

Memorandum

Date: December 29, 2017

To: Brian Bugsch, Chief *RBB*
Land Management Division

Grace Kato, Assistant Chief
Land Management Division

From: Chaun Wong *CW*
Associate Property Appraiser
Land Management Division

Subject: Lake Tahoe Category 2 Benchmark 2017 - Rental rate for non-water dependent use areas extending on and over sovereign land in Lake Tahoe, Placer and El Dorado Counties, California

As requested, I have conducted research relevant to establishing the fair market rent for non-water dependent use areas extending onto and over sovereign land in Lake Tahoe, Placer and El Dorado Counties, California. These non-water dependent uses consist of sundecks, fill, 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. It should be noted that this report does constitute 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 Lake Tahoe. 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 current research, and discussions of the pertinent findings resulting in the updated benchmark rental rates.

Introduction

The State Lands Commission is responsible for leasing sovereign lands at Lake Tahoe. These sovereign lands consist of the bed of Lake Tahoe waterward of the low water mark at elevation 6,223-foot Lake Tahoe Datum. The area between the low and high-water mark (6,228.75-foot Lake Tahoe Datum) is subject to the Public Trust easement

for access, recreation, navigation, fisheries and environmental preservation. The Commission currently has more than 715 leases for piers, buoys and other water-related structures at Lake Tahoe.

Some of the piers at Lake Tahoe have sundecks, sleeping quarters, or other non-water dependent uses. Additionally, there are some areas where fill has been placed, thereby extending the usable upland residential property.

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"

The Code of Regulations then goes on to 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. For purposes of this analysis, 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 annual rent is the adjoining upland property. At Lake Tahoe, 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 lakefront residential lots at Lake Tahoe is the basis of the rental rate.

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

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

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. Lakefront residential lots are typically valued on either a per-lot or on a per-lakefront-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. An indication of value is then concluded based on a comparative analysis of these factors. Per the California Code of Regulations, rent is then set based on 9% of the concluded value of the leased land.

Market Value of Upland Property

A search was made for recent sales of vacant residential lots (typical in size, ranging from 0.10 acre to two acres)³ fronting Lake Tahoe in Placer and El Dorado Counties. However, due to its built-up nature, only two comparable sales of vacant lakefront lots were found. Rather than use comparable sales that do not front the lake, which would necessitate adjustments for location, an allocation technique is employed. In this analysis, residential land values are extracted from recent sales of single family houses in the Lake Tahoe area through use of the improvement percentage assigned by the Placer County and El Dorado County Assessor's Offices. 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 table on page 7 are the pertinent details of 26 sales of single family residences and one sale of a vacant residential lot in the Lake Tahoe development of Placer County. The sales took place between April 2015 and December 2016. All of these sales involve waterfront lots on the California side of Lake Tahoe in Placer County. The lot sizes range from 6,216 to 83,199 square feet, with a mean of 27,103 square feet and a median of 15,952 square feet. In Placer County, the sale prices for the lakefront lots ranged from a low of \$259,741 to a high of \$8,291,457, with a mean of \$2,864,549, and a median of \$2,553,530. According to the Assessor's allocations, the value of the land in these transactions accounted for between 26.04% and 100.00% of the total price. Based on these percentages, the value of the unimproved land lies between \$19 and \$273 per square foot. The mean unit value is \$132 per square foot, while the median is \$124 per square foot.

³ The typical residential lot size around Lake Tahoe is judged to be between approximately 0.10 acre and two acres. Properties below 0.10 acre in size are typically sales of condominiums or townhouses, where the lot size is usually determined by the footprint of the building. These sales are not considered comparable in the appraiser's opinion of land value. Properties above two acres in size are not considered in the appraiser's land value dataset due to the scarcity of these sales along the lakefront.

Also summarized in the table on page 7 are the pertinent details of 14 sales of single family residences and one sale of a vacant residential lot in the Lake Tahoe development of El Dorado County. The sales took place between June 2015 and November 2016. All of these sales involve waterfront lots on the California side of Lake Tahoe in El Dorado County. The lot sizes range from 6,403 to 74,008 square feet, with a mean of 21,479 square feet and a median of 16,122 square feet. In El Dorado County, the sale prices for the lakefront lots ranged from a low of \$588,299 to a high of \$5,500,000, with a mean of \$2,037,420, and a median of \$2,020,000. According to the Assessor's allocations, the value of the land in these transactions accounted for between 39.78% and 100.00% of the total price. Based on these percentages, the value of the unimproved land lies between \$39 and \$289 per square foot. The mean unit value is \$120 per square foot, while the median is \$98 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 two tables. The presentation of the sales is based on the lot area (SF) of the sales, going from smallest to largest.

Placer

Lot Area (SF)	Land Value Per SF
6,216	\$65
7,453	\$35
9,370	\$245
10,197	\$167
12,598	\$189
12,911	\$62
13,068	\$244
13,225	\$228
13,334	\$120
13,360	\$135
13,826	\$36
13,939	\$183
14,018	\$273
15,952	\$66
17,624	\$122
20,517	\$206
23,305	\$94
23,701	\$131
25,466	\$159
25,957	\$217
32,278	\$124
36,046	\$166
52,272	\$79
57,726	\$19
81,457	\$102
82,764	\$45
83,199	\$41

El Dorado

Lot Area (SF)	Land Value Per SF
6,403	\$289
7,945	\$97
8,398	\$241
10,106	\$140
12,284	\$183
15,085	\$143
15,246	\$39
16,122	\$66
16,431	\$82
20,822	\$109
23,418	\$114
23,653	\$66
25,648	\$98
46,609	\$55
74,008	\$74

Similarly, analysis of the sales revealed no recognizable trends relating to typical lake frontage and land value relationships. The lack of a lake frontage/price relationship is illustrated in the following two tables. The presentation of the sales is based on the lake frontage (LF) of the sales, going from smallest to largest.

Placer

Lake Frontage (LF)	Land Value Per LF of Lake Frontage
38	\$6,835
42	\$9,640
45	\$17,778
50	\$9,930
50	\$34,000
54	\$70,773
71	\$32,394
72	\$14,583
75	\$54,000
76	\$55,728
77	\$23,350
85	\$35,527
88	\$45,474
89	\$63,335
92	\$17,391
92	\$23,310
99	\$31,313
99	\$32,190
101	\$23,551
105	\$39,220
114	\$22,399
115	\$29,306
135	\$44,444
164	\$13,415
203	\$40,845
219	\$17,010
318	\$3,459

El Dorado

Lake Frontage (LF)	Land Value Per LF of Lake Frontage
42	\$18,258
50	\$40,400
51	\$36,235
61	\$22,131
65	\$35,000
77	\$29,221
80	\$13,376
80	\$19,500
84	\$29,940
91	\$23,626
100	\$55,000
100	\$14,181
101	\$25,495
114	\$23,465
170	\$3,461

In terms of location, analysis of the sales revealed that while Placer County has slightly higher land values in comparison to El Dorado County, these slight price variances are not considered significant. Other than location, the slight price variances indicated by the sales in each county are believed to be influenced by a combination of factors, including but not limited to lot area (size), lake frontage, nature of the lake frontage (e.g., steep, rocky, sandy), date of sale, shape, topography, zoning, the presence (or absence) of public utilities and off-site improvements, entitlements, etc. Furthermore,

lease areas impacted by the Lake Tahoe Category 2 Benchmark are also of various lot areas, lake frontages, locations, shapes, topographies, zonings, etc. Due to the uniqueness of each lease area and the lack of significant land value trends relating to typical lot area, typical lake frontage, or location; 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 Lake Tahoe Category 2 Benchmark.

Overall, the sale prices for the lakefront lots ranged from a low of \$259,741 to a high of \$8,291,457, with a mean of \$2,569,146, and a median of \$2,262,500. According to the Assessor's allocations, the value of the land in these transactions accounted for between 26.04% and 100.00% of the total price. Based on these percentages, the value of the unimproved land lies between \$19 and \$289 per square foot. The mean unit value is \$127 per square foot, while the median is \$117 per square foot. Based on all the data gathered and analyzed, a unit value of \$120 per square foot is concluded as reasonable for the typical upland residential property.

Market Value of Upland Property \$120 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 \$10.80 per square foot⁴.

Benchmark Rental Rate

\$10.80 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 lower benchmark rental rate may be warranted. A lower utility is generally expressed as a percentage of the full benchmark rental rate. In terms of seasonality, a discounted (58%) benchmark rental rate may be warranted if the non-water dependent use is considered to have the same seasonal fluctuations as the piers and buoys utilized in the Lake Tahoe Category 1 Benchmark.

⁴ Calculated as $\$120 \times 0.09 = \10.80 .

LAND VALUE INDICATIONS
 Allocated Assessed Land Values from Recent Sales
 Lake Tahoe

No.	APN	Address	City	County	Sale Date	Lot Area (SF)	Lake Frontage (LF)	Sale Price	% Assessed Land Value	Land Value	Land Value Per SF	Land Value Per LF of Lake Frontage
1	116-100-003	5680 N Lake Blvd	Carnelian Bay	Placer	04/06/2015	13,384	92	\$2,600,000	61.54%	\$1,600,000	\$120	\$17,391
2	092-110-032, 092-110-033	3740 N Lake Blvd	Carnelian Bay	Placer	04/15/2015	23,701	99	\$5,250,000	59.05%	\$3,100,000	\$131	\$31,313
3	085-280-046	3145 W Lake Blvd	Homewood	Placer	06/05/2015	15,952	72	\$1,840,000	57.07%	\$1,050,000	\$66	\$14,583
4	098-041-007	6290 W Lake Blvd	Tahoma	Placer	07/01/2015	23,305	164	\$3,200,000	68.75%	\$2,200,000	\$94	\$13,415
5	094-173-023	25 Bristlecone St	Tahoe City	Placer	07/10/2015	57,726	318	\$2,000,000	55.00%	\$1,100,000	\$19	\$3,459
6	093-094-040	3266 Edgewater Dr	Tahoe City	Placer	07/21/2015	25,957	89	\$8,199,000	68.75%	\$5,636,813	\$217	\$63,335
7	094-150-019	160 Sierra Terrace Rd	Tahoe City	Placer	08/03/2015	9,370	71	\$3,190,000	72.10%	\$2,300,000	\$245	\$32,394
8	098-191-028	48 Moanà Cir	Tahoma	Placer	08/27/2015	36,046	135	\$7,300,000	82.19%	\$6,000,000	\$166	\$44,444
9	117-140-016	7720 N Lake Blvd	Kings Beach	Placer	08/28/2015	6,216	42	\$500,000	80.98%	\$404,895	\$65	\$9,640
10	085-280-044	3125 W Lake Blvd	Homewood	Placer	09/04/2015	13,826	50	\$496,500	100.00%	\$496,500	\$36	\$9,930
11	115-020-014	5270 N Lake Blvd	Carnelian Bay	Placer	09/29/2015	13,360	77	\$2,632,500	68.30%	\$1,797,951	\$135	\$23,350
12	085-260-034	3275 W Lake Blvd	Homewood	Placer	11/03/2015	12,911	45	\$1,250,000	64.00%	\$800,000	\$62	\$17,778
13	117-180-017	7770 N Lake Blvd	Tahoe Vista	Placer	12/16/2015	10,197	50	\$3,130,000	54.31%	\$1,700,000	\$167	\$34,000
14	115-060-013	4812 N Lake Blvd	Carnelian Bay	Placer	01/14/2016	12,598	101	\$2,958,500	80.40%	\$2,378,694	\$189	\$23,551
15	084-132-006	2600 W Lake Blvd	Homewood	Placer	01/19/2016	32,278	88	\$7,103,000	56.34%	\$4,001,690	\$124	\$45,474
16	090-141-030	8678 Brockway Vista Ave	Kings Beach	Placer	02/18/2016	7,453	38	\$997,500	26.04%	\$259,741	\$35	\$6,835
17	098-210-002, 098-210-028, 098-210-029	6956-6959 Pommin Ave / 6954 W Lake Blvd	Tahoma	Placer	03/09/2016	25,466	75	\$6,000,000	67.50%	\$4,050,004	\$159	\$54,000
18	094-140-033	2140 N Lake Blvd	Tahoe City	Placer	04/11/2016	83,199	115	\$4,750,000	70.95%	\$3,370,247	\$41	\$29,306
19	094-273-007	628 Olympic Dr	Tahoe City	Placer	05/16/2016	17,624	92	\$4,025,000	53.28%	\$2,144,554	\$122	\$23,310
20	091-174-006	4410 N Lake Blvd	Carnelian Bay	Placer	07/22/2016	20,517	76	\$6,000,000	70.59%	\$4,235,294	\$206	\$55,728
21	094-160-023	1830 N Lake Blvd	Tahoe City	Placer	07/22/2016	52,272	105	\$5,675,000	72.57%	\$4,118,065	\$79	\$39,220
22	094-160-006	1530 N Lake Blvd	Tahoe City	Placer	08/24/2016	13,068	99	\$6,500,000	49.03%	\$3,186,785	\$244	\$32,190
23	097-122-010, 097-122-024	5080 W Lake Blvd	Homewood	Placer	09/28/2016	14,018	54	\$5,950,000	64.23%	\$3,821,722	\$273	\$70,773
24	094-263-003	656 Olympic Dr	Tahoe City	Placer	10/05/2016	13,225	85	\$4,900,000	61.63%	\$3,019,768	\$228	\$35,527
25	085-250-008	4250 W Lake Blvd	Homewood	Placer	10/07/2016	81,457	203	\$11,000,000	75.38%	\$8,291,457	\$102	\$40,845
26	083-162-035	1380 W Lake Blvd	Tahoe City	Placer	12/16/2016	82,764	219	\$5,050,000	73.76%	\$3,725,122	\$45	\$17,010
27	092-200-026	4170 Ferguson Ave	Carnelian Bay	Placer	12/23/2016	13,939	114	\$3,000,000	85.12%	\$2,553,530	\$183	\$22,399
28	022-081-03-100	343 Beach Dr	South Lake Tahoe	El Dorado	06/09/2015	15,085	91	\$2,800,000	76.79%	\$2,150,000	\$143	\$23,626
29	016-081-09-100	8357 Meeks Bay Ave	Tahoma	El Dorado	07/29/2015	6,403	51	\$2,800,000	66.00%	\$1,848,000	\$289	\$36,235
30	016-081-43-100	8381 Meeks Bay Ave	Tahoma	El Dorado	07/30/2015	12,284	77	\$2,760,000	81.52%	\$2,250,000	\$183	\$29,221
31	016-142-27-100	8669 Beach Ln	Tahoma	El Dorado	10/16/2015	23,418	114	\$3,325,000	80.45%	\$2,675,000	\$114	\$23,465
32	022-431-08-100	20 Lighthouse Shores Dr	South Lake Tahoe	El Dorado	10/16/2015	20,822	65	\$3,700,000	61.49%	\$2,275,000	\$109	\$35,000
33	016-081-29-100	8401 Meeks Bay Ave	Tahoma	El Dorado	10/30/2015	8,398	50	\$2,650,000	76.23%	\$2,020,000	\$241	\$40,400
34	017-021-16-100	242 Four Ring Rd	Tahoma	El Dorado	11/30/2015	74,008	100	\$6,150,000	89.43%	\$5,500,000	\$74	\$55,000
35	016-142-29-100	8645 Beach Ln	Tahoma	El Dorado	12/30/2015	25,648	84	\$3,100,000	81.13%	\$2,515,000	\$98	\$29,940
36	016-300-62-100	255 Drum Rd	Tahoma	El Dorado	04/15/2016	46,609	101	\$2,575,000	100.00%	\$2,575,000	\$55	\$25,495
37	016-081-38-100	8415 Meeks Bay Ave	Tahoma	El Dorado	08/04/2016	7,945	42	\$1,735,000	44.20%	\$766,838	\$97	\$18,258
38	016-051-12-100	8249 Meeks Bay Ave	South Lake Tahoe	El Dorado	08/10/2016	16,431	61	\$2,250,000	60.00%	\$1,350,018	\$82	\$22,131
39	016-091-50-100, 016-091-51-100	8441 Meeks Bay Ave	Tahoma	El Dorado	08/23/2016	10,106	100	\$1,999,000	70.94%	\$1,418,066	\$140	\$14,181
40	016-211-08-100	8775 Rubicon Dr	Tahoma	El Dorado	08/31/2016	16,122	80	\$2,690,000	39.78%	\$1,070,078	\$66	\$13,376
41	032-110-04-100, 032-110-24-100	3021-3023 Jameson Beach Rd	South Lake Tahoe	El Dorado	09/06/2016	23,653	80	\$2,800,000	55.71%	\$1,560,000	\$66	\$19,500
42	016-300-45-100	241 Drum Rd	Tahoma	El Dorado	-11/14/2016	15,246	170	\$1,000,000	58.83%	\$588,299	-\$39	\$3,461

Placer Indications:

Low

High

Mean

Median

6,216	\$496,500	26.04%	\$259,741	\$19	\$3,459
83,199	\$11,000,000	100.00%	\$8,291,457	\$273	\$70,773
27,103	\$4,277,667	66.62%	\$2,864,549	\$132	\$30,044
15,952	\$4,025,000	68.30%	\$2,553,530	\$124	\$29,306

El Dorado Indications:

Low

High

Mean

Median

6,403	\$1,000,000	39.78%	\$588,299	\$39	\$3,461
74,008	\$6,150,000	100.00%	\$5,500,000	\$289	\$55,000
21,479	\$2,822,267	69.50%	\$2,037,420	\$120	\$25,953
16,122	\$2,760,000	70.94%	\$2,020,000	\$98	\$23,626

Overall Indications:

Low

High

Mean

Median

6,216	\$496,500	26.04%	\$259,741	\$19	\$3,459
83,199	\$11,000,000	100.00%	\$8,291,457	\$289	\$70,773
25,094	\$3,757,881	67.65%	\$2,569,146	\$127	\$28,583
16,037	\$3,050,000	68.52%	\$2,262,500	\$117	\$24,561