ecological preserve with limited boating facilities. The Balboa Peninsula is a three-mile stretch of land east of 45th Street extending to Peninsula Point and the jetty at the mouth of Newport Harbor. Access to the Peninsula is via Newport Boulevard, Superior Avenue/Balboa Boulevard or a ferry that provides service between Balboa Island and the Balboa Peninsula.

Numerous islands ring Newport Harbor. These include Newport Island, Lido Isle, Linda Isle, Harbor Island, Bay Island, and Balboa Island. Balboa Island is comprised of three smaller islands—Balboa Island, Little Balboa Island and Collins Island. Marine Avenue, the island's main street, is lined with shops, art galleries and restaurants. Balboa Island has residential and some small commercial areas. Mariner's Mile is a section of Coast Highway from Newport Boulevard to Dover Drive. It contains yacht brokerages, marine supply stores, luxury auto dealerships, a mix of retail and restaurants and the Balboa Bay Club & Resort.

Primary landmarks and attractions in Newport Beach include Newport and Balboa Piers, the Balboa Fun Zone and the Balboa Pavilion. The Balboa Fun Zone was purchased in 2005 by the Newport Harbor Nautical Museum. Most of the rides closed to make room for the museum, but the Ferris wheel and the arcade remain. Much of this area known as Balboa Village is slated for revitalization. Commercial development is concentrated along the Mariner's Mile section of Coast Highway, in Lido Village along the Rhine Channel and the neighborhood surrounding the Balboa Island Ferry and Fun Zone. The balance of the upland and tidelands include residential properties, marinas, private docks and beaches.

Newport Harbor Marinas

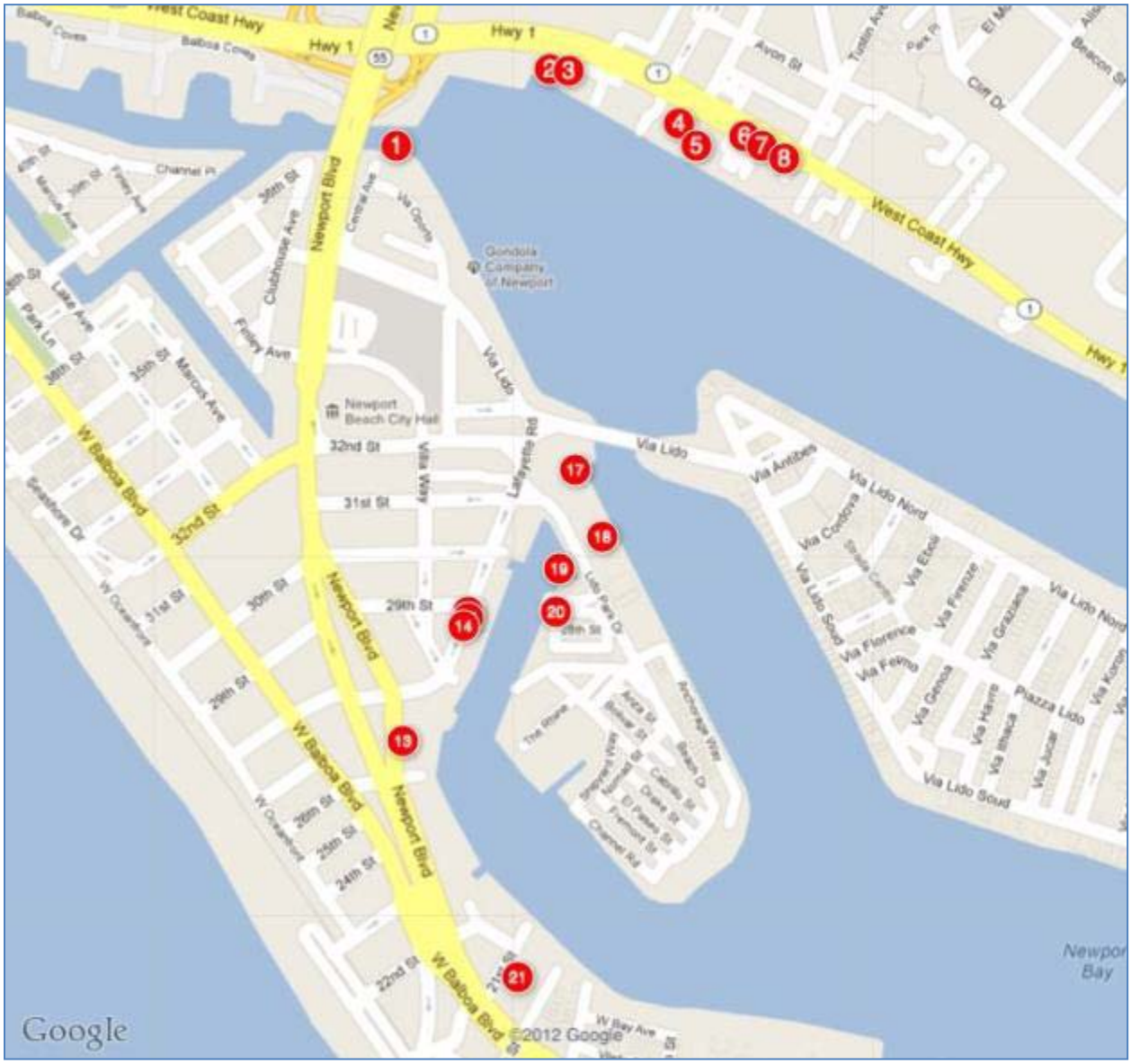
Newport Harbor is one of the largest pleasure boat harbors in the world, with more than 2,200 slips, 1,200 offshore moorings and 1,200 private residential piers. There are about 14 marinas in Newport Harbor containing over 25 slips. A listing of the commercial marinas in Newport Harbor is presented in the following tables.

Large Commercial Marinas in Newport Harbor

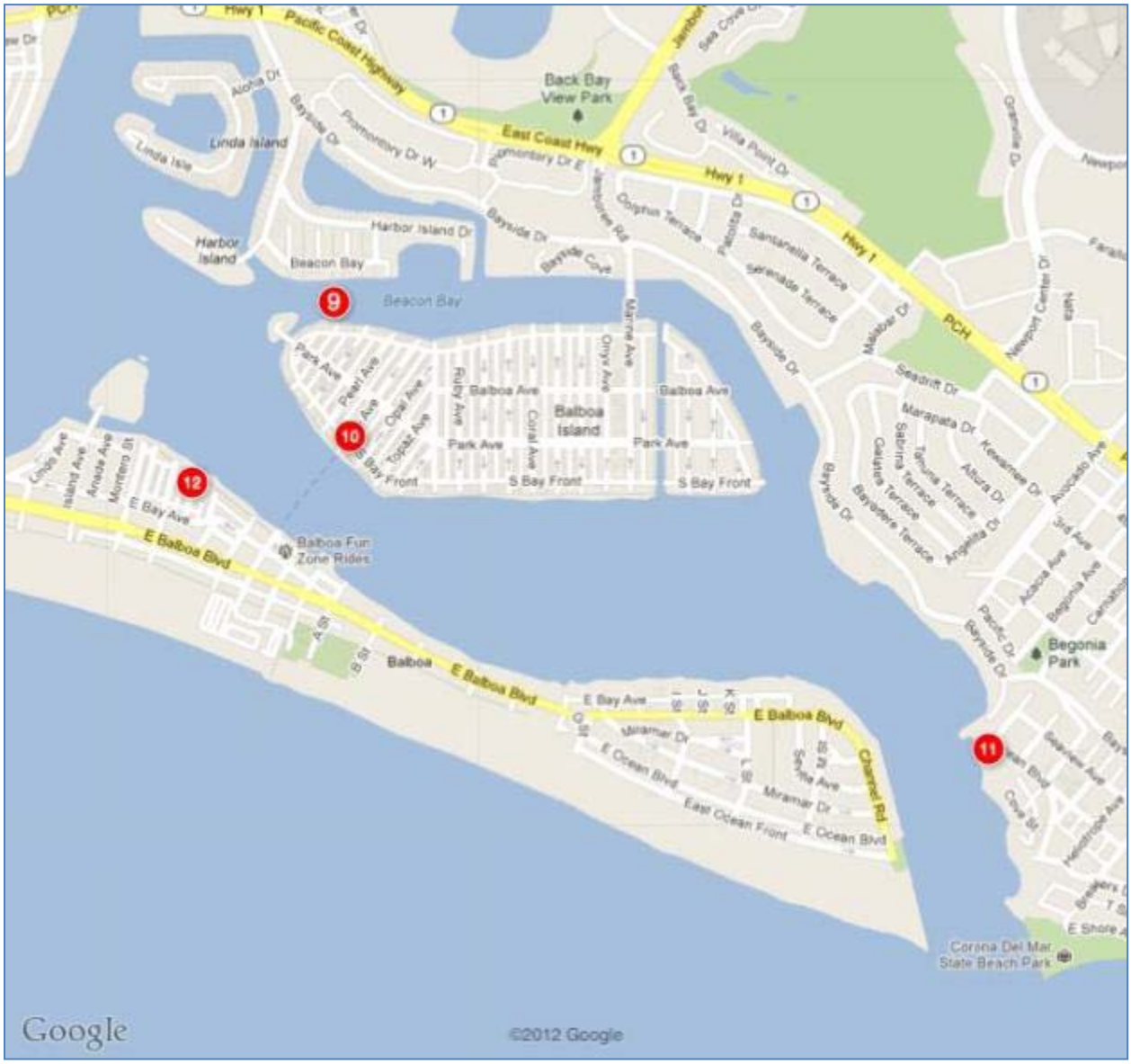
Key #	Name	Address	Slips
Marinas Leased by City			
1	Harbor Tower Marina	3333 W Coast Highway	52
2	Ardell Marina	2101 W Coast Highway	50
3	Balboa Marina	201 E Coast Highway	105
4	Villa Cove Marina	1099 Bayside Drive	42
5	Bayside Marina	1137 Bayside Drive	102
6	California Recreation - BYC	1701 Bayside Drive	72
7	ETCO Investments	2122 Newport Boulevard	25
8	Lido Peninsula Yacht Anchorage	151 Shipyard Way	220
9	Lido Marina Village	3366 Via Lido	75
Marinas Owned by City:			
10	Balboa Yacht Basin	829 Harbor Island Drive	172
Marinas Leased by County:			
11	Swales Anchorage	2888 Bayshore Drive	54
12	Bayshore Marina	2572 Bayshore Drive	134
13	Newport Dunes	101 North Bayside Drive	450
14	Bayside Village Marina	300 E Coast Highway	220

Small Commercial Marinas in Newport Harbor

Key #	City Permit No.	Owner/Identification	Address	Leased Area (SF)
1	CP12534561	Elks Lodge #1767	3456 Via Oporto	2,800
2	CP12831211	Newport Towers HOA	3121 W. Coast Highway	2,590
3	CP12830171	Mariner's Mile Professional Building	3101 W. Coast Highway	13,100
4	CP12927511	Earls Partners LLC	2751 & 2901 W. Coast Highway	8,000
5	CP12927351	Dicks Dock LLC (Rusty Pelican)	2735 W. Coast Highway	8,000
6	CP12926331	Port Calypso	2633 W. Coast Highway	8,000
7	CP12926071	Marina Properties	2607 W. Coast Highway	9,040
8	CP12925471	Vikings Port	2547 W. Coast Highway	4,000
9	CP25605041	Robert Teller	504 Bay Front	8,660
10	CP25605081	Vallely	508 S Bay Front	3,160
11	CP10525251	Channel Reef Community Assoc	2525 Ocean Blvd	County Lease
12	CP11203251	Newport Bay Towers	310 Fernando	14,900
13	CP22126021	28th Street Marina (Cannery Village)	2600 Newport Blvd	5,030
14	CP22128081	John Morehart	2808 Lafayette	662
15	CP22128121	126 Properties LLC	2812 Lafayette	497
16	CP22128141	Morehart / Cervantes	2814 Lafayette	491
17	CP12024141	Vista Del Lido	611 Lido Park Drive	15,670
18	CP12406331	Lido Park Place Condominium	633 Lido Park Drive	23,620
19	CP22106321	Bluewater Grill	630-670 Lido Park Drive	9,580
20	CP22100811	Cannery Village LLC	700 Lido Park Drive	3,540
21	CP11902271	Sullivan Trust	227 20th Street	6,690



Small Marina Location Map – Northern Portion of Newport Bay



Small Marina Location Map – Southern Portion of Newport Bay

PART III - SUBJECT PROPERTY

Benchmark Site Description

The subject property identified for the purposes of this analysis will be a generic benchmark tidelands parcel located in Newport Harbor owned by the City of Newport Beach. My analysis will be based on the location and physical characteristics of this generic parcel as further described in this analysis. I have selected this parcel to best represent a "typical" tidelands parcel available for lease to a marina user in Newport Harbor.

Location

The subject benchmark parcel is assumed to have a general location near the upper-middle of Newport Bay, near Mariner's Mile. A specific parcel location has not been identified for this analysis.

Legal Description

I have not been provided with a legal description for the Subject Property. The parcel is submerged tideland location within Newport Harbor, bayward of the bulkhead line. The lack of a specific legal description is not considered to have an impact on this valuation or its reliability.

Owner of Record and Property History

The City of Newport Beach is assumed to be the owner of the submerged tideland parcels that are the subject of this appraisal. The properties have been under this ownership for a number of years and no fee ownership change is anticipated. Due to the benchmark nature of this appraisal, I have specifically not identified the upland parcel owner that is assumed to be used in joinder with the benchmark tideland parcel.

Size and shape

The subject benchmark parcel for a larger marina is estimated to have a site area of approximately 70,000 square feet and is generally rectangular in shape with an average depth of around 100 feet. The parcel will extend bayward from the bulkhead line by approximately 100 feet. The smaller benchmark commercial marina parcel size was estimated at around 15,000 square feet. The selection of these benchmark parcel sizes will be discussed further in the Valuation section of this report.

Utilities

Public water and electricity are assumed to be available in the adjacent upland parcel, with extensions required to the subject parcel. The bulkhead is assumed to be in place.

Access

The subject tideland parcels will be valued assuming to have access to dock improvements across an adjacent privately-owned land parcel. This is an extraordinary assumption that has been made as part of the valuation analysis presented in this report. Access is also assumed to be available from the surrounding water area by boat.

Land Use Regulations

The subject tidelands parcel would be regulated by the City of Newport Beach. The associated uplands parcel would also be subject to land use regulations by the city according to the applicable zoning and general plan land use designation of that parcel. This analysis assumes that the zoning for the upland parcel would likely be MU-W1 or W2. These are mixed-use water related zonings applied to the Mariner's Mile corridor and other waterfront parcels in the central and northern end of the harbor where many of the commercial marinas are located.

Allowed uses in these mixed-use zones include residential uses above the first floor, marine-related retail uses, general retail uses, offices, various service uses, marine-related industry and research and development use. A marina use is subject to Title 17 of the Municipal Code known as the Harbor Code. Section 17.35 sets out the harbor development regulations under this code.

Development standards under the mixed-use zones require a minimum floor area ratio (FAR) of 0.35 and a maximum of 0.5 for non-residential uses. Mixed use projects have a maximum of 1.0 for MU-W1. Commercial only uses are allowed a maximum FAR of 0.5. There are other development requirements set for in the zoning code including standards for height, fencing, landscaping, lighting, parking and signs. Parking regulations for marina use require 0.75 spaces per slip.

The subject tideland and upland parcels would also be located in the California Coastal Zone. The City of Newport Beach has a certified Local Coastal Program that allows it to oversee land development within Newport Harbor. Additional regulatory agencies that have oversight of harbor development include the Army Corps of Engineers, California Department of Fish and Game, U.S. Fish and Wildlife Service and National Marine Fisheries Service among others.

Improvements

The subject benchmark parcels are assumed to be vacant and ready for development to their highest and best use. The bulkhead may exist on the public benchmark tidelands parcel or on the adjacent privately-owned parcel.

PART IV - VALUATION

Market Rent Analysis

This analysis will estimate a benchmark market rent rate for submerged tidelands leased for commercial marina purposes and as identified as "Commercial Piers" which are defined in Chapter 17.33 of the City of Newport Beach Municipal Code as:

> … a pier with multiple slips or floats which are rented or leased to boat owners including any pier used in connection with apartments, marinas and yacht clubs.

As used in this report, tidelands are defined as that water area extending from the established U.S. Bulkhead Line to either the Pierhead Line or Project Line. I have been asked to estimate a benchmark rental rate for a large and small commercial marina uses within the city's tidelands. The City municipal code defines a marina as a commercial berthing facility (other than moorings or anchorage) in which five or more vessels are continuously wet-stored (in water) and/or dry-stored (on land/racks) for more than thirty (30) days.

I have been provided with a list of commercial pier permittees by the city and divided into class sizes of large and small marinas. The large marinas are generally identified as one containing 25 or more slips. The fair market rental rate will be expressed as a percentage to gross marina rental income, usually obtained primarily from slip rental, and as a rate per square foot of leased area per year.

In applying my benchmark rate analysis, I have made a few assumptions regarding use, location, size and shape of the leased parcel. These were identified in the prior Subject Property description and are summarized again as follows.

I assume that the leased area will be located near the middle of Lower Newport Bay. The parcel size is considered to be within the larger leased area category and contain around 70,000 square feet. The parcel shape will be linear and generally rectangular, with a depth of around 100 feet from the bulkhead line bayward to the pierhead line. The smaller marina parcel size is about 15,000 square feet.

The highest and best use for the benchmark parcel will be as a marina. This use will require an associated upland parcel to provide access to the upland and parking for the marina and I have made an extraordinary assumption that an upland parcel will be available through joinder for future development of the subject parcel as a marina. Without this associated upland parcel, the highest and best use will likely be different and the resulting fair market rent significantly reduced. The likely zoning for the upland parcel adjacent to this tideland lease area would have a mixed use, water-related zone.

I have been provided with a sample lease agreement for the leasing of the city's tideland parcels. The sample document contains 42 pages plus addendums and exhibits. A brief summary of the proposed lease terms follows.

- Term: Not to exceed 50 years as per the Tidelands Grant restrictions. I will assume that a typical lease term will be at least 20 years and no more than 50 years.
- Option for Renewal: The lease may grant an option for renewal, but this may not apply in all cases, for instance where no redevelopment is proposed or where the initial term is already near the maximum. The total of the initial term and the renewal terms may not exceed 50 years.
- Rent: The rental rate has not yet been established. It is proposed to be the greater of (i) Base Rent during a lease term year or (ii) the lease term year cumulative total of the Percentage Rent

as adjusted. The Base Rent and Percentage Rent are proposed to be phased over a three-year period.

- Periodic Base Rent Adjustments: At each adjustment date, the Base Rent shall be increased, but never decreased, for the next five-year lease term, to a sum equaling 75 percent of the averaged annual total of rent payable during the immediately preceding five year period.
- Fair Market Adjustment of Rent: At the Market Adjustment Date, the rent shall be adjusted to reflect then-current fair market value, as determined by Lessor. However, Base Rent and Percentage Rent shall never be decreased from the lease term year prior to an adjustment. Lessee shall pay for all Lessor's cost of a market adjustment.
- Net Lease: This is a net lease with the Lessee paying all expenses, costs, taxes and assessments relating to or in connection to the leased premises during the term.
- Utilities: Lessee is responsible for obtaining all utilities for the premises and shall pay all utility costs.
- Use: The lease will state the sole and exclusive use of the premises. This will be assumed to be for marina use purposes with a stated minimum number of slips for rent and provisions for charter uses and other related marina use.
- Maintenance and Repair: Lessee will assume full responsibility for operation and maintenance and repair of the premises including the marina improvements, maintenance dredging bayward of the property line between the bulkhead line and the pierhead line, and maintenance of the bulkhead adjacent to or abutting the premises.
- Transfers: If the premises is appurtenant to the adjoining littoral or riparian land and/or uplands and lessee is fee owner or lessee of the adjoining upland, the lessee shall not transfer its interest or rights to use this Other Property adjoining the premises separately from the Premises. The Lessee shall have the right to transfer the premises or lessee's interest in this lease to any successor in interest of the Other Property, provided Lessor's prior written consent has been obtained and which shall not be unreasonably withheld.
- Surrender of Premises: Upon expiration or earlier termination of the lease, the premises shall be surrendered in good conditions subject to ordinary wear and tear. The Lessor may require the Lessee to remove all or any fixtures and/or improvements at Lessee's sole cost.

These proposed lease terms, provisions and conditions will be considered when estimating the benchmark rent rate for the subject tidelands. In general, these are lease terms similar to those reviewed for other marinas in Southern California harbors. The condition on transfers for the adjoining land with the leased tideland parcel is a unique condition required for this circumstance due to the leasing of tideland area only.

Highest and Best Use Analysis

The first step in the valuation analysis is to estimate the highest and best use of the benchmark parcel. Highest and best use for appraisal purposes is defined as that use or succession of available, legal, and physically permitted uses for which there is sufficient demand that produces the most probable present site value[1]. Alternatively, the Appraisal Institute states that the highest and best use is the reasonably

1 Appraisal Institute *Land Valuation*, James H. Boykin, PhD, MAI, SREA, CRE, 2001 p. 39

probable and legal use of vacant land which is physically possible, appropriately supported, financially feasible, and that results in the highest value.

The analysis of highest and best use follows the steps as described in the previous definitions. Essentially, the appraiser creates a land use matrix that identifies and analyzes the legally permissible uses, physically possible uses and financially feasible uses. The use or uses that meet these criteria and provide the highest site value is judged the highest and best use. It is not within the scope of this assignment to present a detailed feasibility analysis.

The subject benchmark tideland parcel will have limited use potential due to its submerged nature. Economic uses are generally limited to marine-related uses such as a marina, yacht club, gas dock, mooring field or docks and slips for various upland uses. A marina would require joinder with an associated upland parcel use. Uses existing in Newport Harbor that include a marina or dock improvements on the tideland parcels are public marinas, yacht clubs, restaurants, office projects, multi-family residential projects, yacht brokerages, boat rental and sales businesses, boat repair and serving businesses, gas docks and other related commercial or residential uses.

My analysis of tideland parcel uses in Newport Harbor and in other harbors of Southern California indicates that a marina use would likely maximize the economic profit generated from the use of the water area. This assumes that an associated upland parcel is available for joinder with that use to provide the necessary support in terms of required parking and other marina land-side amenities. A mooring field was considered and may be a possible use if joinder with an adjacent land parcel is not available; however the rental rates and density of boats per square foot is less than as a marina use and therefore has not been considered in this benchmark valuation as a primary use.

The highest and best use, as if vacant, for the benchmark tidelands parcel, is as a future marina development. This is made using the extraordinary assumption that it has an adjacent land parcel providing required parking, restrooms and office area for the future marina development.

Valuation Approaches

I will use two approaches to estimate fair market rent in this appraisal. The first will be a Market Data Approach where I will compare the subject benchmark site to other leased marina parcels. The second method will be an Economic Approach. This method will estimate fair market rent as a residual rent calculation to the total market rent achievable for the entire marina property including upland and tidelands. Both methods are presented in the following analysis. These methods will be used to identify a benchmark market rent rate for a large and small marina on a percentage rent basis as well as a rent rate per square foot per year of leased area.

Market Data Approach

The Market Data Approach is used to analyze and compare leases and rent rates for other tideland parcels comparable to the subject. The Subject Property is unique in that it is a submerged tideland and does not include a related upland parcel. Most commercial marinas in Southern California are leased as a single entity that includes both a landside parcel as well as the water parcel. I have searched for leases of water-area only parcels and found a few for further analysis. In addition, I have researched leases of combined parcels and analyzed these leases as well.

My market research for marina or water area lease data included all major salt-water ports and harbors within Southern California. Sources for this data include public records and interviews with agencies involved in maritime leasing. A summary of each port and/or harbor follows.

San Diego Bay

The San Diego Unified Port District controls development of most of the land and water area surrounding San Diego Bay. Development on leased parcels around the bay includes shipyards, cruise terminals, hotels, boatyards, restaurants and marinas. There are about 21 marinas on San Diego Bay. These marinas are adjacent to several cities including Chula Vista, National City, Coronado and San Diego. The majority of the marinas are located at the northern end of the bay at Shelter Island, Harbor Island and the Embarcadero.

I have been provided with leasing information on several marina leases by staff at the Port District. In general, the San Diego Unified Port District (SDUPD) leases parcels for marina use where an upland parcel is associated with the water parcel using a minimum rent versus percentage rent for the slips space and other related uses. The SDUPD has established a schedule of applicable percentage rates to be used for leasing purposes. This schedule is periodically reviewed by appraisal and adopted as policy by the Port. The Port's current established policy rate of return for leasing is 9.5% of current land value.

The current benchmark percentage rental rate for commercial marinas in the City of San Diego area is 22 percent of rental from slips, dock lockers, dinghy racks, and dry storage spaces for marinas. The marina in Chula Vista has a reduced rate at 15 percent reportedly due to its location near the south end of the bay. Typical ground leases in the San Diego Bay are for 30 to 60 year terms. Most leases are divided into 10-year rental periods with rental adjustments to the minimum rent according to CPI increases every five years and rental review (reset to market) every 10th year.

I have reviewed public records and found several marina leases over the past couple years that were either renewed or are new leases by the Port District on San Diego Bay. A summary of these leases follows.

The Wharf

A new marina lease by the SDUPD was approved June 1, 2007 to Point Loma Marina, LLC of property located at 4960 North Harbor Drive, San Diego. This was a new 30-year lease of 1.74 acres of upland area and 3.75 acres of submerged tidelands. A new 50-slip marina and two commercial buildings with associated surface parking were to be constructed by the tenant on this previously undeveloped site. The lease rate for the marina uses was 22 percent of slip rent and other related marina income versus minimum rent whichever is greater. The minimum rent schedule was $25,000 for the first year; $200,000 for the second year; $250,000 for the third year; and $275,000 for the fourth through tenth lease year. This property is now operating as The Wharf at America's Cup Harbor.

Fifth Avenue Landing

The Port District entered into a new lease agreement with Fifth Avenue Landing, LLC for a new mega-yacht marina located at 600 Convention Way, San Diego. This lease involves a land parcel of about 0.59 acre and a 3.57-acre water parcel. The parcel is located behind the San Diego Convention Center in downtown San Diego on San Diego Bay. The property was previously improved with some minor improvements and small dock space. The lessee constructed in a new marina containing 12 berths for large yachts of 100 to 300 feet. There is an estimated 1,220 feet of slip space and around 295 feet of side tie. A small office, public restroom, ticket booth and parking lot were constructed on the land parcel. The lease commenced May 7, 2010 and is for a 20-year term with two options to extend for five years each. The lease rental is $114,000 per year in minimum rental versus percentage rent of 22 percent of marina slip rents, 10 percent of parking rentals, 6 percent of ticket sales for harbor excursions

and 5 percent of merchandise sales. Slip rates range from $42.50 per foot for 100 to 120 foot yachts up to $48.50 per foot for yachts over 150 feet.

The minimum rent equates to $0.63 per square foot per year for the land and water area leased. The projected 2010/2011 rent was estimated to be around $0.67 per square foot based on percentage rent.

Marina Cortez

In October 2011, the SDUPD approved an 18-month option agreement with Marina Cortez for a new 40-year lease subject to conditions relating to construction of new improvements. The property is improved with a marina located at 1880 Harbor Island Drive. The owners of the marina replaced all of its marina slips in 2010 with a new hardwood deck float system and expanded the marina to a total of 545 slips. The tenant will be required to construct a shoreline promenade in order to obtain the extended lease term. The negotiated lease rate will be minimum rent versus percentage rent from the marina operation based on 22 percent of slip rental and other related marina revenue. The tenant spent about $7.34 million in replacing the marina dock system.

Intrepid Landing

In January 2012, the SDUPD approved a new lease to Intrepid Landing, LLC of a land and water parcel located at 2702 Shelter Island Drive, San Diego. This parcel is to be developed with a new marine sales and service building of 4,510 square feet and a 50-slip marina along with a public promenade and 15-space parking lot. The parcel had been previously developed with older marine-related commercial buildings that had been demolished by the tenant. The lease rate for the marina use is based on minimum rent versus percentage rent of 22 percent of slip rental and other related marina income. The tenant is lining up financing and is expected to start construction of the marine building and marina in 2012. A second parcel is also leased for use as a boatyard, but this development is delayed due to current economic conditions.

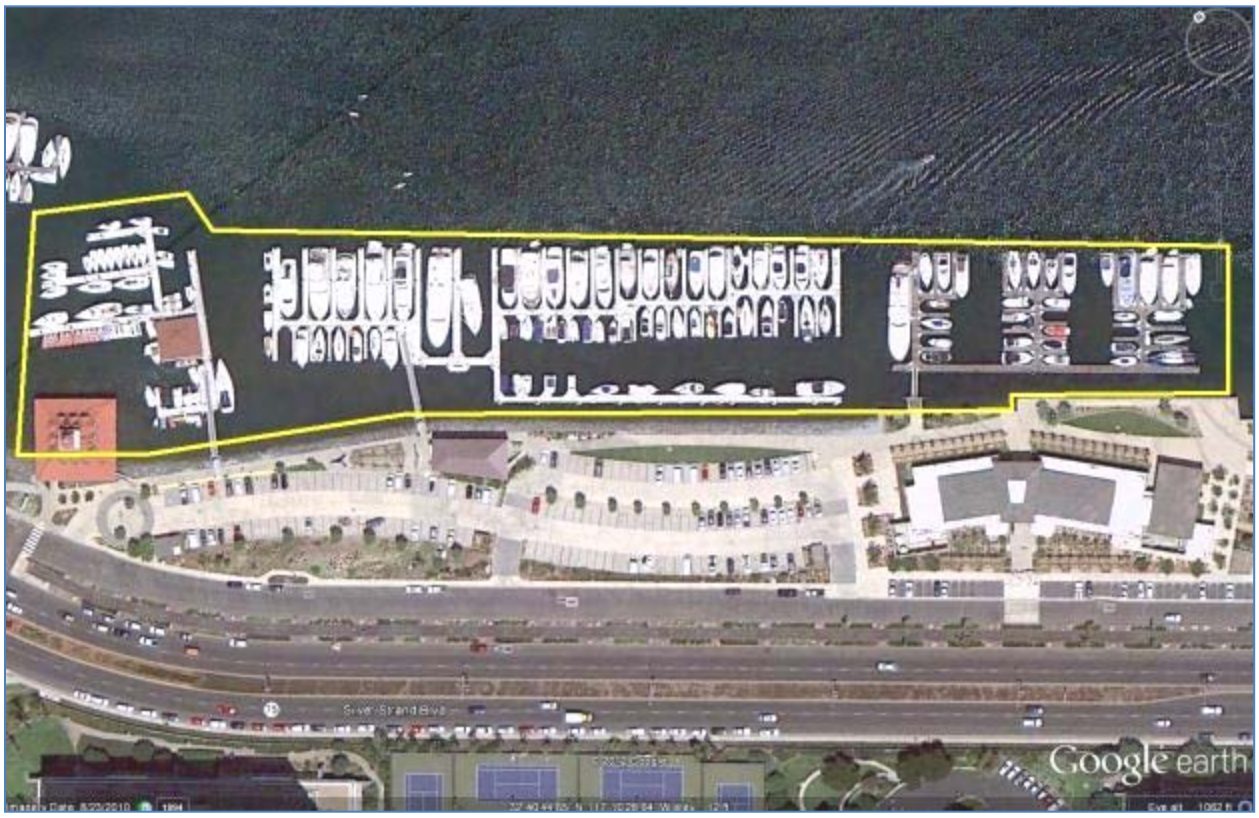
Coronado Yacht Club

The Port District is currently negotiating with the Coronado Yacht Club for a lease extension to its existing lease of upland and water area on a parcel located at 1631 Strand Way in Coronado. The parcel is currently improved with the Coronado Yacht Club facility that has a 264-slip marina, clubhouse and parking lot. The leased water parcel contains about 10.35 acres. The club is proposing to redevelop the parcel with a new clubhouse and an expanded marina adding 108 new slips into a water parcel not currently under the Port District's jurisdiction. The expansion will require approval from the State Lands Commission and this approval has not yet been granted. The additional water area will then be leased by the Port District as master lessor and subleased to the Coronado Yacht Club. Lease rates for the water area have not yet been identified according to a staff person at the State Lands Commission. The new lease rate for the marina portion of the property will start at 8.25 percent of slip rental income and step up to 11 percent.

Glorietta Bay Marina

The Community Development Agency (CDA) of the City of Coronado operates the Glorietta Bay Marina under a lease from the Port District. The lease covers a portion of the submerged tideland area controlled by the Port and the City controls part of the submerged tidelands as well as the upland area improved with the marina and all landside facilities. The leased area is about 140,700 SF or 3.23 acres of submerged tideland (Parcel 055-005). The original lease rate was $968 per month or $11,616 per year =

$0.08 psf/yr and this dates back to a lease granted prior to formation of the SDUPD. The leased water area is improved with approximately 120 slips which is a city-owned marina operated by California Yacht Marinas. The address of the marina is 1715 Strand Way, Coronado. An aerial photo showing the approximate location of the leased area follows.



The CDA is exercising an option to extend the lease term for 40 years. The Port has the right to adjust the rent to market at the time of the lease extension. The new water area lease rate is to be based on 11 percent of slip rental. The negotiated new rent rate basis reportedly considered that the water area was about 50 percent of the total site area and a total slip rent rate for a land and water lease is 22 percent, so they took 50 percent of this number and got 11 percent – ½ to the water leased area.

The lease is being finalized now, not yet a public document. It was on the August Board meeting agenda, but is now being pulled from consideration. I am not aware of the reason for the delay.

San Diego Bay Marina Rents

In addition to specific lease data, I have also reviewed reported percentage rent paid in 2011 to the San Diego Port District by a number of marinas in San Diego Bay. The data has been analyzed on a rent per square foot of leased water area only. Although each of the marinas has associated land parcels that are improved with various uses including parking lots, hotels and marina offices, no separate allocation for the land area was available. The San Diego Port District uses a rule-of-thumb of 10 percent of water area required to provide land area for parking and related marina use. San Diego Bay is different from Newport Harbor in that it is wider and allows a much deeper marina with longer finger docks. The leased water area tends to be larger per slip for this reason where the leased water area in Newport Harbor is more efficient with most of the turning and maneuvering areas for yachts performed within

the bay in open water. A summary of estimated rent per square foot of leased tideland area follows. The marina rent was calculated on 22 percent of slip rental in all cases. These estimates are before any allocation to leased land area required to support the marina. The indicated rent for the water area only would be less than these indicators.

San Diego Bay Marina Rent Summary

Marina	Slips	Water Area	Marina % Rent	Rent/SF/Yr	SF/Slip
Bay Club Hotel and Marina	154	223,853	$246,248	$1.10	1,454
Island Palms Hotel and Marina	167	467,650	$414,357	$0.89	2,800
Shelter Cove Marina	161	311,550	$300,291	$0.96	1,935
Sun Harbor Marina	116	147,919	$180,736	$1.22	1,275
The Wharf Marina	50	163,285	$183,037	$1.12	3,266
Overall Averages				$1.06	2,146

In order to compare rent rates for the San Diego Bay market to the Newport Harbor, I have considered slip rental rates as one basis for comparison. I have surveyed many of the marinas in San Diego Bay in the past year and find that average slip rent rates are from $15 per foot to $21 per foot for slips from 30 feet to 50 feet. These same slips in Newport Harbor rent in the range of $24 to $41, about double the San Diego Bay rates. Applying this different in rates to the average rent per square foot of leased area results in an adjusted rent for water area of $2.12 per square foot per year. An additional factor that is not reflected in this adjustment is the average leased water area per slip. The larger water area per slip reflected in the San Diego Bay marinas will result in a lower rent per square foot. The Newport Harbor marina rent rate per square foot would be expected to fall above the data in San Diego Bay.

Mission Bay – San Diego

The City of San Diego administers the land and water area surrounding Mission Bay in San Diego. There are about 10 marina leaseholds on Mission Bay with around 2,000 slips. Many of the leaseholds are hotel and marina combinations. I have been provided with a current summary of these leaseholds and find that the marina leases pay minimum rent versus percentage rent ranging from 20 to 25 percent of slip rental. A few sample lease agreements are summarized below.

The Catamaran Resort Hotel and Spa leases beach and tideland area from the city on Mission Bay adjacent to their resort at 3999 Mission Boulevard. The resort leases 0.637 acres of waterfront beach and 0.853 acre of submerged tideland. The pier lease and beach permit are for 5 years from December 2009. The tideland is improved with a single pier approximately 220 feet in length. This is used for recreation boat rentals offered by the hotel. The lease rate for the beach permit is $500 per year and the tideland area rate is based on 10 percent of all operations related to the use of the pier. The 2011 total rent paid for the tideland pier lease was $24,445 which equates to $0.66 per square foot per year. An aerial photo showing the location of this tideland lease follows.

Dana Landing Marina leases 3.467 acres of land area and 4.127 acres of water area for a marina located at 998 West Mission Bay Drive, San Diego. The lease is for 25 years beginning in August 1995. This was a renewal lease. The property is improved with an 80-slip marina and several commercial buildings including the Dana Landing Market and Fuel Dock. The lease rate is based on a number of percentage rent categories including 25 percent for the boat slip rental. The total rent paid in 2011 was $278,018 which equates to $0.84 per square foot of total land and water area. The rental rates for the slips are $9.50 per lineal foot per month and the current occupancy is 100 percent with a waiting list. The average slip size is about 30 feet. This marina has significantly lower slip rates compared to the Newport Harbor average.

The Dana Inn and Marina at 1710 West Mission Bay Drive has a 270 room hotel and 140 slip marina. This lease was renewed in November 2000 for 50 years and the negotiated slip rate 20.5 percent. There will be a percentage rent review on 12/1/2020 and each 10 years thereafter.

The Islandia Hyatt Regency at 1441 Quivira Road signed a new 50-year lease in January 2006. The property was improved with a 422-room hotel and a 178 slip marina. The percentage rent for the marina is 25% of boat slip rentals. There will be a percentage rate review at the end of year 25 and each 10 years thereafter.

County of Orange

The County of Orange has jurisdiction over the Dana Point Harbor, portions of Newport Harbor, Huntington Harbor and Anaheim Bay in Seal Beach. A brief description of these areas follows.

Dana Point Harbor

Dana Point Harbor is operated by the County of Orange and has two marinas, the Dana Point Marina and the Dana West Marina. Both marinas are owned by the County and are leased to marina operators. Data Point Marina has 1400 slips and Dana West Marina has 981 slips. No percentage rent information

is applicable for this harbor. Previous tenants had been paying 25 percent of slip revenue for the marina leases before lease expiration in 2005 when the county took over ownership.

The county entered into a lease agreement with Dana Point Yacht Club on November 22, 2005. The agreement established minimum annual rent plus a percentage rent of 7.5 percent of gross receipts in excess of $1,200,000 per year.

Newport Harbor

The County of Orange has several leased parcels within the Newport Harbor. These include the following marine-related uses:

- Bayshore Marina: 2.3 acres of tidelands (water only) under lease to California Recreation for use as a 134-slip marina located at 2572 Bayshore Drive in Lower Newport Bay, Newport Beach.
- Swales Anchorage: 1.15 acres of tidelands (water only) leased for use as a 56-slip marina located at 2888 Bayshore Drive in Lower Newport Bay, Newport Beach.
- DeAnza Bayside Village: 34,000 square feet of tidelands (water only) leased for use as a bait barge. The property address is 300 East Coast Highway in Upper Newport Bay, Newport Beach. I have not been provided with current lease data for this tidelands lease.
- Newport Dunes Waterfront Resort: 103 acres of tidelands (land and water) leased for use as an RV campground, marina, boat launch, beach, swimming lagoon and restaurant. The property is under lease through 2039 to Waterfront Resort Properties LP and Newport Dunes Marina, LLC. The property includes a 440-slip marina. Located at 1131 Back Bay Drive in Upper Newport Bay, Newport Beach.
- Balboa Yacht Club: 1.156 acres of tidelands (land and water) leased for use as a yacht club with 71 slips for member use only. The club is located at 1801 Bayside Drive in Lower Newport Bay.
- Channel Reef: 27,000 square feet of tidelands (water only) leased for use as a marina by a residential condominium project owners. This is not a public marina.

I have been provided with copies of several pertinent leases by the county and have summarized the lease terms for each lease as follows.

Bayshore Marina Lease

The Bayshore Marina lease with the County expired in 2004 and a new lease was negotiated. The current lease is dated December 7, 2004 and is for an initial term of 20 years and an option for an additional 20 years. The tenant is the Irvine Company and the lessor is the County of Orange. The leased area is 2.297 acres or 100,057 SF of water area extending approximately 80 feet beyond the bulkhead line. The property is developed with a public marina containing 134 slips. The tenant owns or controls an adjacent landside parcel fronting Bayshore Drive containing about 1.38 acres and the water area bayward between the bulkhead and the bulkhead line. The bulkhead is on the tenant's fee-owned parcel. An aerial photo showing the approximate boundaries of the tideland leased area follows (shaded area).

The County tidelands leased in the early 1970's using a formula relating to changes in land values. This was revised in September 2004 to minimum rent versus percentage rent at a rate of 20% of marina revenue and a minimum of 75% for the preceding three years of percentage rent. Minimum annual rent began at $165,000, adjusted every 5th year based on CPI LA changes. This minimum rent equates to $1.65 per square foot per year. Gross receipts from marina operations in Fiscal Year 2003-2004 totaled $1,208,875 with $247,434 paid in rent to the County which equates to 20 percent of gross revenue. This percentage rent paid equates to $2.47 per square foot per year of leased water area. In FY 2009/2010, the total revenue was $1,600,000 and tidelands rent was $320,000 or $3.20 per square foot. The County reports that total rent paid in for the period FY June 2010-July 2011 was $330,000. It is expected that the most recent year's rent will be a similar amount.

The Bayshore Marina is owned and operated by California Recreation Company, a unit of the Irvine Company. The marina has slips sizes ranging from 15 feet up to 83 feet with most slips in the 20 to 80 foot range, generally evenly distributed. Slip rental rates range from $26.75 for the small slips up to $59.00 for the largest slips.

Swales Anchorage Lease

The County has a water area only lease with Palmo Investments of 1.15 acres of tidelands located at 2888 Bayshore Drive in Lower Newport Bay. The adjacent uplands were subject to a long term ground lease with the Farwell family and in 1971 the County leased to the Farwells the 43-slips on County tidelands known as Swales Anchorage. The tidelands agreement was amended in 1991 to establish a fair market rent rate. The Farwell's ground lease on the adjacent uplands parcel expired in June 2011 and Presta Family Trust (Palmo Investments) was successor in interest to the improvements at 2888 Bayshore including the marina improvements. County and Palmo Investments agreed to a new tidelands agreement in November 2011.

The adjacent uplands to the leased parcel has the address 2888 Bayshore Drive and according to public records, is owned by Palmo Investments. The uplands parcel is identified as APN 049-191-30 and 33. These parcels contain 1.87 acres and the property is improved with a multi-family residential project and commercial building built in 1960. The water area is improved with a public marina containing 43 slips and about 12 side-ties with slip sizes ranging from 18 to 45 feet. Gross revenues from this marina were reported at $360,000 in 2006 according to public record documents. The tenant paid $72,070 in rent which equates to 20 percent of gross revenue and $1.44 per square foot. An aerial photo showing the approximate location of the leased parcel (shaded area) follows.

The new lease in 2011 is considered to be an interim lease for three years commencing July 1, 2011. The lease provides for a rent of $6,000 per month or $72,000 per year. It appears that this rent is based on prior year's rent payments. There is no provision for percentage rent in this lease. The lease indicates that the tenant contends they may own the tidelands and are leasing the site under protest, subject to efforts to determine ownership. It is my understanding that this issue is no longer being contested.

Mike Hentzen at the County of Orange indicates that the tenant wants a new long term lease, but will need to perform some work on the marina including rebuilding the seawall, dredging and replacing the dock system of the marina. He was told that the rent rate will be 20 percent of gross slip rental for the new lease.

Newport Dunes Resort and Marina Lease

The County leases a 102-acre parcel located in Upper Newport Bay known as Newport Dunes. This property is leased to Waterfront Resort Properties, L.P. and Newport Dunes Marina, LLC. The property is improved with a 450-slip marina, a boat launch ramp, dry boat storage facility, an RV park, beach, swimming lagoon and restaurant. A second phase of improvements is proposed with the construction of a hotel on a 13-acre parcel. The original lease was amended to provide an option for an extended

term upon development of the hotel parcel. The amended lease is dated August 25, 2009 and the current lease term expires in 2039 if the option is not exercised.

The lease rate for the marina portion of the property is based on 25 percent of boat slip rental income. If the lease option is exercised, the new lease will have a similar percentage rent rate for the marina. Slip rental rates in this marina range from $23.75 to $42 per foot. Due to the bridge located between Lower and Upper Newport Bay, the size and type of boat is restricted to smaller power boats.

Seal Beach/Huntington Harbor

The county leases a 50-acre property operated as Sunset Aquatic Marina located in Anaheim Bay within the City of Seal Beach. The leased area consists of both upland and tidelands. This marina has been leased to Sunset Aquatic Park, Ltd since 1994. The property is used as a 240-slip public marina, dry boat storage, launch ramp and ship repair facility. The lease was for an original term of four years and had an option to extend for an additional 35 years. This option was exercised. The lease calls for minimum rent versus percentage rent for various categories. The boat slip and boat storage category calls for percentage rent of 25 percent beginning in 1995 and annually stepping up to 35 percent by January 2031.

The tenant also leases some adjacent tideland area from the State of California under a separate 40 year lease dated January 1, 2000. The lease rate for this water area is 8.5 percent of the annual gross income generated from boat berthing located on the leased lands within Sunset Harbor Marina. Revenue data for this lease was not available.

Newport Harbor - City of Newport Beach

The City of Newport Beach has authority over the majority of water area within Newport Harbor except for the portions governed by the County of Orange. The existing lease policy for marina-use parcels has been a flat annual lease rate of $0.36 per square foot of leased tideland area. In addition, the tenant is billed a base annual fee of $26.70 and $2.50 per slip for the slip or marina area that is not over city tidelands. The marinas have been issued Commercial Pier Permits for this use, renewed annually. The total leased water area is about 23 acres and there are a total of 52 commercial pier permittees that paid a total of about $388,000 in 2011. The leased water area is calculated based on City tidelands from the bulkhead to pierhead line and any area bayward of the pierhead line that is part of the marina.

The city also has a lease to the Bahia Corinthian Yacht Club of tidelands adjacent to their fee-owned parcel improved with a clubhouse and parking lot. The property is located at 1801 Bayside Drive, Newport Beach. The lease is of tidelands utilized as a marina supporting the yacht club use. The marina contains around 60,500 square feet based on my estimate. The lease summary provided to me does not include a leased area. The lease references the marina containing 2,079 lineal feet of slip space. I estimate that there are about 50 slips, indicating an average of 41 feet per slip. The original lease was dated May 7, 1998 for a 35-year term. The base rent is currently $5,324.92 per month or $63,899 per year. This is based on 9 percent of annual gross receipts from slip rentals at a rate of $28.46 per lineal foot per month. This slip rate is adjusted annually based on the average rate of several comparable marinas. The resulting approximate rate per square foot of tideland area is around $1.06 per year.

Port of Los Angeles

The Port of Los Angeles has jurisdiction over waterways in San Pedro and Wilmington within the city limits of the City of Los Angeles. There are a number of small craft marinas in these harbors that are

leased to private entities. All of the leases are of marinas that include upland parcels and submerged tideland parcels. The Port leases the marinas based on minimum rent versus percentage rent for various marina revenue sources. The percentage rent rate for slip rental income is 25 percent. This rate has been set for a number of years and no change is anticipated by staff. The minimum rent is based on 75 percent of the average annual rent paid in the prior three years and will be increased annually by the CPI, capped at 3 percent annually.

Marina Del Rey

The marinas within Marina Del Rey are leased by the County of Los Angeles by the LA County Department of Beaches and Harbors. There are a number of marinas within this harbor. The County leases the marina sites, which include both the upland parcel and the submerged tideland parcel, using 25 percent of slip revenue. I have reviewed a couple leases negotiated in 2011 and 2012 and they both provide for rental rates based on this percentage rate for slip revenue. Dry storage rates are at 20 percent.

Santa Catalina Island

The State of California leases about 335 acres of submerged land within eleven parcels surrounding Santa Catalina Island. Catalina Island is about 22 miles long and about 8 miles wide at its greatest width. It is located about 22 miles south-southwest of Los Angeles. The island is within Los Angeles County and much of the island is administered by the Catalina Island Conservancy while the State of California administers the surrounding tidelands.

The leased parcels are used for moorings subleased to the public and operated by the lessee. There are a total of 720 revenue-producing moorings and 32 non-revenue moorings. The lessee is Santa Catalina Island Company and Santa Catalina Island Conservancy. The State Lands Commission oversees the leasing of this property.

The current lease is a 20-year term beginning January 1, 2002 and amended in January 2012. The amended master lease calls for minimum annual rent of $324,800 versus percentage rent from mooring revenue. This minimum rent was increased from the original amount set in 2002 at $210,000 because in 2011 it represented about 30 percent of the total rent paid. The adjusted minimum rent was set to equal about 50 percent of the total percentage rent payable. The percentage rent applicable for mooring subleases and overnight stay charges is 25 percent of the mooring revenue.

Total percentage rent paid in 2011 was about $650,000. This equates to about $2,600,000 in total revenue collected by the lessee and is about $300 per revenue producing mooring per month. Mooring fees for sublessees are set at $49.48 per deck line foot per year.

The history of moorings around Santa Catalina Island dates back to 1950 and earlier. The first lease was issued by the Commission in 1950. In 1966, the Commission issued a lease to the Santa Catalina Island Company for 15 years with no option. The lease allowed the Company to operate all moorings around the island except those in Avalon Bay. During this time, most of the 720 moorings were installed and the Company operated the moorings under a sublease program. When this lease ended, the Commission put out an RFP for the leasing and operation of the moorings. A new lease was agreed upon with the Company which was one of three bids received during the RFP process. The new 15-year lease called for flat rent of $206,500 per year. This lease expired in December 1996 and was on holdover pending negotiation of a replacement lease that was agreed upon in January 2002.

Market Data Summary

I have separated the market data between leases containing both uplands and tidelands and secondly leases of tideland parcels only. A summary table and discussion for each category follows.

Marina Upland and Tideland Lease Data

Location/Lessee	Lessor	Slip % Rent
San Diego Bay		
The Wharf	San Diego Port District	22%
Fifth Avenue Landing		
Marina Cortez		
Intrepid Landing		
Mission Bay		
Dana Inn and Marina	City of San Diego	20.5% - 25%
Islandia Hyatt Regency		
Newport Harbor		
Newport Dunes	County of Orange	25%
Huntington Harbor		
Sunset Aquatic Marina	County of Orange	25% - 35%
Port of LA		
Various marina leases in San Pedro and Wilmington	Port of LA	25%
Marina Del Rey		
Marina leases in Marina Del Rey	County of LA	25%

The market data range for the combined upland and tideland parcel leases for marina uses ranges from 20 to 25 percent. The majority of the data is at the upper end of the range. When compared to the city's tidelands only parcels, this data should set the upper end and it would be expected that the rental rate for tidelands only leases would be less than this range. This is because an operating marina will need both land and water area to function, with a minimum land area provided for required marina parking, and often providing a small marina office and restrooms. Additional land can be used for dry land storage, lockers and other related marina uses.

Marina and Mooring Tideland Only Lease Data

No.	Location/Lessee	Lessor	Lease Date	Term	Min. Rent	Slip % Rent	Use
	San Diego Bay						
1	City of Coronado Glorietta Bay Marina	San Diego Port District	Pending 2012	40 yrs	Pending	11%	Existing 120-slip marina operated by City of Coronado; new lease being negotiated for water area only
	Newport Bay						
2	Bayshore Marina The Irvine Company	County of Orange	Dec 2004	20 yrs	$165,000	20%	New lease for existing 134-slip marina; adjacent land parcel owned by lessee
3	Swales Anchorage	County of Orange	November 2011	3 yrs	$72,000 Flat Rent	N/A - 20% Effective Rate	Interim lease for existing 55-slip marina; adjacent land parcel owned by lessee
	Huntington Harbor						
4	Sunset Aquatic Marina	State of California	January 2000	40 yrs	No	8.50%	Lease of adjacent water to County tidelands for marina use
	Santa Catalina Island						
5	Santa Catalina Island Company	State of California	January 2002	20 yrs	$324,800	25%	New negotiated lease for 11 mooring parcels with 720 moorings surrounding Santa Catalina Island

After an extensive search, I found five data items where tideland area only was the subject of a lease for marine-related use. The most recent data is a pending lease by the San Diego Unified Port District with the City of Coronado. This lease is proposed at a rate of 11 percent of slip rental for an existing marina operated by the City. The city had leased the water area for a number of years at a much lower rate and the lease is due to expire.

The most comparable data in terms of location and use are the two leases by the County of Orange for 20 percent of slip rental. One was negotiated in 2004 and the second in 2011, both at the same terms. The Swales lease is for a short term, but an extended term is anticipated at a similar rate. It is noted that both of these leases were renewals and the tenants had significant investments in leasehold improvements. It was reported that the county originally asked for a higher rent rate during negotiations, but settled on the 20 percent rate. My interview with a representative from California Recreation indicates that they felt there was little room for negotiation since the county only had these two marinas in the bay. They feel that the rate is above market.

The State of California leased some water area to Sunset Aquatic Marina at an 8.5 percent rate. Further details for this lease were not available. The State also leased a large area of water in eleven parcels surrounding Catalina Island at a 25 percent of mooring revenue rate. These tidelands were used for moorings and have been previously leased to the Santa Catalina Island Company who oversaw the mooring subleases. Due to the different nature of this lease with mooring rentals being collected, this lease is given less weight.

The City of San Diego leases a small tidelands parcel for use as a commercial pier on Mission Bay to a resort hotel. The lease rate is 10 percent of all collected revenues pertaining to the use of the pier. The hotel appears to rent boats and have related revenue to this use. A separate flat fee is charged for the beach area of the tidelands. Since this is not a marina use, I have given this data less weight in my analysis. It is however representative of a rate charged for the use of water area only where the adjoining upland parcel is privately owned.

Based on the available market data, the indicated range of fair market rent rates for the city's Newport Harbor commercial tidelands use should fall between 10 percent and 20 percent, and would likely be closer to the 20 percent range. The best market data are the two county leases in Newport Bay, but require consideration for the circumstances under which the leases were negotiated. This data confirms that the tideland only lease rate should be less than the percentage lease rate charged for upland and tideland parcels combined.

Economic Approach

A second method used to estimate fair market rent for the subject commercial use tidelands is an economic approach. This approach will use a residual technique. In theory, the applicable rent to water area can be calculated as a residual after solving for total rent for a marina use and deducting implied rent for the upland parcel. The basis for this approach is the understanding that a marina will require an associated land parcel to provide access and parking to the docks and leased tideland parcel. Although the subject tideland parcels will be leased without an associated land parcel, in practical purposes, the tidelands have been connected to adjacent land parcels for many years and will likely continue this association unless the adjacent landowner decides not to operate a marina. The economic approach will require a key assumption that an adjacent upland parcel will be available for use associated with the tidelands parcel as a commercial marina.

Introduction

The residual technique will use as a basis, total potential rent for the land and water parcels, if leased in an open and competitive market, without improvements. The leasehold improvements required for a marina such as parking, office space and docks will not be included in this rental estimate. In nearly all cases in Newport Bay, the city's commercial tideland parcels are improved with existing dock facilities. These are owned by the tenants, subject to reversion to the city upon termination of the tidelands permit or lease. My analysis will assume land and water area as if vacant and put to their combined highest and best use as a commercial marina.

The formulas used in this residual technique are as follows:

Tidelands Rent = Total Fair Market Rent – Upland Rent

where; Total Fair Market Rent = Upland Rent + Tideland Rent

Key to this formula is that the uplands and tidelands are assumed to have a common highest and best use, which in this case is use as a commercial marina. The sum of the individual parts or components of value do not always equate to the market value when considered as a whole. However, it is acceptable methodology to calculate value using a residual technique when one component has limited market data upon which to independently provide a reliable estimate. In the case of the subject, there is limited directly comparable market data to estimate market rent for the tidelands area alone and so a second approach using this residual technique is considered appropriate. The components of the residual approach will require the estimate of total fair market rent for use as a marina and market rent for the associated upland parcel. The residual value being calculated will be the market rent for the tidelands parcel.

Total Market Rent Estimate

The total rent applicable for a commercial marina is typically expressed as a percentage to total effective gross revenue generated from slip rental and other related rental sources. I have studied percentage rent rates charged by other entities in Southern California. Again, these rates are for leased land and water parcels used as commercial marinas with the improvements (if any) owned by the tenant. This will be the starting point for the residual approach. A summary of rental rates charged for marina uses by other agencies in Southern California was previously discussed and data presented in the previous market data section. The comparable data ranged from 20 percent to 25 percent, with most data falling at the upper end of this range. These rates are applicable for large marinas. No directly comparable marina leasing data was found for small marinas, under 20 slips in size. For this reason, I have used a large marina size as my benchmark parcel. A small marina analysis will be presented later in a separate section.

Based on my analysis of the comparable market data, I have concluded that the fair market rent rate applicable for a larger commercial marina operation within Newport Bay would be 25 percent of slip rental revenue. This rent would be based on effective gross slip revenue, or in other words, the collected slip rental for a lease period. Most charge rent on a monthly basis and reconcile a base rent annually to the actual collected slip rent and adjust the percentage rent accordingly.

In order to estimate total fair market rent for a hypothetical marina parcel valued in this appraisal, I will need to estimate slip rental income. I have chosen a hypothetical marina for this study that would be approximately 50 slips in size and located in the mid-bay area of Newport Bay. A marina containing 50 slips is a somewhat common size and would be considered a medium to large marina for Newport Bay.

Slip revenue for this hypothetical marina will be based on competitive market slip rates for commercial marinas in Newport Bay. I have surveyed a number of these marinas and presented the rent rates by slip size categories. Sources for this data include published rates, rates obtained from the marina and surveys obtained from several other sources. The data considered for this analysis is shown in the following table.

Newport Harbor Marina Slip Rate Survey					
Number	1	2	3	4	5
Name	Harbor Tower Marina	Ardell Marina	Bayshore Marina	Balboa Marina	Villa Cove
Address	3335 W. Coast Hwy	2101 W. Coast Hwy	2572 Bayshore Dr	201 E. Coast Highway	1099 Bayside
City	Newport Beach	Newport Beach	Newport Beach	Newport Beach	Newport Beach
Slips	50	50	134	105	42
Type	Wood	Wood	Wood	Concrete	Wood
Utilities	Elect. Included	Elect. Included	Elect. Metered	Elect. Metered	Elect. Metered
Occupancy	98% - 100%	90%	Est. 90%	Est. 90%	Est. 90%
Survey Date	Jul-12	Jul-12	Jul-12	Jul-12	Jul-12
Slip Length:					
Under 20’	$22.00	$20.00	$26.75		
20’ to 29’	$22.00		$26.75 - $28.60	$29.65 - $34.20	$25.25
30’ to 39’	$30.00		$34.85 - $37.00	$36.25 - $39.20	$30.15
40’ to 49’	$33.00	$32.5 - $36.25		$43.95	$40.95
50’ to 59’	$46.00	$37.50 - $38.00		$50.45 - $55.65	
60’+	$48.00	$38.50 - $40.00	$56.60 - $59.00	$55.65	$44.45

Number	6	7	8	9	10
Name	Bayside Marina	Lido Yacht Anchorage	Lido Village Marina	Newport Dunes	Bayside Village
Address	1137 Bayside	151 Shipyard Way	3422 Via Lido	101 N. Bayside Drive	300 E. Coast Hwy
City	Newport Beach	Newport Beach	Newport Beach	Newport Beach	Newport Beach
Slips	102	220	75	450	220
Type	Wood	Conc. & Wood	Wood	Concrete	Wood
Utilities	Elect. Metered	Elect Meter/Flat	Not Avail.	Elect. Metered	Flat rate
Occupancy	Est. 90%	Est. 85%	Not Avail.	100%	90%
Survey Date	Jul-12	Jul-12	May-11	Jul-12	Jul-12
Slip Length:					
Under 20’	$26.35	$18.25 - $19.00		$23.75	$21.00
20’ to 29’	$26.35 - $26.75	$19.50 - $21.50		$23.75	$21.00
30’ to 39’	$35.60 - $37.35	$24.00 - $25.00	$35.00	$29.00 - $31.25	$25.00 - $26.00
40’ to 49’	$45.40 - $48.15	$33.00	$38.00	$39.50	$32.00
50’ to 59’		$34.75	$41.00	$42.00	$35.00
60’+	$55.65 - $62.30	$39.25	$45.00		$35.00
110'		$47.00			

I have taken this data and combined the slip rental rates into size groupings for further analysis. For marinas reporting a range of rates within a given size category, I have averaged this range to report a midpoint estimate for this purpose. The minimum and maximum rates with each size category reflect all surveyed marinas.

	Slip Rent Per Lineal Foot		Range	
Slip Length	Average	Median	Min	Max
Under 20 feet	$22.64	$22.00	$18.63	$26.75
20 to 29 feet	$24.83	$24.50	$20.50	$31.93
30 to 39 feet	$31.71	$30.15	$24.50	$37.73
40 to 49 feet	$37.95	$38.00	$32.00	$46.78
50 to 59 feet	$41.36	$41.00	$34.75	$53.05
60'+	$47.04	$45.00	$35.00	$58.98
110'	$47.00	$47.00	$47.00	$47.00

In order to provide an estimate of slip revenue for the hypothetical marina, I will need to estimate a likely mix of slip sizes which would maximize the potential slip revenue per foot as well as serve the general needs of marina users in this market. Most mid-size to larger marinas have a variety of slip sizes ranging from 20 feet or less up to over 70 feet. It is not in the scope of this assignment to provide a precise slip layout or dimensions, but rather use an average slip size for the 50 slips as the basis. Market rent for this average size is then estimated and applied to calculate the total potential slip rental income.

I have studied several marinas for slip size distribution and average slip length. These include Bayshore Marina, Bayside Marina, Swales Anchorage and Ardell Marina. These are all marinas that have sizes from 45 to 132 slips. I have estimated the average slip size and average rent per slip for each marina using aerial photos showing the actual use of the slips and my estimate of the yacht sizes within each slip. The rental data was derived from published rental rates for each marina, by size category. I have interpolated an estimated slip rent using the rent rate categories since actual rental data per slip was not available. A summary of this data follows.

Marina	Bayshore	Bayside S.	Swales	Ardell
No. Slips	132	45	54	50
Slip Size Range	20' to 65'	15' to 66'	20' to 45'	20' to 90'
Average Size (LF/Slip)	32.3	36.5	35.2	45.0

Note: Bayside Marina slip calculation only for southern portion; does not include entire marina but is considered representative of the larger 102-slip marina.

My survey and discussions with marina owners and marina dock masters indicates that the greatest demand in this harbor is for larger slip space accommodating yachts 40 feet or more. The trend over the past 10 years or so has been toward larger yachts in this harbor, but many marinas are not laid out for wide-beam yachts such as the mega-yachts of 60 to 100 feet long. Many existing marinas have a higher distribution of smaller sized slips with narrower beam widths that cannot accommodate the large yachts. Another factor to consider is that the slip rate per lineal foot of yacht goes up as the size increases. This is mainly due to the wider space required for a longer yacht and therefore more area

taken compared to a smaller yacht. Marinas with larger slip spaces will have a lower number of slips per square foot of leased area due to this increased space demand. Most marinas in Newport Harbor are laid out in a linear format, spread along the bulkhead line. Again, this is due to the more narrow bay channel compared to other harbors that are deeper and wider.

I have decided to use an average slip length of 40 feet for my analysis. This is near the upper end of the range and reflects better economics than a marina with a higher percentage of smaller slip spaces. The average forecast potential rent rate per lineal foot of slip area and per slip per month for three surveyed marinas follows.

Marina	Bayshore	Bayside S.	Ardell
No. Slips	132	45	50
Average LF/Slip	32.3	36.5	45
Average $/LF/Month	$ 36.52	$ 45.39	$ 34.48
Average $/Slip/Month	$ 1,181	$ 1,655	$ 1,563

The Bayshore marina has the largest number of slip spaces and also the smallest average slip size. The average rent per foot and per slip is below the other data reflecting this relationship. Ardell Marina has the largest slips on average, but their slip rates are lower than average for the large slips, thus the average rent per slip and per lineal foot is below Bayside which has higher overall rates in all categories. The Ardell marina is older with wooden docks that are limited in beam width and electric power capacity. This is likely the reason the rates are lower than other competitive marinas.

The average slip rate among the 10 marinas surveyed was around $38 per lineal foot. California Recreation has four marinas in Newport Harbor and is the most dominant provider of slip space. They are mostly located in the middle of the harbor. The average rate for a 40-foot slip in these marinas is in the range of $37 to $44 per foot, consistent with the overall average for the survey. I have concluded at an average rate for my hypothetical analysis at $40 per foot. This equates to an average slip rent of $1,600 per month. This will be the basis for my gross slip revenue estimate which follows.

Number of Slips	50
Average Slip Length (LF)	40
Average Slip Rent ($/SF)	$40.00
Average Slip Rent/Month	$1,600
Potential Gross Slip Rent	$80,000
Annual Gross Potential Slip Rent	$960,000

The next step is to estimate the annual average vacancy rate for the hypothetical marina. My survey of competitive marinas in Newport Harbor indicates that the current vacancy rate ranges from 0% to about 15 percent. It appears most are in the range of 10 percent. The four California Recreation owned marinas were reported to be in this range as well. Historically, vacancy rates were near zero for many years leading up to 2007-2008 when the recession took hold. Vacancy rates began to climb in all size categories. The current average vacancy rate is not expected to last, and is not considered a stabilized rate. Considering this factor, I have used a more stabilized vacancy rate of 3 percent or conversely an average occupancy rate of 97 percent for this analysis. Use of a stabilized occupancy rate is a common

tool used in economic analysis to help smooth the variations in data over time, while using a static look at potential gross revenue generating capability.

My estimate of annual effective gross slip rent revenue for the hypothetical 50-slip marina follows.

Annual Gross Potential Slip Rent	$960,000
Average Stabilized Occupancy Rate	97.0%
Annual Effective Gross Slip Revenue	$931,200

Total marina lease revenue for the land and water area can now be estimated by applying the previously estimated percentage rent rate of 25 percent.

Annual Effective Gross Slip Revenue	$931,200
Percentage Rent Rate	25.0%
Total Potential Lease Revenue	$232,800

Now that total lease revenue has been estimated, it can be inserted into the valuation formula:

Total Fair Market Rent = Upland Rent + Tideland Rent

$232,800 = Upland Rent + Tideland Rent

The next step is to estimate the upland rent portion of this formula. This is estimated by applying a fair rate of return times the upland land value supporting the marina. The land area supporting a marina will be estimated considering the land requirements according to land use regulations and typical marinas in this market. There are very few marinas in Newport Harbor that are stand-alone operations; most are associated with another land use such as an office building, residential use, retail, restaurant or yacht brokerage uses. The Bayshore Marina is one of these examples where it has a parking lot supporting the adjacent 132 slip marina. Parking regulations will drive the required land area for a marina and due to high land values in this area, will likely find most marinas offering the minimum required spaces. The City of Newport Beach zoning code requires 0.75 spaces per slip. This will be used as the basis for land area calculations. Larger marinas may also have a small office area onsite for the dock master and may also provide a set of restrooms. Based on a 50-slip marina, the minimum required parking is 38 spaces (rounded).

I have estimated the average land area required to support a typical parking space by looking at various parking lots and calculating the average square feet per space provided. This average will consider the actual space size plus an additional factor for ingress and egress and average spacing. My analysis shows an average of around 290 to 350 square feet per space, depending on the parking lot layout. Considering the assumption that the most efficient layout would be attempted, I have used 300 square feet per space for this analysis. I have added an additional 400 square feet for a small office and restroom. The total land area to support the 50-slip marina is then estimated at 11,800 square feet.

Number of Slips	50	
Required Parking - Spaces per Slip	0.75	
Required Parking Spaces	38	
Average Square Feet Per Space	300	SF
Total Parking Area	11,400	SF

Total Parking Area	11,400	SF
Additional Office/Restroom Area	400	SF
Total Estimated Land Support Area	11,800	SF

The water area associated with the marina is also estimated for this analysis. I have studied the average square feet of water area per slip. The tideland area is the area bayward of the bulkhead line and would be considered the tideland lease area from the city. This area will be used to measure the land to water area ratio as well as the estimated rent rate per square foot of leased tideland. My survey of the larger marinas in Newport Harbor indicates a range from around 900 square feet of tideland area per slip up to 1,600 square feet as shown in the following table.

Marina	Slips	Water Area	Area per Slip
Harbor Tower Marina	52	82,000	1,577
Ardell Marina	50	82,075	1,642
Bayshore Marina	132	125,000	947
Swales Anchorage	54	50,094	928
Balboa Marina	105	127,000	1,210
Bayside Marina	102	128,600	1,261

The hypothetical marina has an average slip size on the upper end of the surveyed range and therefore the average tideland area required to support this marina will also be near the upper end of the range. I have used 1,400 square feet per slip for the leased tideland area calculation. The results in an estimated tideland area of 70,000 square feet. The land to water area ratio for this example is 17 percent.

Upland Value Analysis

Land value for the upland area assumed to be joined with the tideland parcel will be estimated using comparable sale data from the Newport Beach area surrounding Newport Harbor. The subject's assumed general location is in a commercial area with a likely mixed-use water related zoning such as MU-W1 or MU-W2. These zones allow a mix of commercial and residential uses including marinas.

Sale data for unimproved land sites adjacent to the bay were not available due to the built-up nature of this community. The next available alternative was to consider sales of improved parcels and adjust the prices for the estimated contribution of existing improvements. A summary of the most pertinent sales considered for this analysis follows. Details of this data are retained in my files. A market data location map, photos and maps showing the sale data are located in Addenda "C" of this report.

No.	Location/Buyer/Seller	Sale Date Recording	Price	Component	Size (SF)	$/SF
1	2633 W. Coast Highway	1/18/2011	$5,800,000	Land	24,202	$240
	Newport Beach, CA			Tidelands	8,000	
	APN: 049-130-01; 049-150-01			Combined	32,202	$180
	Buyer: PCH Restaurant & Marina LLC			Building	5,900	$983
	Seller: Harriet Gray Trusts					
2	2607 W. Coast Highway	1/14/2010	$8,030,000	Land	27,118	$296
	Newport Beach, CA			Tidelands	9,039	
	APN: 049-150-27	12/21/2007	$10,600,000	Combined	36,157	$222
	Buyer: Mike Moshayedi			Building	5,100	$1,575
	Seller: Robert Mosier, Trustee of GVECR II 2007					
3	2601 W. Coast Highway	8/7/2003	$3,100,000	Land	12,000	$258
	Newport Beach, CA			Tidelands	4,000	
	APN: 049-150-05			Combined	16,000	$194
	Buyer: GP Enterprises Group LLC			Building	3,600	$861
	Seller: Joseph Minney et al					
4	2300 Newport Boulevard	2/26/2004	$18,000,000	Land	103,237	$174
	Newport Beach, CA			Tidelands	30,200	
	APN: 047-120-31			Combined	133,437	$135
	Buyer: ETCO Investments LLC			Buildings	45,000	$400
	Seller: South Coast Shipyard and Design et al					

Sale 1 is the purchase of a commercial property located on the south side of Coast Highway with bay frontage. The property was improved with a small retail/commercial building leased to five tenants. The parcel is zoned MU-W1. The rear of the lot is a parking lot and approximately 6,200 square feet of the 24,200 square foot fee-owned lot is water area with dock improvements. The fee owner also has a commercial pier permit for 8,000 square feet of tideland which is also improved with docks. At the time of sale, the property was subject to a ground lease that was to expire in May 2011. The buyer is planning to redevelop this site in conjunction with an adjacent parcel (Sale 2). This sale needs a downward adjustment for the existing building contribution, the dock improvements on the fee parcel as well as the leasehold to the tideland area. I estimate a residual land value of around $170 per square foot after these deductions.

Sale 2 is the purchase of the Joe's Crab Shack restaurant property located adjacent to Sale 1 on the east. The property is improved with a restaurant building containing 5,100 square feet leased to a tenant for 10 years doing business as Joe's Crab Shack. The parcel is zoned MU-W1. There is a small marina on city tidelands bayward of this parcel that is also part of this transaction. There is about 400 lineal feet of dock space. This marina had been leased to Marina Properties in 2009 and I am not aware of a lease extension. The lease rate in 2007 for the marina was reported at $5,794 per month and was to be adjusted annually until lease expiration in June 2009. The lease rate was based on 60 percent of the average rent for a 30' to 39' slip in this market. The property had previously sold in December 2007 for $10,600,000 at a reported capitalization rate of around 1.7 percent based on existing income. The proforma cap rate estimated by the brokers after increasing the marina rent substantially was about 5

percent. This sale will need adjustment for the existing building and leasehold in the tidelands. After adjustments, this sale indicates a land value only range of around $190 per square foot.

Sale 3 is an older sale in 2003 located at 2601 W. Coast Highway. This parcel is south of Coast Highway and has bay frontage with a tidelands permit and is zoned MU-W1. The land parcel was improved with an older restaurant building occupied by Josh Slocum's and containing around 3,600 square feet. The tenant was paying around $12,000 per month in rent with about two years left on their lease. The recorded sale price was $3,000,000 but did not include a commission paid out of escrow for $100,000. The adjusted price of $3,100,000 is used for this analysis. The buyer purchased this property because he needed a slip to accommodate his 145-foot yacht. The pier improvements were around 103 feet long in a single "U" shape. The buyer since replaced the existing pier. This sale needs adjustment for the contribution of the building improvements and the leasehold interest in the tidelands. The land parcel measures 10,000 square feet plus 2,000 square feet of fee-owned water area. The tideland parcel contains 4,000 square feet. Due to the age of this sale, I have not attempted to estimate the residual contributory value of the land parcel, but it appears that in 2003 numbers, it would be less than $200 per square foot.

Sale 4 is a 2004 sale of a 2.37-acre property located on Newport Boulevard with bay frontage. The property was improved with several older commercial buildings that included professional and marine tenants. The zoning for this parcel is MU-W2. The seller occupied part of this space. The buyer has received conditional approvals from the city to redevelop the property with 31,000 square feet of mixed use commercial space and 31 residential loft units, pending Coastal Commission approval. Existing improvements will be demolished. The sale included the land parcel and rights to 30,200 square feet of city tidelands improved with older docks totaling about 1,000 lineal feet and around 21 slips. Public records indicate that the buyer obtained a new loan in 2008 from La Jolla Bank for $17,566,000 and this loan is in default with a notice of Trustee's Sale recorded June 1, 2012. This sale may require a downward adjustment for existing improvements and tidelands leasehold; however the buyer's intent for the improvements was to demolish them. Since this is an older sale, no attempt was made to perform a land residual adjustment.

The four sales indicate a likely range of land values for property located adjacent to the Newport Harbor from $174 per square foot to about $190 per square foot. Sales 1 and 2 are the most recent sales and needed significant adjustment for existing improvements and leasehold rights. Sales 3 and 4 were both older transactions, but show values within a similar overall range. I have also considered several land sales located near Newport Harbor, but not adjacent to the bay and without any tideland rights. Most notable was the land sale at 100-300 W. Coast Highway in March 2010 of a 0.76-acre lot purchased for development with a new commercial shopping center. The sale price was $2,870,000 or $87 per square foot. An adjacent commercial parcel improved with some older retail and office buildings also sold to a different buyer for $51 per square foot in March 2010. The buyer of this parcel has remodeled the improvements and continues the same mix of uses. It is clear that land values for non-bayfront parcels sell for significantly less than parcels with bay frontage. The bay frontage and ability to utilize the adjacent water area for marina uses would seem to be a direct benefit to these land owners.

Based on my analysis of the available market data, I have concluded at an average land value estimate for use in this hypothetical residual economic approach at $180 to $190 per square foot. I will use $185 per square foot for my land value calculations. The calculated land area required to support the hypothetical marina example was 11,800 square feet. Applying the land value rate to this area results in a total land value of $2,183,000.

Total Estimated Land Support Area	11,800	SF
Land Value ($/SF)	$185	
Indicated Land Value	$2,183,000	

In order to estimate market rent for the land portion of the equation, I will apply a fair rate of return to the land value. This is a commonly accepted method to estimate land rent in a market where limited directly comparable land lease data is available and is used by market participants.

The rate of return has been estimated by consideration of land lease rates reported from surveys of market participants as well as consideration of rates for alternative investments. The typical land lease rates applied by various Ports and other government agencies in Southern California that oversee tidelands ranges from 8 percent to 10 percent. These are generally policy rates established for leasing purposes and are applied to current land value estimates for the parcels leased. In my opinion, these rates set the upper end of the range for this analysis. The land values in Newport Beach along the bay are significantly higher than most of these other locations. Available land parcels are in short supply and potential for capital appreciation is more significant for these privately owned parcels. These factors tend to reduce the rate of return. Capitalization rates for a couple sales referenced in the land value section were in the range of 2 percent based on existing income with proforma rates forecast near 5 percent. Based on my consideration of available data, I have concluded at a fair rate of return at 5 percent to calculate annual land rent. A summary of the land rent calculation follows.

Land Value	$2,183,000
Annual Rate of Return	0.05
Annual Fair Market Rent for Land	$109,150

I have now computed two of the three elements in the residual valuation formula. Total rent for the marina use was estimated at $232,800 and land rent was estimated at $109,150. The residual formula is restated below with the residual tidelands rent estimate calculation:

$232,800 = $109,150 + Tideland Rent

Tideland Rent = $232,800 - $109,150

Tideland Rent = $123,650

The implied residual tideland rent estimate equates to 13.3 percent of total effective gross slip revenue from the marina and is 53 percent of the total market rent. Based on the estimated leased tideland area for this example of 70,000 square feet, the indicated market rent rate is $1.77 per square foot per year.

Market Rent Per Square Foot Analysis

I have also been asked to provide an estimate of market rent on a per square foot of leased tideland area basis. The prior economic residual analysis indicates a market rent estimate through this model of $1.77 per square foot per year. I have also applied this same economic model on several existing larger marinas in Lower Newport Harbor. A summary of these indicators follows. Exhibits showing the location and layout of each marina are located in Addendum "D" of this report.

Economic Residual Rent Analysis for Sample Marinas

	Bayshore	Bayside S.	Swales	Ardell
No. Slips	132	45	54	50
Average LF/Slip	32.3	36.5	35.2	45
Average $/LF/Mo. @ 100%	$ 36.52	$ 45.39	$ 34.45	$ 34.48
Average $/Slip/Month	$ 1,181	$ 1,655	$ 1,212	$ 1,563
Tideland Area Leased (SF)	100,057	63,400	50,094	56,000
Tideland Area - Fee (SF)	24,243	-	-	26,075
Total Tideland Area - Marina Use (SF)	124,300	63,400	50,094	82,075
Tideland Area Per Slip (SF)	942	1,409	928	1,642
Tideland Area per LF (SF)	29	39	26	36
Land Area Estimate	30,100	10,600	12,700	11,800
Land to Water Ratio	24%	17%	25%	14%
Effective Gross Marina Revenue @ 97%	$ 1,814,798	$ 866,968	$ 761,838	$ 909,896
Total Rent @ 25% of EGI	$ 453,700	$ 216,742	$ 190,460	$ 227,474
Land Rent (LV x 5%)	$ 278,425	$ 98,050	$ 117,475	$ 109,150
Residual to Water	$ 175,275	$ 118,692	$ 72,985	$ 118,324
Percentage of EGI	10%	14%	10%	13%
Water Rent/SF:	$ 1.75	$ 1.87	$ 1.46	$ 1.44

The Bayshore Marina analysis was based on my estimate of the average lineal feet of slip space times the current schedule of slip rental rates published by the owner, California Recreation. This is one of the few marinas that have a dedicated parking lot without any other use. The actual parking lot size is about 32,800 square feet, slightly larger than the estimate calculated using my ratio of 300 square feet per parking space, plus 400 square feet for office and restrooms. My estimate of total effective tideland area used for the marina required an estimate of leased tidelands plus the fee-owned area that also includes slips counted in the economic analysis. This is the area between the existing bulkhead and shoreline and the bulkhead line. The leased area is between the bulkhead line and the pierhead line.

The tenant paid $330,000 in percentage rent to the county in fiscal year 2011 (July 1 through June 30) which equates to effective gross marina revenue of $1,650,000. I have been told that their vacancy rate is in the range of around 10 percent. Since I have used a stabilized estimate at 97 percent occupancy, the resulting effective gross marina revenue will be higher than the reported number. Adjusting for this difference in vacancy, my estimate is fairly close to the actual gross revenue reported. Applying the same ratios for implied minimum land areas, land values and land rent rate, the resulting rent indication is $1.75 per square foot compared to the current actual rent paid of $3.30 per square foot using 20 percent of EGI. The lease with the county calls for minimum rent of $165,000 per year or $1.65 per square foot per year. This minimum rent equals 75 percent of the prior three-years percentage rent.

The Bayside Marina analysis was based on only the 45 slips located at the southeastern portion of the marina. This portion has its own parking area and is a separate dock from the rest of the marina slips to the northwest. The Bayside Marina has a total of 102 slips. The half selected for analysis appears to adequately represent the overall average slip size of the larger marina. The published slip rental rates were applied to the estimated size categories to generate the total potential gross slip revenue. Again, a 3 percent stabilized vacancy rate was applied, although the actual vacancy rate is closer to 10 percent. The resulting tideland rent rate is $1.87 per square foot.

The Swales Anchorage has a total of 54 slips and is the second marina that has tideland leased from the county at 20 percent of total marina revenue. They currently pay tideland rent of $72,000 per year which equates to $1.44 per square foot. My estimate of residual rent was based on applying market rent to the slip space. The reported slip rates from an older survey were significantly lower than current competitive rates in nearby marinas. For example, the reported slip rate for a 40-foot slip was $18 per foot compared to around $35 per foot in other marinas. When using existing reported slip rates, the residual rent value to the water was a negative number. After applying my estimate of market rates for the slip space, the residual rent equated to $1.46 per square foot, close to the current actual lease rate. I will use the existing lease rate as the rent indicator for this marina.

The Ardell Marina economic analysis was based on published non-discounted slip rental for all 50 slips. They have about 19 slips that are at a discounted rate due to use for yacht brokerage sales. The discounted rate is at $24.50 per foot, regardless of length and is about $10 to $13 less than the published rate for similar lengths. The total revenue using discounted and non-discounted rates is about $125,000 per year less than the total without discounting. The indicated residual rent rate is $1.07 per square foot per year when discounted rates are included. I will use the residual rent indicator of $1.44 per square foot in this analysis since it is intended to reflect a typical marina without discounted rates.

A summary of the rent per square foot indicators used in my reconciled analysis follows. I have made a table showing the sensitivity to variances in the average vacancy rate applied in the economic analysis and the resulting residual rent per square foot.

	Residual Water Rent $/SF/Yr		
Marina	@ 3% Vacancy	@ 5% Vacancy	@ 10% Vacancy
Bayshore	$1.75	$1.66	$1.42
Bayside S.	$1.87	$1.80	$1.63
Swales	$1.44	$1.38	$1.18
Ardell	$1.44	$1.38	$1.24
Benchmark	$1.77	$1.70	$1.53

My sensitivity analysis shows that for every one percent change in vacancy rate, the average residual rent indication per square foot changes by about $0.035. The average vacancy rate in the current Newport Harbor Market is between 5 and 10 percent. In my opinion, the current market rent rate should reflect these conditions. The rent rate on a percentage rental basis will already reflect the changes in occupancy since it is applied to effective gross marina income.

I also have additional rental information from a lease by the County of Orange of 28,000 square feet of tidelands to the Channel Reef Community Association. The property is located at 2525 Ocean Boulevard in Lower Newport Bay near the bay entrance. The Association manages the Channel Reef oceanfront homes that include a gated community of 47 homes and condos with a deep-water marina with docks for boats up to 48 feet. The marina is for private use of the homeowners only. The county amended their lease to the Association in December 2009, extending it for another 10 years through December 31, 2019. The rent increased from a prior flat rate of $12,000 per year to a new flat rate of $24,000. This equates to $0.86 per square foot per year. There are about 8 slips in the marina and about 300 lineal feet of interior side tie areas and about 5,000 square feet of deck and patio area within the leased parcel. The rate reportedly reflects the fact that this is not a commercial marina and is for the exclusive use of the residential homeowners. An aerial showing the approximate location of the leased parcel follows.

The county also leases a parcel of tidelands and uplands to the Balboa Yacht Club for a portion of its property located at 1801 Bayside Drive, Newport Beach. The club leases about 50,355 square feet from the county. The parcel lies between the fee-owned boundary and the pierhead line and includes about 80 percent land area and 20 percent water area. A portion of the clubhouse, boathouse and parking lot lies within this leased area. The water area is used for docks. The club also leases additional dock space and parking lot from California Recreation. The club's lease was originally written in 1984 and the restriction on use in the lease requires a non-profit yacht club. The original lease rate in 1984 was $2,712 per month. The rent was re-negotiated in 1996 when the tenant requested a lease extension

after making significant improvements. The lease term was extended for an additional 30 years beyond the original 15-year term and the new rent was set at $4,583 per month, subject to CPI adjustment every 3 years. The current adjusted rent is $6,651 per month or $79,812 annually. This equates to rent of $1.58 per square foot per year. This lease is not directly comparable to the subject since it includes mostly upland area and is an older lease. An aerial showing the approximate location of this leased parcel (outlined in red) follows.

The San Diego Bay marina lease data presented earlier in this report indicates an average percentage rent paid last year on slip rental only equaling $1.06 per square foot of leased water area. This rate is before any allocation to the supporting land parcel return. I adjusted this average rent rate for the difference in average slip rents between San Diego Bay and Newport Harbor. This adjusted indicator was $2.12 per square foot per year with all 22 percent of the slip rental going to the water area. This compares to the overall rent per square foot for the four marinas used in my earlier economic residual analysis that showed rates from $2.77 to $3.80 per square foot, before allocation of the land return. These were calculated at a 25 percent slip rental rate compared to the 22 percent rate for the San Diego Bay data. Adjusting for this factor at 14 percent indicates an adjusted rate of $2.41 per square foot.

Conclusion

The market data for rental rates per square foot of water area only are summarized in the following table.

Name	Location	Type	Rent Rate/SF/Yr	Comment
Bayshore Marina	Newport Bay	Water	$1.65	Minimum rent
			$3.30	Percentage rent
Swales Anchorage	Newport Bay	Water	$1.44	Flat rent per lease
Channel Reef Assn	Newport Bay	Water	$0.86	Flat rent
Balboa Yacht Club	Newport Bay	Land and Water	$1.58	Flat lease with CPI
Catamaran Pier	Mission Bay	Water	$0.66	Percentage rent @ 10%
San Diego Bay Marinas	San Diego Bay	Land and Water	$1.06	Average percentage rent based on water area only

The data indicates a somewhat wide range of rent rate indicators from $0.66 to $3.30 per square foot per year. The benchmark residual analysis showed rates from $1.53 to $1.77 per square foot, depending on the assumed vacancy rate. As discussed earlier, I believe that current market conditions should be reflected in the estimate for rent per square foot, since it will not be subject to changing market conditions as would a percentage of marina revenue would. This rate would be considered a minimum rent rate for the purposes of new leasing.

I have concluded at a market rent rate of $1.50 per square foot per year for the large marina parcels. This rate would typically be applied in conjunction with a percentage rate applied to annual marina slip revenue. This rate would also be applied to the leased water area only.

Small Commercial Marina Analysis

The small commercial marina analysis will consider the previously discussed market data along with a separate economic analysis focused on smaller marinas. The steps involved in the economic residual analysis are the same as used for the larger marinas. I have estimated a benchmark study parcel size of 15 slips. This is near the middle of the range of small marinas found in Newport Bay. The parcel location would likely be near Mariner's Mile.

I have studied several small marinas in Newport Bay for average slip sizes and average leased or total effective water area used by the marina. In some cases, the water area leased from the city is less than the total water area used for the marina. I have used the total water area as the basis for this analysis. These areas are based on my measurements using aerial photos. A total of eight smaller marinas were studied, with estimates prepared for the total water area of the marina, the estimated number of slips available for rental, the average slip length and the average market slip rate applicable to these slips.

Since I did not have actual slip rental rates available to review for each small marina studied, I used an average slip rent rate by size category selected from a review of asking slip rates for small marinas in Newport Harbor. Asking rates were surveyed using available online postings and other sources. The following average slip rent rates were used for the purposes of this rent analysis.

Slip Size Range	Average Rate Per Lineal Foot
Under 20 feet	$20.00
20 to 29 feet	$23.00
30 to 39 feet	$30.00
40 to 49 feet	$35.00
50 to 59 feet	$38.00
60+	$44.00
80'	$46.00

In general, I found that average asking rates for small marinas were slightly lower in most categories than in large marinas. This is likely due to the more limited exposure in marketing and few potential amenities to offer the tenant.

Eight small marinas in Newport Harbor were studied for average slip sizes and resulting average slip rental rates (appraiser estimated) for each marina. A summary of this data follows.

	Average SF/Slip	Average Rent/SF/Mo.	LF/Slip	Slips	Average Rent/LF/Month
Small Marina #1	700	$1.78	40	4	$31.52
Small Marina #2	710	$1.09	27	21	$28.10
Small Marina #3	795	$1.52	38	21	$31.99
Small Marina #4	933	Not Estimated	N/Avail.	15	Not Estimated
Small Marina #5	1,089	$1.30	41	23	$34.41
Small Marina #6	1,206	$0.93	36	23	$31.26
Small Marina #7	1,354	$1.03	40	15	$35.00
Small Marina #8	1,421	$0.90	37	29	$34.23
Averages	1,026	$1.22	37.0	19	$32.36

Based on this data, I have used an average of 1,000 square feet per slip for the total marina water area. Based on 15 assumed slips, this equates to 15,000 square feet of calculated water area. The average slip length used for this economic analysis was 37 feet. This results in a total rentable slip area of 555 lineal feet. The overall average slip rental rate per square foot selected was $1.22 per month and $32.40 per lineal foot per month. These two slip rent indicators resulted in the following estimated monthly slip revenue. I reconciled these two indicators at $18,000 per month gross potential slip rental revenue.

Slip Revenue	Per Month
Per SF Water	$18,300
Per LF Docks	$17,982
Reconciled Rent	$18,000
Annual Slip Revenue Potential	$216,000

The next step is to estimate an annual stabilized vacancy rate. I have used a 5 percent vacancy rate for this analysis. The effective gross slip rental estimate is then calculated at $205,200 per year as follows.

Annual Potential Slip Revenue	$216,000
Vacancy Factor @ 5%	$10,800
Effective Gross Slip Revenue	$205,200

Total percentage rent for the marina, land and water area combined, is estimated using 25 percent of effective slip revenue. This is the same concluded percentage rate for a combined upland and tideland marina parcel as was used in the large marina economic residual analysis. I have no indication that the percentage rate would be different for a smaller marina since I will be using similar land and water ratios as for the larger marinas. Gross annual percentage rent is shown calculated below.

Effective Gross Slip Revenue	$205,200
Percentage Rent @ 25%	$51,300
% Rent/SF/Yr	$3.42

This total percentage rent now needs allocation between the rent on the upland portion of the small marina and the tideland area. This allocation uses the same methodology as with the large marina, except that no office, restroom or other area will be added to the minimum required parking area. I have used the minimum required 0.75 spaces per slip and 300 square feet per parking space in my land area calculations. Land value is at $185 per square foot, similar to the land value estimate in the large marina analysis. It is assumed that the small marina will be used in conjunction with a commercial or mixed use on a larger site, with shared parking. A 5 percent annual market rate of return is used to estimate the land rent portion of this residual analysis.

The calculations for the residual rent to the tideland portion of the marina follow.

Parking Estimate:		
Spaces @ 0.75 spaces per slip	11	spaces
SF Land @ 300 SF	3,300	SF
Land Value @ $185/SF	$610,500	
Land Rent per Year @ 5% Rate	$30,525	
Residual Rent To Water	$20,775	
Indicated Rent Per SF Tideland Area /Yr	$1.39	

The residual rent calculated from this analysis indicates a rent rate for the tideland only portion of a small marina at $1.39 per square foot. This residual rent also calculated to an implied percentage rent of total effective slip revenue at 10 percent. This is consistent with the range indicated by the large marina residual analysis.

I have concluded at a benchmark rent rate of $1.40 per square foot per year for the small marina parcels.

Reconciliation of Market Rent

Two methods were used to estimate a benchmark market rent rate for the subject tidelands. The Market Data Approach considered leases of tidelands parcels from government agencies along Southern California's coastline. Limited comparable data was found for water-area only leases such as being valued in this appraisal. Most of the data was for marina leases that included both upland and tideland parcels. Many of these leases were renewals of existing marinas where the tenant had already constructed significant leasehold improvements or was expected to spend money on new capital improvements. There were a few new leases where the tenant was to construct a new marina. The lease rates for these examples were no different from rates offered for lease renewals or extensions offered to existing tenants.

The most directly comparable water-area only lease data is from the County of Orange leases to the Bayshore Marina and the Swales Anchorage, both within Newport Harbor and centrally located, similar to the implied subject example parcel location. These parcels were leased based on percentage rent rates at 20 percent of annual slip rental. These leases were negotiated with the tenants, but based on comments by California Recreation representatives, little room for negotiation existed at the time and they had already invested considerable money in leasehold improvements. The county representative indicates that this was the negotiated rate after reduction from a higher original offer.

The data from the State of California has a pretty wide range from 5 percent to 8.5 percent of marina revenue, to 25 percent of mooring revenue. The low end is for leasing in the Sacramento Delta and the upper end is for a large lease of 11 water parcels for mooring purposes around Santa Catalina Island. These are not considered to be directly comparable to the subject's harbor location and land economics.

The third source for water-area only leasing is a pending transaction between the San Diego Unified Port District and the City of Coronado for tidelands area in the Glorietta Bay area of Coronado. The city owns the adjacent land parcel improved with a marina support building and parking lot and leases the water area from the Port District. This water area has been under lease for many years and is now subject to renewal. The recently negotiated lease rate is reported to be 11 percent of slip rental revenue. The negotiating party for the Port District indicates that this was arrived at by dividing the total marina rent rate of 22 percent by one-half, where the land parcel and water parcel were both about equal in size. An appraisal was not used in this analysis. This lease is not yet finalized and may be subject to change.

The comparable market data indicates a somewhat wide range from 8.5 percent up to 25 percent and the most comparable at 20 percent of slip revenue. Lease rates for marinas that include upland and tideland parcels ranged from 20 to 25 percent of slip revenue. These set the upper end of the range for this analysis since they include the land portion of the total parcel and rent for the water area alone would be less than this amount.

The Economic Approach required consideration of a number of variables, calculations and estimates by the appraiser. This method implies that the total market rent for a marina use, as if vacant, can be divided into land rent and water rent using an allocation process. The sum of the parts may not always equal the whole. The highest and best use of the upland may not be as a marina; however a marina use as part of a mixed use project may be feasible. This has been demonstrated through development of numerous small and large marinas throughout Newport Harbor in the past. In fact, there are few, if any parcels remaining that could be developed with a new marina. The tideland area's highest and best use is tied to the upland parcel for access, parking and office support. Without the adjacent tideland parcel, the water area has more limited uses such as mooring which produces a lower rent potential than as a marina.

There were several areas of judgment and valuation estimates required in the economic residual approach. Variations in these estimates would influence the resulting market rent outcome. I have used estimates that I believe are reasonable for the purposes of this analysis, but recognize the sensitivity of variations possible for the assumptions and the final result. The economic residual analysis provided residual indicators of percentage rent for water area only at 13 percent of marina revenue. This is within that of the comparable market data, but generally near the low end of the range. I am not aware of this method being used by the principals involved in the tidelands area only leasing. I have seen it performed in other appraisals and discussed by Newport Harbor commercial marina tenants and their representatives as an appropriate method to consider. I will give this method about equal weight to the comparable market data method indicators.

My concluded market rent benchmark rate for the City of Newport Beach's tidelands under use by large commercial marinas is 17 percent of gross marina revenue. This revenue would include slip rent and other related revenue sources typically associated with a marina and applies to both large and small sized commercial marinas where the leased tideland area comprises the entire tideland area used by the marina. I conclude that a minimum benchmark market rate for leased tideland area relating to large commercial marinas at $1.50 per square foot per year. My benchmark market rate for a small marina is $1.40 per square foot.

The benchmark market rent estimates are based on the extraordinary assumption that the benchmark tideland parcel are assumed to have joinder with an adjacent land parcel providing required parking, restrooms and office area for a future marina development on the subject parcel. There are cases where tideland marina parcels do not have onsite parking as part of the associated upland parcel. As long as there is an associated upland parcel required as part of the leasing of the tideland area, the benchmark rate should apply. This is because, although no parking may be provided at this time, upon redevelopment of the site they would be required to provide for parking for the marina use. My analysis was based on the parcels as if vacant and available for development with a marina and associated upland use.

These value estimates are based on the general and specific limiting conditions and major assumptions summarized in this report. These value conclusions are based on an estimated market exposure time of approximately six months. This estimate is based on my analysis of the marketing times reported for the comparable market data and other market data research.

CONCLUDED ESTIMATE OF A BENCHMARK MARKET RENT RATES:

Commercial Marinas – Larger Number of Slips:

Percentage Rent for Marina Use:	**17 Percent of Gross Marina Revenue**
Rent Per Square Foot of Tidelands:	**$1.50 Per Square Foot Per Year**

Commercial Marinas – Smaller Number of Slips:

Percentage Rent for Small Marina Use:	**17 Percent of Gross Marina Revenue**
Rent Per Square Foot of Tidelands:	**$1.40Per Square Foot Per Year**

Additional Considerations

I have been asked by my client to address specific areas of consideration/study in my benchmark market rent analysis. Each of these areas specified in my contract agreement will be addressed as follows.

- Separation between uplands and tidelands ownership

  Analysis and Response: My valuation analysis has considered the issue of separation between uplands and tidelands ownership. I have made an extraordinary assumption that there exists a joinder relationship between the tidelands parcel and an uplands parcel for the purposes of providing required parking and other support for a proposed marina development. The highest and best use of the tidelands is for marina development, in joinder with an adjacent upland parcel. I have considered market data reflecting leasing of water area only parcels as well as marina parcels containing both leased upland and tideland parcels. My economic analysis also considered the separation between the uplands and tidelands ownership by allocating total rent to the tideland parcel as a market indicator reflecting the unique nature of the city tidelands.

- Rates charged in Newport Harbor for existing leases

  Analysis and Response: My valuation analysis has considered available market data for rates being charged in Newport Harbor. Several leases were considered, specifically those parcels leased by the County of Orange. Lease rates charged by the city in Newport Harbor for marina purposes were also considered.

- The effect, if any, on fair market value of a lessee's obligation to dredge beneath leased docks, maintain sea walls, etc.

  Analysis and Response: The proposed lease terms provided to me indicate that the lessee for a tideland parcel will be responsible for dredging bayward of the property line, between the bulkhead line and the pierhead line. I find in my research of other leased marina parcels that this appears to be a common requirement. Tenants are typically responsible for maintenance and repairs for the leased area and that would include any dredging required.

  The Bayshore Marina lease of tidelands with the County of Orange is silent on the issue of dredging responsibility. It does state that the tenant is responsible for all maintenance and repairs to the marina. This would be interpreted as including any dredging required to maintain the leased premises.

  The Sunset Harbor Marina lease with the County of Orange requires that the tenant maintain the property and to contribute to a dredging fund maintained by the county. It appears that the tenant is at least partially responsible for the cost of dredging.

  Recent marina leases reviewed with the San Diego Unified Port District do not specifically address dredging, but state that the tenant assumes full responsibility for maintenance and repairs for the leased parcel and accepts the leased parcel in an 'as-is' condition. This appears to indicate that any subsequent required dredging within the leased premises to maintain the viability of the marina would be the responsibility of the tenant.

  Based on my analysis of the available data, I believe that the fair market rent rate conclusions made within this analysis were consistent with the requirement that the tenant is responsible for all maintenance costs, including dredging within the leased parcel. I have not made a specific adjustment to the market rent rate for this factor.

- The effect, if any, on fair market value of a property being closer to or farther from the harbor entrance.

  Analysis and Response: My market analysis of slip rates in Newport Harbor did not reveal a significant difference in rentals for those marinas or slips located at the upper end of the harbor. Rates are lower in the Upper Newport Bay due primarily to the Coast Highway bridge height that restricts tall vessels from entering or leaving this area. I have given due consideration in my analysis to this factor. I interviewed the dock master for Harbor Towers Marina located at the northern end of Newport Harbor. He indicated that he did not believe location relative to the harbor entrance to be a significant factor. He said this was because the gas docks are located about mid-way up the harbor and the relative time to get to the gas dock is about the same when coming from the harbor entrance. The current slip rates for this marina are within the range indicated by the competitive marina data in the harbor, but are slightly below the average of all surveyed marinas.

- The effect, if any, on fair market value for tidelands leased when there is a "gap" of privately-held water (assume useable for docks, support structures, other) between privately-held uplands and public tidelands.

  Analysis and Response: I have considered the instances where there is a gap between the privately-held water and the public tidelands. There are a number of cases where this exists in Newport Harbor. In all cases, the existing marina development extends from a bulkhead located within the fee-owned private parcel to the pierhead line. There may or may not be slips within this gap area, but there are dock improvements. If the market rental rate to be applied to the public tidelands portion of the marina is to be on a percentage of marina rental basis, I would recommend that the fair way to assess this rent is based on an allocation between the privately-held water area and the public tidelands. There may not be slips in the gap area, but this area still would contribute to the total marina development in an equal prorata basis. I would recommend an allocation by calculating total rent received from the marina slip rental, allocated based on the ratio of public tideland leased area to total marina water area including private fee-owned water area. Percentage rent would then be applied to this allocated slip rental income. An alternative would be to charge a flat rent rate on a rent per square foot basis toward the leased tideland area only. It is more common to charge percentage rent for a marina use and therefore the allocation process would be needed to assess a fair ratio of rent to the leased premises.

Certification of Appraiser

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

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements *Uniform Standards of Professional Appraisal Practice*.
- The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, Gary L. Rasmuson, MAI SRA has completed the continuing education program of the Appraisal Institute.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant professional assistance to the person signing this certification.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.

Gary L. Rasmuson, MAI SRA Date: August 8, 2012
Certified General Real Estate Appraiser
State of California
OREA Appraiser I.D. No. 002571
Expiration Date: 2/4/2014

PART V - ADDENDA

Addenda A – Appraiser Qualifications

Qualifications of Gary L. Rasmuson, MAI, SRA

Expertise:

Mr. Rasmuson has been actively appraising real estate since 1977 as an independent fee appraiser. Rasmuson Appraisal Services (formerly Rasmuson Appraisal Consultants, Inc.) was established in 1984 and has valued over 1,000 properties to date. Specialties include valuation for litigation purposes including eminent domain, easement and right-of-way appraisals, appraisal of motels, hotels, apartments, office buildings, industrial properties and all types of vacant land.

General appraisal experience includes valuation of residential subdivisions, industrial subdivisions, single-family residences, mobile home parks, estate valuations, partial interest valuation and retail commercial properties. Appraisal assignments have been performed primarily in San Diego County but have included communities within Southern California and Arizona.

Business:

President – Rasmuson Appraisal Services
14665 Yukon Street, San Diego CA 92129
Phone: (858) 672-1796
Email: gary@rasmusonappraisal.com
Website: rasmusonappraisal.com

Memberships:

- Member – Appraisal Institute:
  - MAI Designation (No. 6926) Awarded in 1984
  - SRA Designation
  - Past National Director - 1994; San Diego Chapter President - 1984 (former Society of Real Estate Appraisers); Director - 1987-89; 1994-1997; Regional Representative 1991-1997; Treasurer - 1990; California Legislative Committee: 1992
- California General Real Estate Appraiser, State of California
  License No. AG002571
- Member - International Right of Way Association

Education:

Bachelor of Science, Business Administration; Economics Major
University of North Dakota - 1977

Post-graduate Courses – Appraisal Institute Sponsored:

Basic Appraisal Principles (1-A)
The Appraisal of Partial Acquisitions
Capitalization Theory and Techniques (1-B)
Valuation Analysis and Report Writing
Business Valuation - SREA
Standards of Professional Practice
Case Studies in Real Estate Valuation
Litigation Valuation

Seminars (Partial List):

Litigation Seminar	Analysis of Problem Properties
Apartment Seminar	Capitalization Update Seminar
Appraisal Regulation Seminar	Fair Housing Seminar
Subdivision Analysis Seminar	Hotel/Motel Valuation Seminar
Special Purpose Properties Seminar	Advanced Cash Flow Modeling

Qualifications:

- Qualified Expert Witness, Federal Bankruptcy Court
- Qualified Expert Witness, California Superior Court
- Appointed Special Master to Superior Court
- Course Instructor – Appraisal Institute Course Capitalization Theory & Techniques 310 and Capitalization Theory & Techniques 510
- Received Distinguished Service Award - 1991 San Diego Chapter of the Appraisal Institute

Clients (Partial List):

Banks:

Affinity Bank	California Bank & Trust
Bank of America	Comerica Bank
Fidelity Federal Bank	Commercial Capital Bank
Wells Fargo Bank	Washington Mutual

Public Agencies:

City of Oceanside	City of San Diego
County of San Diego	State of California Caltrans
Port of San Diego	San Diego County Water Authority
San Diego City Schools	Office of Thrift Supervision

Developers/Other:

California Transportation Ventures	The Conservation Fund
McMillin Communities	Balestri, Pendleton
McComic Consolidated	SDSU Foundation
Higgs, Fletcher & Mack	Daley & Heft

Employment History:

1977-1984:	Lee C. Johnson Company Staff Appraiser
1984-1998:	Rasmuson Appraisal Consultants, Inc. President/Owner
1998-1999:	Lipman, Stevens, Marshall & Thene, Inc. Appraiser
1999-Current:	Rasmuson Appraisal Services President/Owner

Addenda B – Newport Harbor Marina Slip Survey Data

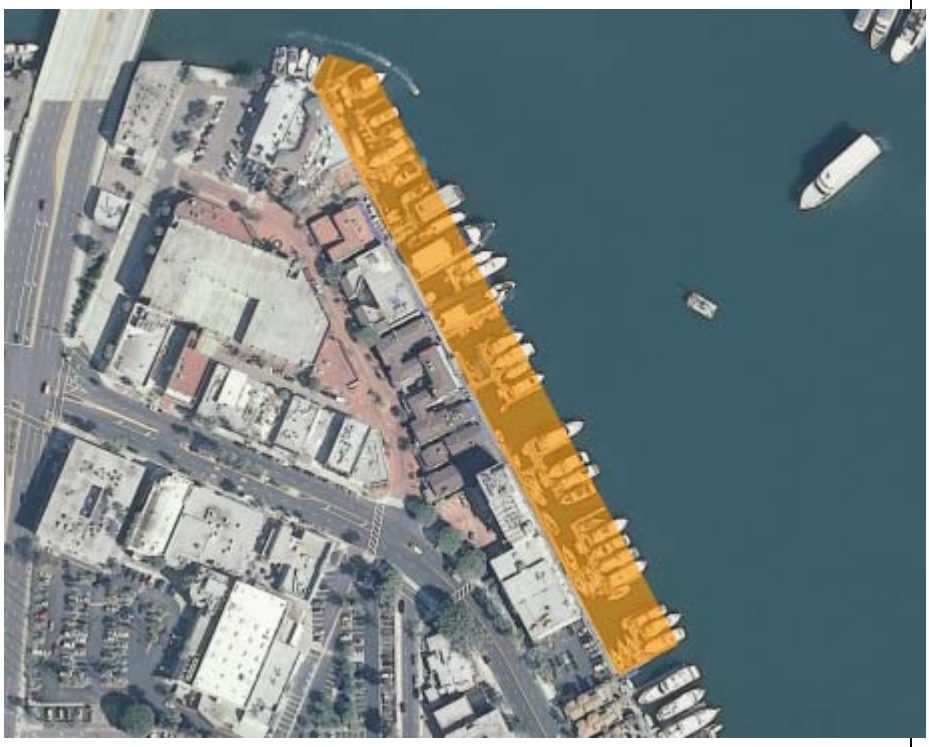
Large Marina Slip Survey Location Map

	Harbor Tower Marina 3335 W. Coast Highway Newport Beach
	Ardell Marina 2010 W. Coast Highway Newport Beach

	Bayshore Marina 2572 Bayshore Drive Newport Beach
	Balboa Marina 201 E. Coast Highway Newport Beach

	Villa Cove Marina 1099 Bayside Drive Newport Beach
	Bayside Marina 1137 Bayside Drive Newport Beach

Lido Yacht Anchorage
151 Shipyard Way
Newport Beach



Lido Village Marina
3422 Via Lido
Newport Beach

	Newport Dunes 101 N. Bayside Drive Newport Beach
	Bayside Village 300 E. Coast Highway Newport Beach

Addenda C – Land Sale Data Maps

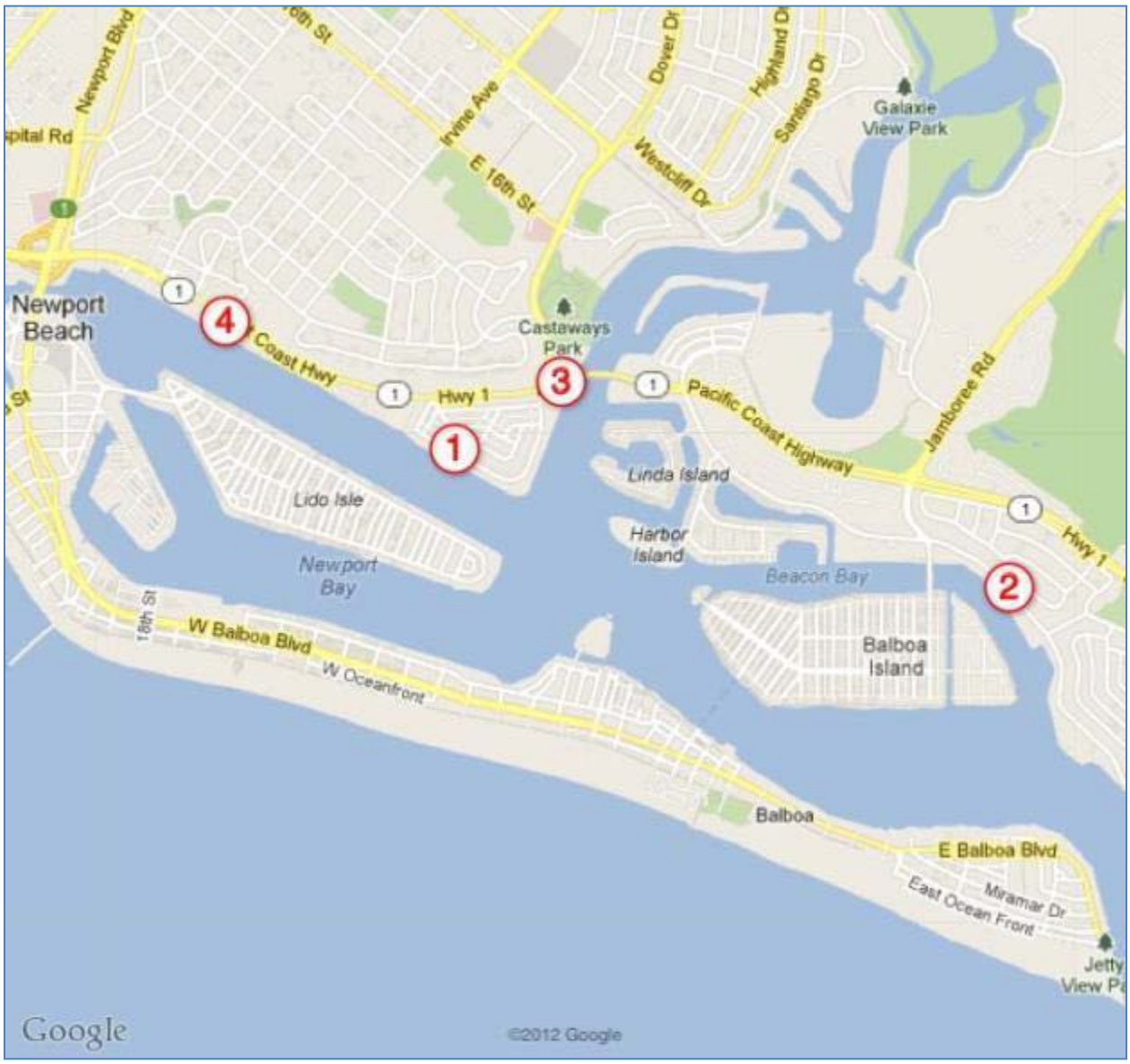
Land Sale Data Location Map

	Sale 1 2633 W. Coast Highway Newport Beach
	Sale 2 2607 W. Coast Highway Newport Beach

	Sale 3 2601 W. Coast Highway Newport Beach
	Sale 4 2300 Newport Blvd. Newport Beach

Addenda D – Sample Marinas for Economic Analysis

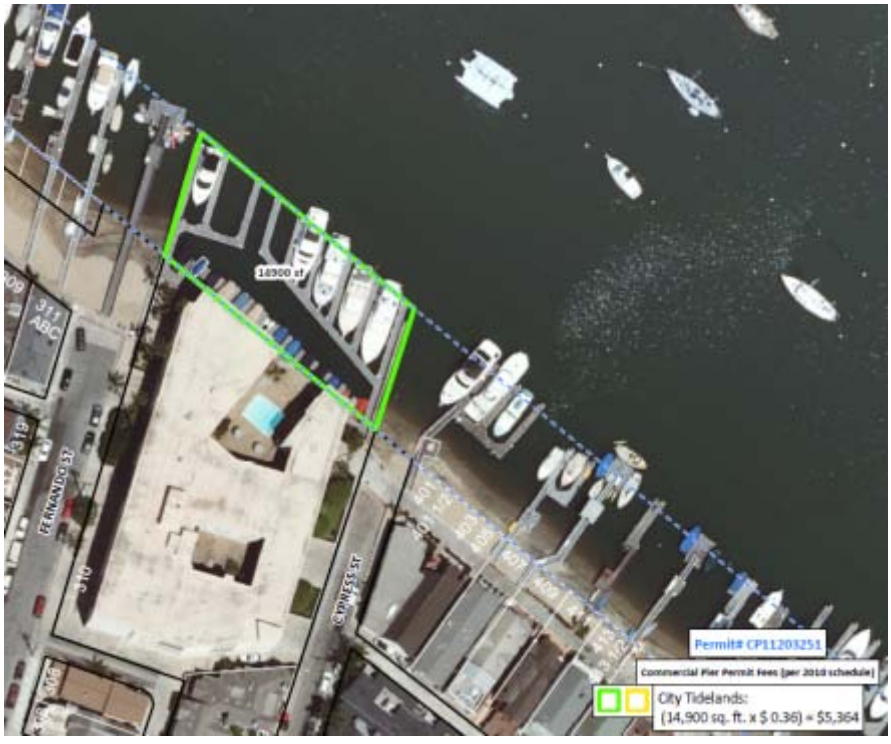
Large Marina Location Map



	Large Marina #1 Bayshore Marina 2572 Bayshore Drive Newport Beach
	Large Marina #2 Bayside Marina (South) 1137 Bayside Drive Newport Beach

	Large Marina #3 Swales Anchorage Newport Beach
	Large Marina #4 Ardell Marina 2010 W. Coast Highway Newport Beach

Small Marina Location Map

	Small Marina #1 3456 Via Oporto Newport Beach
	Small Marina #2 310 Fernando Newport Bay Towers Newport Beach

	Small Marina #3 2600 Newport Blvd. Newport Beach
	Small Marina #4 2633 W. Coast Highway Newport Beach

	Small Marina #5 2751 & 2901 W. Coast Hwy Newport Beach
	Small Marina #6 3101 W. Coast Highway Newport Beach

Small Marina #7
1099 Bayside Drive
Newport Beach

Small Marina #8
919 Bayside Drive
Newport Beach