

# Staff Report 39

## **PARTY:**

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California State Lands Commission

## **PROPOSED ACTION:**

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Approve the 2022 Category 1 Southern California Benchmark rental rate and the Category 2 Huntington Harbour Benchmark rental rate.

## **LAND TYPE AND LOCATION:**

Sovereign land in Ventura, Los Angeles, Orange, and San Diego Counties.

## **STAFF ANALYSIS AND RECOMMENDATION:**

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### **AUTHORITY:**

Public Resources Code sections 6005, 6216, 6301, 6501.1, 6503, 6503.5, and 6505.5; California Code of Regulations, title 2, sections 2000 and 2003.

The California Constitution specifically prohibits the Legislature from making or authorizing any gift of public money or thing of value to any individual, municipality, or corporation (Cal. Const., art. XVI, § 6). A “thing of value” includes the use of State-owned land for private benefit.

The Commission has broad discretion in all aspects of leasing state lands, including the method or amount of rent that is most appropriate, and how rent should be adjusted during the term. (Pub. Resources Code, §§ 6501.1, 6503, 6503.5; Cal. Code Regs., tit. 2, §§ 2000, 2003.) Rents must be in the best interests of the State, and may be based on one or more of the following methods, including, but not limited to:

- 9 percent of the appraised value of the leased land.
- A percentage of annual gross income, where the percentage is based on an analysis of the market for like uses and other relevant factors.
- A comparison to rents for other similar land or facilities.

- Benchmarks for regions with large concentrations of similar facilities, with benchmark rental rates to be based on analysis of similar or substitute facilities in the local area.
- Other such methods or information that are based on commonly accepted appraisal practices and principles; and for leases for recreational piers or buoys, rent shall be based on local conditions and local fair annual rental values. (Cal. Code Regs., tit. 2, § 2003; Pub. Resources Code, §§ 6503, 6503.5.)

The Commission may consider the amount of rent the State would receive under various rental methods, and whether relevant, reliable, and comparable data are available concerning the value of the leased land in determining which rent method should apply. (Cal. Code Regs., tit. 2, § 2003, subd. (d)(1), (2).)

### **PUBLIC TRUST AND STATE'S BEST INTERESTS:**

Benchmarks are used to establish uniform rental rates in specific geographic regions with large concentrations of similar facilities, mostly private recreational improvements within the Commission's jurisdiction. (Cal. Code Regs., tit. 2, § 2003, subd. (a)(5).) The use of benchmarks improves the consistency, transparency, and efficiency in how the Commission establishes rent for large numbers of similar leases, saving time, resources, and money for both the applicant and the State. Periodic benchmark adjustments assures that the people of the State are fairly compensated according to current market rates for the private use of State-owned land, consistent with the California Constitution. Generally, staff recommends updates to the benchmarks every 5 years.

The Commission has two types of benchmarks for rental rates:

- Category 1, which is generally applied to private docks, piers, and buoys.
- Category 2, which is generally applied to cantilevered decks, sundecks, or other non-water dependent uses.

This staff report addresses the Category 1 benchmark for the Southern California coastal region for Ventura, Los Angeles, Orange, and San Diego Counties, and the Category 2 benchmark for Huntington Harbour recreational use leases that include cantilevered decks.

### **METHODOLOGY:**

The Commission has been using the Category 1 Southern California benchmark since the early 1980s and the Category 2 Huntington Harbour benchmark since 2004. Both benchmarks were last updated in October 2016, when the Category 1 rate was set at \$0.374 per square foot, and the Category 2 rate was set at \$31.50 per square foot.

CATEGORY 1 SOUTHERN CALIFORNIA BENCHMARK

Leases are issued by the Commission for private recreational facilities such as docks, piers, and buoys/mooring poles. These facilities offer many of the same amenities as a commercial marina, such as a place for the docking and mooring of boats and the loading and unloading of passengers and equipment. In this manner, these privately owned facilities represent a substitute for a commercial marina berth/buoy. Accordingly, the method of valuation used in estimating a fair return and a fair rental value is based on what an individual would pay for a similar substitute site in a commercial marina (principle of substitution). Since a Commission-leased site for a privately-owned pier or dock is a reasonable substitute for a marina berth, a lessee occupying state land should pay a similar rate for the leased site as the state would receive for leasing the land to a commercial marina. The current methodology for setting rent for berthing vessels at docks and piers occupying state-owned sovereign land is based on the principle of substitution described above.

The first step in setting a Category 1 berthing rate benchmark is to survey local marinas to determine their rental rates. Marinas usually rent their berths on a per-linear-foot basis, based on the length of the berth or vessel. For benchmark purposes, the average surveyed rental rate is used. The rate is multiplied by the average or typical berth length as indicated in the survey data. Based on these inputs, the annual gross income is calculated. For Category 1 benchmarks, the State's rent is based on a 5 percent rate of return of this annual gross income, which represents a comparable fair market compensation rate for the use of State-owned sovereign land. The State's rent is then converted to a per-square-foot basis using a table calculated by the California State Parks Division of Boating and Waterways 2005 publication titled "Layout and Design Guidelines for Marina Berthing Facilities" (DBW berthing publication). This publication provides formulas and tables for calculating the submerged land area needed to accommodate various sizes and layouts of berths in marinas. Among other variables, the formulas account for the berth length, berth layout (single or double), and the type of vessel (powerboat or sailboat). The publication can be requested from the Department of Boating and Waterways (<http://dbw.parks.ca.gov/pages/28702/files/Guide05.pdf>).

The Southern California Benchmark appraisal survey, attached as Exhibit A, consists of 42 marinas located in the four counties covered by the benchmark. The survey found that the average berth/slip size in the coverage area is approximately 37 linear feet. A 37-foot length was also used in the 2016 benchmark. Staff believes that marina layouts have not changed significantly since the last benchmark.

Berthing rates are reported on a per-linear-foot basis. The berthing rate, based on survey data collected within the coverage area, ranged from \$11.90 to \$65.86 per

linear foot with an average of \$23.40 per linear foot. The benchmark rental rate for berths is calculated by multiplying the average berth length by the average rental rate. This product is then multiplied by 12 months to arrive at the gross annual income. The gross annual income is then multiplied by 5 percent to arrive at the income attributable to the submerged land. That amount is then converted to a per square foot basis for rent-setting purposes using the DBW berthing publication described above. The submerged land area used in this benchmark analysis is based on a double berth layout, which represents the typical and most economically efficient marina berth layout in the area, and represents an average of the powerboat and sailboat areas.

From DBW berthing publication data, a submerged area of 1,153 square feet is needed to accommodate the 37-foot average slip length. Taking all the previously described inputs into account, the rental rate for the proposed Southern California Benchmark is calculated as follows:

$$\$10,389.60/\text{berth}/\text{year} \times 5 \text{ percent of gross income} = \$519.48$$

$$\$519.48 \div 1,153 \text{ square feet} = \$0.451/\text{square foot}$$

**Proposed Category 1 Southern California Benchmark Rental Rate = \$0.451 per square foot**

The 2016 Benchmark was set at \$0.374 per square foot. As proposed, the new benchmark rate of \$0.451 per square foot represents an overall increase of just under 8 cents (\$0.077) per square foot.

*Impact Area:*

The impact area is an additional area, beyond the physical footprint of a structure, where a lessee seeks authorization to conduct activities. For recreational structures used for the docking and mooring of boats within the benchmark's coverage area, the impact area is generally a nine-foot-wide strip along the mooring areas or under a boat lift. In Huntington Harbour, it is generally the area between the bulkhead and the pierhead line that is not covered by the dock, because of the occupation of the improvements, these are areas that are generally viewed by the public as private and where the lessee generally enjoys exclusive use. Accordingly, these areas are included in a lease and rent is charged thereon. The Commission's leasing regulations explicitly allow for this. (Cal. Code Regs., tit. 2, § 2003, subd. (e) (2)).

CATEGORY 2 HUNTINGTON HARBOUR BENCHMARK

Category 2 benchmarks are based on nearby upland land values because the improvements (cantilevered decks, sundecks, or certain other non-water

dependent encroachments) represent an extension of the private backyard of the upland residence—a purpose unrelated to the docking and mooring of boats. Commission appraisal staff uses the following general process to establish and update a Category 2 benchmark. First, staff conducts research to identify recent nearby upland property sales. The initial research seeks to identify land value only because the property being leased is the underlying sovereign land, as well as the area above the sovereign land, and not the privately-owned improvements. If vacant land sales are not available, then the assessed improvement values are subtracted from sales price of improved properties to reflect the land value of the sale property. Next, staff analyzes the sales data and determines a per-square-foot value representative of the area. The benchmark is calculated by applying a 9 percent annual rate of return to the appraised value of the leased land pursuant to title 2, California Code of Regulations, section 2003, subdivision (a)(1).

The Category 2 benchmark may then be discounted to reflect that the sovereign land to be leased may not have the same utility or intensity of use as the upland properties from which the data were drawn, due to topography or other physical characteristics, the nature of the sovereign land use, certain legal constraints, or the upland owner's decision, but nevertheless still contributes to the value of the upland property.

Using the methodology described above, Commission appraisal staff researched 19 home sales adjoining sovereign land along the Main and Midway Channels within Huntington Harbour. The sales occurred between February 2018 and December 2021, with a sales range of \$1,175,000 to \$6,650,000 and a corresponding land value range of \$110 to \$697 per square foot. The concluded average land value based on these sales figures is \$458 per square foot. Taking all the previously described inputs into account, the proposed undiscounted rental rate for the Huntington Harbour Benchmark is calculated as follows:

$$\$458 \times 9\% = \$41.22 \text{ per square foot}$$

**Proposed Category 2 Huntington Harbour Benchmark Rental Rate = \$41.22 per square foot**

The 2016 Benchmark was set at \$31.50 per square foot. As proposed, the new benchmark rate of \$41.22 per square foot represents an increase of \$9.72 per square foot.

The undiscounted rate applies to features such as enclosed cantilevered decks because, unlike an open deck, an enclosed deck has the full capacity to be utilized as residential living space, and thus should be given no reduction in utility or intensity of use as compared to the upland land value. For features such as an

unenclosed cantilevered deck, Commission staff recommends the application of a discount of up to 75 percent to reflect the intensity of use of the sovereign lands occupied. This approach is consistent with how staff applies discounts for similar facilities throughout the state.

**CONCLUSION:**

Staff's methodologies for setting the proposed Category 1 Southern California and Category 2 Huntington Harbour Benchmark rental rates are consistent with the methodology used for the Commission's other similar benchmarks, as well as all the relevant statutes and regulations that govern the Commission's rent-setting authority. Staff's recommended benchmark rates represent a fair and equitable rate for each type of use based on the most current and relevant data available.

Approval of the new benchmark rental rates will not result in a change in the use of, or substantially interfere with or impact Public Trust resources. Staff believes that each benchmark provides a reasonable and consistent method for determining rents in their geographic coverage areas and are in the best interests of the State.

**OTHER PERTINENT INFORMATION:**

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1. In 2011, Chapter 585, Statutes of 2011 became law and repealed Public Resources Code section 6503.5 that had allowed rent-free use of state land by certain private parties for their recreational piers. It replaced the former section with a new section 6503.5 which provides that the Commission "shall charge rent for a private recreational pier constructed on state lands."
2. In 2014, the Commission adopted amendments to Sections 1900, 2002, and 2003 under articles 1 and 2 of title 2, division 3, chapter 1 of the California Code of Regulations that included regulations on rent-setting methods approving the use of benchmarks and the application of the Consumer Price Index ([Item 5, January 23, 2014](#)).
3. This action is consistent with Goal 4 of the Commission's Strategic Plan "Meeting Evolving Public Trust Needs," Section 3 – "Maintain fiscal integrity through transparency, accountability, and: a. Efficient and effective management of the revenue-generation portfolio." This action is also consistent with Goal 6 "Committing to Collaborative Leadership," Section 2 - Advance innovation and create clarity of direction by offering continual, robust opportunities for stakeholder and public engagement, and institutionalizing this relationship building so that the process and relationships live through the Commission and not just through individual staff members or leaders.

4. Approval of the 2022 Category 1 Southern California and Category 2 Huntington Harbour Benchmark rental rates is not a project as defined by the California Environmental Quality Act because it is an administrative action that will not result in direct or indirect physical changes in the environment.

Authority: Public Resources Code section 21065 and California Code of Regulations, title 14, section 15378, subdivision (b)(5).

## **EXHIBITS:**

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- A. 2022 Category 1 Southern California Benchmark Appraisal
- B. 2022 Category 2 Huntington Harbour Benchmark Appraisal

## **RECOMMENDED ACTION:**

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It is recommended that the Commission:

### **PUBLIC TRUST AND STATE'S BEST INTERESTS:**

Find that approval of the benchmarks will not result in a change in the use of, or impacts to, Public Trust resources; is consistent with the common law Public Trust Doctrine; and is in the best interests of the State.

### **AUTHORIZATION:**

1. Approve the 2022 Category 1 Southern California Benchmark rental rate of \$0.451 per square foot, effective June 23, 2022.
2. Approve the 2022 Category 2 Huntington Harbour Benchmark rental rate of \$41.22 per square foot, effective June 23, 2022.

State of California


State Lands Commission

# Memorandum

Date: May 6, 2022

To: Brian Bugsch, Chief  
Land Management Division

Grace Kato, Assistant Chief  
Land Management Division

From: Chaun Wong   
Associate Property Appraiser  
Land Management Division

Subject: Southern California Category 1 Benchmark 2022  
Ventura, Los Angeles, Orange, San Diego Counties

The Southern California Category 1 Benchmark was last updated by staff of the California State Lands Commission (Commission) in 2016. The current update follows essentially the same methodology as used in the prior benchmark. Reference is made to the 2016 study for additional background material that may be needed for the reader to more fully understand what the benchmark is used for and how it is set.

The recommended benchmark is summarized in the following table with the 2016 benchmark.

*Table 1. Southern California Benchmark Summary*

Benchmark Date	2016	2022
Rental Rate (Per Sq. Ft.)	\$0.374	\$0.451

An appraisal is the act or process of developing an opinion of value that must be numerically expressed as a specific amount, as a range of numbers, or as a relationship to a previous value opinion or numerical benchmark. This report constitutes an appraisal as defined by the Uniform Standards of Professional Appraisal Practice (USPAP). Accordingly, this appraisal has been performed and the report has been prepared in substantial compliance with USPAP. The compiled research, analyses, and conclusions presented in this appraisal represent a correlation of market rents into benchmark rental rates for private recreational facilities (e.g., docks and piers) located on Southern California. The benchmark is intended to be used by Commission staff for rent setting purposes.

Benchmarks establish uniform rental rates in specific geographic regions with concentrations of similar facilities within the Commission's jurisdiction. (Cal. Code Regs., tit. 2, § 2003, subd. (a)(5).) For proposed leases involving certain types of



## Southern California Category 1 Benchmark

improvements or uses in regions where benchmarks have been approved, staff will recommend an annual rent based on the applicable benchmark and the lease area. Benchmark rental rates are based on an analysis of similar uses or substitute facilities in the local area. Generally, staff recommends updates to the benchmarks every 5 years. The use of benchmarks improves consistency and transparency throughout a geographic region, improves staff efficiency in setting and adjusting rent for large numbers of leases, and saves time and money for both the applicant and the State.

### **Introduction**

Leases are issued by the California State Lands Commission for private recreational facilities – such as docks and piers – located on sovereign lands. These facilities offer a substitute for the essential functions of a commercial marina, such as a place for the docking and mooring of boats and the loading and unloading of passengers and equipment. In a market where there is significantly more demand than supply, these private structures afford the upland owners guaranteed access to mooring facilities that they may not otherwise be able to obtain from commercial marinas. In this manner, these privately-owned facilities represent a substitute for a commercial marina slip. Accordingly, the method of valuation used in estimating a fair rental value in this analysis is based on what an individual would pay for a similar substitute site in a commercial marina.

Since a Commission-leased site for a privately-owned pier or dock substitutes for the essential functions of a marina slip, a lessee of the state land should pay a similar amount for the leased site as the state would receive for leasing the land to a commercial marina.

### **Scope**

The scope of the research included the following:

- Identifying marinas with boat slips in the Southern California area.
- Surveying the number and type of moorings at marinas (berths / slips), occupancy rate, mooring sizes, and rates.
- Compiling the survey results into averages for slip size and rate.
- Using the “Layout and Design Guidelines for Marina Berthing Facilities” publication (last updated July 2005) from the State Department of Boating and Waterways to determine the amount of submerged land area necessary to accommodate a given mooring size.
- Calculating the annual rental rate(s) using the above information and State valuation guidelines.

There are estimated to be 118 total marinas in the Southern California area. In statistics, for very large populations, a random sampling method provides the best chance of an unbiased representative sample. Random marinas throughout the regions were contacted during the course of the survey. Marinas were contacted via phone

## Southern California Category 1 Benchmark

and/or email. Some marina operators did not want to participate in the survey. Some marina operators did not provide a clear breakdown of their berthing rental rates and/or berth sizes. Other marinas contacted during the course of the survey do not rent their berths on a long-term basis. As of April 11, 2022, a total of 42 marinas responded to the survey. Each of these marinas cooperated to varying degrees and provided relevant information for study purposes. A deliberate effort was made to make the samples representative of each target population. While not comprehensive, this survey is believed to be representative of the total marinas within each study area.

### **Methodology**

In order to determine the benchmark rent for a leased area (pier, dock, etc.), it is necessary to determine the income that can typically be generated by a commercial marina; the area occupied by the average or typical marina slip in a well-designed marina; and the rent for that average or typical sized boat. An annual rate of return is then applied to the product of the above.

The Commission typically charges 5 percent of gross income for boat berthing for sites leased to commercial marina operators.

### **Berth / Slip Rent**

The Southern California Benchmark consists of 42 marinas located in Ventura, Los Angeles, Orange, and San Diego Counties (see Tables 2.1 and 2.2). For purposes of this benchmark, the boundaries of the Southern California region are generally defined as the Ventura / Los Angeles County lines to the north, the Los Angeles / Orange / San Diego County lines to the east, the San Diego County line to the south, and the Pacific Coast of Ventura / Los Angeles / Orange / San Diego Counties to the west.

The average berth size of the marinas surveyed in the Southern California region is approximately 37 linear feet. Similarly, a 37-foot length was also used in the 2016 Southern California Benchmark.

The responding marinas reported a total of 14,235 slips, or an average of 339 slips per marina. The average occupancy was reported at 96.3%, a moderate increase from the 88.5% reported in 2016.

Berthing rates are reported on a per linear foot basis. For all of the areas listed above, the berthing rate, based on data collected, ranged from \$11.90 to \$65.86 per linear foot. The lower rents were generally found in marinas located in Oxnard and City of Ventura of Ventura County; Marina del Rey and Wilmington of Los Angeles County; and City of San Diego of San Diego County. The higher rents were generally found in marinas located in Newport Beach of Orange County. The average rent overall is \$23.40 per linear foot. This represents a 20.62% increase over the \$19.40 per linear foot used in the 2016 Benchmark.

## Southern California Category 1 Benchmark

The benchmark rental rate for berths is calculated by multiplying the average berth length by the average monthly rental rate. This product is then multiplied by 12 months to arrive at the gross annual income. The gross annual income is multiplied by 5% to get the income attributable to the submerged land. The income attributable to the submerged land is then divided by the amount of submerged land needed to accommodate the average berth length within a marina.

The submerged land area needed to accommodate an average berth is found in a publication entitled "[Layout and Design Guidelines for Small Craft and Berthing Facilities](#)" by the California Department of Boating and Waterways last updated in 2005. This publication provides formulas and tables for calculating the submerged land area needed to accommodate various sizes and layouts of berths in marinas. Among other variables, the formulas take into account the berth length, berth layout (single vs. double), and the type of vessel (powerboat vs. sailboat). The submerged land area used in this benchmark analysis is based on a double berth layout (on the premise that it represents the typical marina berth layout in the area and is the most economically efficient for the marina operator) and represents an average of the powerboat and sailboat areas.

From the tables in the publication, a submerged area of 1,153 square feet is shown as being necessary to accommodate the 37-foot average slip length indicated by the survey for Southern California. Taking all of the aforementioned into account, the current benchmark rental rate for Southern California is calculated as follows:

- Average berth rate: \$23.40
- Average boat length: 37 linear feet
- Submerged land area necessary to accommodate a 37-foot boat slip: 1,153 SF
- Percent of income attributable to the submerged land: 5 percent

$$37' \times \$23.40/\text{linear foot} \times 12 \text{ months} = \$10,389.60$$

$$\$10,389.60 \times 5\% \text{ of gross income} = \$519.48$$

$$\$519.48 \div 1,153 \text{ square feet} = \$0.451 \text{ per square foot rental rate}$$

**Benchmark Rental Rate = \$0.451 per sq. ft.**

The indicated benchmark rental rate for Southern California area is \$0.451 per square foot. In contrast, the 2016 benchmark was \$0.374 per square foot. The 2022 benchmark therefore represents an overall increase of \$0.077 (20.6%) from the 2016 benchmark.

Southern California Category 1 Benchmark

Table 2.1. Marina Survey - Southern California

Number	Name	Total Slips	Occupancy Rate	Occupied Slips	Average Length	Average Rate
	<b>Ventura</b>					
1	Bahia Marina	84	96%	81	38	\$17.61
2	Channel Islands Harbor Marina	418	90%	376	38	\$16.39
3	Peninsula Yacht Marina	310	87%	270	35	\$13.82
4	Vintage Marina	384	98%	376	35	\$14.30
5	Westport Marina	61	87%	53	30	\$11.90
6	Ventura Harbor Village Marina	103	100%	103	63	\$13.44
7	Ventura Isle Marina	570	100%	570	40	\$18.03
8	Ventura West Marina	542	94%	509	36	\$16.64
	<b>Averages</b>		<b>94.0%</b>		<b>39</b>	<b>\$15.27</b>
	<b>Los Angeles</b>					
9	Alamitos Bay Marina	1,634	96%	1,569	36	\$18.06
10	Long Beach Shoreline Marina	1,605	93%	1,493	37	\$18.39
11	Rainbow Harbor and Marina	89	89%	79	35	\$17.67
12	Anchorage 47	253	90%	228	29	\$19.17
13	Catalina Yacht Anchorage	120	88%	106	27	\$16.05
14	Dolphin Marina	424	97%	411	32	\$19.12
15	Esprit Marina	216	94%	203	46	\$31.81
16	Holiday Harbor Marina	182	94%	171	25	\$14.12
17	Marina del Rey Marina	304	85%	258	44	\$31.41
18	Neptune Marina	161	81%	130	32	\$20.10
19	Panay Way Marina	139	96%	133	30	\$17.82
20	The Boat Yard Marina	106	100%	106	31	\$20.71
21	Villa del Mar Marina	189	100%	189	41	\$21.45
22	California Yacht Marina - Cabrillo Marina	884	75%	663	36	\$16.28
23	Pacific Yacht Landing	174	100%	174	31	\$12.17
24	Yacht Haven Marina	161	99%	159	39	\$12.02
	<b>Averages</b>		<b>92.3%</b>		<b>34</b>	<b>\$19.15</b>

Southern California Category 1 Benchmark

Table 2.2. Marina Survey - Southern California

Number	Name	Total Slips	Occupancy Rate	Occupied Slips	Average Length	Average Rate
	<b>Orange</b>					
25	Dana West Marina	846	100%	846	30	\$24.48
26	Huntington Harbor Marina	188	100%	188	35	\$23.47
27	Sunset Aquatic Marina	229	100%	229	33	\$16.67
28	Balboa Yacht Basin	172	100%	172	36	\$35.95
29	Bayside Village Marina	124	100%	124	28	\$34.38
30	Lido Marina Village	28	100%	28	56	\$65.86
31	Newport Dunes Resort and Marina	405	97%	393	30	\$48.52
	<b>Averages</b>		<b>99.6%</b>		<b>35</b>	<b>\$35.62</b>
	<b>San Diego</b>					
32	California Yacht Marina - Glorietta Bay Marina	100	98%	98	39	\$22.00
33	Pier 32 Marina	246	100%	246	43	\$23.74
34	Oceanside Harbor	763	100%	763	32	\$16.96
35	Dana Landing Marina	78	100%	78	36	\$14.34
36	Half Moon Marina	128	100%	128	37	\$21.42
37	Kona Kai Marina and Resort	526	99%	521	47	\$33.12
38	Marina Village Marina	611	100%	611	30	\$16.95
39	Marriott Marquis San Diego Marina	394	100%	394	43	\$25.77
40	Point Loma Marina	42	100%	42	57	\$37.93
41	Shelter Cove Marina	143	94%	134	38	\$25.57
42	Sun Harbor Marina	99	100%	99	45	\$21.38
	<b>Averages</b>		<b>99%</b>		<b>41</b>	<b>\$23.56</b>
	<b>Overall Averages</b>		<b>96.3%</b>		<b>37</b>	<b>\$23.40</b>

State of California


State Lands Commission

# Memorandum

Date: May 6, 2022

To: Brian Bugsch, Chief  
Land Management Division

Grace Kato, Assistant Chief  
Land Management Division

From: Chaun Wong   
Associate Property Appraiser  
Land Management Division

Subject: Huntington Harbour Category 2 Benchmark 2022 - Rental rate for non-water dependent use areas extending on and over sovereign land in Huntington Harbour, Orange County, California

As requested, I have conducted research relevant to establishing a benchmark rental rate for non-water dependent use areas extending onto and over sovereign land in Huntington Harbour, Orange County, California. These non-water dependent uses consist of private decks and other residential-related improvements that extend onto and over sovereign lands and essentially represent extensions of the usable area of the adjoining residential lots.

An appraisal is the act or process of developing an opinion of value that must be numerically expressed as a specific amount, as a range of numbers, or as a relationship to a previous value opinion or numerical benchmark. This report constitutes an appraisal as defined by the Uniform Standards of Professional Appraisal Practice (USPAP). The compiled research, analyses, and conclusions presented in this appraisal represents a correlation of residential land values into benchmark rental rates for non-water dependent use areas located on Huntington Harbour. The benchmark is intended to be used by Commission staff in negotiations with lessees. It should also be noted that this appraisal has been performed and the report has been prepared in substantial compliance with USPAP as it relates to value of sovereign land. Presented on the following pages are the introduction, the scope of the research, and discussions of the pertinent findings resulting in the benchmark rental rate.

Benchmarks establish uniform rental rates in specific geographic regions with concentrations of similar facilities within the Commission's jurisdiction. (Cal. Code Regs., tit. 2, § 2003, subd. (a)(5).) For proposed leases involving certain types of improvements or uses in regions where benchmarks have been approved, staff will recommend an annual rent based on the applicable benchmark and the lease area. Benchmark rental rates are based on an analysis of similar land uses or substitute facilities in the local area. Generally, staff recommends updates to the benchmarks

## Huntington Harbour Category 2 Benchmark

every 5 years. The use of benchmarks improves consistency and transparency throughout a geographic region, improves staff efficiency in setting and adjusting rent for large numbers of leases, and saves time and money for both the applicant and the State. The Huntington Harbour Category II benchmark was last updated on September 23, 2016.

### **Introduction**

The State Lands Commission is responsible for leasing sovereign lands at Huntington Harbour. Huntington Harbour is an exclusive waterfront development located in the City of Huntington Beach in northwestern Orange County. The development is predominantly single family residential in nature and consists of several man-made islands and peninsulas situated around a series of channels. The islands and peninsulas have been developed with high-end waterfront homes, many of which have boat docks and cantilevered decks.

The development was originally designed by the Huntington Harbour Corporation in the early 1960s. It was created by dredging and filling the sloughs and marshlands lying in and around Sunset Bay. Prior to commencement of the project, the developer entered into two agreements (BLA 18 and SLL 34) with the State Lands Commission. From these agreements, the State Lands Commission retained fee ownership of the Main and Midway Channels, while most of the remaining water-covered and land areas are privately owned.

Within the Main and Midway Channels of Huntington Harbour there are private decks and other non-water dependent uses that extend onto and over sovereign lands. This benchmark is intended to address these improvements and uses. The rent for the boat dock improvements is covered separately by the Southern California Category 1 benchmark.

### **Methodology**

The Commission's authority to lease lands and charge rent comes from the California State Constitution, the Public Resources Code, and the California Code of Regulations.

The Commission's mandate to charge rent comes from the Gift Clause of the California State Constitution, which states in part that:

*"The Legislature shall have no power to...make any gift or authorize the making of any gift, of any public money or thing of value to any individual, municipal or other corporation whatever..." Cal. Const. Art. XVI -6.*

Section 6503 of the Public Resources Code states that:

*"The Commission shall appraise the lands and fix the annual rent or other consideration thereof."*

## Huntington Harbour Category 2 Benchmark

The California Code of Regulations<sup>1</sup> provides the Commission with broad discretion in all aspects of leasing.

*“Leases or permits may be issued to qualified applicants and the Commission shall have broad discretion in all aspects of leasing including category of lease or permit and which use, method or amount of rental is most appropriate...based on what it deems to be in the best interest of the State”*

The Regulations then outlines the types of leases and the methods of setting rent for each. Of these, the “9% of the appraised value of the leased land”<sup>2</sup> method is considered the most directly applicable. The land to be leased is sovereign land located waterward of the low water mark. Since there is not an active real estate market for sovereign land, the basis for the benchmark rental rate is the adjoining upland property. At Huntington Harbour, the adjoining upland property generally consists of single-family homes on residential lots. The rent to be set is based on the value of the underlying land and does not include the value of any improvements. Thus, for valuation purposes, the value of waterfront residential lots at Huntington Harbour is the basis of the rental rate.

The market value of residential land is typically estimated through use of the Sales Comparison Approach. In this approach, recent sales and current listings of similar properties are compared to the subject on the basis of pertinent factors such as location, size, shape, etc. Typically, an indication of value is then concluded based on a comparative analysis of these factors. Waterfront residential lots are typically valued on either a per-lot or on a per-waterfront-foot basis. However, because the lease areas generally do not represent a full residential lot, the unit of comparison used is the price per square foot of land area. Per Regulations, rent is then set based on 9% of the appraised value of the leased land. It should be noted that because this is a benchmark appraisal – intended to be applied to a number of different lease areas – there is no specific subject property or lease area. Accordingly, there are no specific adjustments (for location, size, shape, etc.) made. Instead, the benchmark rental rate is intended to represent the general characteristics of the benchmark’s geographic area.

### **Market Value of Upland Property**

On LandVision<sup>3</sup>, a search was made to find recent sales of vacant residential lots, typical in size, fronting the Main or Midway Channels of Huntington Harbour in Orange County. However, due to its built-up nature, no comparable sales of vacant waterfront

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<sup>1</sup> Title 2, Administration, Division 3, State Property Operations, Article 2 Section 2000, General (b).

<sup>2</sup> Title 2, Administration, Division 3, State Property Operations, Article 2 Section 2003(a)(1).

<sup>3</sup> LandVision is a map-based real estate application that provides real estate, government, and many other industries with comprehensive map-based property search, analysis, management, and presentation capabilities.



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residential lots were found. Rather than use comparable sales that do not front the water, which would necessitate adjustments for location, an allocation method<sup>4</sup> is employed. In this analysis, residential land values are removed from recent sales of single-family houses in the Huntington Harbour area through use of the improvement percentage assigned by the Orange County Assessor's Office. For instance, if a house sold for \$1,000,000 and had an improvement percentage of 40%, then the allocated value of the land is 60%, or \$600,000. For analysis purposes, the unit of comparison used is the price per square foot of land area.

Summarized in the Comparable Sales Table (see Table 2) are the pertinent details of 29 sales of single-family residences fronting the Main or Midway Channels of Huntington Harbour in Orange County. The sales took place between February 2018 and December 2021. According to the Indications of Comparable Sales Table (see Table 3), the lot sizes range from 2,820 to 9,000 square feet, with a mean of 6,088 square feet and a median of 6,000 square feet. The sale prices for the waterfront lots ranged from a low of \$1,175,000 to a high of \$6,650,000, with a mean of \$3,588,034, and a median of \$3,350,000. According to the Assessor's allocations, the value of the land in these transactions accounted for between 48.93% and 97.35% of the total price. Based on these percentages, the value of unimproved residential waterfront land lies between \$110 and \$697 per square foot. The mean unit value is \$456 per square foot, while the median is \$460 per square foot.

Analysis of the sales revealed no recognizable trends relating to typical lot area and land value relationships (i.e., unit prices decreasing as sizes increase). The lack of a size/price relationship is illustrated in the following table. The presentation of the sales is based on the lot area (SF) of the sales, going from smallest to largest.

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<sup>4</sup> Allocation is the general process of separating value between the component parts of a property. A method of estimating land value in which sales of improved properties are analyzed to establish a typical ratio of land value to total property value and this ratio is applied to the property being appraised or the comparable sale being analyzed.

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*Table 1. Lot Area to Land Value Per SF Table*

<b>Lot Area (SF)</b>	<b>Land Value Per SF</b>
2,820	\$406
4,590	\$483
4,590	\$433
5,000	\$673
5,000	\$332
5,000	\$697
5,000	\$525
5,120	\$367
5,200	\$494
5,500	\$373
6,000	\$458
6,000	\$542
6,000	\$463
6,000	\$458
6,000	\$515
6,039	\$337
6,480	\$483
6,480	\$506
6,480	\$390
6,480	\$426
6,840	\$392
6,882	\$379
6,900	\$460
7,020	\$563
7,080	\$531
7,560	\$409
7,680	\$484
7,800	\$526
9,000	\$110

As mentioned earlier, lease areas impacted by the Huntington Harbour Category 2 Benchmark are of various lot areas, waterfrontages, locations, shapes, topographies, zonings, etc. Due to the uniqueness of each lease area and the lack of significant land value trends relating to the above elements of comparison; no particular sale is deemed a better indicator in concluding a land value benchmark. Therefore, an analysis of the overall dataset is warranted and deemed appropriate in concluding land value for the Huntington Harbour Category 2 Benchmark. As previously stated, the value of the unimproved land lies between \$110 and \$697 per square foot. The mean unit value is \$456 per square foot, while the median is \$460 per square foot. Based on all the data

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gathered and analyzed, a unit value of \$458 per square foot is concluded as reasonable for the typical upland residential property.

Market Value of Upland Property \$458 per square foot

### **Benchmark Rental Rate**

Applying the 9% annual rate of return to the previously concluded market value of the upland property results in an annual rental rate of \$41.22 per square foot<sup>5</sup>.

### **Benchmark Rental Rate**

**\$41.22 per square foot**

The concluded value is based on the leased land having the same utility as the adjoining upland. If the leased land does not have the same utility, then a discounted benchmark rental rate may be warranted.

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<sup>5</sup> Calculated as  $\$458 \times 0.09 = \$41.22$ .

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Table 2. Comparable Sales Table

Number	APN	Address	Sale Date	Lot Area (SF)	Sale Price	% Assessed Land Value	Land Value	Land Value Per SF
1	178-652-24	3585 Courtside Cir	12/1/2021	7,020	\$5,600,000	70.57%	\$3,952,057	\$563
2	178-731-20	3322 Venture Dr	9/20/2021	6,480	\$3,860,000	81.15%	\$3,132,438	\$483
3	178-652-23	3581 Courtside Cir	8/27/2021	7,080	\$6,200,000	60.58%	\$3,756,120	\$531
4	178-652-18	3551 Courtside Cir	6/21/2021	9,000	\$1,475,000	66.86%	\$986,190	\$110
5	178-315-34	17011 Bolero Ln	6/16/2021	5,000	\$4,600,000	73.10%	\$3,362,749	\$673
6	178-421-34	3262 Gilbert Dr	6/10/2021	6,882	\$3,550,000	73.44%	\$2,607,134	\$379
7	178-691-31	3622 Venture Dr	6/2/2021	6,000	\$3,350,000	82.05%	\$2,748,718	\$458
8	178-791-11	3186 Portofino Cir	4/23/2021	5,120	\$2,500,000	75.18%	\$1,879,556	\$367
9	178-402-18	3402 Gilbert Dr	4/13/2021	5,000	\$2,500,000	66.34%	\$1,658,383	\$332
10	178-444-03	16402 Grimaud Ln	2/1/2021	7,800	\$5,600,000	73.33%	\$4,106,552	\$526
11	178-652-29	16642 Coral Cay Ln	2/1/2021	6,000	\$6,650,000	48.93%	\$3,254,143	\$542
12	178-713-03	3532 Venture Dr	12/15/2020	6,000	\$3,200,000	86.86%	\$2,779,623	\$463
13	178-791-10	3182 Portofino Cir	11/4/2020	4,590	\$2,725,000	81.32%	\$2,215,914	\$483
14	178-731-24	3362 Venture Dr	10/9/2020	6,480	\$3,895,000	84.16%	\$3,278,030	\$506
15	178-532-43	16921 Park Ave	9/4/2020	2,820	\$1,175,000	97.35%	\$1,143,895	\$406
16	178-402-19	3392 Gilbert Dr	6/4/2020	5,500	\$2,225,000	92.13%	\$2,049,937	\$373
17	178-421-33	3282 Gilbert Dr	11/13/2019	6,039	\$2,520,000	80.84%	\$2,037,256	\$337
18	178-053-06	16681 Carousel Ln	9/19/2019	5,000	\$4,368,000	79.77%	\$3,484,230	\$697
19	178-411-08	16522 Somerset Ln	9/16/2019	6,000	\$3,000,000	91.50%	\$2,745,041	\$458
20	178-371-09	16795 Bolero Ln	8/1/2019	5,200	\$2,850,000	90.08%	\$2,567,324	\$494
21	178-653-38	16872 Coral Cay Ln	1/7/2019	6,840	\$3,151,000	85.10%	\$2,681,599	\$392
22	178-791-09	3176 Portofino Cir	10/30/2018	4,590	\$2,395,000	83.00%	\$1,987,782	\$433
23	178-713-09	3502 Venture Dr	10/18/2018	6,000	\$3,734,000	82.78%	\$3,091,109	\$515
24	178-713-19	3382 Venture Dr	9/10/2018	6,480	\$3,000,000	84.25%	\$2,527,571	\$390
25	178-654-18	16936 Coral Cay Ln	5/17/2018	7,680	\$4,900,000	75.81%	\$3,714,598	\$484
26	178-652-37	16722 Coral Cay Ln	4/25/2018	6,900	\$4,645,000	68.26%	\$3,170,875	\$460
27	178-653-36	16852 Coral Cay Ln	4/20/2018	7,560	\$3,460,000	89.47%	\$3,095,556	\$409
28	178-731-22	3342 Venture Dr	3/20/2018	6,480	\$3,300,000	83.66%	\$2,760,678	\$426
29	178-315-33	17021 Bolero Ln	2/8/2018	5,000	\$3,625,000	72.39%	\$2,624,053	\$525

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*Table 3. Indications of Comparable Sales Table*

<b>Indications</b>	<b>Lot Area (SF)</b>	<b>Sale Price</b>	<b>% Assessed Land Value</b>	<b>Land Value</b>	<b>Land Value Per SF</b>
Low	2,820	\$1,175,000	48.93%	\$986,190	\$110
High	9,000	\$6,650,000	97.35%	\$4,106,552	\$697
Mean	6.088	\$3,588,034	78.63%	\$2,737,900	\$456
Median	6,000	\$3,350,000	81.15%	\$2,748,718	\$460