

Memorandum

Date: May 4, 2018

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: Sandy Beach Category 2 Benchmark 2018 - Rental rate for non-water dependent use areas extending on and over sovereign land in the Mare Island Strait near Sandy Beach, Solano County, 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 the Mare Island Strait near Sandy Beach, Solano County, California. These non-water dependent uses consist of porches, sundecks, small 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. 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 Sandy Beach. 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 subject properties consist of 51 parcels of patented tidelands located along the Mare Island Strait near the city of Vallejo, Solano County in an area known as Sandy Beach. All properties with encroachments onto sovereign lands are currently under lease. The uplands and adjoining subject tidelands were subdivided and developed into

small residential lots of various sizes. Access to the residential lots is via Sandy Beach Road which is a private road exclusively used by the homeowners. There is no beach area along any of the subject properties and little, if any, opportunity for the general public to make use of these sovereign lands. A 1955 survey performed by California State Lands Commission staff determined that many of the porches, decks, and small portions of some residences located along Sandy Beach Road encroached below the low water line. Although the residential use of the subject properties is not consistent with the Public Trust, it may be authorized at Sandy Beach only to the extent that the structures now exist, and for so long as the sovereign lands are not needed for Public Trust purposes.

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 Sandy Beach, the adjoining upland property generally consists of single family homes on residential lots. The rent to be set is based

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).

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 Sandy Beach 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. 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. 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 0.50 acre)³ fronting the Mare Island Strait near Sandy Beach in Solano County. However, due to its built-up nature, no comparable sales of vacant waterfront lots were found. Rather than use comparable sales that do not front the water, 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 Sandy Beach area through use of the improvement percentage assigned by the Solano 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 the land area.

Summarized in the table on page 6 are the pertinent details of eight sales of single family residences along Sandy Beach Road. The sales took place between July 2014 and October 2017. All of these sales involve waterfront lots along the south end of the eastern shoreline of the Mare Island Strait near Sandy Beach in Solano County. The lot sizes range from 2,734 to 8,712 square feet, with a mean of 4,915 square feet and a median of 4,356 square feet. The sale prices for the improved waterfront lots ranged from a low of \$360,000 to a high of \$785,000, with a mean of \$595,375, and a median of \$612,500. According to the Assessor's allocations, the value of the land in these transactions accounted for between 22.73% and 62.35% of the total price. Based on these percentages, the value of the unimproved land lies between \$17.22 and \$65.26 per square foot. The mean unit value is \$40.87 per square foot, while the median is \$41.96 per square foot.

Analysis of the sales revealed no recognizable trends relating to typical lot area and

³ The typical residential lot size along Sandy Beach Road is judged to be between approximately 0.10 acre and 0.50 acre. 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 0.50 acre in size are not considered in the appraiser's land value dataset due to the scarcity of these sales along the waterfront.

Sandy Beach Category 2 Benchmark

land value relationships (i.e., unit prices decreasing as size 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.

Lot Area (SF)	Land Value Per SF
2734	\$65.26
3920	\$39.27
3920	\$48.23
4356	\$45.65
4356	\$51.53
4791	\$31.31
6534	\$29.50
8712	\$17.22

Similarly, analysis of the sales revealed no recognizable trends relating to typical water frontage and land value relationships (i.e., unit prices increasing as water frontages increase). The lack of a water frontage/price relationship is illustrated in the following table. The presentation of the sales is based on the water frontage (LF) of the sales, going from smallest to largest.

Water Frontage (LF)	Land Value Per SF
27.17	\$65.26
37.93	\$48.23
44.56	\$51.53
47.47	\$45.65
60.19	\$31.31
71.56	\$38.27
76.69	\$29.50
99.35	\$17.22

Furthermore, lease areas impacted by the Sandy Beach Category 2 Benchmark are also of various lot areas, water 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 or typical water frontage; 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 Sandy Beach Category 2 Benchmark. Consequently, emphasis is placed on the mean and median unit prices (\$40.87 and \$41.96 per square foot, respectively). Therefore, a

rounded market value of \$41 per square foot is concluded as reasonable for the upland residential property.

Market Value of the Upland Property: **\$41 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 \$3.69 per square foot⁴.

Benchmark Rental Rate

\$3.69 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.

⁴ Calculated as $\$41 \times 0.09 = \3.69 .

LAND VALUE INDICATIONS

Allocated Assessed Land Values from Recent Sales

Sandy Beach Road

No.	APN	Address	City	County	Sale Date	Lot Area (SF)	Sale Price	% Assessed Land Value	Land Value	Land Value Per SF
1	0062-020-140	9 Sandy Beach Rd	Vallejo	Solano	10/18/2017	3,920	\$400,000	47.27%	\$189,081	\$48.23
2	0062-030-070	22 Sandy Beach Rd	Vallejo	Solano	10/3/2017	2,734	\$785,000	22.73%	\$178,409	\$65.26
3	0062-020-220	7 Sandy Beach Rd	Vallejo	Solano	7/25/2017	4,356	\$360,000	62.35%	\$224,469	\$51.53
4	0062-030-230	39 Sandy Beach Rd	Vallejo	Solano	9/16/2016	6,534	\$771,000	25.00%	\$192,750	\$29.50
5	0062-020-260	8 Sandy Beach Rd	Vallejo	Solano	9/9/2015	4,356	\$595,000	33.42%	\$198,853	\$45.65
6	0062-040-100	43 Sandy Beach Rd	Vallejo	Solano	4/24/2015	8,712	\$627,000	23.92%	\$149,999	\$17.22
7	0062-030-040	19 Sandy Beach Rd	Vallejo	Solano	8/20/2014	4,791	\$615,000	24.39%	\$149,999	\$31.31
8	0062-030-320	34 Sandy Beach Rd	Vallejo	Solano	7/10/2014	3,920	\$610,000	24.59%	\$149,999	\$38.27
Overall Indications										
	Low					2,734	\$360,000	22.73%	\$149,999	\$17.22
	High					8,712	\$785,000	62.35%	\$224,469	\$65.26
	Mean					4,915	\$595,375	32.96%	\$179,195	\$40.87
	Median					4,356	\$612,500	24.80%	\$183,745	\$41.96