

Memorandum

Date: March 27, 2017

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

Grace Kato, Assistant Chief
Land Management Division

From: Chaun Wong, Associate Property Appraiser *CW*
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Subject: Lake Tahoe Category 1 Benchmarks 2017
General Lease – Recreational Use
Lake Tahoe, Placer and El Dorado Counties, California

As requested, I have updated the benchmarks for General Leases – Recreational Use involving recreational piers and buoys at Lake Tahoe. The Lake Tahoe Category 1 Benchmarks were last updated in 2012. The current update follows essentially the same methodology as used in the prior benchmarks. Reference is made to the 2012 study for additional background material that may be needed for the reader to more fully understand what the benchmarks are used for and how it is set.

The recommended benchmarks are summarized in the following table with the 2012 benchmarks.

LAKE TAHOE BENCHMARK SUMMARY		
Benchmark Date	2012	2017
Berths/Slips		
Land Value (Per Acre)	\$382,356	\$488,844
Rental Rate (Per Sq. Ft.)	\$0.79	\$1.01
Buoys / Mooring Poles		
Per Buoy / Mooring Pole	\$377	\$516

It should be noted that this research does not constitute an appraisal as defined by the Uniform Standards of Professional Appraisal Practice (USPAP). Rather, this research represents a correlation of a range of market rents into benchmark rental rates for private recreational facilities (e.g. docks, piers, and buoys) located on Lake Tahoe.

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

Leases are issued by the Commission for private recreational facilities such as docks, piers, and buoys. 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 slip/buoy. Accordingly, the method of valuation used in estimating a fair return and a fair rental value in this analysis is based on what an individual would pay for a comparable substitute site in a commercial marina. The real estate economic principle that this method of valuation is based upon is known as the “Principle of Substitution”.

The Principle of Substitution states that “when several similar or commensurate commodities, goods, or services are available, the one with the lowest price will attract the greatest demand and widest distribution.”¹

Since a Commission-leased site for a privately-owned pier or dock is a fairly good substitute for 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 and/or buoy fields in Lake Tahoe area.
- Surveying the marinas as to the number and type of moorings (berths/slips/buoys), occupancy rate, mooring sizes and rates.
- Compiling the survey results into averages for slip size, buoy 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.

A total of 12 marinas and/or buoy fields in Lake Tahoe were investigated. All of these marinas were contacted in the course of the survey and all cooperated to varying degrees.

¹ The Dictionary of Real Estate, Fifth Edition, page 190, Appraisal Institute, 2010.

Methodology

In order to determine the value of the leased area (pier, swim area, etc.), it will be necessary to determine: what income can typically be generated by a commercial marina; the area occupied by a marina slip in a well-designed marina; what the rental charge would be for a typical sized boat; and the rate of return the state should receive for the use of its land.

The Commission typically charges 5% to 6% of gross income for boat berthing for sites leased to commercial marina operators, with most of the leases set at 5% of gross income.

The Commission has a set rate of return of 9% of the appraised value of the leased land.²

The annual rent for buoys is based on a market survey of seasonal buoy rates at marinas in Lake Tahoe. The resulting average surveyed rent per month is compared to the monthly rent reported in the prior benchmark and a percentage of change is determined. This percentage of change or rate of increase (or decrease) is then applied to the prior benchmark rate to conclude with an updated annual rent for buoys.

Berth/Slip Rent

According to the survey, there are eight marinas with berths/slips³ available to the public. These marinas reported a total of 679 slips⁴, or an average of 97 slips per marina. During the in-season, the average marina occupancy rate was reported at 100%, with all of the marinas reporting full occupancy. The survey found that most marina berths at Lake Tahoe range from 20 to 35 feet in length, with an average berth size of approximately 27 feet. By contrast, a 26-foot length was used in the 2012 Lake Tahoe Benchmark. The discrepancy of average berth sizes is attributed to the accuracy of the data provided by the marina operators because it is believed that the marinas have not significantly changed since 2012.

Rent for berths is commonly expressed in terms of dollars per linear foot. Most marinas rent berths on a monthly basis; however, at Lake Tahoe berths are more commonly rented on a seasonal basis. The seasonal rates reported range from \$2,156 to \$8,863, with an average of \$5,880. It should be noted that seasonal rates for marinas at the south end of Lake Tahoe (El Dorado County) are considerably lower than the seasonal rates for marinas at the north end (Placer County). This is reportedly attributed to shallower water depths in South Lake Tahoe.

² Per the California Code of Regulations, Title 2, Division 3, Chapter 1, Article 2, Section 2003 Rental.

³ Note: Slip and berth are used interchangeably in the text hereafter.

⁴ Ski Run Marina reported 69 slips, but because they are all reserved for use by rental boats and fishing boats, they are not included in the count above. Tahoe City Marina reported 220 slips, however, only 159 slips are rented seasonally (the remainder 61 slips are located in their expansion area and most are not rented seasonally).

According to the survey respondents, the rental season ranges from four to six months, with most reporting an approximate five-month season (May – September). In this analysis, the seasonal rate for each marina is divided by the number of months reported in the season to arrive at a monthly rate. The monthly rate is then divided by the average slip length reported to arrive at an equivalent per linear foot rate. Based on this; the average monthly rental rates range from \$23.96 to \$58.75 per linear foot. The average is \$44.00 per linear foot per month.

Rates have been converted to a per square foot basis for use by the Commission in determining lease amounts based on the set rate of return of 9% of appraised value.

The benchmark rental rate for berths is calculated by multiplying the average berth length by the average rental rate. The 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 State Department of Boating and Waterways. 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 was 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 705 square feet is shown as being necessary to accommodate the 27-foot average slip length indicated by the survey for Lake Tahoe. Taking all of the aforementioned into account, the current benchmark rental rate and land value for Lake Tahoe is calculated as follows:

- Average berth rate: \$44.00/linear foot/month
- Average boat length: 27 linear feet
- Submerged land area necessary to accommodate a typical boat slip: 705 sq. ft.
- California State Lands Commission set rate of return: 9%

$27 \text{ linear feet} \times \$44.00/\text{linear foot/month} \times 12 \text{ months} = \$14,256.00/\text{berth/year}$

$\$14,256.00 \times 5\% \text{ of gross income} = \712.80

$\$712.80 \div 705 \text{ square feet} = \$1.01 \text{ per square foot rental rate}$

$\$1.01/\text{square foot} \times 43,560 \text{ square feet} = \$43,996 \text{ per acre rental rate}$

$\$43,996 \div 9\% = \$488,844 \text{ per acre land value (or } \$11.22 \text{ per square foot value land value)}$

Benchmark Rental Rate = \$1.01 per sq. ft.

Benchmark Land Value = \$488,844 per acre

The indicated benchmark rental rate for Lake Tahoe area is \$1.01 per square foot. In contrast, the 2012 benchmark was \$0.79 per square foot. The new benchmark therefore represents an overall increase of \$0.22 from the 2012 benchmark.

Buoy Rent

The survey revealed that there were 10 marina facilities in California on Lake Tahoe with mooring buoys. These facilities reported a total of 517 buoys. During the in-season, the average marina occupancy rate ranged from 85% to 100%, with an average occupancy rate of 98%. Seven of these facilities reported occupancy rates of 100%; two reported 95%, and another 85%. According to the survey, the average swing area reported by the marina operators is 66-feet.

Like boat slips, mooring buoys on Lake Tahoe are commonly rented on a seasonal basis, with the typical season running from May through September, a period of five months. Consequently, rents are typically quoted on a seasonal basis. The survey indicated that seasonal rates on Lake Tahoe range from \$2,100 to \$7,170. Based on the number of months in the reported season, the equivalent monthly rates range from \$467 to \$1,434. The average of the surveyed rents is \$824 per month.

The average surveyed rent is approximately 37% higher (37.10%) than the average monthly rent reported in the 2012 Benchmark (\$601 per month). Applying this rate of increase to the prior benchmark rate of \$377 per buoy, results in a new benchmark rate of \$516 ($\377×1.37).

