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The Doré Group, Inc.

International Real Estate Consultation
and Forensic Valuation

Introduction to Me

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THE DORÉ GROUP
INTERNATIONAL REAL ESTATE CONSULTATION
AND FORENSIC VALUATION



President and CEO of The Doré Group. In this role, I direct all valuation assignments involving a wide variety of conventional and complex real properties, serve as litigation support to both public and private clients, provide expert advisory services (including forensic analyses and market and feasibility studies), and manage the overall operations of The Doré Group. I am also President of International Realty Valuation with offices in Mexico, Japan, Russia, China, South America, Africa and the US.

The Lake Tahoe Rent Methodology Study

- An analysis of the benchmark rental rate methodology used by the California State Lands Commission to determine rental rates for over 600 leases in the Lake Tahoe area.
- These leases include private piers and buoys (Category 1); and upland fill area (Category 2).
- I have completed the analysis and provided recommendations based on the Scope of Work.



Scope of Work (Slide 1 of 3)



- Reviewed the Commission's current methodology and history including methodologies previously explored and considered by the Commission;
- Conducted in-person interviews with Commission staff associated with the development of the existing methodology;
- Conducted literature research regarding valuation and leasing of submerged land;
 - Each government agency, and entity often have their own individual policy and methods for determining value and leasing submerged land. This is often case-by-case and unique to each agency.



Scope of Work (Slide 2 of 3)

- Interviewed agencies or entities, including those in other states, that lease submerged land as to their practices and rates;
 - I have identified governing agencies and authorities with the State of California, and Nevada as the primary data set for determining lease submerged rates.
 - In-bound freshwater bodies have also been identified including Shasta Lake, Trinity Lake, Lake Sonoma, Crowley Lake, Lake Oroville, Donner Lake, Big Bear Lake, Lake Mead, and Lake Tahoe (California and Nevada)
- Interviewed lakefront homeowner associations and groups at Lake Tahoe;
 - I have identified and interviewed the following agencies or organizations:
 - Tahoe Lakefront Owners Association
 - Tahoe Regional Planning Agency (TRPA)
 - Stakeholders of SB 630
 - State of Nevada – Dept. of Conservation and Natural Resources
- Solicited input from individual lessees and stakeholders at Lake Tahoe;
 - Meeks Bay Vista Property Owners Association



Scope of Work (Slide 3 of 3)

- Researched relevant market data;
 - I have researched local and statewide market data that would have a bearing on the final recommendation. This includes percentage rates, land capitalization rates, fixed fee rates, rates per square foot of submerged land area, rates per square foot of improved area, rates per buoy, rates per mooring, seasonable and non-seasonal rate structures, pier sales and the Tahoe land and housing market.
- I have reviewed and analyzed all available methods to determine the appropriate methodology for pier, buoy and upland fill rates;
 - I have provided detailed analysis and recommendations for the various rent and rate structures for each category.
- I have identified the benefits to upland owner afforded by improvements (pier, buoy, protective structure) on leased land;
- I have attempted to quantify the value enhancement to the upland property added by improvements on leased land (pier, buoy, protective structure) using various identified rent-setting methodologies;
- I have made recommendations to the methods used and concluded rents.



Definitions of Market Value and Market Rent

- (Uniform Standards of Professional Appraisal Practice – USPAP) defines Market Value as:
 - A type of value stated as an opinion, that presumes the transfer of a property (i.e. a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the in the definition of the term identified by the appraiser as applicable in an appraisal.
- (Dictionary of Real Estate Appraisal) is defines Market Rent as:
 - 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 concession, renewal and purchase options and tenant improvements.



Recognized Rent Methodologies

- (1) 9% of the appraised value of the leased land;*
- (2) A percentage of annual gross income (the percentage being based on an analysis of the market for like uses and other relevant factors);*
- (3) Comparison to rents for other similar land or facilities;*
- (4) \$0.05 per diameter inch per lineal foot of pipeline, conduit, or fiber optic cable;*
- (5) Benchmarks for regions where there are large concentrations of similar facilities (benchmark rental rate to be based on analysis of similar or substitute facilities in the local area);*
- (6) For Forest Management Agreements: Rent may constitute enhancement of the land's value resulting from the use;*
- (7) Other such methods or information that are based on commonly accepted appraisal practices and principles;*
- (8) For leases for a recreational pier or buoy, rent shall be based on local conditions and local fair annual rental values;*



Rent Method 1: 9% of the Appraised Value of the Leased Land

The State Lands Commission allows for several methods to value to determine the Fair Market Rent. Method 1 allows for a determination of the leased land appraised value and applying an appropriate rate, which in this case is set at 9.0%. The rate set by the State Lands Commission is typical for Government Agencies that can set rates for government property.



The key concern regarding the State Lands Commission use of a regulated 9% rate is that it may inherently not reflect the market, and the Scope of Work dictates Fair Market Rent.



Rent Method 1: 9% of the Appraised Value of the Leased Land – cont.

Method 1 as a basis for determining market rent for Piers and Buoys does not reflect the market because the stipulated overall rate of 9% per SLC has no foundation in the market.

Market Rate determined at 5%.



RECOMMENDED RENT ESTIMATE – METHOD 1 (PAIRED SALES)

The recommended annual rate for the piers and buoys is as follows:

ANNUAL PIER RATE:	\$	2,352 / \$2.97 PSF
ANNUAL BUOY RATE:	\$	414 / \$1.15 PSF



Rent Method 2: A Percentage of Annual Gross Income

The pier and buoy leases do not allow for leasing or renting to a third party, therefore, this method to value is not applicable.



Rent Method 3: Comparison to Rents for Other Similar Land of the Leased Land

There is a significant influence in the subject area where public forest lands (Lessor) are used by private parties (Lessee). However, this does not represent piers and buoys. This Rent Method is not applicable.



Rent Method 4: 0.05 per Diameter Inch per Lineal Foot of Pipeline, Conduit, or Fiber Optic Cable

This method to determine Fair Market Rent is not applicable for analysis for the Lake Tahoe Rent Methodology study.



Rent Method 5: Benchmarks for Regions Where there are Large Concentrations of Similar Facilities

I have surveyed key lakes in California. After completing this survey, it was determined that lakes in Shasta, Trinity, and Big Bear are not comparable to Lake Tahoe.



Rent Method 6: For Forest Management Agreements—Rents May Constitute of Enhancement of the Land's Value Resulting from the Use of a Percentage of Annual Gross Income

For reasons similar to Rent Method 2 (the pier and buoy leases do not allow for leasing or renting to a third party) this method to determine Fair Market Rent is not applicable for the Lake Tahoe Rent Methodology study.



Rent Method 7: Other Such Methods or Information that are Based on Commonly Accepted Appraisal Practices and Principles (Slide 1 of 4)

Submerged Land Valuation Methodology:

The submerged land value method reflecting the appraised value of leased land was published in October 2000 with the Appraisal Institute – “Valuation of Submerged Lands”.

The basis of the valuation and determination of Fair Market Rent is the determination of the submerged land and upland relationship.



Rent Method 7: Other Such Methods or Information that are Based on Commonly Accepted Appraisal Practices and Principles (Slide 2 of 4)

Submerged Land Valuation Methodology:

The value of submerged land is a varying percentage of the upland value, depending on use.

This analysis is then used to establish the appropriate rental rates for the use of the submerged land. This is done with recognized income analysis from the market using a capitalization rate and value.



Rent Method 7: Other Such Methods or Information that are Based on Commonly Accepted Appraisal Practices and Principles (Slide 3 of 4)

Submerged Land Valuation Methodology:

- First, the upland is valued based on recognized sales comparison techniques applied indirectly.
- Second, a rental survey is completed of public jurisdictions that lease submerged land to private entities, and a submerged fee rate is reconciled. The submerged fee rate, when applied to the upland value, provides an implied submerged land value.
- Third, a separate comparison approach is completed to determine a land capitalization rate. This land capitalization rate is then applied to the implied submerged land value to determine the annual lease payment for use of the tidal water above the submerged land.



Rent Method 7: Other Such Methods or Information that are Based on Commonly Accepted Appraisal Practices and Principles (Slide 4 of 4)

RECOMMENDED RENT ESTIMATE – METHOD 7 (SUBMERGED LAND)

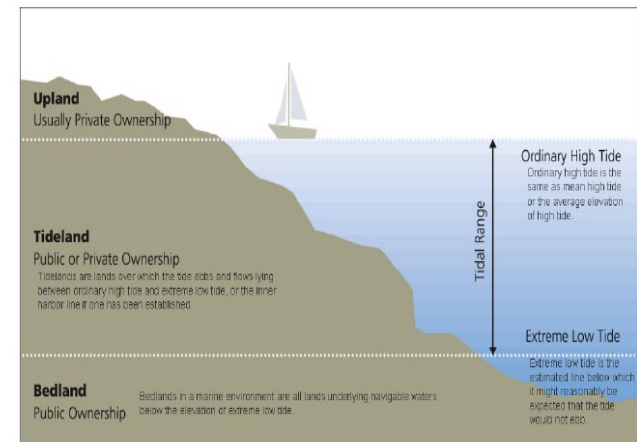
The recommended annual rate for the piers and buoys is as follows:

ANNUAL PIER RATE:	\$	2,178 / \$2.75 psf
ANNUAL BUOY RATE:	\$	495 / \$1.375 psf

RECOMMENDED RENT ESTIMATE – USING METHOD 7 – CATEGORY 2

The recommended annual rate per square foot for upland (non-water):

ANNUAL NON-WATER PER SF:	\$	9.18
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Rent Method 8: For Leases for a Recreational Pier or Buoy Rent Shall be Based on Local Conditions and Local Fair Annual Rental Values (Slide 1 of 2)

The State of Nevada has recently adopted a new fee schedule (August 2019) for their Submerged Land Use Fee, however while in close proximity to the subject and in Lake Tahoe, the legal structure (lack of ownership) is vastly different from the California piers and buoys.



Rent Method 8: For Leases for a Recreational Pier or Buoy Rent Shall be Based on Local Conditions and Local Fair Annual Rental Values (Slide 2 of 2)

As noted, in the Nevada Use Fee definition - this is a permit fee, or license fee. This fee is for use only. This fee has no ownership benefits or rights.

As noted with the Permit used by SLC this is a lease. By definition a lease imparts ownership. Overall, the State of Nevada permits fees are not comparisons for the State of California.



Recommendations

Rent Method 1 is the most reliable method(s).

Rent Method 7 is very supportive and due to additional assumptions is weighed less.

Rent Method 7 correlates with Rent Method 1 and therefore can be used to support Category 2 rents.

The recommended annual rates for the piers and buoys are as follows:

- **CATEGORY 1**

- **ANNUAL RATE PER SF (PIERS):** \$ **2.84**
- **ANNUAL BUOY RATE:** \$ **450**

- **CATEGORY 2**

- The recommended annual rate per square foot for upland (non-water):

- **ANNUAL NON-WATER PER SF:** \$ **9.18**



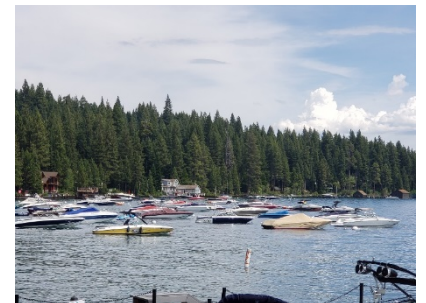
Benefits

The Scope of Work also provides for an overview of the benefits to the upland owners which is reflected in the rental rates.

The benefits provided to the lessee were determined to be:

- Ownership interest in State Lands between the High and Low Water marks per terms of the lease:
 - It is my further recommendation that SLC provide new contracts that reflect the intent and nature of a traditional lease between a lessor and lessee without the implied benefit of ownership;
 - If the SLC voids the implication of ownership to private owners, the rates may be subject to reevaluation;

Value enhancement of the upland based on lessee terms and conditions value enhancement to the upland (net of costs) for a pier and buoy is approximately \$1,250,000.



Thank you

We will now begin the Question-and-Answer portion of the meeting.

