

**Memorandum**

Date: June 18, 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: Napa River Category 2 Benchmark 2018 - Rental rate for non-water dependent use areas extending on and over sovereign land in the Napa River near Milton Road, Napa 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 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. 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 near Milton Road. 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 benchmark rental rate.

**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

small 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 (OHWM) of the Napa River. Noted by staff at this time 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. The map was recorded later that year as a form of public notice. This is the first Category 2 Benchmark report for the Napa River.

### **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 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 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"<sup>2</sup> method is considered the most directly applicable. For purposes of this analysis, the land to be leased is sovereign land located waterward of the OHWM. Since there is not an active real estate market for sovereign land, the basis for the annual rent is the adjoining upland property. At the Napa River along Milton Road, the adjoining upland property generally consists of single family homes on residential lots. The rent to be set

<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).

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 along 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. 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)<sup>3</sup> fronting the Napa River near Milton Road in Napa County. However, due to its built-up nature, only two comparable sales of vacant waterfront lots were found. Two comparable sales are considered an insufficient dataset for a reliable Sales Comparison Approach. 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 along Milton Road 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 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 7 are the pertinent details of 26 sales of single family residences and two vacant residential lots along Milton Road. The sales took place between July 2014 and May 2018. All of these sales involve waterfront lots along the western shoreline of the Napa River near Milton Road in Napa County. The lot sizes range from 4,821 to 18,295 square feet, with a mean of 7,531 square feet and a median of 6,509 square feet. The sale prices for the vacant and improved waterfront lots ranged from a low of \$217,500 to a high of \$1,200,000, with a mean of \$514,518, and a median of \$506,750. According to the Assessor's allocations, the value of the land in these transactions accounted for between 32.48% and 100.00% of the total price. Based on these percentages, the value of the unimproved land lies between \$15.76 and \$121.79 per square foot. The mean unit value is \$41.09 per square foot, while the median is \$40.20 per square foot.

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

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<sup>3</sup> The typical residential lot size along Milton Road is judged to be between approximately 0.10 acre and 0.50 acre. Property lot sizes outside this range are not considered in the appraiser's land value dataset due to the scarcity of these sales along the waterfront.

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
4,821	\$44.60
5,145	\$57.92
5,221	\$30.92
5,404	\$55.51
5,537	\$40.29
5,662	\$24.26
5,679	\$52.83
5,869	\$48.60
6,075	\$49.38
6,098	\$35.69
6,098	\$36.90
6,252	\$46.39
6,300	\$47.62
6,484	\$18.78
6,534	\$121.79
6,571	\$45.66
6,757	\$44.17
6,969	\$32.29
6,991	\$48.94
7,288	\$47.17
7,506	\$40.10
7,711	\$34.24
7,789	\$28.89
10,269	\$24.35
10,593	\$25.96
12,670	\$35.22
14,276	\$15.76
18,295	\$16.40

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
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47.980	\$30.92
49.800	\$45.66
49.980	\$48.94
49.980	\$35.69
49.980	\$18.78
49.980	\$55.51
49.980	\$47.62
50.020	\$24.26
50.230	\$121.79
50.340	\$52.83
50.430	\$44.60
50.870	\$49.38
52.020	\$40.29
52.776	\$47.17
57.000	\$32.29
58.410	\$36.90
58.637	\$44.17
58.730	\$40.10
60.206	\$57.92
60.640	\$46.39
65.750	\$28.89
66.460	\$34.24
68.460	\$48.60
73.620	\$24.35
76.110	\$25.96
78.360	\$15.76
140.400	\$16.40
150.900	\$35.22

Furthermore, lease areas impacted by the Napa River 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 Napa River Category 2 Benchmark. Consequently, emphasis is placed on the mean and median unit prices (\$41.09 and \$40.20 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 foot<sup>4</sup>.

**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.

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<sup>4</sup> Calculated as \$41 x 0.09 = \$3.69.

Napa River Category 2 Benchmark

LAND VALUE INDICATIONS

Allocated Assessed Land Values from Recent Sales

Milton Road

No.	APN	Address	City	County	Sale Date	Lot Area (SF)	Sale Price	% Assessed Land Value	Land Value	Land Value Per SF
1	048-042-024	1788 Milton Rd	Napa	Napa	5/8/2018	5,221	\$341,500	47.27%	\$161,430.37	\$30.92
2	048-041-024	1692 Milton Rd	Napa	Napa	5/4/2018	6,991	\$672,500	50.88%	\$342,149.12	\$48.94
3	048-050-005	1916 Milton Rd	Napa	Napa	5/1/2018	5,537	\$405,000	55.08%	\$223,093.22	\$40.29
4	048-042-031	1796 Milton Rd	Napa	Napa	12/13/2017	7,711	\$600,000	44.00%	\$263,999.67	\$34.24
5	047-340-008, -017	1230 Milton Rd	Napa	Napa	9/15/2017	6,757	\$800,000	37.31%	\$298,458.81	\$44.17
6	048-030-009	1532 Milton Rd	Napa	Napa	9/12/2017	6,098	\$455,000	47.83%	\$217,648.91	\$35.69
7	047-350-011	1350 Milton Rd	Napa	Napa	8/16/2017	7,288	\$350,000	98.22%	\$343,752.56	\$47.17
8	048-042-003	1708 Milton Rd	Napa	Napa	8/1/2017	6,484	\$375,000	32.48%	\$121,796.92	\$18.78
9	047-350-026	1300 Milton Rd	Napa	Napa	11/3/2016	18,295	\$606,000	49.50%	\$299,977.05	\$16.40
10	047-340-004, -007	1234 Milton Rd	Napa	Napa	10/3/2016	5,145	\$575,000	51.83%	\$298,000.00	\$57.92
11	047-340-002, -009	1226 Milton Rd	Napa	Napa	10/3/2016	7,506	\$562,000	53.56%	\$301,000.00	\$40.10
12	048-041-013	1648 Milton Rd	Napa	Napa	9/23/2016	6,571	\$590,000	50.85%	\$300,000.00	\$45.66
13	048-050-003	1908 Milton Rd	Napa	Napa	6/27/2016	6,075	\$650,000	46.15%	\$300,000.00	\$49.38
14	048-030-011	1544 Milton Rd	Napa	Napa	1/20/2016	6,252	\$470,000	61.70%	\$290,000.00	\$46.39
15	048-030-018	1568 Milton Rd	Napa	Napa	12/31/2015	6,098	\$225,000	100.00%	\$225,000.00	\$36.90
16	047-350-025	1354 Milton Rd	Napa	Napa	6/22/2015	5,869	\$549,000	51.95%	\$285,225.98	\$48.60
17	048-043-008	1828 Milton Rd	Napa	Napa	5/28/2015	5,404	\$511,000	58.71%	\$300,000.43	\$55.51
18	048-050-004	1912 Milton Rd	Napa	Napa	5/18/2015	5,679	\$450,000	66.67%	\$300,000.64	\$52.83
19	047-350-020, 047-360-001	1400-1404 Milton Rd	Napa	Napa	5/11/2015	12,670	\$645,000	69.18%	\$446,203.82	\$35.22
20	048-030-003	1508 Milton Rd	Napa	Napa	5/8/2015	10,593	\$695,000	39.57%	\$274,999.09	\$25.96
21	048-043-016	1864 Milton Rd	Napa	Napa	4/3/2015	6,534	\$1,200,000	66.32%	\$795,807.72	\$121.79
22	048-042-011	1740 Milton Rd	Napa	Napa	3/24/2015	6,300	\$625,000	48.00%	\$299,999.92	\$47.62
23	047-360-012	1494 Milton Rd	Napa	Napa	12/23/2014	7,789	\$272,000	82.72%	\$225,000.72	\$28.89
24	048-030-006	1520 Milton Rd	Napa	Napa	12/16/2014	10,269	\$362,500	68.97%	\$250,000.40	\$24.35
25	048-041-003	1606 Milton Rd	Napa	Napa	11/12/2014	6,969	\$502,500	44.78%	\$225,000.19	\$32.29
26	047-360-009	1436 Milton Rd	Napa	Napa	9/30/2014	4,821	\$475,000	45.26%	\$214,999.43	\$44.60
27	047-350-008	1334 Milton Rd	Napa	Napa	8/15/2014	14,276	\$225,000	100.00%	\$225,000.00	\$15.76
28	048-050-006	1920 Milton Rd	Napa	Napa	7/1/2014	5,662	\$217,500	63.15%	\$137,343.83	\$24.26
Overall Indications										
Low						4,821	\$217,500	32.48%	\$121,797	\$15.76
High						18,295	\$1,200,000	100.00%	\$795,808	\$121.79
Mean						7,531	\$514,518	58.28%	\$284,496	\$41.09
Median						6,509	\$506,750	51.89%	\$287,613	\$40.20