

Memorandum

Date: March 26, 2024

To: Brian Bugsch, Chief
Land Management Division

Grace Kato, Assistant Chief
Land Management Division

From: Chaun Wong
Associate Property Appraiser
Land Management Division

Subject: Napa River Category 2 Benchmark 2024 - Rental rate for non-water dependent use areas extending onto and over sovereign land in the Napa River near Milton Road, Napa 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 Napa River near Milton Road, Napa County, California. These non-water dependent uses consist of porches, sundecks, portions of residences, 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 represent a correlation of residential land values into benchmark rental rates for non-water dependent use areas located on Napa River near Milton Road. The benchmark is intended to be used by Commission staff in negotiations with lessees. It should be noted that this appraisal has been performed and the report has been prepared in substantial compliance with USPAP as it relates to the 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 recommend updates to the benchmarks every

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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

The subject properties consist of parcels of patented swamp and overflow (S&O) lands located in the Napa River near Milton Road. The uplands and adjoining S&O lands were subdivided and developed into small residential lots of various sizes. Access to the residential lots is via Milton Road, a street along the western bank of the Napa River. A portion of these subject properties are currently under lease. The uplands were originally sold as S&O 107, patented on September 3, 1877. The subject properties were subdivided mostly via two subdivision maps; Ingersoll's Cabin Site BK4 P626 in 1946 and Ingersoll's Riverfront Sites BK4 P661 in 1949. The California State Lands Commission performed a survey in 1953 at the ordinary high-water mark of the Napa River. Staff noted there were structures on about half of the subject properties surveyed. The majority of the encroachments noted were dock improvements. But, also mentioned were encroaching residences, cabins, decks, and areas of fill. A Record of Survey Map was recorded later that year.

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."

The California Code of Regulations¹ 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"

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

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The Regulations then outline the types of leases and the methods of setting rent for each. Of these, the “9% of the appraised value of the leased land”² 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 Napa River near Milton Road, 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 Napa River near Milton Road 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 LandVision³, a search was made to find recent sales⁴ of vacant residential lots, typical in size, fronting Napa River near Milton Road in Napa County. However, due to its built-up nature, no comparable sales of vacant waterfront residential lots were found. Rather than use comparable sales that do not front the water, which would necessitate adjustments for location, an allocation method⁵ is employed. For the improved residential sales deemed similar to the subject property, the land values are extracted through use of the improvement percentage assigned by the Napa County Assessor’s Office. For instance, if a house sold for \$1,000,000 and had an improvement

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

³ 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.

⁴ It should be noted that current listings were also considered, however, the sales utilized were deemed the strongest indicators of market value for the subject property.

⁵ 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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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 28 sales of single-family residences fronting Napa River near Milton Road in Napa County. The sales took place between May 2020 and November 2023. According to the Indications of Comparable Sales Table (see Table 3), the lot sizes range from 3,484 to 13,600 square feet, with a mean of 6,354 square feet and a median of 6,038 square feet. The sale prices for the waterfront lots ranged from a low of \$260,000 to a high of \$1,595,000, with a mean of \$925,107, and a median of \$885,000. According to the Assessor's allocations, the value of the land in these transactions accounted for between 15.81% and 84.21% of the total price. Based on these percentages, the value of unimproved residential waterfront land lies between \$26 and \$202 per square foot. The mean unit value is \$82 per square foot, while the median is \$78 per square foot.

Analysis of the sales revealed no recognizable trends relating to date of sale and land value. Analysis of the sales also 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.

Table 1. Lot Area to Land Value Per SF Table

Lot Size (SF)	Land Value Per SF
3,484	\$129
3,824	\$144
4,331	\$104
4,821	\$93
5,221	\$202
5,221	\$91
5,227	\$86
5,227	\$86
5,537	\$99
5,602	\$35

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Lot Size (SF)	Land Value Per SF
5,679	\$62
5,708	\$26
5,754	\$78
6,000	\$83
6,075	\$100
6,098	\$82
6,363	\$67
6,484	\$77
6,534	\$77
6,571	\$70
6,677	\$97
6,830	\$66
6,885	\$65
6,888	\$75
7,821	\$58
8,862	\$68
10,593	\$47
13,600	\$39

As mentioned earlier, lease areas impacted by the Napa River Category 2 Benchmark are of various lot areas, waterfrontages, locations, shapes, topography, 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 Napa River Category 2 Benchmark. As previously stated, the value of the unimproved land

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lies between \$26 and \$202 per square foot. The mean unit value is \$82 per square foot, while the median is \$78 per square foot. Based on all the data gathered and analyzed, a unit value of \$80 per square foot is concluded as reasonable for the typical upland residential property.

Market Value of Upland Property \$80 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 \$7.20 per square foot⁶.

Benchmark Rental Rate

\$7.20 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.

⁶ Calculated as $\$80 \times 0.09 = \7.20 .

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Table 2. Comparable Sales Table

No.	APN	Address	Sale Date	Lot Area (SF)	Sale Price	% Assessed Land Value	Land Value	Land Value Per SF
1	048-030-003-000	1508 Milton Rd	11/9/2023	10,593	\$1,250,000	39.57%	\$494,601	\$47
2	048-042-024-000	1788 Milton Rd	10/3/2023	5,221	\$1,250,000	84.21%	\$1,052,632	\$202
3	048-043-011-000	1840 Milton Rd	9/14/2023	5,602	\$1,250,000	15.81%	\$197,665	\$35
4	048-041-013-000	1648 Milton Rd	3/10/2023	6,571	\$900,000	50.85%	\$457,627	\$70
5	047-360-009-000	1436 Milton Rd	12/16/2022	4,821	\$870,000	51.72%	\$450,000	\$93
6	048-042-006-000	1720 Milton Rd	11/8/2022	6,888	\$860,000	60.47%	\$520,000	\$75
7	048-042-008-000	1730 Milton Rd	3/9/2022	6,677	\$1,595,000	40.74%	\$649,810	\$97
8	047-350-019-000	1366 Milton Rd	2/14/2022	4,331	\$585,000	76.92%	\$450,000	\$104
9	048-050-011-000	1928 Milton Rd	12/23/2021	7,821	\$950,000	47.37%	\$450,000	\$58
10	048-042-003-000	1708 Milton Rd	12/17/2021	6,484	\$1,500,000	33.33%	\$500,000	\$77
11	048-030-004-000	1512 Milton Rd	12/1/2021	13,600	\$710,000	73.94%	\$525,000	\$39
12	048-050-003-000	1908 Milton Rd	11/15/2021	6,075	\$1,350,000	45.00%	\$607,476	\$100
13	048-030-012-000	1546 Milton Rd	7/13/2021	5,708	\$260,000	57.03%	\$148,267	\$26
14	048-042-015-000	1756 Milton Rd	6/22/2021	5,221	\$625,000	76.00%	\$475,000	\$91
15	047-360-016-000	1420 Milton Rd	6/22/2021	3,824	\$1,330,000	41.35%	\$550,000	\$144
16	047-350-009-000	1342 Milton Rd	5/26/2021	8,862	\$950,000	63.16%	\$600,000	\$68
17	048-050-005-000	1916 Milton Rd	4/30/2021	5,537	\$1,225,000	44.90%	\$550,000	\$99
18	048-041-017-000	1664 Milton Rd	4/1/2021	6,363	\$589,000	72.16%	\$425,000	\$67
19	048-030-008-000	1528 Milton Rd	3/15/2021	6,885	\$615,000	73.17%	\$450,000	\$65
20	047-360-002-000	1408 Milton Rd	12/22/2020	3,484	\$925,000	48.65%	\$450,000	\$129
21	048-030-023-000	1588 Milton Rd	12/21/2020	6,000	\$1,150,000	43.48%	\$500,000	\$83
22	048-030-024-000	1592 Milton Rd	12/18/2020	6,098	\$850,000	58.82%	\$500,000	\$82
23	048-041-016-000	1660 Milton Rd	10/19/2020	6,830	\$545,000	82.57%	\$450,000	\$66
24	048-042-025-000	1790 Milton Rd	9/25/2020	5,227	\$549,000	81.97%	\$450,000	\$86

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No.	APN	Address	Sale Date	Lot Area (SF)	Sale Price	% Assessed Land Value	Land Value	Land Value Per SF
25	048-043-016-000	1864 Milton Rd	9/1/2020	6,534	\$1,275,000	39.22%	\$500,000	\$77
26	048-050-004-000	1912 Milton Rd	8/28/2020	5,679	\$550,000	63.64%	\$350,000	\$62
27	048-030-021-000	1580 Milton Rd	5/26/2020	5,754	\$650,000	69.23%	\$450,000	\$78
28	048-043-015-000	1862 Milton Rd	5/4/2020	5,227	\$745,000	60.40%	\$450,000	\$86

Table 3. Indications of Comparable Sales Table

Indications	Lot Area (SF)	Sale Price	% Assessed Land Value	Land Value	Land Value Per SF
Low	3,484	\$260,000	15.81%	\$148,267	\$26
High	13,600	\$1,595,000	84.21%	\$1,052,632	\$202
Mean	6,354	\$925,107	56.99%	\$487,610	\$82
Median	6,038	\$885,000	57.92%	\$466,314	\$78