

Martins Beach Property, San Mateo County, CA:

- Market Value of the Fee Interest; and
- Percentages of Fee Value of the Subject Easements.

Prepared by:

Hap Anderson, MAI

The Appraisal Section, Land Management Division

California State Lands Commission

Prepared for:

Executive Office, California State Lands Commission,

100 Howe Avenue, Suite 100 South, Sacramento, California 95825

Date of Report: December 3, 2015

Date of Value: November 1, 2015

Martins Beach Property, San Mateo County

Martins Beach, San Mateo County, California



Martins Beach Property, San Mateo County



Source: Surfchannel.com



Source: latimes.com Historical Aerial

Martins Beach Property, San Mateo County

State of California

Memorandum

State Lands Commission

Date: December 5, 2016

File: Martins Beach

TO: Colin Connor, Assistant Executive Officer

FROM: Hap Anderson, MAI

SUBJECT: Market Value of the Fee Simple Interest of the Martins Beach Property; and Market Based Percentages of the Fee Value of the Subject Easements

As requested, I have prepared an estimate of the market value of the fee simple interest of the Martins Beach property along with market based percentages that can be applied to the fee value to negotiate the purchase of the proposed subject easements.

The report is considered an "Appraisal Report" as defined in the Uniform Standards of Professional Appraisal Practice. This type of report is considered to be a comprehensive appraisal report containing an extensive level of detail.

The report is dated December 3, 2015 with a date of value of November 1, 2015. The report was not finalized at that time because the owners had not furnished certain information which may have a material impact on the value. The information that is lacking is discussed in the Executive Summary on page 6 under the heading: "Value of the Cabin Improvements" and on pages 10-12 under the heading: "Extraordinary Assumptions".

The report contains supporting documentation concerning the data, reasoning, and analysis used in arriving at the estimates of value and percentages as well as limiting conditions affecting the analysis, opinions, and conclusions contained in the report.

The information contained in this report is specific to the needs of the client. The appraiser is not responsible for unauthorized use of the report.

Appraiser  MAI Date 12-5-16
Hap Anderson, MAI

Executive Summary

Location: Martins Beach. Located along the California Coastline in the unincorporated area of San Mateo County, California

Date of Value: November 1, 2015.

Date of Report: December 3, 2015.

Property Rights Appraised: The subject report provides an estimate of the market value of the fee simple interest of the Martins Beach property and percentages that can be applied to the fee value to negotiate the purchase of the subject easements. The subject easements are a vertical, lateral and parking area easement. The proposed access easements and public parking area will encumber privately owned agricultural and residential land granting the general public the right to use the subject vertical easement for access to the beach area; the lateral easement for access as well as passive recreational uses(s); and the parking area for the parking of vehicles. The easement document has not been drafted and only a general description of what the easements use would be was provided for this analysis.

Land Area: The subject property contains 49.155 acres. The land area of the vertical access easement is estimated to be approximately 0.87 of an acre; the lateral access easement is estimated to be approximately 5.31 acres; and the public parking area is estimated to be approximately 0.21 of an acre.

Highest and Best Use As If Vacant:

The highest and best use of the subject as if vacant is the continuation of agricultural uses with the development of the bluff top land area with a residential/commercial use. Likely residential/commercial uses may include a single family residence; a nine bedroom bed and breakfast lodging facility; or the development of six cabins used in conjunction with a single family residence. The residential/commercial development will most likely be located where the existing main house and barn are now located (on the bluff top). The terrace escarpment area and the beach area would not be developable under existing land use regulations and development standards.

Highest and Best Use as Improved (Cabin Improvements):

The subject cabin improvements add significant value to the subject property even though they are considered to be a legally non-conforming use. The subject cabins may legally continue as leasehold improvements subject to a ground lease as is the case at this time. They may also be converted to rental units upon the termination of the existing leases. Both of these uses would provide the owner with a substantial income stream that can go on indefinitely with proper

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maintenance and repairs. Therefore, the use of the cabins as described above is considered the highest and best of the legally non-conforming cabin improvements.

Value, As If Vacant

The estimated value of the fee simple interest of the subject property, as if vacant, ranges from:

49.155 acres x \$87,700 per acre = \$4,310,894, rounded to **\$4,300,000**

to

49.155 acres x \$114,000 per acre = \$5,603,670, rounded to **\$5,600,000.**

Value of the Cabin Improvements

The value of the cabin improvements is estimated by two methods. The first is the value of the split estate. The second is the value estimate based on the assumption that the cabins will be converted into rentals at the termination of the existing leases in 2021 using a discounted cash flow analysis. The reliability of these two estimates are limited because of lack of information about the improvements (cabins) and the fact that no easement agreement has been developed. Averages or best-guess estimates are used throughout the analysis because of the lack of this needed information.

Information lacking or unavailable include:

- physical characteristics of the cabins (quality, condition, number of bedrooms and bathroom etc.)
- the mix of the cabin units (studio, one-bed/one bath, two-bed/1 bath etc.)
- past operating statements, rent rolls and other financial information (The information furnished was limited to the total of the gross income for 2014 for the cabin leases without any information relevant to operating expenses or reserves for 2014; or for any other full year of operation);
- copies of 42 of the 44 ground lease documents. (The appraiser was furnished with two lease documents that apparently replicate the other 42 ground leases.

Split Estate Value Range (Includes the Land Value):

Leased Fee Estate (Ground Rent): \$8,550,000

Leasehold Estate (Ownership of Improvements): **\$7,480,000**

Total Value of the Cabin: \$16,030,000

Land Value: **\$ 4,300,000**

Low End of Value Range- Land + Improvements: \$20,330,000

to

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Leased Fee Estate (Ground Rent):	\$8,550,000	
Leasehold Estate (Ownership of Improvements):	<u>\$9,460,000</u>	
Total Value of the Cabin:		\$18,010,000
Land Value:		<u>\$ 5,600,000</u>
High End of Value Range - Land + Improvements:		\$23,610,000

Discounted Cash Flow Analysis (Includes the Land Value)

DCF Model:	\$18,000,000
Plus Land Value:	<u>\$ 4,300,000</u>
Low End of Value Range- Land + Improvements:	\$22,300,000
	to
DCF Model:	\$18,000,000
Plus Land Value:	<u>\$ 5,600,000</u>
High End of Value Range- Land + Improvements:	\$23,600,000

The Lower Limit of Value of the Cabin Property

It is the appraiser's opinion that the value arrived at using the split estate valuation method sets the absolute lower limit of value for the cabin property. The low end of the range in value using the split estate (not including the land value) is \$16,030,000.

The reasons are:

- The ground rent paid to the landlord is kept artificially low by the existing ground leases. The subject cabin ground rent leases base annual rent increases using increases in rents at a nearby mobile home park. Mobile home park rents are kept artificially low by San Mateo County's Mobile Home Rent Control Ordinances (Code of Ordinances, Title 1, General Provisions, Chapter 1.30.030)
- The leases are short term limiting the amount the lessee could receive from the sale of their leasehold interest.
- There is no or little expectation of appreciation that can be captured by the Lessee under a ground lease like the subject's.
- Conventional lending is not available for the purchase of the cabins because of the short duration of the leases as well as the fact that the cabins are considered a "non-conforming use". No lender is going to assume such risks presented by these factors. The only way the cabins can be sold is by an "all cash" transaction or with seller financing (with conditions acceptable to the Lessor of the ground lease).
- The present short term land leases do not provide the owner/buyer of the improvements with any meaningful use or enjoyment of the cabins that even remotely comes close to their economic-life. Many of the leases expire in about six years (2021) whereas the economic life of the cabins, with good maintenance could exceed 50 or more years.
- Ground rent payments, unless specifically subordinated, take priority over any mortgage payments associated with leasehold improvements. That is why many lenders refuse to underwrite loans for leasehold improvements unless the ground rent has been prepaid or

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the amount of the ground rent can be reasonably ascertained throughout the entire term of the ground lease¹.

- Leasehold mortgagees are extremely cautious and apply conservative underwriting standards that typically require repayment of self-liquidating mortgage loans at least 10 years prior to the expiration of the existing lease term. Leases whose unexpired terms are less than 20 years are generally not considered suitable for mortgage financing.²
- The predominant factor in the value of a leasehold interest is the length of the lease term, especially in a mortgage-dependent market like residential use.
- Over time, the value of a leasehold position gets progressively less as the lease approaches the expiration date when the existing leasehold improvements revert to the landowner and this is what is happening with the current leases, with most terminating in 2019 or are on a one-year or month-to-month renewal basis.
- The cabins are a "legal, non-conforming use. This means they do not conform with the current zoning regulations. Zoning nonconformities are addressed in Chapter 4 of San Mateo County Zoning Regulations dated December 2012.

Easement Value--Market Based Percentage to Apply to Fee Value

Following is a recommended range of percentages that can be applied to the fee value of the land on which the proposed easements will be applied when negotiating the purchase of the easements:

Vertical Easement: 26% to 50%.

It is recommended that negotiations for the vertical assessment easement stay within the bounds of this range and, if possible, center around 38%, which, in the opinion of this appraiser, is a fair and reasonable percentage for such a use.

Lateral Easement: 12.90% to 50%

It is this appraiser's opinion that a fair and reasonable percentage of the fee value of the lateral easement would fall between 12.90% and 50% The appraiser recommends that negotiations should center around 40% .

Parking Area Easement: 90% to 100%

It is the appraiser's opinion that a fair and reasonable percentage of fee value for the parking area easement would be between 90% and 100% of fee value.

¹ "Ground Leases: Rent Reset Valuation Issues", by Tony Sevelka, MAI, The Appraisal Journal, Fall 2011, page 315.

² Ibid, page 315.

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Certification of Hap Anderson, MAI

I, the undersigned, do hereby certify that:

1. I have no present or contemplated future interest in the real estate or personal interest or bias with respect to the subject matter or the parties involved in this appraisal report.
2. My compensation is not contingent upon the reporting of a predetermined value or direction of value that favored the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
3. To the best of my knowledge and belief the statements of fact contained in this appraisal report, upon which the analyses, opinions and conclusions expressed herein are based, are true and correct.
4. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its authorized representatives.
5. The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute which include the Uniform Standards of Professional Appraisal Practice.
6. The Appraisal Institute conducts a program of continuing education for its designated members. As of the date of this report, Harold (Hap) Anderson has not completed the requirements of the continuing education program for Designated Members of the Appraisal Institute.
7. I, Harold (Hap) Anderson, have changed the status of my membership with the Appraisal Institute from Retired-Non Practicing to Semi-Retired Practicing. The change in membership status was granted by the Appraisal Institute on November 1, 2012 and became effective January 1, 2013.
8. To the best of my knowledge and belief this appraisal report sets forth all of the limiting conditions affecting the analyses, opinions and conclusions contained in this report and are my personal, unbiased professional analyses, opinions and conclusions.
9. No one provided significant professional assistance to the person signing this report.

Signed



Date

12-5-16

Hap Anderson, MAI

Assumptions and Limiting Conditions

The Uniform Standards of Professional Appraisal Practice require that all assumptions and limiting conditions that affect the analysis to be clearly and accurately set forth. The following assumptions and limiting conditions are included in the report for the appraiser's protection and to inform and protect the client and other users of the report.

Extraordinary Assumptions

An extraordinary assumption is defined in USPAP as:

" an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinion or conclusions. Comment: Extraordinary assumptions presume as fact other wise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis".

Following are ten extraordinary assumptions that were made in the preparation of the subject report relevant various unknown physical, legal, and economic characteristics. The appraiser considers such extraordinary assumptions to be necessary because without them no analysis would be possible.

1. Parcel Legalization

It is assumed for this analysis that the subject consists of one legal parcel; APN 066-330-230. It is unknown, at this time, the legal status of the parcel and if it meets the requirements as a legal parcel as defined in the Local Coastal Program Policies under the section entitled "Parcel Legalization", which can be found in Section 1 starting on page 1.12.

2. Prescriptive Rights

It is assumed for the purpose of valuation, that no prescriptive rights exists in the subject property. It is this appraiser's understanding that the California Coastal Commission staff is in the process of determining if such rights exist, but no conclusion has been reached relevant to these rights as of the date of this appraisal.

3. Financial Information Unavailable

Typically for the valuation of an income property like the cabins, a rent roll, operating statements and other financial information going back a number of years is provided the appraiser. The financial information furnished the appraiser was limited to the total gross income for the ground leases for 2014 without any operating expenses or reserves for that year or any other year. The appraiser had to use market information from secondary sources and was unable to validate and compare that information against the historical operating results of the subject cabin property.

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4. Availability of the 44 Ground Lease Documents

The appraiser was furnished copies of two leases that apparently replicate 40 of the 44 ground leases with no information relevant to the remaining four ground leases. It was necessary to assume that the terms and conditions of the two lease documents furnished were the same for all 44 ground leases.

5. Quality and Condition of the Cabins

It is assumed for this analysis that all the cabins are in average condition and of average quality. This may not be the case. For example, interior photos of Cabin 34 were available on-line and the cabin appears to have been remodeled and in good condition. During a brief inspection of the subject property on April 29, 2015, the appraiser observed that the cabins varied from poorly maintained to average-to-good condition like Cabin #34. Some appeared to be mobile homes/manufacture homes. Many of the cabins were very close with very little side yard setback. The general impression of the cabin development was that it had a unique character which may be described as eclectic with various diverse styles, wide ranging in quality and condition, and very mixed as to architecture and appeal.

6. Size of the Cabins

During an brief inspection of the subject property on April 29, 2015 the appraiser was unable to measure any of the cabins, but was told the square footage, bedroom and bathroom count would be provided. At the end of August 2015, the appraiser was furnished a list of the cabins with the estimated square footage for each of the cabins. The average square footage on the list was 826 square feet. The appraiser was also able to obtain the estimated square footage of 19 of the 44 cabins from another source. The average square footage from this source was 744 square feet. It is assumed for the purpose of this analysis that all 44 cabins have an average square footage of 826 sq. ft.

7. The Unit Mix of the 44 Cabins

The appraiser was not furnished with any information on the cabin mix. The appraiser was able to obtain information on 19 of the 44 cabins relative to the unit mix. The appraiser assumed that the ratio of the unit mix for the 19 cabins would stay the same for the 44 cabins.

8. Lease Termination Date(s)

The owner furnished information as to when the 44 ground leases terminate but did not provide copies of 42 of the 44 ground leases. It is assumed, for the purposes of this analysis, that information furnished the appraiser relevant to lease termination dates is accurate and reflects the following:

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- 40 of the 44 cabin ground leases terminate in 2019, but can be extended to 2021,
- 3 ground leases terminate in 2040, and
- 1 ground lease terminates in 2021.

It is also assumed that the termination dates as listed above can be implemented at the sole discretion of either the lessor or lessee and not require a mutual agreement of the parties.

9. Terms and Conditions of the Ground Leases.

The appraiser was furnished two copies of ground leases that, according to the owner, reflect the same terms and conditions of 40 of the 44 ground leases. It is assumed that what the owner stated relevant to terms and conditions contained in the 40 leases is accurate. No terms or conditions were provided relevant to the remaining four ground leases other than their termination dates. It is assumed by the appraiser, that these four leases reflect similar terms and conditions as the two ground leases furnished the appraiser.

10. No Easement Agreement Drafted

At this time no easement agreement has been drafted so the affects the easements may have on the property rights of the subject are unknown. The appraiser has been told that the easement agreement will contain language that will address trash collection, the availability of public restrooms (portable toilets) and the hours the general public will be allowed to use the easement (dawn to dusk).

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Special Assumptions and Limiting Conditions

1. The value arrived at are subject to the Uniform Standards of Professional Appraisal Practice (USPAP) as well as the Supplemental Standards contained herein. The Supplemental Standards recognize the requirements imposed by law and regulations upon the California State Lands Commission and add to the requirements of USPAP. They are included to clarify why certain methods were used in arriving at the value.
2. The estimated percentage of acreage in the soils survey in the sections of this report entitled: "Soils and Farming Capability of the Subject Property APN 066-330-230" is not exact but considered to be adequate for valuation purposes.

General Assumptions

1. Responsible ownership and competent property management are assumed.
2. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
3. The forecasts and projections contained herein are based upon current market conditions, anticipated short-term supply and demand factors, and a continued stable economy. These forecasts are, therefore, subject to changes in future conditions.

General Limiting Conditions

1. That the dollar amount of any opinion of value herein rendered is based upon the purchasing power of the United States dollar existing as of the date of value.
2. That the appraiser assumes no responsibility for economic or physical factors which may affect the opinion herein stated occurring at some date after the date of value.
3. That the appraiser reserves the right to make such adjustments to the valuation herein reported, as may be required by consideration of additional data or more reliable data that may become available.
4. That no opinion as to title is rendered. Data related to ownership and legal description was obtained from the California State Lands Commission files and public records, and is considered reliable. Title is assumed to be free and clear of all liens and encumbrances, easements and restrictions.

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5. Investigation of the property's history is confined to examination of recent transactions or changes in title or vesting, if any, and does not include a "use search" of historical property utilization.
6. That no engineering survey has been made by the appraiser. Except as specifically stated, data relative to size and area was taken from sources considered reliable and no encroachment of real property improvement is considered to exist.
7. That maps, plats, and exhibits included herein are for illustration only and as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced, or used apart from this report.
8. As a premise of this report, it is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the following analysis.
9. That no opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate appraisers.
10. It is assumed that there are no hidden or unapparent conditions of the property that render it more or less valuable. No responsibility is assumed for such conditions or for the arranging of studies that may be required to discover them.
11. Under no circumstances should this report be considered as providing any service or recommendation commonly performed by a building inspector, structural engineer, geologist, architect, pest control inspector, et cetera.
12. That no soil reports or information relating to geologic conditions concerning the subject property were provided for review except for the USGS 1998 report on Martin's Beach as discussed in the report. This valuation is based upon the premise that soil and underlying geologic conditions are adequate to support construction consistent with the highest and best use of the land.
13. This report is based upon the premise that there exist no hazardous or toxic wastes within the site. The appraiser has no knowledge of any circumstances, including hazardous or toxic wastes or residues that may exist within or adjacent to the subject property that

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would prevent or impair development to the highest and best use or otherwise affect this valuation.

14. The undersigned is not qualified by reason of training or experience to identify the presence of toxic or hazardous wastes or materials. The valuation premise that there are no toxic or hazardous materials or wastes within or adjacent to the appraised property should in no circumstances be interpreted as a judgment by the undersigned.

Introduction

Supplemental Standards and Authority of the CSLC

The following supplemental standards and authority granted the commission have a material effect on the disposition, development and reporting of value of lands under the jurisdiction of the California State Lands Commission. These standards are developed from relevant parts of the California State Constitution and the Public Resources Code.

The following are pertinent statutory and regulatory frameworks that the Commission operates under when performing duties relevant to its exclusive jurisdiction over land under its control.

Supplemental Standard 1: The Commission has broad authority over lands under its jurisdiction including the acquisition of an easement or right-of-way located on lands generally identified as Martin's Beach either by negotiation or by eminent domain.

"6216. This section is enacted for the purpose of declaring the scope and extent of the powers, duties, purposes, responsibilities and jurisdiction of the State Lands Commission, but nothing herein shall be construed as limiting any power, duty, purpose, responsibility or jurisdiction heretofore or by this code vested in or conferred upon the commission.

Supplemental Standard 2: The Commission has the authority to enter into negotiations to acquire access by purchase in order to provide access to lands under its jurisdiction.

"6210.9. If the commission has public land, including school land, tide or submerged lands, and lands subject to the public trust for commerce, navigation, and fisheries, to which there is no access available, it may, in the name of the state, acquire by purchase... a right-of-way or easement across privately owned land or other land that it deems necessary to provide access to such public land..."

Supplemental Standard 3: The Commission has the authority to acquire a right-of-way or an easement across privately owned land in order to gain access to lands under its jurisdiction through eminent domain action.

6210.9. If the commission has public land, including school land, tide or submerged lands, and lands subject to the public trust for commerce, navigation, and fisheries, to which there is no access available, it may acquire... if all negotiations fail, by condemnation, a right-of-way or easement across privately owned land or other land that it deems necessary to provide access to such public land..."

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Supplemental Standard 4: The Commission, by law, has been assigned the task, either through negotiations or through eminent domain proceedings, of acquiring a right-of-way or easement across the subject property (Martin's Beach, APN 066-330-230 and 240).

The law that assigned the Commission the above stated duties was Senate Bill No 968 (Hill).

Senate Bill No. 968 (Hill) was signed into law by Governor Brown on September 30, 2014 and is now part of the Public Resources Code. The law is codified in Division 6, Public Lands; Chapter 3, Powers and Duties; Section 6213.5 and states the following:

"6213.5. (a) (1) The commission shall consult, and enter into any necessary negotiations, with the owners of the property known as Martins Beach, consisting of two parcels of land, APN: 066-330-230 and APN: 066-330-240, in the unincorporated area of the County of San Mateo, to acquire a right-of-way or easement, pursuant to Section 6210.9, for the creation of a public access route to and along the shoreline, including the sandy beach, at Martins Beach at the South Cabrillo Highway. (2) This section does not prohibit the owners of the property from voluntarily providing public access to and along the shoreline at Martins Beach upon terms acceptable to the commission.

(b) If the commission is unable to reach an agreement to acquire a right-of-way or easement or the owners do not voluntarily provide public access pursuant to subdivision (a) by January 1, 2016, the commission may acquire a right-of-way or easement, pursuant to Section 6210.9, for the creation of a public access route to and along the shoreline, including the sandy beach, at Martins Beach at the South Cabrillo Highway, in accordance with the procedures set forth in Title 7 (commencing with Section 1230.010) of Part 3 of the Code of Civil Procedure. (c) The commission shall consult and enter into negotiations with local stakeholders, including, but not limited to, nonprofit entities and local and regional governments and governmental entities, to address the ongoing management and operation of any property acquired pursuant to this section."

Supplemental Standard 5: If the Commission decides to go forward with eminent domain proceedings to acquire an access easement or right-of-way across the subject property, it is to do so in accordance civil procedures as set forth in Title 7, (commencing with Section 1230.010) of Part 3 of the Code of Civil Procedures .

Supplemental Standard 6: The subject property is under an agricultural preserve contract with San Mateo County. Eminent domain law specifically states, relevant to the valuation of property under an agricultural preservation contract in which less than a fee title is to be acquired like the proposed acquisition of a right-of-way or easement, the agricultural preserve contract is to be:

- disregarded relevant to the valuation of the land actually taken in the partial acquisition; and

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- if the remaining land subject to contract will be adversely affected by the acquisition, the value of the damage shall be computed without regard to the agricultural preserve contract.

More Specifically the law states:

"51295...When an action to condemn or acquire an interest that is less than the fee title of an entire parcel or any portion thereof of land subject to a contract is commenced, the contract shall be deemed null and void as to that interest and, for the purpose of establishing the value of only that interest, shall be deemed never to have existed, unless the remaining interests in any of the land subject to the contract will be adversely affected, in which case the value of that damage shall be computed without regard to the contract..."

As of the date of this report no eminent domain proceeding have been initiated by the Commission.

The function and use of this appraisal is to assist the California State Lands Commission and staff in negotiating easements with the owner of Martins Beach and not for eminent domain proceedings. Therefore, the above law is not considered applicable to the valuation of the subject property.

Definitions

In order to better understand the following analysis of the subject report, a number of definitions and explanations from various real estate appraisal sources are provided.

Fee Simple Estate

This is the interest of the private ownership of the subject properties unencumbered by any easements.

*"Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power and escheat."*³

Fee Simple Interest⁴

The most complete form of private ownership is the fee simple interest. It is absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat. The bundle of rights concept compares real property ownership to a bundle of sticks. Each stick in the bundle represents a separate right or interest inherent in the ownership. These individual rights can be separated from the bundle by sale, lease, mortgage, donation or another means of transfer. The complete bundle of rights include the following: the right to sell an interest, there right to lease an interest, the right to occupy the property, the right to mortgage an interest, the right to develop the property, the right to give an interest away and the right to do nothing.

Leased Fee Interest

The ownership interest held by the lessor, which includes the right to the contract rent specified in the lease plus the reversionary right when the lease expires.⁵

Leasehold Interest

The right held by the lessee to use and occupy real estate for a stated term and under the conditions specified in the lease.⁶

Easement

Easements often are called by different names, according to the resource they protect. Some examples are "scenic easement, "agricultural preservation easement". Following are two definitions of "easement". Both are applicable to the subject report.

³ Dictionary of Real Estate Appraisal, Appraisal Institute, fifth edition, page 78.

⁴ The Appraisal of Real Estate, Appraisal Institute, Thirteenth Edition, pages 11-112.

⁵ Ibid., page 114.

⁶ Ibid., page 114.

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*"An interest in real property that convey use, but not ownership, of a portion of an owner's property"*⁷

*"The right to use another's land for a stated purpose"*⁸

Public Resource Code Section PRC 6213.5 requires the Commission to either by negotiation or eminent domain *acquire a right-of-way or easement...for the creation of a public access route to and along the shoreline, including the sandy beach, at Martins Beach at the South Cabrillo Highway.*

In this report, the easements to be acquired will be described as "lateral" or "vertical" access easements, and "public parking" easement.

Lateral Access Easement

For the purpose of this report the lateral access easement will mean:

- an easement that runs along the sea shore of private property ownership where state ownership of tide and submerged land abut private ownership of Martin's Beach.
- a legally binding easement that provides the public with the right to lateral coastal access across the seaward edge of private property along Martin's Beach including the sandy beach area.

Vertical Access Easement

For the purpose of this report the vertical access easement will mean:

- an easement that runs from Highway One (1) to the mean high tide line of the Martins Beach property.
- a legally binding easement that provides the public with the right to vertical coastal access.

Public Parking Lot Easement

The public parking lot easement will mean:

- a 0.21 acre parcel of vacant land identified on a preliminary plat map prepared by the staff of the California State Lands Commission and included in this report.
- the easement will provide parking for the public using the Martins Beach Lateral Access easement for passive recreational uses.

⁷ The Dictionary of Real Estate Appraisal, Appraisal Institute, fourth edition.

⁸ Dictionary of Real Estate, Appraisal Institute, Fifth Edition, page 63.

Scope of Work

The fee simple value was arrived at by using the sales comparison approach and discounted cash flow analysis. The value of the subject easements are estimated using a market derived percentage of the fee value. In addition, it was necessary, by the very nature of the easements (i.e. uniqueness of property rights, the impact on the remaining bundle of rights contained within the fee interest etc.) to use sound reasoning and logic in arriving at a percentage of loss in value for the lateral, vertical and parking lot easements.

The approaches used are considered to be a reasonable, commonsense and provide a balanced approach to the value of the easements. Furthermore, the value arrived at using these methodologies is based on what this appraiser believes to be relevant, reliable and comparable data.

Relevant market data associated with this real estate market was gathered, analyzed and presented in this report in order to fulfill the stated purpose and use of this report by arriving at a market value upon which the CSLC can rely on to effectuate the acquisition of easements as described in the law (PRC Section 6213.5).

In order to accomplish the intended purpose and use of this report, I have investigated appropriate market sales along the Pacific Coast, in particular, comparable sales located in San Mateo County. Also used in the analysis is one study prepared by the author of this report relevant to the valuation of easements as well as studies by others including one published by the International Right of Way Association. The study conducted by the author of this report is known as the "Broad Beach Study". This report analyzed the affect of public easements upon private property ownership along Broad Beach in Southern California.

The scope of the appraisal process involved the following:

- a. data collection, research and analysis relevant to general characteristics of the region, city and immediate area of the subject;
- b. investigation of existing land use and improvements located on the subject property and comparables;
- c. determination of the highest and best use of the subject property and comparables which included research and analysis of legal, physical, economic factors; and the
- d. undertaking of all necessary tasks associated with the application of the sales comparison approach and a cash flow analysis.

The investigation included research of public records through the use of commercial sources of data such as printed comparable data services, computerized databases, direct contact and internal records. Due to the nonexistent market for lateral and vertical access easements and parking area easements and the limited number of sales along the San Mateo County Coastline, search parameters were expanded to the point where I believe I have reasonably exhausted the

Martins Beach Property, San Mateo County

available pool of data which is meaningful in the appraisal of the subject. Researched data was viewed and, when necessary, efforts were made to verify the data with someone directly involved with the transaction. At my discretion, some data may have been used without personal verification if, in my opinion, the data appeared to be correct. In addition, I have considered any appropriate listings of properties found through my research. I have reported only the data deemed to be pertinent to the valuation problem. I have analyzed the data found and reached conclusions regarding the value of the subject property as of the date of value using any appropriate valuation approaches identified above.

Specific sources of online data included:

- ParcelQuest website.
- Zillow and Trulia websites.
- Appraisal Institute, Lum Library web site.
- Google Maps.
- CSLC web site.
- CCC web site.
- San Mateo County web site.
- San Mateo County GIS website.
- Natural Resources Conservation Service of the USDA website.
- Association of Bay Area Governments GIS website.

Specific documents reviewed included:

- Portions of the San Mateo County "Local Coastal Program Policies" dated June 2013, including the Shoreline Access Component, Agriculture Component, Visual Resources Component, Hazards Component, Locating and Planning New Development Component, Appendix 10.A.
- Portions of the San Mateo County "Zoning Regulations" dated December 2012 including "CD" District (Coastal Development District) and ""PAD" District (Planned Agricultural District), Development Review Criteria section.
- "Development Review Criteria", Chapter 20A.2 of the San Mateo County Ordinance Code.
- Portions of San Mateo County General Plan, including identification of "Scenic Corridors"
- "Background Report for Workshop on Agriculture in the Coastal Zone: Implementation of Coastal Act Provision Related to Agriculture", prepared by California Coastal Commission staff and dated April 26, 2013.
- Web Soil Surveys of the Subject Property and Comparables prepared by the Natural Resources Conservation Service of the USDA.

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- Portions of the California Department of Transportation Right-of-Way Manual including Chapter 7, Valuation of Williamson Act Land.
- "The Effect of Freight Railroad Tracks and Train Activity on Residential Property Values" by Robert A. Simons, PhD and Abdellaziz El Jaouhari, PhD, Appraisal Journal.
- "The Impact of Detrimental Conditions on Property Values" by Randall Bell, MAI, Appraisal Journal.
- "The Impact of Airport Noise on Residential Real Estate" by Randall Bell, MAI, Appraisal Journal.
- Adjusting House Prices for Intra-Neighborhood Traffic Differences, by William T Hughes Jr. PhD, and C. F. Sirmans, SRPA, PhD.
- Primary research conducted by the author of this report on the value of access easements located on residential properties located along Broad Beach, city of Malibu, CA, dated May 1, 2014.
- San Mateo County Planning and Building Department "50% Valuation" Rule.
- San Mateo County Planning and Building Department "50% Rule-Declaration of Understanding."
- San Mateo County Zoning Nonconformities, Chapter 4.
- San Mateo County Local Coastal Program Policies dated June 2013 "Land Uses and Development Densities in Rural Areas" (3) (a), "Amount of Development Allowed for Visitor-Serving, Commercial Recreation, and Public Recreation Uses" in conjunction with LCP Table 1.5.

Text References:

- Appraising Conservation and Historic Preservation Easements by Richard J. Roddewig, MAI
- Appraisal of Real Estate, Thirteenth Edition.
- Dictionary of Real Estate, Fifth Edition.
- Real Estate Damages, by Randall Bell, MAI
- Board of Equalization Assessor Handbook, AH 501.

The appraisal report has been completed to the best of my ability to comply with the Uniform Standards of Professional Appraisal Practice.

Martins Beach Property, San Mateo County

Client

The Report was prepared for the Executive Office of the State Lands Commission, 100 Howe Avenue, Suite 100 South, Sacramento, California 95825.

The report is solely for the use of the Client. Anyone else using this report is an unintended user. The reader of this report should only consider the report and its opinions and conclusions in the entire context of the written report. In addition, the user or reader of this report must have a good familiarity with the real estate that is the subject of this report as well as the legal and regulatory requirements imposed upon the California State Lands Commission relative to its valuation.

Type of Report

This appraisal report is limited by the assumptions and limiting conditions, supplemental standards as well as the issues discussed in the "Valuation Issues" and the "Scope of Work" sections.

The Uniform Standards of Professional Appraisal Practice provide for two types of written reports. They are an "Appraisal Report" or a "Restricted Appraisal Report". The "Appraisal Report" option requires the appraiser to summarize his/her analysis and the rationale for the conclusions. A "Restricted Appraisal Report" might not include sufficient information for the client (or other intended users) to understand either the appraiser's analyses or rationale relevant to the appraiser's conclusions.

The subject report is considered to meet the requirements of an "Appraisal Report" as defined by the Uniform Standards of Professional Appraisal Practice by providing a comprehensive appraisal report containing an extensive level of detail.

Interest Valued

There are two interests valued in the subject report. The first is the fee simple value of the subject as if vacant.

The second is the bonus value created by, what is referred to as, the "cabin property" which includes an estimated 44 cabins that are considered a legal non-conforming use. The cabin property is valued under two scenarios. The first scenario values the split estate of the cabin property consisting of the leased fee interest (ground rent received by lessor) and the leasehold interest (lessee can sell cabin improvements per lease) and adds the two estates together to arrive at an estimated value of the cabin property. The second scenario values the fee simple interest of the cabin property, assuming the cabin property will be converted to rental units in 2022 and leased up in 2023, while, providing the owner with ground rent from the present until conversion of the cabins to rentals.

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Sales History

The subject property sold in conjunction with the adjoining property identified as APN 066-330-240. The sale was recorded on July 22, 2008 in Document 2008084114 and 2008084115.

Subject Property APN 066-330-230 sold for a reported \$27,750,000; and APN 066-330-240 sold for a reported \$6,000,000. The combined sale price was \$33,750,000.

According to the listing broker⁹, the initial listing price for the subject property was \$65,000,000. The property was listed for over one and one-half years before it was sold. The listing price was not set by an appraisal but was set by the property owner after discussions with the broker. The broker and the property owner took into account the potential of the cabins in the future and ran numbers of home sales in the area to arrive at their asking price. They also took into account the potential for a "Crystal Cove" type of development on the property. Crystal Cove is located in Laguna Beach, California and the development contains 46 cottages along with other facilities. According to the listing broker, initially there was a number of buyers that showed interest. However, interest waned when the economy collapsed with just two potential buyers remaining. The broker contacted State Parks to see if they had an interest in the property. State Park staff informed him they did not have the money to acquire the property. The escrow period was less than 60 days. The broker would not disclose the final sale price or terms.

There is evidence that the 2008 sale of the subject property may not meet all the requisites of market value as defined in the section entitled "Market Value of the Subject Property". One of the requisites of market value is that *"the buyer and seller are each acting prudently knowledgeably..."* In the case of the sale of the subject property, the buyer apparently did not and does not have full knowledge as to what was purchased based on the following:

- According to the listing/selling broker the sale price was based on a general knowledge of what residences are selling for in the subject area without any financial or highest and best use analysis as would normally occur for a property of this type.
- The attorney for the owner stated in a letter dated August 12, 2015 relevant to a request by the CLSC for information on the physical characteristics of the cabins including age, square footage and the bedroom and bathroom count that they only had information on the square footage of the cabins and weren't certain of the accuracy of that (square footage) information. More specifically, the letter stated relative to the square footage that was provided: *"we do not know if this (square footage) information is accurate, but it is all we have in response to this question"*.

⁹ The listing broker was Bill Maier (707) 763-7944. The information about the listing was provided by Mr. Maier in a phone interview conducted by Colin Connor, Chief, Administrative Services, CSLC.

Martins Beach Property, San Mateo County

Effective Date of Value

The effective date of the value of the subject property is: November 1, 2015.

Date of Report

The date of the report is: December 3, 2015.

Historical Use of the Subject Property

The subject property consists of one of two parcels that were purchased in 2008 and are identified as APN 066-330-230 and 066-330-240. This report focuses on and values only APN 066-330-230 since that is the parcel that will be impacted by the proposed vertical, lateral and parking lot easements. Portions of the subject property have been used in the past and are presently used for the agricultural production of hay (dry farmed). There are a number of residential and agricultural structures located on the subject property that are associated with the agricultural production. In addition, a portion of APN 066-30-230 located in an area that is described as terrace escarpment and running parallel with the beach has been developed with numerous single family residential structures (cabins) that are owned by others. The cabins are on land leased from the owners of the subject property. In addition to the residential structures in this area, there are buildings that have been used in the past as a restaurant and bar.

Purpose of the Appraisal

The purpose of the appraisal is to estimate the market value of the fee simple estate of the Martins Beach property and provide a market based percentage of fee value for the proposed easements. Martins Beach is located along the coast in San Mateo County, California. The Martins Beach property consists of two Assessor Parcel Numbers (APNs) with a total of 88.70 +/- acres. The APNs are 066-330-230 (49.155 acres) and 066-330-240 (39.545 acres). This report values APN 066-330-230 since it is the only parcel impacted by the proposed vertical, lateral and parking area easements.

Function and Use of the Appraisal

The State Lands Commission by law, has been assigned the task of consulting with and entering into negotiations with the owners of the subject property known as Martins Beach to acquire a right-of-way or easement for the purpose of providing a public access to and along the shoreline that is to include the sandy beach. This report has been prepared to assist the California State Lands Commission and staff in negotiating a right-of-way or easement with the owners of Martins Beach. The specific and related laws relevant to the function and use of this appraisal is more fully discussed above under the section entitled "Supplemental Standards and Authority of the CSLC".

Market Value of the Subject Property

The value arrived at is the value the market in general would pay for the property and not the value to one particular owner. The valuation needs to "reflect the action of typical buyers and sellers for the interests in the subject property in an open and competitive market" (one of the criteria needed to establish market value).

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Market Value, as used in this report is defined as:

*"The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently knowledgeably, and for self-interest, and assuming that neither is under undue duress."*¹⁰

Each parcel of real property is different and, therefore, no single formula can be used to appraise all properties. Factors considered in estimating the market value of the subject property in this report include:

- The location of the property;
- The age and condition of improvements on the property;
- How the property has been used;
- Whether there are any lease agreements relating to the property;
- Applicable current and potential future zoning and land use requirements;
- How the property compares with similar properties in the area that have been sold recently; and
- How much rental income the property produces, or could produce if put to its highest and best use.

Characteristics of Market Value

- Market value means the amount of cash that property would bring if exposed for sale in the open market.
- Market value is determined in the market by the forces of supply and demand.
- Market value is the relative desirability of a commodity (real property) as evidenced by the actions of buyers and seller in an open market at a particular time¹¹.
- The essence of market value is that it is market derived. Value is determined by the actions of buyer and seller bidding, and seeking bids in competition with each other¹².
- In the appraisal of a limited-market or special use property, an appraiser may not use a method of valuation designed solely to capture the specific utility of a property to a particular owner¹³.

¹⁰ The Appraisal of Real Estate, Thirteenth Edition, page 23.

¹¹ California State Board of Equalization AH Manual 501, page 3.

¹² Ibid, page 4.

¹³ California State Board of Equalization, AH502 Manual, page 11.

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General Description of the Proposed Vertical and Lateral Easements.

Vertical Easement

The proposed vertical easement will be located along the northerly property line of the subject within an existing roadway that leads to the numerous cabins and the beach area. The location of the vertical easement is shown on the following aerial as blue hashed lines. The proposed vertical easement will be used for public access leading from the Cabrillo Highway to the Beach. The easement will be 20 feet wide and contain an estimated 0.87 of an acre.

Lateral Easement

The proposed lateral easement will run parallel to the beach and lie between the existing rip -rap wall and the Mean High Tide Line. The lateral easement is depicted on the aerial as red colored hashed lines. The lateral easement will contain an estimated 5.31 acres. Contemplated uses of the lateral easement will be for passive recreational uses.

Parking Area Easement

The parking area easement is located along the vertical access easement and will provide public parking for users of the lateral easement area. The parking area easement is shown on the aerial as a yellow hash marked area containing approximately 0.21 of an acre. The parking area is located on the terrace escarpment.

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General Description of Subject

The subject property is an estate sized parcel of ocean front land consisting of 49.155 acres. It is presently used as agricultural land (dry farmed) and developed with numerous structures including 44 cabins that are owned by others under a ground lease. The subject is located within the unincorporated community of San Gregorio. The subject is identified on San Mateo County GIS Land Use Map as "Agriculture" and is designated "Rural" under the overlay entitled "Urban/Rural Boundary". It is located within the Cabrillo Highway State Scenic Corridor. The subject parcel is in the California Coastal Commission Appeals Jurisdiction and is subject to the Local Coastal Program with two zoning designations; Planned Agricultural District (PAD) and Coastal Development District (CD).

Physical Hazards and the Subject Property

San Mateo GIS Hazard Data

The San Mateo County Geographic Information System (GIS) (maps.smcgov.org/planning) identifies the subject property as being located within the 100 year floodplain "VE" and "V" zones. Both zones are categorized by Federal Emergency Management Agency (FEMA) as "Special Hazard Areas." A portion of Subject Property 066-330-230 is located within the "VE" zone which includes the first row of houses nearest the water's edge and is further classified by FEMA as "moderate flood hazard area". It appears the second row of houses may be out of the flood zone. The entire ocean frontage of the subject property including beaches and bluffs are all located in the "V" zone. The subject property is identified as being within Flood Insurance Rate Maps Numbers 06081C0270E.

ABAG GIS Hazards Data

The Association of Bay Area Governments has identified a number of hazards on their GIS ABAG website (www.gis.abag.ca.gov/website/hazards) for areas within the Bay Area including San Mateo County. Following are a number of the hazards and the level of the hazard for the subject property as identified on the website.

Tsunami Hazard Area

The area along the beach of the subject property is identified as a "Tsunami Evacuation Area"

Shaking from Earthquakes along the San Gregorio and San Andreas Faults

San Gregorio Fault-The entire subject property is categorized as "Violent" in the "Shaking" overlay.

San Andreas Fault-The entire subject property is categorized as "Very Strong" in the "Shaking" overlay.

Martins Beach Property, San Mateo County

Liquefaction

The subject property is identified as "low" to "very low" as to the threat of liquefaction.

Wildfire Threat

Most of the subject is identified relative to wildfire threat as "little or no threat" to "moderate" with a few areas identified as "high".

Landslides

Most of the subject is mapped relative to landslides as "few landslides" to "flat land" (no landslides) with an area near the center of the parcel as 'mostly landslides.' The landslide portion is referred to throughout this report as "terrace escarpment".

Additional Hazard Identified by USGS on the Subject Property

Another hazard associated with the subject property is critical erosion. The United States Geological Survey, a bureau of the Department of the Interior prepared a report in 1998 entitled "1982-83 El Nino Coastal Erosion: San Mateo County, California" by Lajoie and Mathieson about critical erosion along the San Mateo County shoreline that included the subject property. The purpose of the report was to help predict future damaging storms and provide a guide to potential erosion hazards along the coastline. The report defined "critical erosion as:

"any coastal erosion that threatens or damages man-made structures"

The subject property is identified and generally described as a segment of intermediate stability which is backed by moderately resistant sedimentary rocks that form low-to-high bluffs.

Following are two maps from the report of Martins Beach. The first map is a "Coastal Erosion Map" which includes notes that describes critical erosion along Martins Beach printed in the color red and non critical notes that are colored in black. The Critical and Non-Critical Erosion that took place on Martins Beach during the 1982-83 El Nino and identified on the following map included:

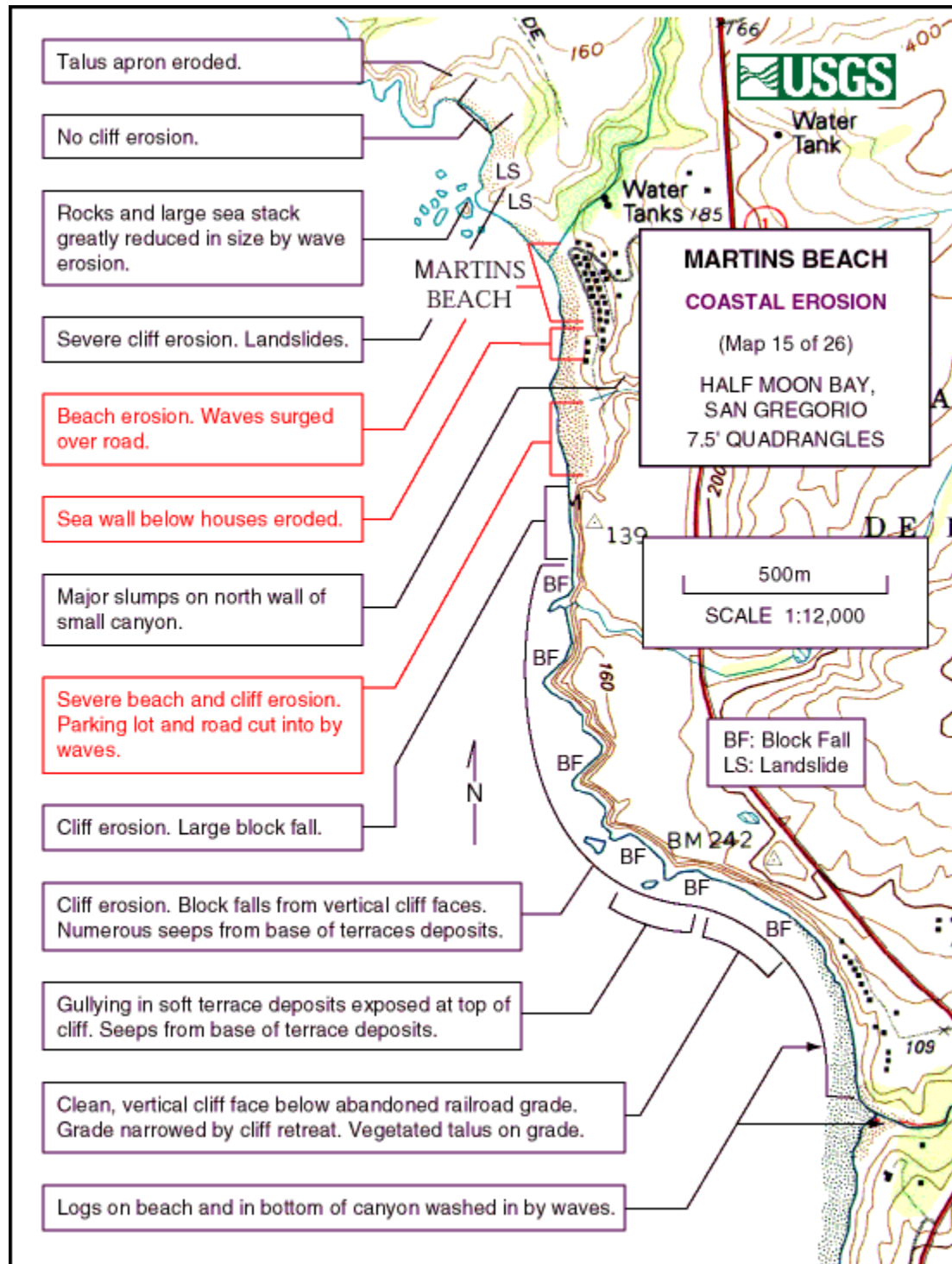
- Beach erosion, Waves surged over road.
- Sea wall below houses eroded.
- Major slumps on north wall of small canyon.
- Severe beach and cliff erosion. Parking lot and road cut into by waves.
- Cliff erosion. Large block fall.
- Critical erosion. Block falls from vertical cliffs faces. Numerous seeps from base of terraces deposits.

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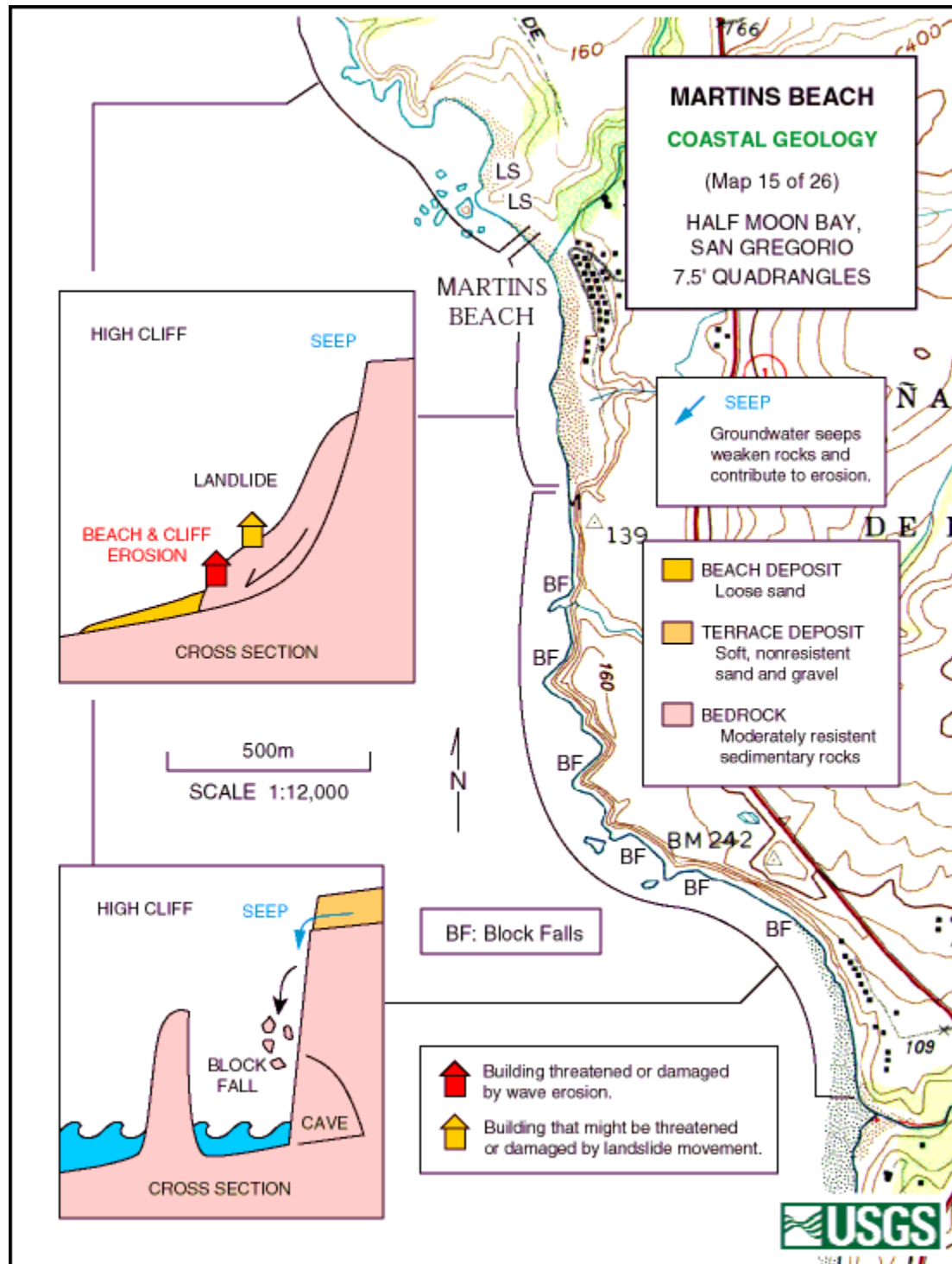
The second map is a coastal geology map of Martins Beach. This map depicts natural coastal geological processes such as cliff erosion, slope failure, wave erosion, landslides, block falls, debris slides and cave collapse. The map indicates the terrace deposits on the subject property consist of soft non-resistant sand and gravel and are susceptible to landslides. The erosion process is generally described as wave erosion as the primary or initiating erosive process which over-steepens and destabilize the coast. Landslides, debris slides and block falls are secondary erosive agents. In addition seeps from coast groundwater softens and loosens otherwise resistant bedrock material and contributes to the erosion process. This map illustrates by cross section profiles the dangers to existing structures along Martins Beach and the high cliffs of the subject property.

The report concluded that:

"...coastal-erosion hazards and damage documented in this report could have been avoided or minimized by recognizing the nature of the active coastal processes, establishing their rates and planning set-backs and restrictive zones accordingly...The erosional effects and resultant coastal hazards of the severe 1982-83 El Nino winter storms documented in this report should be a reasonable guide to what might be expected along the coast of San Mateo County in the coming winter"(s).



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Soils and Farming Capability of the Subject Property APN 066-330-230

The following information about the soils and farming capabilities of the subject property were taken from the Natural Resources Conservation Service of the USDA web site: www.websoilsurvey.sc.egov.usda.gov. The subject parcel shape and boundaries that are overlain on the soil map are not exact but the percentage of acreage arrived at for each soil type is considered adequate for valuation purposes.

Subject Property 066-330-23 consists of 49.155 acres. Approximately 48% +/- of the parcel is not farmed which equates to approximately 23.6 +/- acres ($49.155 \text{ acres} \times 48\%$). This non-farmed area is identified by symbols "Cf" and "Ta" on the Natural Resources Conservation Service Web Soil Survey area on the following page. The map unit name for "Cf" is "Coastal beaches". The map unit name for "Ta" is "Terrace escarpments".

The remaining 52% +/- or approximately 25.6 +/- acres of the subject property is devoted to dry farming, two single family residences and a barn. This 25.6 +/- acres (52%+/-) of the subject property are made up of five soil map units that can be found on the following soil survey aerial. They include:

- Tunitas clay loam, gently sloping (TuB);
- Watsonville loam, gently sloping, eroded (WmB2);
- Watsonville loam, sloping eroded (WmC2);
- Watsonville loam, moderately steep, eroded (WmD2; and
- Watsonville loam, gently sloping, poorly drained (WnB).

Non-irrigated Soil Capability Class

The soil survey land capability classification shows the suitability of soils for most kinds of field crops. The soils are grouped according to their limitations for field crops, the risk of damage if they are used for crops, and the way they respond to management. Capability classes are designated by the numbers "1" to "8". The numbers indicate progressively greater limitations and narrower choices for practical use.

Soil Map units "WmB2", "WmC2" and "WnB" have a non-irrigated class of "3". Class 3 soils have severe limitations that reduce the choice of plants or that require special conservation practices, or both.

Soil Map unit "WmD2" has a non-irrigated capability class of "4". Class "4" soils have very severe limitations that reduce the choice of plants or that require special conservation practices or both.

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Soil Map unit "Ta" has a non-irrigated capability class of "7". Class 7 soils have very severe limitations that make them unsuitable for cultivation and that restrict their use mainly to grazing, forestland, or wildlife habitat.

Soil Map unit "Cf" (Coastal beaches) has a non-irrigated capability class of "8". Class 8 soils have limitations that preclude commercial plant production and that restrict their use to recreational purposes, wildlife habitat, watershed esthetic purposes.

Farmland Classification

The NRCS soil survey has a number of classifications for different soil types. It identifies the location and extent of the soils that are best suited to food, feed, fiber, forage and oilseed crops. The highest classification is "prime farmland".

All of the subject is classified as "not prime farmland", with the exception of one-tenth +/- of an acre of land located at the northerly border. The one-tenth +/- of an acre of prime farmland is identified by the symbol "TuB" ("Tunitas clay loam, gently sloping") on the following aerial and is classified as "prime farmland if irrigated".

Other Characteristics of Subject Soil Types

Cf: Elevation: 0-10"; typical profile: 0-6"-fine sand, 6" to 60"-coarse sand; slope = 1% to 5%; Drainage= poorly drained; depth of water table = approximately 0".

Ta: Elevation: not indicated; typical profile: 0-60"-variable; slope: 53% as typical; drainage= poorly drained; depth of water table = not indicated.

TuB: Elevation: 50-500 feet; typical profile: 0-12" -clay loam, 12" to 60 inches-; slope = 2 to 5%; Drainage: moderately well drained; depth of water table : more than 80 inches.

WmB2: Elevation: 20 to 1,200 feet; Typical profile: 0-11"-loam, 11"-36"-clay, 36" to 60"-sandy clay loam; slope: 2-5%; drainage: moderately well drained; depth of water table: more than 80 inches.

WmC2: Elevation: 20 to 1,200 feet; Typical profile: 0-11"-loam, 11"-36"-clay, 36" to 60"-sandy clay loam; slope: 5-11%; drainage: moderately well drained; depth of water table: more than 80 inches.

WmD2: Elevation: 20 to 1,200 feet; Typical profile: 0-11"-loam, 11"-36"-clay, 36" to 60"-sandy clay loam; slope: 11-21%; drainage: moderately well drained; depth of water table: more than 80 inches.

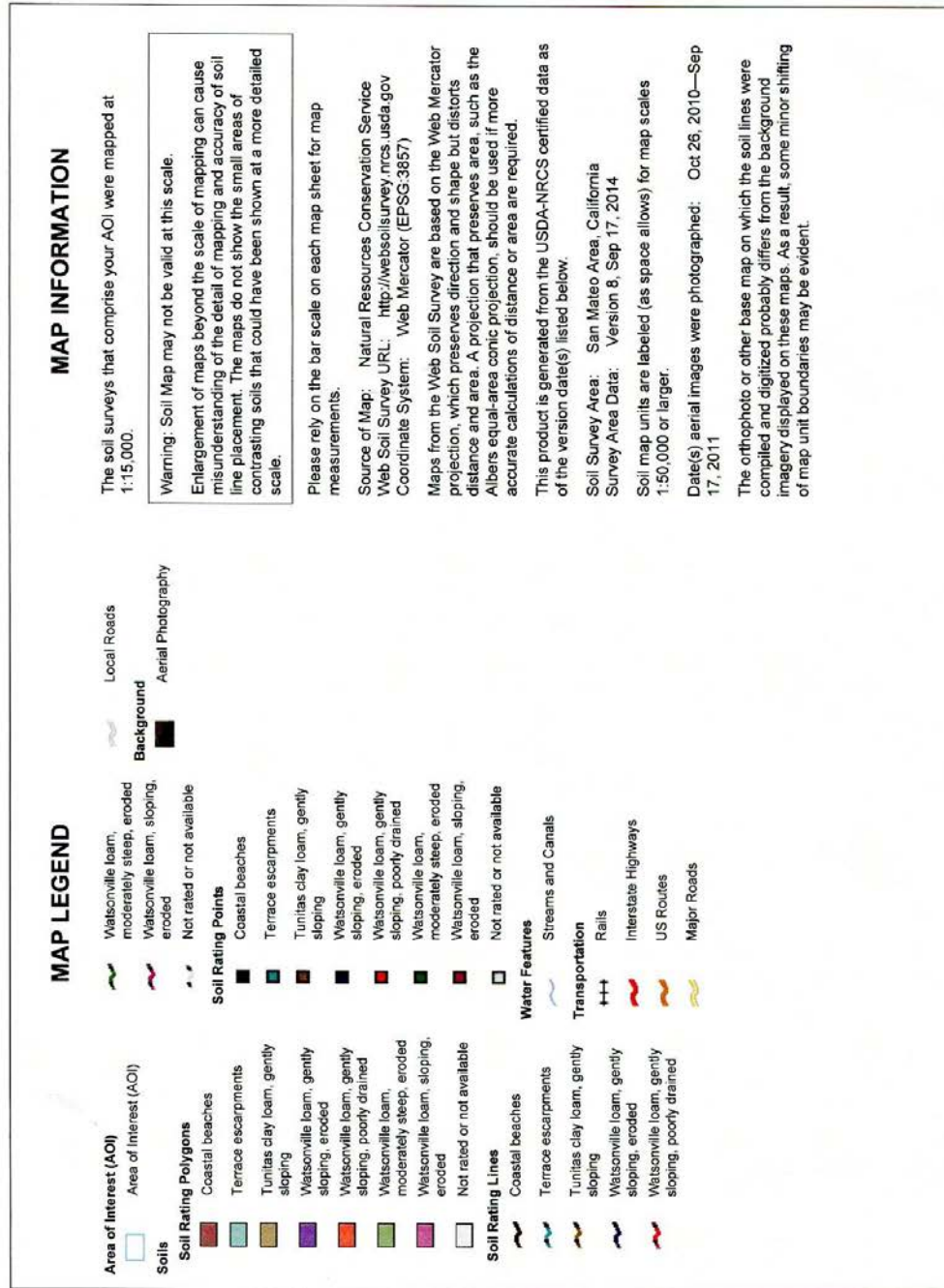
WnB: Elevation: 20 to 1,200 feet; Typical profile: 0"-15"-loam, 15"-40"-clay, 40" to 60"-sandy clay loam; slope: 2-5%; drainage: somewhat poorly drained; depth of water table: about 0 inches.

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Map Unit Name—San Mateo Area, California



Martins Beach Property, San Mateo County

Map Unit Name—San Mateo Area, California

Map Unit Name

Map Unit Name— Summary by Map Unit — San Mateo Area, California (CA637)				
Map unit symbol	Map unit name	Rating	Acres in AOI	Percent of AOI
Cf	Coastal beaches	Coastal beaches	1.8	3.5%
Ta	Terrace escarpments	Terrace escarpments	22.6	44.4%
TuB	Tunitas clay loam, gently sloping	Tunitas clay loam, gently sloping	0.1	0.3%
WmB2	Watsonville loam, gently sloping, eroded	Watsonville loam, gently sloping, eroded	4.4	8.5%
WmC2	Watsonville loam, sloping, eroded	Watsonville loam, sloping, eroded	18.9	37.0%
WmD2	Watsonville loam, moderately steep, eroded	Watsonville loam, moderately steep, eroded	3.0	5.9%
WnB	Watsonville loam, gently sloping, poorly drained	Watsonville loam, gently sloping, poorly drained	0.2	0.4%
Totals for Area of Interest			51.0	100.0%

Description

A soil map unit is a collection of soil areas or nonsoil areas (miscellaneous areas) delineated in a soil survey. Each map unit is given a name that uniquely identifies the unit in a particular soil survey area.

Rating Options

Aggregation Method: No Aggregation Necessary

Tie-break Rule: Lower

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The Subject Agricultural Lease

According to the owner, the subject property is dry farmed and leased to a tenant farmer on a year-to-year lease with the rent being based on 25% of the crops value for the year grown. A copy of the subject agricultural lease was not provided the appraiser.

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Agricultural Preserve Contract

Introduction

The subject property is under an agricultural preserve contract with San Mateo County. The contract was recorded with the San Mateo County Recorder's office on March 16, 1967 in Volume 5307, Page 262-269. The contract is dated March 6, 1967. The contract is between Edward M. Deeney, William P. Deeney and John Deeney as "Owners" and the County of San Mateo referred to as "County".

Recently agricultural contracts located in San Mateo County were audited by the County. The subject property's agricultural preserve contract was found by San Mateo County as being consistent with the Williamson Act, the General Plan, the LCP and present zoning and in conformity with the State Code and County policies.

CLCA Background Information

In 1965 the Legislature enacted the California Land Conservation Act (CLCA) also known as the Williamson Act. (The act has under gone numerous revisions since 1965).

The Act is a means that local governments can use to in integrate the protection of open space and agricultural resources in the their overall strategies for the orderly patterns of urban development. The general goal of the Act is to preserve agricultural and open space lands by encouraging landowners to stay in agricultural production through reduced property tax rates.

There is approximately 16 million acres enrolled under Williamson Act contracts statewide. This acreage represents approximately one-third of all privately held land in California and about one-half of all agricultural land in the state.¹⁴ Roughly one-third of the lands under contract are considered to be prime agricultural land (highest quality agricultural land, typically irrigated crop land), the remaining two-thirds are classified as non prime (mainly dry-land grain crops, range and grazing land). Fifty-three of the 58 counties in California are enrolled in the Williamson Act program including San Mateo County.

Under the original program, contract holding counties received annual subvention payments from the state. These state funds helped compensate for the tax revenue losses counties faced due to their participation in the program. However, beginning in budget year 2008-2009 California drastically reduced these subvention reimbursement to counties as part of a plan to phase out the program.

The purpose and objectives of the CLCA are to¹⁵:

¹⁴ Department of Conservation "Land Conservation (Williamson) Act Program, Overview"

¹⁵ "Land Conservation (Williamson) Act Program Overview" by Department of Conservation.

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Protect Agricultural Resources. The Act recognizes the importance of agriculture lands as an economic resource necessary to maintain the agricultural economy of the state but to also assure adequate food for future residents of California and the nation.

Preservation of Open Space Land. The CLCA recognizes the importance of preserving land for open space purposes, especially in a rapidly urbanizing society. The preservation of open space constitutes an important physical, social, esthetic, and economic asset to existing or pending urban or metropolitan developments.

Promotion of Efficient Urban Growth Patterns. The Act discourages the haphazard, sprawling patterns of urban development through these farmland and open space preservation contracts. The Act declares it is a matter of public interest to maintain agricultural and open space lands for the benefit of urban dwellers and to control the cost of community services. The Act provides local governments a means to set-aside large, contiguous areas as designated farming/open space districts.

The landowner receives substantial reduction in property tax assessments in return for enrollment under a CLCA contract. The lower assessment is achieved by basing the assessment of property under contract to an agricultural or related open space use without regard to the contracted property's highest and best use which would reflect its full market value .

Subject Property- Property Tax Savings Resulting from Agricultural Preserve Contract

An example of this lower assessment is the subject property. The two parcels sold for a combined price of \$33,750,000 but are assessed under an agricultural preserve contract at a combined assessed value of \$4,163,650 for 2014/2015 tax year. Considering the present as well as potential use of the property as described in this report, the Contract provides a significant benefit to the owner through property tax savings without affecting potential uses under existing land use, regulatory and development standards. The property under present land use law, without regard to being under an agricultural preserve contract is limited to one density credit, the same as being under an agricultural preserve contract. Following is an analysis and estimate of the property tax saving achieved under the agricultural preserve contract.

The Subject Property Tax Relief Under Agricultural Preserve Contract

The subject property received a significant benefit from the Agricultural Preserve contract when compared to what the property taxes would have been under Proposition 13. Following is an analysis of the estimated annual property tax savings under the existing agricultural preserve contract.

It has been reported that the two subject property sold for the following amounts:

APN 066-330-23: \$27,750,000

APN 066-330-24: \$ 6,000,000

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2014 Total Assessed Valuation Under Agricultural Preserve Contract:

APN 066-330-23: \$936,147

APN 066-330-24: \$3,227,503

Tax Rate Area: (087-056)

2014/2015 tax rate = 1.0894%

Estimated taxes Under Property 13 (Assumes sale price in 2008 is market value)

APN 066-330-23: \$27,750,000

x 1.0894%

\$302,308.50

APN 066-330-24: \$6,000,000

x 1.0894%

+\$ 65,364.00

\$367,672.50

Estimated 2014/2015 Property Taxes Under Existing Agricultural Preserve Contract

APN 066-330-23: \$936,147

x 1.0894%

\$ 10,198.39

APN 066-330-24: \$3,227,503

x 1.0894%

+\$35,160.42

-\$ 45,358.81

Total Estimated Annual Property Tax Savings: \$322,313.69

Conclusion

The owner of the subject property is paying an estimated 12.33% of the property taxes as would otherwise be paid if not under an agricultural preserve contract assuming the sale price is market value (Proposition 13). This is a significant benefit to the property owner which decreases the holding costs significantly.

The assessor's valuation is based upon income generated by the land under an agricultural use as opposed the potential market value of the property.

The purpose of a Land Conservation Act is to preserve agricultural lands for the production of food and fiber and to discourage urban development. The benefit to the property owner is a significant reduction in property taxes. The contract voluntarily restricts development of property under contract.

A Williamson Act Contract is a legal document that obligates the property owner, and any successors of interest, to the contract's enforceable restrictions. In San Mateo County, the contracts are for 10 years. The contracts are automatically renewed every year for 10 years unless the nonrenewal process is initiated, in other words the term of the contract is indefinite. If

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the nonrenewal process is initiated either by the landowner or the local government, then the contract is for 9 years (the nonrenewal period). During the nonrenewal period, the annual tax assessment increases each year until it is equivalent to current tax rates at the end of the 9-year non-renewal period. At the end of the non-renewal period the contract is terminated.

The Williamson Act contract, like the subject properties, runs with the land and is binding on all successors in interest of the landowner i.e. the contract does not terminate upon the sale of the property.

A 2011 law that would have required a 2016 sunset date of Williamson Act contracts was amended and passed into law on September 15, 2014. The amendment (Senate Bill 1353) deleted the January 1, 2016 sunset date and authorized the counties to utilize the process for revising or entering into contracts for either a 9-year or 18-year terms indefinitely.

As mentioned above, the subject properties agricultural contract was recently audited by San Mateo County along with other agricultural preserve contracts in the county and found to be consistent with the Williamson Act, the General Plan, the LCP and present zoning and in conformity with the State Code and County policies. This fact, along with the amendment to the sunset date, assures the subject property's agricultural contract will, most likely, continue indefinitely.

The California Coastal Act and it affects on Agricultural lands within the Coastal Zone¹⁶

Any development, as defined by the California Coastal Act of 1976 and located within the Coastal Zone must be authorized through Coastal Permits. Generally, Coastal Permits are issued by local governments (cities and counties) under their Local Coastal Programs that have been certified by the California Coastal Commission. Where appropriate, permit procedures can allow for development to be authorized without a project specific public hearing by:

- Waiver,
- administrative permit; or
- by approval as a minor development.

Coastal Zone Defined

The Coastal Zone is defined in Section 30103 of the Coastal Act:

(a) "Coastal zone" means that land and water area of the State of California from the Oregon border to the border of the Republic of Mexico, specified on the maps identified and set forth in Section 17 of that chapter of the Statutes of the 1975-76 Regular Session enacting this division, extending seaward to the state's outer limit of jurisdiction, including all offshore islands, and extending inland generally 1,000 yards from the mean high tide line of the sea. In significant coastal estuarine, habitat, and recreational areas it extends inland to the first major ridgeline paralleling the sea or five miles from the mean high tide line of the sea, whichever is less, and in developed urban areas the zone generally extends inland less than 1,000 yard..."

Local Coastal Programs are defined within the Coastal Act Section 30108.6 as:

"Local coastal program" means a local government's (a) land use plans, (b) zoning ordinances, (c) zoning district maps, and (d) within sensitive coastal resources areas, other implementing actions, which, when taken together, meet the requirements of, and implement the provisions and policies of, this division at the local level".

Coastal Permits are defined within the Coastal Act, Section 30110 as:

"Permit" means any license, certificate, approval, or other entitlement for use granted or denied by any public agency which is subject to the provisions of this division."

¹⁶ "Background Report for Workshop on Agriculture in the Coastal Zone" by the California Coastal Commission staff, dated April 26, 2013.

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The Role of The California Coastal Commission Relevant to Agricultural Lands

The California Coastal Commission mission relevant to agricultural lands located within the Coastal Zone centers around:

- maintaining agricultural land productivity; and
- addressing whether any proposed development would be permissible under the law when there is a proposed conversion to non-agricultural uses.

The Commission uses a variety of development standards , Local Coastal provisions and Commission action to ensure agricultural land remains productive and urban sprawl does not occur. The development standards used by the Commission may include:

- Modifying a proposed project design;
- modifying or changing the situs of a project;
- encouraging cluster development;
- consider uses that buffer agricultural uses.

Regulatory Provisions Relevant to Agricultural Lands

The main provisions within the California Coastal Act that protects agricultural lands are Sections 30241, 30242 and 30250. In summary, these sections:

- Direct when it is and is not permissible to convert agricultural lands to non-agricultural uses
- Agricultural production is to occur on prime agricultural land
- Urban type uses are not to occur on agricultural lands.
- Public service facilities and nonagricultural development must not impair agricultural viability.
- Land division of prime agricultural land shall not diminish the productivity of prime agricultural lands.

Coastal Act Section 30241 in part states:

The maximum amount of prime agricultural land shall be maintained in agricultural production to assure the protection of the areas agricultural economy and conflicts shall be minimized between agricultural and urban lands uses through all of the following:

(a) By establishing stable boundaries separating urban and rural areas...

(b) by limiting conversions of agricultural lands around the periphery of urban areas...

(c) By permitting the conversion of agricultural and surrounded by urban uses where the conversion of the land would be consistent with Section 30250.

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(d) By developing available lands not suited for agriculture prior to the conversion of agricultural lands.

(e) By assuring that public service and facility expansions and nonagricultural development do not impair agricultural viability, either through increased assessment costs or degraded air and water quality.

(f) By assuring that all division of prime agricultural lands..shall not diminish the productivity of such prime agricultural lands.

Prime agricultural land is defined in the Coastal Act of 1976 and the California Land Conservation Act of 1965.

The Coastal Act, Section 30113 states that:

"Prime agricultural land" means those lands defined in paragraph (1), (2), (3), or (4) of subdivision (c) of Section 51201 of the Government Code".

The California Land Conservation Act of 1965, Section 51201 of the Government Code states in part that:

(c) "Prime agricultural land" means any of the following:

(1) All land that qualifies for rating as class I or class II in the Natural Resource Conservation Service land use capability classifications.

(2) Land which qualifies for rating 80 through 100 in the Storie Index Rating.

(3) Land which supports livestock used for the production of food and fiber and which has an annual carrying capacity equivalent to at least one animal unit per acre as defined by the United States Department of Agriculture.

(4) Land planted with fruit- or nut-bearing trees, vines, bushes, or crops which have a nonbearing period of less than five years and which will normally return during the commercial bearing period on an annual basis from the production of unprocessed agricultural plant production not less than two hundred dollars (\$200) per acre.

(5) Land which has returned from the production of unprocessed agricultural plant products an annual gross value of not less than two hundred dollars (\$200) per acre for three of the previous five years.

Coastal Act Section 30242 goes on to address agricultural lands that are not considered prime agricultural. Such lands as addressed in Section 30241 above. The subject property would fall within this category since is it considered non prime agricultural lands.

Following are relevant citations of Coastal Act Sections 30242:

"All other lands suitable for agricultural use shall not be converted to non agricultural uses unless

(1) continued or renewed agricultural use is not feasible, or

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(2) such conversion would preserve prime agricultural land or concentrate development consistent with Section 30250. Any such permitted conversion shall be compatible with continued agricultural use on surrounding lands.

The above provisions are an attempt at protecting an area's agricultural economy and concentrate development in and around existing developed areas¹⁷. The Coastal Commission has interpreted the need for non-prime agricultural land to include buffering and protection of prime agricultural lands.

"non-prime lands often physically buffer the more valuable prime lands from conflicts with other uses. Thus protection of non-prime agricultural lands also serves to protect agricultural production on prime lands"¹⁸.

Section 30250

This section directs where new development is to be located and addresses the division of lands outside urban areas. These provisions effect agricultural lands.

(a) New residential, commercial or industrial development, except as otherwise provided in this division, shall be located within, contiguous with or in close proximity to, existing developed areas able to accommodate it or, where such areas are not able to accommodate it, in other areas with-adequate public services and where it will not have significant adverse effects, either individually or cumulatively, on coastal resources. In addition, land division, other than lease for agricultural uses, outside existing developed areas shall be permitted only where 50 percent of the usable parcels in the area have been developed and the created parcels would be no smaller than the average size of surrounding parcels.

(b) Where feasible, new hazardous industrial development shall be located away from existing developed areas.

(c) Visitor serving facilities that cannot feasibly be located in existing developed areas shall be located in existing isolated developments or at selected points of attraction for visitors.

Other Relevant Sections of the Coastal Act

Other Sections of The Coastal Act that may affect any use or development of the subject property include the following:

Section 30106 Define "Development ":

¹⁷ Ibid, page 4.

¹⁸ "Interpretation of Coastal Act Agricultural Policies in Relation to Proposed Conversion of Agricultural Land Through Amendment of Mendocino County Land Use Plan" May 1, 1987.

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" Development means, on land, in or under water, the placement or erection of any solid material or structure; discharge or disposal of any dredged material or of any gaseous, liquid, solid, or thermal waste; grading, removing, dredging, mining, or extraction of any materials; change in the density or intensity of use of land, including, but not limited to, subdivision pursuant to the Subdivision Map Act (commencing with Section 66410 of the Government Code), and any other division of land, including lot splits, except where the land division is brought about in connection with the purchase of such land by a public agency for public recreational use; change in the intensity of use of water, or of access thereto; construction, reconstruction, demolition, or alteration of the size of any structure, including any facility of any private, public, or municipal utility; and the removal or harvesting of major vegetation other than for agricultural purposes, kelp harvesting, and timber operations which are in accordance with a timber harvesting plan submitted pursuant to the provisions of the Z'berg-Nejedly Forest Practice Act of 1973 (commencing with Section 4511).

As used in this section, structure includes, but is not limited to, any building, road, pipe, flume, conduit, siphon, aqueduct, telephone line, and electrical power transmission and distribution line.

Section 30212 defines "new development projects" and addresses public access requirements for defined "new development".

Section 30212:

(a) Public access from the nearest public roadway to the shoreline and along the coast shall be provided in new development projects except where (1) it is inconsistent with public safety, military security needs, or the protection of fragile coastal resources, (2) adequate access exists nearby, or (3) agriculture would be adversely affected. Dedicated accessway shall not be required to be opened to public use until a public agency or private association agrees to accept responsibility for maintenance and liability of the accessway.

(b) For purposes of this section, "new development" does not include:

(1) Replacement of any structure pursuant to the provisions of subdivision (g) of Section 30610.

(2) The demolition and reconstruction of a single-family residence; provided, that the reconstructed residence shall not exceed either the floor area, height or bulk of the former structure by more than 10 percent, and that the reconstructed residence shall be sited in the same location on the affected property as the former structure.

(3) Improvements to any structure which do not change the intensity of its use, which do not increase either the floor area, height, or bulk of the structure by more than 10 percent, which do not block or impede public access, and which do not result in a seaward encroachment by the structure.

(4) The reconstruction or repair of any seawall; provided, however, that the reconstructed or repaired seawall is not seaward of the location of the former structure.

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(5) Any repair or maintenance activity for which the commission has determined, pursuant to Section 30610, that a coastal development permit will be required unless the commission determines that the activity will have an adverse impact on lateral public access along the beach.

As used in this subdivision, "bulk" means total interior cubic volume as measured from the exterior surface of the structure.

(c) Nothing in this division shall restrict public access nor shall it excuse the performance of duties and responsibilities of public agencies which are required by Sections 66478.1 to 66478.14, inclusive, of the Government Code and by Section 4 of Article X of the California Constitution.

Section 30222 prioritizes certain types of development on private lands.

Section 30222:

"The use of private lands suitable for visitor-serving commercial recreational facilities designed to enhance public opportunities for coastal recreation shall have priority over private residential, general industrial, or general commercial development, but not over agriculture or coastal-dependent industry."

Section 30241.5 states the requirements for determining the economic viability and feasibility of agricultural land.

Section 30241.5

"(a) If the viability of existing agricultural uses is an issue pursuant to subdivision (b) of Section 30241 as to any local coastal program or amendment to any certified local coastal program submitted for review and approval under this division, the determination of "viability" shall include, but not be limited to, consideration of an economic feasibility evaluation containing at least both of the following elements:

(1) An analysis of the gross revenue from the agricultural products grown in the area for the five years immediately preceding the date of the filing of a proposed local coastal program or an amendment to any local coastal program.

(2) An analysis of the operational expenses, excluding the cost of land, associated with the production of the agricultural products grown in the area for the five years immediately preceding the date of the filing of a proposed local coastal program or an amendment to any local coastal program.

For purposes of this subdivision, "area" means a geographic area of sufficient size to provide an accurate evaluation of the economic feasibility of agricultural uses for those lands included in the local coastal program or in the proposed amendment to a certified local coastal program.

(b) The economic feasibility evaluation required by subdivision (a) shall be submitted to the commission, by the local government, as part of its submittal of a local coastal program or an amendment to any local coastal program. If the local government determines that it does not have the staff with the necessary expertise to conduct the economic feasibility evaluation, the evaluation may be conducted under agreement with the local government by a consultant selected jointly by local government and the executive director of the commission."

Agricultural Lands Within San Mateo County and Past Actions of California Coastal Commission

Conversion of Agricultural Lands

The Coastal Commission has allowed some conversion of agricultural lands to non-agricultural uses within the San Mateo County area. For example in the city of Half Moon Bay where there is substantial agricultural land, the Commission approved their Local Coastal Program allowing 125 acres of agricultural land to be designated as urban reserve for eventual development and 295 acres of vacant prime soils were designated for urban uses based on finding their viability was compromised by conflicts with urban uses. The Commission made the decision based upon the fact that Sections 30241 and 30242 allows for some conversion for areas surrounded by urban uses; where the conversion would concentrate development and contribute to a stable limit to urban development.

Additional Conditions Imposed on Appeal

The following gives some insight as to what the Commission might require.

The Coastal Commission can require revisions or additional conditions on permits that are appealed to the Commission. Requirements imposed by the Commission can encompass size, location, design and/or use in order to eliminate or minimize conflicts with or reductions, in, existing or potential agricultural use. In 2006 the Coastal Commission added additional conditions to a Coastal Permit for a new 2,595 square foot single family residence located in San Mateo County on a 60-acre parcel. The parcel was located within the Planned Agricultural District (PAD) zoning which is the same zoning designation as the subject property's. The Commission required the planned house site to be moved from a portion of the site being farmed to a non-farmed area that was already disturbed. The Commission reduced the building envelope from 15,000 square feet to 10,000 square feet. The applicant also had to agree to an "Affirmative Agriculture Easement" over the remainder of the property outside the building envelope to ensure that the lands remain in agricultural production in perpetuity. In addition, the Commission required that an existing road be used to access project instead of a new driveway as initially planned¹⁹.

¹⁹ Appeal No. A-2-SMC-06-021 (Chan)

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Local Coastal Program (LCP)

The California Coastal Initiative (Proposition 20) was passed by the voters in 1972 and made into law with passage of the California Coastal Act of 1976. The Coastal Act is administered by the California Coastal Commission which approves (certifies) Local Coastal Programs that are developed and administered by local governments. The subject property is located in the unincorporated area of San Mateo County and therefore falls within San Mateo's Local Coastal Program. The purpose of the LCP is to guide development within the Coastal Zone. The LCP consist of a land use plan and zoning ordinances. The Coastal Act, among other things, requires:

- protection and expansion of public access to the shoreline;
- protection of agricultural lands
- protection of the scenic beauty of coastal landscapes and seascapes.

The law is carried out by policies established in certified Local Coastal Programs. The San Mateo Local Coastal Program was approved (certified) by the California Coastal Commission on August 8, 2012.

LCPs are the primary method under the Coastal Act used to protect agricultural land and stabilize urban boundaries. The LCP essentially determines what use or activity can occur and under what circumstances on agricultural land. Any change in land use different than is in an existing LCP would require an amendment to the LCP. Local governments issue Coastal Permits pursuant to certified LCPs. The LCP provides information on the processing of permits through the local government. LCPs may adopt procedures that allow development without a project specific public hearing by waiver, administrative permit, or by approval as a minor development.

LCPs define allowable uses within agricultural zones.

Categorical Exclusions

San Mateo County has as part of their LCP categorical exclusions where a coastal permit is not required.

The Coastal Commission Role in LCPs

As stated above, the Coastal Commission certifies LCPs with periodic reviews of the LCPs. They also make certain the LCPs are consistent with and conform to the Coastal Act and the California Code of Regulations. In addition they make certain that there is consistency within the LCP documents (internally consistent).

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Appeals to Coastal Commission of LCP Coastal Development Permits

Most coastal development permits are issued by the local government and only certain locally issued permits are appealable to the Coastal Commission. If the permits are not appealable then the permit process ends with the final local decision.

Permits that can be appealed involve:

- permits issued for developments in defined areas such as near or in wetlands and riparian corridors.
- permits issued for other than the principal permitted use.

On appeal, the Coastal Commission first determines if the permit conforms with the LCP and the Coastal Act's public access policies. If the Commission determines that no substantial issue exists, then the permit process is over and the local decision is final.

For further discussion on the appeals process, please see the section entitled: "Land Use Decisions and Oversight Authority".

San Mateo County Local Coastal Program Policies dated June 2013

A Coastal Development Permit is required for all development in the Coastal Zone subject to certain limitations. This includes any development of the subject property. "Development" is defined in the Coastal Act and is quoted in a previous section of this report.

In summary likely development of the subject, as defined in the Coastal Act may include any of the following activities and thus require a Coastal Development Permit.

"erection of any solid material or structure...grading, removing, dredging...of any materials; change in the density or intensity of use of land... including lot splits...change in the intensity of use of water or of access...construction, reconstruction, demolitions, or alteration of the size of any structure...the removal or harvesting of major vegetation other than for agricultural purposes..."

The subject is located in what is defined in the Coastal Act as a "rural" area. The San Mateo County LCP will allow development in rural areas, only if it is demonstrated that it will not have significant adverse impacts on coastal resources or diminish the ability to keep all prime agricultural land and other land suitable for agriculture in agricultural production. There may be a small portion of subject parcel 066-330-230 is considered prime agricultural soils (Class II soils).

Allowed Development Densities

The allowed development densities for agricultural land like the subject varies from one density credit (d.c.) per 40 acres to one density credit per 160 acres. All legal parcels accumulate at least

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one density credit. The maximum number of density credits is determined by certain factors. Some of the factors are as follows:

Prime Agricultural Lands

The maximum density credit allowed on prime agricultural land is one density credit per 160 acres of prime agricultural land. Most of the subject is non-prime agricultural land. However, there may be a small portion of Parcel APN 066-330-230 that is considered prime agricultural land (Class II soils).

Lands Within 100-year Floodplain.

The maximum density credit allowed for a portion of a parcel within a 100-year floodplain as defined and identified by FEMA is one density credit per 60 acres. A portion of Subject Property 066-330-230 is located within FEMA flood zone "VE" which includes the first row of houses nearest the water's edge and is considered a "moderate flood hazard area" by FEMA. It appears the second row of houses may be out of the flood zone. It also appears that the entire ocean frontage (includes beaches and bluffs) of the subject (APN 066-330-230) that is not in the "VE" zone is located in the "V" zone

The "VE" flood zone is identified as a Special Flood Hazard Area and is defined by FEMA as:

"Areas subject to inundation by the 1-percent-annual-chance flood event with additional hazards due to storm-induced velocity wave action. Base Flood Elevations (BFEs) derived from detailed hydraulic analyses are shown. Mandatory flood insurance purchase requirements and floodplain management standards apply."

The FEMA website indicates that mandatory flood insurance purchase requirements and floodplain management standards apply to the "VE" and "V" zones.

The "V" flood zone is identified as Special Flood Hazard Area and is defined by FEMA as

"areas along coasts subject to inundation by the 1-percent-annual-chance flood event with additional hazards associated with storm-induced waves. Because detailed hydraulic analyses have not been performed, no Base Flood Elevations (BFEs) or flood depths are shown. Mandatory flood insurance purchase requirements and floodplain management standards apply".

Slope of Land

Lands with slopes of 15% but less than 30% are allowed one density credit per 60 acres.

Lands with slopes of 30% to 50% are allowed one density credit per 80 acres.

Lands with slopes of 50% or greater are allowed one density credit per 160 acres. The entire Terrace Escarpment area of Subject Property APN 066-330-230 falls within one of the above slope categories.

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Land Within Agricultural Preserve

The maximum density credit allowed on lands under an Agricultural Preserve contract is one density credit per 60 acres. The subject property is under an agricultural preserve contract. According to Assessor records, Subject Parcel APN 066-330-230 has only 49.155 acres. However, the LCP states in the "Maximum Density Credits" section that:

"All legal parcels shall accumulate at least one density credit"

For the purposes of this report, an extraordinary assumption is made that the subject is a "legal parcel" as defined in the LCP.

Bonus Density Credit for New Water Storage Capacity

The LCP allows for one bonus density credit for each 24.5 acre-feet of new water storage capacity needed and developed for agricultural cultivation or livestock. The bonus credits may be used on-site or transferred to another parcel. However, none of the bonus credits may be used in scenic corridors. The subject property is within a state scenic corridor and therefore would preclude the use of bonus credits.

Sewage Treatment

The subject property is not serviced by any municipal sewage treatment facility and any development of the subject would require an on-site sewage treatment system (septic system). The LCP has certain requirements that need to be met for such facilities. The LCP requires that:

"On-site sewage treatment systems (septic system) shall be sited away from areas that have poorly or excessively drained soils, shallow water tables or be adequately treated before it reaches streams or the ocean. New development with conventional or alternative on-site sewage treatment systems shall include protective setbacks from surface waters, wetlands and floodplains, as well as appropriate separation distances between on-site sewage treatment system components, building components, property lines, and groundwater as required by the Region Board. Under no conditions shall the bottom of the effluent dispersal system be within five (5) feet of groundwater."

Permitted Uses on Lands Suitable for Agricultural and Designated as Agriculture.

All of the subject property is considered suitable for agriculture and is identified as such on San Mateo land use maps. The Local Coastal Program Policies document states the only the following specific uses are allowed on such lands:

"(1) agriculture including, but not limited to, the cultivation of food, fiber, or flowers, and the grazing, growing or pasturing of livestock; (2) non-residential development customarily considered accessory to agricultural uses including barns, storage/equipment shed, fences,

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water wells, well covers, pump houses, water storage tanks, water impoundments, water pollution control facilities for agriculture purpose, and temporary road stands for season sale of produce grown in San Mateo County; (3) dairies; (4) green houses and nurseries; (5) repairs, alterations, and additions to existing single-family residences."

The LCP goes on to state that the following broad categories of uses that may be "conditionally permitted":

"(1) single-family residences, (2) farm labor housing, (3) multi-family residences if affordable housing (4) public recreation and shoreline access trails, (5) schools, (6) fire stations, (7) commercial recreation including country inns, stables, riding academies, campgrounds, rod and gun clubs, and private beaches, (8) aquaculture activities, (9) wineries, (10) timber harvesting, commercial wood lots and storage of logs, (11) onshore oil and gas exploration, production, and storage, (12) facilities for the processing, storing, packaging and shipping of agricultural products, (13) uses ancillary to agriculture, (14) dog kennels and breeding facilities, (15) limited, low intensity scientific/technical research and test facilities, and (16) permanent roadstands for the sale of produce".

Conversion of Land Suitable for Agriculture and Designated as Agriculture.

The San Mateo Local Coastal Program Policies document specifically prohibits the conversion of lands suitable for agriculture like the subject property to a "conditionally permitted" use as identified above unless it can be demonstrated that all of the following conditions are met:

1. all agriculturally unsuitable lands on the parcel have been developed or determined to be undevelopable;
2. continued or renewed agricultural use of the soils is not feasible;
3. clearly defined buffer areas are developed between agricultural and non-agricultural uses; and
4. the productivity of any adjacent agricultural lands is not diminished.

The Minimum Parcel Size Allowed

The LCP states in Sections 5.12 and 5.13 that minimum parcel size for non-agricultural and agricultural parcels is determined on a case-by-case basis with non-agricultural parcels to be as small as practicable (residential parcels may not exceed five acres).

Water Supply and Conversion of Agriculture Lands (Sections 5.22 & 23)

According to the LCP, before any conversion of agricultural land can take place it must be demonstrated that there exists adequate and potable well water source for all non-agricultural uses based on the following criteria for lands like the subject property:

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" each existing legalized parcel shall have safe and adequate well water source located on that parcel".

"...adequate and sufficient water supplies needed for agricultural production...are not diminished".

Visual Resource Protection Under Section 8 of the LCP

The subject property consists of coastal terrace, bluffs, headlands and a beach. These land forms are identified in the LCP along with uses and activities that are allowed on each particular land form.

Beaches

The LCP prohibit permanent structure on open sandy beaches (exceptions- beach erosion control and public health and safety)

Cliffs and Bluffs

The LCP prohibits development of bluff faces except for public stairways and erosion control structures as long as they do not conflict with coastal policies on access and erosion.

In most cases the LCP requires that any bluff top development and landscaping be placed sufficiently far to ensure it is not visually obtrusive when viewed from the shoreline.

Location of Development

On rural lands the size of the subject property, the LCP requires that any new development be placed where it is least visible from State and County Scenic Roads. (Highway 1 which fronts the entire length of the subject property is identified as a State Scenic Highway). It also requires that it be placed so that has the least likely significant impact on views. The placement must also be consistent with all other LCP requirements. This provision of the LCP, however does not apply to enlargement of an existing structure, provided that the size of the structure after enlargement does not exceed 150% of the pre-existing floor area or 2,000 square feet, whichever is greater.

Any new building sites must not be visible from State and County Scenic Roads. However, the LCP does allow new parcels to have building sites that *"..minimize visibility from (scenic) roads..."*

Structural Features in Rural Areas

The subject is identified on the LCP land use map for rural use. The LCP has certain development criteria relative to any development that involves structures.

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Coastal Views

"Prevent development (including building, structures, fences, unnatural obstructions, signs, and landscaping) from substantially blocking views to or along the shoreline from coast roads....coastal accessways, and beaches." (Section 8.15 of LCP)

Landscaping

The LCP states that plant material be used that integrates the man-made and natural environments and soften the visual impact of new development; projects existing desirable vegetation; and encourages new plantings that are common to the area.

Alteration of Landforms; Roads and Grading

The LCP requires that any development be located and designed to conform with existing landforms as much as possible and minimize the alteration of landforms as a result of grading, cutting, excavating, filling or other development. In addition, development must:

- Ensure the restoration of pre-existing topographic contours after any alteration.
- Avoid the need to construct access roads visible from State and County Scenic Roads. The LCP requires that existing private roads be shared wherever possible. New access roads may be permitted if it can be demonstrated that the use of existing roads is physically or legally impossible or unsafe. Any new roads are to be located and designed so that they minimize visibility issues from State and County Scenic Roads; and built to fit in the natural topography and minimize alteration of existing landforms.

Development Design

The LCP requires that any development blend with the environment and character of the area and not detract from the natural, open space or visual qualities of the area. Exterior colors must harmonize with the predominant earth and vegetative colors. Exterior lighting must be limited to the minimum necessary for safety. Vegetation native to the area is to be used as screening to minimize the visibility of development from scenic roads.

Scale

The LCP requires that the scale of any structure must be sized and scaled so that it *"relate...to adjacent buildings and landforms."*

Utilities in State Scenic Corridors

The LCP requires that new distribution lines in a State Scenic Corridor, like the subject, be underground and that existing overhead distribution lines be placed underground if they are to be

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relocated a part of a development. (There are exception to these requirements. They can be found in Sections 8.22 and 8.23 of the LCP).

Hazard Areas

Hazardous areas are defined in the LCP as areas with fault zones, lands that are subject to liquefaction and other severe seismic impacts, unstable slopes, landslides, coastal cliff instability flooding, tsunamis, fire and steep slopes.

Fire Risk

The subject is not in a high risk fire area. If it was, any residential development would require a review by the County Fire Warden and approval with any recommended conditions for development.

Development within Coastal Bluff Tops

Any development is required to be set back an adequate distance to assure stability and structural integrity for the economic life span of the development (at least 50 years) and sited so that it does not create or contribute significantly to erosion or geologic instability. Any development that is in a bluff top area will require the submittal of a site stability evaluation report by a soils engineer or a certified engineering geologist. The report must include the base, face and top of the bluff. This section of the LCP also prohibits any land divisions or new structures that would require the need for bluff protection work. (Section 9.8 (d))

Development within Floodplains

A portion of Subject Property APN 066-330-230 is located within a designated 100-year floodplain. Any development of the subject located within this flood zone must adhere to the standards, limitations and controls contained in Chapter 35.5 of the San Mateo County Ordinance Code, Sections 8131, 8132, and 8133 of Chapter 2 and Section 8309 of Chapter 4, Division VII and any applicable Subdivision Regulations.

Geotechnical Hazards

The subject property is located east of the San Gregorio fault and has been determined to be subject to "violent" shaking from an event along this fault line. Also, the subject property would be subject to "very strong" shaking from an event along the San Andreas fault line which lies to the east of the subject.

Any building or grading permits under the LCP require the County Geologist or an independent consulting certified engineering geologist to review the permit and determine if there are any geotechnical problems and to determine mitigation measures that may be taken as exists for structure of human occupancy and/or employment .

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Shoreline Development

Any shoreline development along the subject property must be located in areas where beach erosion hazards are minimal and where no additional shoreline protection is needed. (exceptions: coastal-dependent uses or public recreation facilities).

Requirements for Shoreline Protective Structures

The LCP permits the construction of shoreline structures which include retaining walls, groins, revetments, and breakwaters when the following conditions are met:

1. necessary to serve coastal-dependent uses, to protect existing development, or to protect public beaches in danger of erosion,
2. designed to eliminate or mitigate adverse impact on local shoreline sand supply, and
3. non-structural methods for sand replenishment have proved to be infeasible or impracticable.

Shoreline Structures are permitted if they are to protect existing roadway facilities which provide public access to beaches and recreation facilities when alternative routes are not feasible.

Shoreline Structures Located on Sandy Beaches

The LCP prohibits permanent structures on dry sandy beach to avoid any impact to sand movement and supply.

Shoreline Structure Design

All protective structures are to be designed to minimize visual impact; utilize materials which require minimum maintenance; and provide public overlook where feasible and safe. Shoreline structure cannot impede lateral access along the beach.

Geologic Reports for Shoreline Structures

The LCP requires that any development of a shoreline structure be accompanied by a report prepared by a certified engineering geologist or a soils engineer with an analysis of the effect of the project on the physical shoreline processes.

Shoreline Access Component of the Local Coastal Program (Section 10 of LCP)

The San Mateo County Local Coastal Program requires certain conditions that need to be met if it is to grant a development permit to an owner of property located within the area between the shoreline and the nearest public road. The provisions for shoreline access contained in a permit, the location of the access and the amount and type of improvements, according to the Shoreline Access Component of the LCP must be *"consistent with the policies of this component"*.

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The Shoreline Access Component uses Section 30106 of the Coastal Act to define "development" in areas between the sea and the nearest public road. The definition can be found in this report in the section entitled "Other Relevant Sections of the Coastal Act". In addition, the Shoreline Access Component further defines development to include *"any structure which would close off, restrict, or impede access to an existing access trail"*.

Exemptions to the Definition of "Development"

The Shoreline Access Component provides certain exemptions to the definition of development. These exemptions are allowed as long as public access is maintained. Specifically the exemptions are:

- *"replacement of any structure pursuant to the provision of subdivision (g) of Section 30610 of the Coastal Act²⁰.*
- *The demolition and reconstruction of a single-family residence; provided, that the reconstructed residence shall not exceed either the floor area, height or bulk of the former structure by more than 10% and the reconstructed residence shall be sited in the same location on the affected property as the former structure.*
- *Improvements to any structure which do not change the intensity of its use, which do not increase either the floor area, height, or bulk of the structure by more than 10%, which do not block or impede public access, and which do not result in a seaward encroachment by the structure.*
- *Any repair or maintenance activity for which the Commission has determined, pursuant to Section 30610, that a Coastal Development Permit will be required unless the County of the Commission determines that such activity will have an adverse impact on lateral public access along the beach."*

Also exempted are what are considered small to medium development necessary to an agricultural operation and include: development of wells for agricultural purposes,

²⁰ Coastal Act, Section 30610 (g): "Developments authorized without permit, notwithstanding any other provision of this division, no coastal development permit shall be required pursuant to this chapter for the following types of development and in the following areas: (g) (1) The replacement of any structure, other than a public works facility, destroyed by a disaster. The replacement structure shall conform to applicable existing zoning requirements, shall be for the same use as the destroyed structure, shall not exceed either the floor area, height, or bulk of the destroyed structure by more than 10 percent, and shall be sited in the same location on the affected property as the destroyed structure.

(2) As used in this subdivision: (A) "Disaster" means any situation in which the force or forces which destroyed the structure to be replaced were beyond the control of its owner. (B) "Bulk" means total interior cubic volume as measured from the exterior surface of the structure; (C) "Structure" includes landscaping and any erosion control structure or device which is similar to that which existed prior to the occurrence of the disaster."

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storage/equipment shed (500 sq. ft. maximum); fencing that does not interfere with existing access; utility poles to serve agricultural uses; barns not to exceed 5,000 square feet and water storage tanks with a maximum of 10,000 gallons.

Shoreline access is defined in this section of the LCP as vertical or lateral.

"Vertical access" is defined as a reasonably direct connection between the nearest public roadway and the shoreline. Shoreline is further defined as "beach" where contact with the water's edge is possible or a "bluff" where only visual access is afforded.

"Lateral access" is defined as a strip of land running along the shoreline parallel to the water and immediately inland from the mean high tide line. Lateral access may be a beach or a bluff.

Shoreline access is further defined as "Established", "Undeveloped" or "Private". "Established" is where the general public's rights have been established by a permit condition, acquisition and/or prescriptive rights. "Undeveloped" is access created and maintained by actual use. "Private" is access on privately owned land where the public's right to use has not been legally established.

Shoreline Access on Agricultural Areas. (Section 10.11 of LCP)

According Shoreline Access Component of the LCP any development on land that is primarily used for agriculture requires the establishment of vertical and/or lateral access to beaches where no established vertical or lateral access exists; and so long as development standards are adequate to protect the agricultural lands. The maximum required in agricultural areas is one vertical trail from the road to the mean high tide line (MHTL) for any individually owned agricultural operation and/or lateral access *"between the mean high tide line and the bluff or first line of terrestrial vegetation"*. Lateral access is not required along bluff tops in agricultural areas.

Minimum Development Standards for Shoreline Access (LCP)

According to the Shoreline Access Component of the LCP when building vertical access trails the trail should be 10 feet wide with a 5 foot minimum separation between the edges of the trail and adjacent uses. This would indicate a minimum width of 20 feet (5'+10'+5').

Lateral access along a beach should be 25 feet in width, between the MHTL and the first line of terrestrial vegetation. The measured width of the access can either be from the fixed inland point seaward or the MHTL landward.

Parking is to be in existing official off-street parking facilities for shoreline access. Negative impacts of existing off-street parking require the use of landscaping where visible from public roads without blocking ocean views. No existing parking is to be eliminated without a relocation.

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New and relocated off-street parking is to be based on the public's use, and sites that are now used informally for shoreline access parking. New or relocated off-street parking is not to be allowed where emergency pullouts are needed for highway safety, located on visually prominent sites or visually prominent site where landscape screening would block ocean views and sites adjacent to sensitive habitats. New and relocated off-street parking is prohibited for development of sandy beaches.

Public safety issues that need to be addressed relevant to access trails include stair cases down steep bluffs, fences along narrow bluffs, and handrails and steps on steep terrain.

The Shoreline Access Component and Protection of Adjacent Land Uses (Section 10.27 & 10.28 of LCP)

Relevant to residential use, lateral shoreline access is to be 25 feet away from occupied residential structures and 10 feet away from vertical access trails. This section of the LCP is to *"protect the privacy and security of houses and the public nature and use of the shoreline"*.

In agricultural areas the trails are to be located on lands unsuitable for agricultural to the "greatest extent possible" When this is not possible, the location should be at the edge of fields and/or along parcel lines. In agricultural areas any access improvements and management need to be adequate enough to protect the productivity of adjacent agricultural lands including the use of seasonal barriers and signs and develop access trails with fences or other types of buffers.

San Mateo County and the Acquisition, Development, Maintenance and Regulation of Public Access. (Section 10.30 et seq. of the LCP)

According to the Shoreline Access Component of the LCP, San Mateo County is to require, as a condition of granting of a development, shoreline access between the shoreline and the nearest public road. The level of the improvements and development of access must meet certain development standards.

As to the property owner , the development permit is to be conditioned upon the size and type of development sought, any benefit to the developers, the priority of the development under the Coastal Act and the impact the development would place on the public right of access to and use of the shoreline. The minimum requirements are based on the size of the development.

- For small non-agricultural developments such as non residential structures of 500 sq. ft. and smaller, fences, well, utility poles. Small project, such as these, require the property owner/developer to post hazardous and environmentally sensitive areas, and the payment of an in-lieu fee not to exceed 5% of the project cost.
- For small to medium developments which include single-family residences, minor land divisions, barns of 5,000 square feet require the offering or granting of a vertical and/or lateral access consistent with the policies of the Shoreline Access Component of the LCP.

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- For large agricultural and non-agricultural developments including the development of more than one single-family house, a major subdivision or commercial and industrial development require the property owner to provide, improve and maintain shorelines access.

As directed by the Shoreline Access Component of the LCP, the techniques to be used by San Mateo County to obtain vertical and/or lateral access include the use of:

Offers of Dedication (also known as OTDs)

This is a dedication of a fee interest or an easement for both vertical and/or lateral access when no agency or association acceptable to the County is currently ready to accept the dedication. The dedication is to be recorded and irrevocable for a period of 21 years. During this period of time the access-way is not open to public use, unless the OTD is accepted by an agency or association or the landowner consents.

Grant of Easement

A grant of easement is to allow the public to travel over a designated portion of a parcel.

Grant of Fee Interest

A grant fee interest results in a complete transfer of ownership "*when the land is important in and of itself for recreation*" which means it is used as more than the means to reach the shoreline.

Deed Restriction

A deed restriction requires the owner to allow public access and recreation on a particular portion of a parcel. It is used when the access is improved, maintained and operated by the property owner.

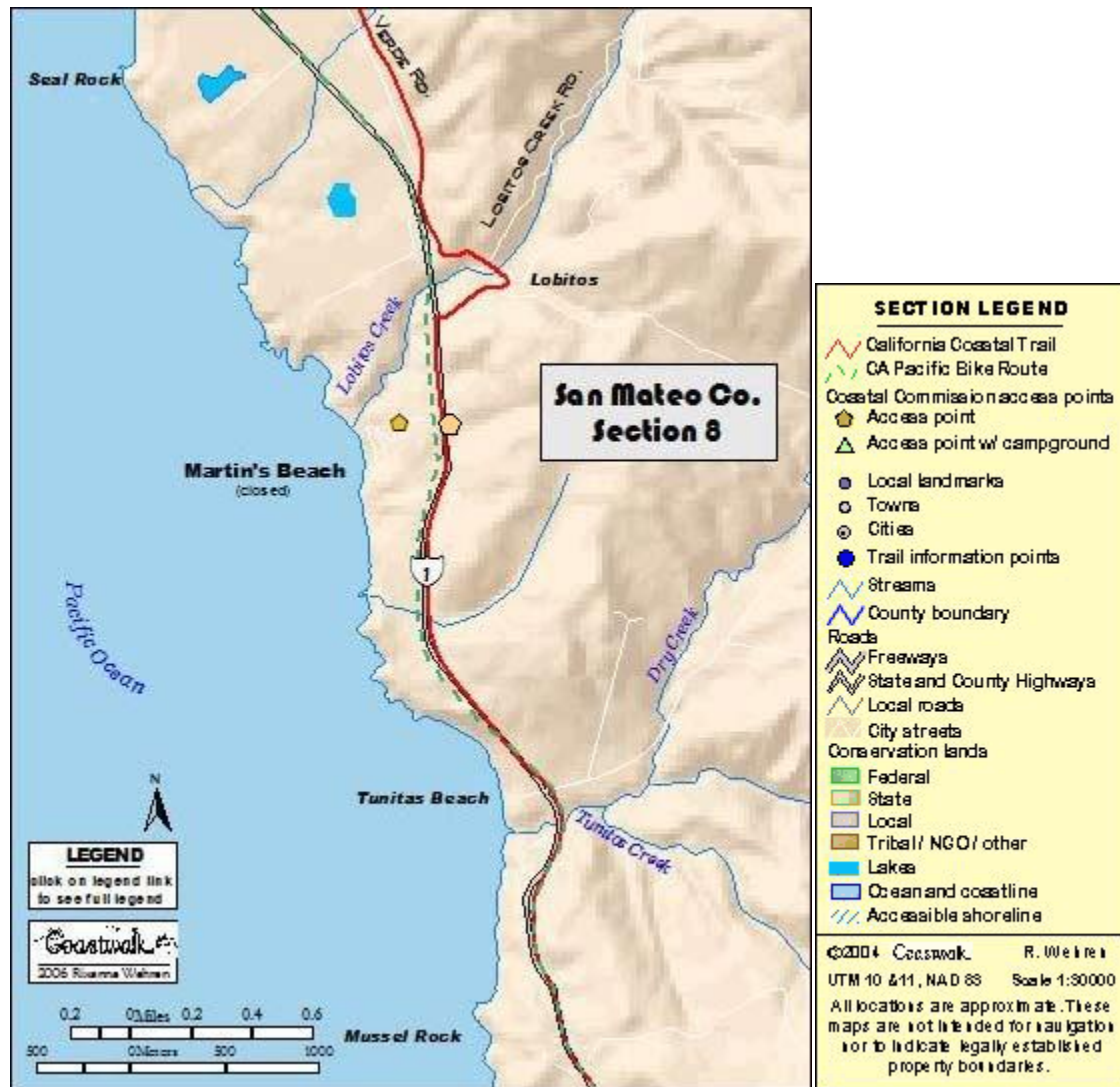
In-Lieu Fees

This is a fee that would be required in a situation where a new development where public access at a site is not consistent with the policies of the Shoreline Access Component of the LCP.

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The California Coastal Trail

Map copied from California Coastal Trail Web site. The map is not sanctioned by any state agency.



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The California Coastal Trail (CCT) and the Shoreline Access Component of the LCP (Section 10.38)

The California Coastal Trail is addressed in the Shoreline Access Component of the LCP. According to the LCP, the County of San Mateo is to take the lead responsibility in designing, locating, funding, acquiring and implementing the CCT after consulting with other interested parties including the Coastal Commission, other state agencies, Cal Trans, certain identified cities and the National Park Service. The LCP states that:

"trail easements should be obtained by encouraging private donation of land, by public purchase, or by dedication of trail easement required pursuant to a development permit".
(Section 10.38 b(6) (a))

It appears at this point in time that the proposed California Coastal Trail may border the entire length of the subject property's eastern boundary. Following is an analysis of the proposed CCT on the value of the subject property.

The California Coastal Trail is a planned continuous interconnected public trail system along the 1,100 mile California coastline. It is, at this time, a work-in-progress with an estimated 50% of the CCT available for public use.²¹ It is designed to foster appreciation of the scenic and natural resources of the coast and also serves to implement aspects of the Coastal Act policies promoting non-motorized transportation. The trail system is planned for development along a variety of terrains, including the beach, bluff edge, hillsides that provide scenic vantage points, and within the highway right-of-way, all of which are physical characteristics of the subject property. While primarily for pedestrians, the CCT is envisioned to also accommodate bicyclist (Pacific Bike Route), equestrian and other users. The goals and objective of the CCT system include among other things:

- A continuous walking and hiking trail as close to the ocean as possible;
- Provide maximum access for a variety of non-motorized uses;
- Maximize connections to existing and proposed local trail systems. (This would include the subject's planned vertical and lateral beach access); and
- Maximize ocean views and scenic coastal vistas like the subject property provides.

The Coastal Commission indicates in their document entitled "Coastal Access Program: the California Coastal Trail" that the trail should be located along or as close to the shoreline as is physically possible and aesthetically feasible. Where that is not possible the CCT inland trail segments should be located as close to the shoreline as possible. The trail is to be designed and located to minimize impacts to environmentally sensitive habitat areas and prime agriculture

²¹ "Coastal Access Program: the California Coastal Trail" by the California Coastal Commission. (Web site: www.coastal.ca.gov/access/ctrail.html)

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lands (The subject is not one of the parcels identified on San Mateo Counties GIS system maps as prime agricultural lands). Also the CCT, relative to design, should avoid being located on roads with motorized vehicle traffic where feasible. If this cannot be avoided then the trail should be located off of the pavement , in what may generally described as a safe area.

There are, at this time, no detailed maps depicting major portions of the CCT trail system. However, there are maps depicting the general location and development issues for segments of the trail. Coastal Conservancy Map #3, which can be located on the Coastal Commission's web site, appears to show the CCT trail as paralleling Highway 1 (named the Cabrillo Highway at this location) which fronts along the entire eastern boundary of the subject property. Notations on the Coastal Conservancy Map #3 state the following relevant to the general area where the subject property is located:

- *"Design and construct bluff top trail.*
- *Improve Hwy 1 corridor for non-motorized travel"*

Since the portion of the CCT that borders the subject has no specific detailed maps would indicate that the trail, at this stage, is only at the preliminary stages of planning , but it does appear that it will, most likely, parallel Highway 1. The trail maybe located within the existing right-of-way or may require some land on either side of the right-of-way which may include the subject depending on the ultimate design and location. It is this appraiser's opinion that the impact the proposed trail may have on the subject is unknown and remote enough in time with lack of location and design specificity to have little or no impact on its present day value.

The Shoreline Access Component of the LCP includes a number of tables that provide an assessment of access trails. The tables specifically include "Martins Beach"

Table 10.1, "Assessment of Access Trails and Shoreline Destinations"

Table 10.1 entitled "Assessment of Access Trails and Shoreline Destinations" identifies Martins Beach as a destination with a "trail to water's edge" as being the type of access to a "long sandy beach" that is greater than 1000 yards long and a width of greater than 26 feet. The "protection from exposure is identified as "M" which in Appendix 10.A indicates "accessible with difficulty, but without risk of bodily harm". and "M" relevant to environmental sensitivity which in Appendix 10.A is defined as "bluffs, steep slopes". Martins Beach is also identified on Table 10.1 as "H" for compatibility with existing land uses. "H" in this category is defined for residential use as "substantial separation by distance, grade separation or landscaping". The length of shoreline trail is identified as "Sh" which is defined as less than 250 feet across and 10 feet down to shoreline destination. Accessibility from Highway 1 is identified as "M" which indicates the trail is less than 1/2 mile from Highway 1. The Location category is identified as "introduces new public access" is labeled "H" which is defined as "no existing established public shoreline access trail or destination nearby, within 1/4 mile in both directions". The table

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identifies ownership as "Pr" for private. The level of existing use is identified as "H" which is defined as "many people using trail and shoreline destination on weekdays and evidence of heavy use (more than 200 people at shoreline destination)". Activities at Martins Beach are identified as "B" and "F" which are defined as "sunbathing" and "fishing". Parking availability is identified as "H" which is defined as "areas where existing official off-street parking for more than 75 cars exists, or adequate space to provide such parking exists within 1/4 mile. Potential for increased public use is identified as "M" which is not defined on Table 10.1 or in Appendix 10.A.

Table 10.3, "Preliminary Likelihood of Prescriptive Rights in the South Coast".

This table specifically identifies Martin's Beach as having one trail. The existence of the trail has been identified on Aerials or Photographs taken in 1970, 1965 and 1956.

Table 10.6, "Site Specific Recommendations for Shoreline Destinations"

Table 10.6 specifically identifies Martins Beach and recommends the following site specific policies for this area:

- Sign the mouth and riparian area of Lobitos Creek, requesting public not to intrude into this sensitive area.
- Consolidate existing trails between Martins Beach and the cove to the north into one established safe trail.

Following are the three tables described above.

(See Appendix A for Complete Definition of Terms)

10.27

f Pr indicates private ownership. P indicates public ownership.
C indicates combined public/private ownership.

g Existing and potential activities. E indicates equestrian. H indicates hang-gliding. S indicates surfing. F indicates fishing. D indicates diving. B indicates sunbathing. SW indicates swimming.

g Existing and potential activities. E indicates equestrian. H indicates hang-gliding. S indicates surfing. F indicates fishing. D indicates diving. B indicates sunbathing. SW indicates swimming.

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TABLE 10.3 PRELIMINARY LIKELIHOOD OF PRESCRIPTIVE RIGHTS IN THE SOUTH COAST ¹						
Shoreline Destination (Number and Name of Shoreline Access Maps)	Level of Use	Trail ²	Existence of Trail on Aerial Photographs			Posted/ Fenced ³
			1970	1965	1956	
26. Cove North of Martin's Beach	H	1	X	X	X	—
Martin's Beach		1	X	X	X	—
27. Tunitas Creek	M	1	X	X	X	P
28. Cove South of Tunitas Creek		1	X			P, F
29. Beach North of San Gregorio State Beach		1	X	X	X	P, F
	M	2	X	X		—
33. Bluffs and Beach Between Pomponio and Pescadero State Beaches		4	X	X	X	—
40. Yankee Jim Gulch	M	1	X	X	X	—
41. Bluff and Beach North of Pigeon Point Lighthouse	M	1	X	X	X	—
42. Beach East of Pigeon Point Lighthouse	M	1				P, F
45. Beach .8 Mile South of Pigeon Point Road	H	1	X			—
46. Beach 1.1 Miles South of Pigeon Point Road		1	X	X	X	—
47. Beach Between Gazos Creek and Año Nuevo State Reserve		1	X	X	X	—
49. Coastways Beach	L	1	X	X	X	—

¹Trails already under public ownership not included.

²If there is only one trail to destination, "1" is indicated; if there are two or more trails, "1" then refers to the most northerly trail.

³Posted with No Trespassing Signs.

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TABLE 10.6 (continued)			
SITE SPECIFIC RECOMMENDATIONS FOR SHORELINE DESTINATIONS			
Destination Name	Number on Shoreline Access Maps	Application of Policies to Site/Specific Recommendations	Special Considerations
		(3) Access should be kept open and eventually improved to and along the beach between West Point and Columbia Avenue (No. 20) and at Broadway Avenue. (4) A trail should connect the Princeton beaches to the Fitzgerald Marine Reserve.	
Johnson Pier and Beach	23	(1) Establish parking for the disabled and bicycles. (2) Implement the access improvements to the harbor required by the Coastal Commission.	
Beaches South of Half Moon Bay	24-25	(1) Build staircases down the bluffs to these beaches. (2) Sign the access at Purisima Creek advising the public not to intrude into sensitive habitats along the creek and not to remove specimens from the marine habitat along the beach. (3) Build fences along the trails where they are adjacent to agricultural land.	
Martin's Beach	26	(1) Sign the mouth and riparian area of Lobitos Creek, requesting the public not to intrude into this sensitive area. (2) Consolidate existing trails between Martin's Beach and the cove to the north into one established safe trail.	
Tunitas Creek	27	(1) Provide a bluff top access point or trail for public viewings. (2) Prior to trail improvement, post signs warning of hazards. (3) Redesign and landscape existing parking area to minimize adverse visual impact.	Developed trail should be located away from residential areas and the riparian corridor.

Visual Resources Component of the Local Coastal Program

The definition of "Landforms" found in, and that are subject to, the Visual Resources Component of the LCP include cliffs and bluffs, beaches and coastal terraces. All of these landforms can be found on the subject property.

This Component of the LCP prohibits (with a few exceptions) permanent structures on open sandy beaches and development on bluff faces except where public access stairways and erosion control structures are deemed necessary. This component also requires any development including landscaping on a bluff top to be *"sufficiently far to ensure it is not visually obstructive when viewed from the shoreline"*.

The Visual Resources Component requires that *"any new development is to be located on a parcel where the development is the least visible from State and County Scenic Roads...and best preserves the visual and open space qualities of the parcel overall."* This particular provision of the Visual Resource Component does not apply to the enlargement of existing structures so long as the enlarged structure does not exceed 2,000 square feet or 150% of the pre-existing floor area, whichever is greater.

The Visual Resources Component also requires that:

- the design and location of new development to minimize tree removal including trees located in scenic corridors.
- any development in a rural area, that coastal views not be substantially blocked by structures, fences and landscaping.
- the alteration of landforms such as roads and grading should be designed to minimize the alteration of landforms and that pre-existing topographic contours be restored conform with existing lands forms and that any new roads should not be visible from State and County Scenic Roads.
- design criteria including colors and materials used in a proposed development.
- new utility distribution lines be installed underground and any existing overhead lines that are relocated as a result of development also be located underground.

Scenic Roads and Scenic Corridors Under the Visual Resources Component of the LCP

Scenic Corridors are defined in the Visual Resources Component of the LCP (Section 8.28) as:

"the visual boundaries of the landscape abutting scenic highway and which contain outstanding views, flora, and geology and other unique natural or man-made attributes and historical and cultural resources affording pleasure and instruction to the highway traveler"

This section of the Visual Resources Component recognizes officially adopted State Scenic Roads and Corridors as shown on the Scenic Roads and Corridors Map for the Coastal Zone.

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(See following map). The subject is located in the "State Scenic Corridor" that is identified as "The Cabrillo Highway". This component of the LCP requires among other things to:

- apply the policies of the Scenic Road Element of the County General Plan;
- apply the Landforms and Vegetative Forms of the LCP;
- apply the Rural Design Policies of the LCP;
- Require a minimum setback of 100 feet from the right-of-way line and greater where possible; and
- continue applying any special regulations to the Cabrillo Highway State Scenic Corridor.

Scenic Roads and Scenic Corridors

The LCP defines Scenic Corridors as:

"...the visual boundaries of the landscape abutting a scenic highway and which contain outstanding view, flora, and geology, and other unique natural or man-made attributes and historical and cultural resources affording pleasure and instruction to the highway traveler".

Coast Highway 1 south of Half Moon Bay City limits is designated as a State Scenic Highway (See Section 8.29 of the LCP). This roadway fronts the entire length of the subject property. Regulations contained within the LCP relevant to Scenic Corridors in Rural areas require the following applications:

- Apply the policies of the Scenic Road Element of the County General Plan.
- Apply the Rural Design Policies of the LCP.
- Apply the Policies of Landforms and Vegetative Forms of the LCP.
- Require a minimum setback of 100 feet from the right-of-way line and greater where possible. A 50-foot setback may be allowed if it is determined the sufficient screening is provided.
- Continue applying special regulations for the Cabrillo Highway State Scenic Corridor which fronts along the entire subject property.

Scenic Corridor and the Subject Property

According to the San Mateo County GIS map, the subject lies within a state scenic corridor identified as the Cabrillo Highway State Scenic Corridor. (See map on following page entitled "San Mateo County General Plan-Scenic Corridors") Martins Beach is identified on the map and lies between Seal Rock and Mussel Rock. Martins Beach is identified on the map as being within the "State Corridor-Cabrillo Highway".



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Land Use and Development Densities in Rural Areas (Per LCP)

The area in which the subject is located is designated a "Rural" area on the LCP Land Use Plan Map. San Mateo County Planning staff use Table 1.5 as a guide and refer to the column entitled: "Number of Measuring Units Per Density Credit Based on Peak Daily Water Use With Conservation Fixtures" to determine the density allowed on a parcel located within the designated "Rural" area like the subject. The table is based on average daily water use for different type uses.

On page 1.4 of the LCP, Section (3) (a) it states:

For visitor-serving, commercial recreation, and public recreation uses, the amount of development allowed for each density credit in accordance with the requirements of this policy shall be:

(a) For one density credit...available, either 1 1/2 times the amount stated in Table 1.5 in the column headed "Number of Measuring Units Per Density Credit Based on Peak Daily Water Use with Conservation Fixtures" or the amount stated in that column and a residential dwelling unit associated with a visitor-serving facility that is occupied by the facility owner or operator."

The subject has one density credit. Using Table 1.5, that density credit can be converted to a number of possible uses.

For a residential/commercial type use, the density for a small and large hostelrys the measure that is used is the "rental room" with a density of 6.33 (rooms) per density credit. For a resort facility it is the same room count at 6.33 rooms per density credit.

If, for example, a visitor-serving facility consisting of individual detached rentable cabins is planned along with a residential dwelling unit associated with the cabin rentals; and the single family residence is occupied by the facility owner or operator, one density credit would allow the single family residence plus 6.33 rooms (cabins). San Mateo Planning staff stated the cabins, in this example could not have kitchens or baths but just consist of one-room cabins. The cabins would need to share the bath and kitchen facilities located in the single family residence.

Another example would be the development of the subject with a bed and breakfast facility. San Mateo planning staff would use Table 1.5 as a guide to determine the size of the project. The table states a hotel/motel use allows 6.33 rooms per density credit. Since, in this example, no single family residence is planned, the LCP allows the room count to be 1 1/2 times what is stated in the table, so the room count would be increased to 6.33 rooms x 1.5 = 9 rooms, assuming no single family residence will be built.

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Conclusion

The density of development on the subject property is quite limited with only one density credit and no ability to transfer a bonus density credit from another parcel or earned it in other ways. The subject if vacant could be developed with a large single family residence. Other possible likely uses would be a bed and breakfast with nine rooms or possibly a single family residence with 6 individual cabins (no bathrooms or kitchens in the cabins) The cabins would need to share the bath and kitchen facilities located in the single family residence.

Bottom line: the number of density credits a parcel may have is determined by land use laws and regulations. Once the density credits are determined, the density of a particular development is determined by using Table 1.5 of the LCP. Table 1.5 is based on average water usage. So, water use drives the intensity of a development.

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Zoning

The subject property has two specific zoning designations. They are "CD" for Coastal Development District; and "PAD" for Planned Agricultural District. The zoning regulations for these specific zonings can be found in the San Mateo County "Zoning Regulations" dated December 2012. Specific information relevant to the CD zone district can be found in Chapter 20B; and information for the PAD zoning district can be found in Chapter 21A of the before mentioned "Zoning Regulations".

CD (Coastal Development District) Chapter 20B, San Mateo County Zoning Regulations

According to zoning regulations, the CD zoning designation was established *"for the purpose of implementing the Coastal Act of 1976"*. The CD district is considered an "overlay" district which can be combined with other district zoning. An "overlay" district means that the CD zoning requirements described in ordinance text and mapped for the CD district is imposed in addition to the requirement of one or more underlying districts, which in the case of the subject the underlying district would be the "PAD "Zoning District.

The CD District covers the same area as the area within that portion of the Coastal Zone that was established by the Coastal Act of 1976 and is located within the unincorporated area of San Mateo County.

Any development within the CD district requires a Coastal Development Permit.

"Development" is defined in the CD (Coastal Development District) as:

"Development" means, on land, in or under water, the placement or erection of any solid material or structure; discharge or disposal of any dredged material or of any gaseous, liquid, solid, or thermal waste; grading, removing, dredging, mining, or extraction of any materials; change in the density or intensity of use of land, including, but not limited to, subdivision pursuant to the Subdivision Map Act (commencing with Section 66410 of the Government Code), and any other division of land including lots splits, except where the division of land is brought about in connection with the purchase of such land by a public agency for public recreational use; change in the intensity of use of water, or of access thereto; construction, reconstruction, demolition, or alteration of the size of any structure, including any facility of any private, public, or municipal utility; and the removal or harvesting of major vegetation other than for agricultural purposes, kelp harvesting, and timber operations which are in accordance with a timber harvesting plan, submitted pursuant to the provisions of the Z'berg-Nejedly Forest Practice Act of 1973 (commencing with Section 4511). As used in this section, "structure" includes, but is not limited to, any building, road, pipe, flume, conduit, siphon, aqueduct, telephone line, and electrical power transmission and distribution line"

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Project Appealable to the Coastal Commission.

Any project that is approved by the Board of Supervisors is appealable to the Coastal Commission if it meets certain criteria as outlined in Chapter 20B Section 6328.2 (s) of the zoning regulation including:

"Projects between the sea and the first through public road paralleling the sea or within 300 feet of the inland extent of any beach or of the mean high tide line of the sea where there is not beach, whichever is the greater distance."

All of the subject property falls within the above described area and so any project located on the subject property and that is approved by the San Mateo County Board of Supervisors is appealable to the Coastal Commission. The appeal can be made by any "aggrieved person" (one who objects to the action taken by the Board of Supervisor's) in an area as defined above.

Exemptions to the Requirements of a Coastal Development Permit in the "CD" District (Coastal Development District)

Any development project located in the "CD" District is required to obtain a Coastal Development Permit as well as any other permit required by law. Any development that does take place must conform to the plans, specifications, terms and conditions approved or imposed in granting the permit. However there are a number of exemptions to the requirements of a Coastal Development Permit, including the following:

- The maintenance, alteration, or addition to existing single-family dwellings or the maintenance, alteration or additions to existing structures that are not single family dwellings with a number of exceptions to this exemption including: the requirement of a Coastal Development Permits when the development involves improvements to a single-family structure on a beach; a significant alteration of landforms including development within 50 feet of the edge of a coastal bluff for single family residences and 100 feet for other structures or developments; the expansion or construction of water wells or septic system; and the construction of a major water using development not essential to residential use such as a swimming pool or irrigated landscaping; any development within a scenic corridor that results in an increase of 10% or more of external floor area and/or the construction of an additional story including lofts in an existing structure.
- maintenance dredging of existing navigation channels or moving dredged material.
- Repair or maintenance activities that do not result in an addition to or enlargement of an object of such repair with the exception to the exemption: of seawall, revetment, bluff retaining wall, breakwater, groin or similar shoreline work that involves substantial alteration of the foundation; the placement of riprap, artificial berms of sand or other

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beach materials; the replacement of 20% or more of the materials of an existing structure with materials of a different kind; or the presence of mechanized construction equipment or construction materials on any sand area or bluff.

- The installation, testing and placement in service or the replacement of any necessary utility connection between an existing service facility.
- The replacement of any structure destroyed by natural disaster. However any replacement must conform to applicable existing zoning requirements and not exceed the floor area, height or bulk of the destroyed structure by more than 10% and be sited in the same location. This requirement may limit the rebuilding on the subject property of any of the residences located on or near the beach if destroyed by a natural disaster such as a flood or tsunami.
- Lot line adjustment not resulting in an increase in the number of lots.
- Harvesting of agricultural crops.
- Timber operations that have an approved timber harvesting plan.
- Land division brought about in connection with the purchase of land by a public agency for public recreation use.
- Encroachment permits
- Street closure permits.

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PAD District (Planned Agricultural District), San Mateo County Zoning Regulations, Chapter 21A

The "PAD" zoning is considered to be the "underlying zoning district" for the subject property which is also subject to the "overlay" "CD" (Coastal Development District) requirements. The PAD zoning requirements are described in ordinance text Chapter 21A of the San Mateo "Zoning Regulations", dated December 2012.

According to zoning regulations, the PAD zoning designation was established to *"1) preserve and foster existing and potential agricultural operations in San Mateo County in order to keep the maximum amount of prime agricultural land and all other lands suitable for agriculture in agricultural production; and 2) minimize conflicts between agricultural and non-agricultural land uses..."*

The definition section for the PAD zoning designation divides lands into a number of classifications. Subject Property APN 066-330-230 consists of three of the classifications. They are "Prime Agricultural Land, "Land Suitable for Agriculture" and "Other Lands".

Prime Agricultural Land

"Prime agricultural land" is defined as land which has soil ratings of Class I or Class II as classified by the U.S. Department of Agriculture Soil Conservation Service Land Use Compatibility Classification. The subject property has only one small area of approximately a tenth of an acre that is located along the northerly border of the subject and is identified on the soil map as "TuB", "Tunitas clay loam, gently sloping--prime farmland if irrigated". The soil map of the subject can be found in the section of this report entitled: "Soil and Farming Capability of the Subject Property"

Lands Suitable for Agriculture

Subject Property APN 066-330-230 consist of 49.155 acres of which approximately 52% or 25.6 +/- acres that is dry farmed and would be considered "Lands Suitable for Agriculture". This area also includes two single family residences and a barn. This classification is defined in the zoning regulations as *"land other than Prime Agricultural Land on which existing or potential agricultural use is feasible, including dry farming, animal grazing and timber harvesting"*.

Other Lands

"Other Land" is defined as *"any portion of a parcel in the Planned Agricultural District which does not meet the definition of Prime Agricultural Lands or Lands Suitable for Agriculture"*. Subject Property APN 066-330-230 is made up of about 23.6 +/- acres that fit within this classification. These "Other Lands" can be located on the soil map found in the section of this report entitled "Soil and Farming Capability of the Subject Property" and identified on that map

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as "Cf" Coastal Beaches and "Ta" Terrace Escarpments". The residential structures (cabins) located near the beach are all located on the "Ta" soil type.

Uses Permitted in the PAD Zoned District

The uses allowed on Prime Agricultural Land are not discussed in this section because of the small area involved (about 1/10th of an acre). Over 99% of Subject Property APN 066-330-230 is either "Land Suitable for Agriculture or "Other Lands" as described above. Permitted uses allowed on "Land Suitable for Agriculture or "Other Lands" include:

- Agriculture.
- Non-residential development customarily considered accessory to the agricultural uses.
- Dairies.
- Greenhouses and nurseries.
- Temporary road stands for season sale of produce grown in San Mateo County (with specified limitations).
- Repairs, alterations, and additions to existing single-family residences.

Uses Permitted Subject to the Issuance of a Planned Agricultural Permit

Planned Agricultural Permits expand on possible uses of lands located within the PAD District beyond what is allowed under "Permitted Uses". Planned Agricultural Permit applications go through a procedural process which starts with an application submitted first to the County Planning Commission. As noted in the previous section, "Prime Agricultural Lands" are not discussed in this section because they make up only 1/10th of an acre or less than 1% of Subject Property 066-330-230. Uses allowed on "Lands Suitable for Agriculture and Other Lands" with a Planned Agricultural Permit include:

- Single-family residences.
- Farm labor housing.
- Public recreation/shoreline access trail. Schools.
- Fire stations.
- Wineries (with specific limitations).
- Commercial recreation.
- Onshore oil and gas exploration, production and storage (with limitations).
- Facilities for the processing, storing, packaging, and shipping of agricultural products.
- Uses ancillary to agriculture.
- Kennels.
- Scientific/technical research and test facilities (with specific limitations).
- Permanent road stands for the sale of produce, subject to specific findings.

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Criteria for Issuance of a Planned Agricultural Permit

An applicant for a Planned Agricultural Permit must *"demonstrate that any proposed land division or conversion of land from an agricultural use will result in uses which are consistent with the purpose of the Planned Agricultural District"*. In addition, a division or conversion of land must be found to be consistent with the following criteria:

- The encroachment of development on lands suitable for agricultural use is to be minimized.
- All development is to be clustered.

The project must conform to Development Review Criteria found in Chapter 20A.2 of the San Mateo County Ordinance Code. The criteria found in this section of the Zoning Regulations is quite lengthy and is the same criteria as used in the "RM" Zoning District. Chapter 20A.2 of the zoning code lays out very specific criteria for different types of proposed development. The criteria will be discussed in the following section of this report and will be limited to the more likely issues that would involve the subject property.

There is specific water supply criteria that must be met as outlined in Chapter 21A Section 6355B1 of the zoning regulations.

There is specific criteria for the division of lands classified as "Lands Suitable for Agriculture and Other Lands". In summary these lands are not to be divided unless it can be demonstrated that existing or potential agricultural productivity of any resulting agricultural parcel would not be reduced.

The criteria for the conversion of lands classified as "Lands Suitable for Agriculture and Other Land" requires that it must be demonstrated that all agriculturally unsuitable lands on the parcel have already been developed; continue or renewed agricultural use of the soils is not capable of being accomplished, clearly defined buffer areas are developed between agricultural and non-agricultural uses, and the productivity of adjacent agricultural lands is not diminished.

Development Review Criteria

As mentioned above, the issuance of a Planned Agricultural Permit for properties within the PAD District Zone requires that a proposed project must conform to "Development Review Criteria" found in Chapter 20A.2 of the San Mateo County Ordinance Code. This is the same criteria as is found for the "RM" zoning district. It is quite lengthy and so the discussion that follows will be limited to the more likely issues that would involve the subject property and include criteria for Site Design, Utilities, Hazards to Public Safety, Scenic Corridors, Agricultural Resource Areas, Ocean Shoreline, Flood Plain Areas and Tsunami Inundation Areas.

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Site Design Development Criteria: must be located, sited and designed to fit the environment; any required grading relevant to location, site and design must fit the natural topography and minimize grading; small, separate parking areas are preferred to parking lots; geometrically terraced building sites are not allowed that detract from the scenic and visual quality or natural characteristics of a major water course; must be sited and designed to minimize noise, light, glare and odors; not result in the instability of the parcel or adjoining lands; must use colors and materials that blend with surrounding soils and vegetative cover; wherever possible, vegetation removed during construction needs to be replaced.

Utilities: must be of minimum bulk, height and design in order to have an uncluttered appearance; underground utility lines are required to be underground (with some exceptions); there must be a public water supply or the existence of an adequate local water supply; suitability for septic tank installation or other treatment facilities must be demonstrated.

Hazards to Public Safety: No development shall disrupt the natural erosion and transport of sand or other beach material from coastal watershed in the coast's littoral circulation system; generally, structures shall not be placed where there is severe hazards to life and property due to soils, geologic, seismic, hydrological, or fire factors; no land shall be developed which is held unsuitable by the Planning Commission for reason of exposure to fire, flooding, inadequate drainage, soil and rock formations with severe limitations, susceptibility to mudslides or earth slides, severe erosion potential, steep slopes, inadequate water supply or sewage disposal capabilities or any other feature harmful to the health, safety or welfare of future residents or property owners of the development or the community-at-large.

Scenic Resource Areas Criteria (including State Scenic Highway Corridors): Public views within and from Scenic Corridors are to be protected and enhanced and any development must not significantly obscure, detract from or negatively affect the quality of these views.; generally, clear cutting or removal of existing vegetation from right-of-way is prohibited; within scenic corridors, pathway pavements are to be colored so as to blend with the surrounding landscape; curved approaches to Scenic Corridors are to be used along with native plants to screen access roads from view; the number of access roads to a Scenic Corridor are to be kept to a minimum wherever possible; colors and plant material are to be used that minimize the visual impact to a Scenic Corridors; Scenic Corridor developments are to include vista points and roadside rests; no off-premise outdoor advertising is permitted; any screening that is required is not to consist of solid fencing but should be of natural materials.

Primary Agricultural Resource Areas (including designated agricultural districts such as PAD and CD): only agricultural and compatible uses are permitted; clustering of uses are not to be permitted unless and until the Planning Commission decides if the clustering would promote the use or potential use of the land for agriculture purposes; and where possible, structural uses are to be located away from prime agricultural soils.

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Ocean Shoreline Criteria: Public access from state or local roads or trails to the ocean shoreline are to be provided to the maximum extent practicable while minimizing harm to the environment and preventing trespass over private lands; for land divisions, a public access easement shall be dedicated along the ocean shoreline before any private development is permitted; an applicant must demonstrate there is no non-ocean shoreline sites available or suitable for development and that any proposed development will not cause significant harm to water quality, the natural beauty of the area, safety or health or public use of the adjacent waters or underlying lands.

Flood Plain Area Criteria: No land can be developed which is found to be unsuitable for its proposed use by reason of flooding; the suitability of a site for its intended use must consider the danger to life and property due to the increased flood heights, velocities caused by excavation, fill, roads, and intended uses, the safety of access to the property for emergency vehicles in times of flood and the expected heights, velocity, duration rate of rise and sediment transport of flood waters expected at the site; no development will be allowed unless it can be demonstrated the development will not cause adverse disturbance to any beaches; uses that are allowed so long as they are not prohibited by other ordinances include agricultural uses such as farming, pasture and grazing, private and public recreation uses such as beaches, steps and platforms to permit access across beaches, life guard stations, hiking and horseback riding trails, residential uses such as lawns, gardens, parking areas and play areas; erosion control devices are permitted so long as they are not otherwise prohibited or do not threaten other lands during times of flooding; buildings are not to be designed or used for human habitation and must be placed on the site to minimize resistance to the flood waters but also be firmly anchored to prevent flotation; any service facilities such as electrical and heating equipment are to be flood proofed or constructed above the 100-year flood elevation; sewage disposal facilities are prohibited where such systems might not function due to high groundwater; water systems are to be flood proofed or located above the flood protection elevation.

Tsunami Inundation Area Criteria: Residential structures and resort developments designed for transient or other residential uses may be permitted as long as a competent authority estimates the probable maximum wave height, wave force, run-up angle, and level of inundation of the parcel; no structure is allowed where the projected wave height and force is fifty percent or more of the projected maximum unless the highest projected wave height above ground level of the structure is less than six feet and no residential floor level is less than two feet above the wave height and the structural support is sufficient to withstand the projected wave force; the residential floor level must be one foot above the highest projected level of inundation; permission will not be granted if the Planning Commission determines that there is not sufficient data made available by the applicant.

Maximum Density of Development-PAD (Planned Agricultural District)-, Chapter 21A, Section 6357 et sec

The maximum density credits allowed in the Planned Agricultural District is one density credit per 40 acres. Each density credit for new or expanded non-agricultural uses (excepting out visitor-serving, commercial recreation and public recreation uses which are not included in this analysis).

The amount of density credits, and thus development for non-agricultural uses is also limited by the availability of water. For each density credit where there is new and expanded residential use there must be 315 gallons of average daily water use during the two months of highest water use in a year and include such non-agricultural uses as landscaping, swimming pool and all other appurtenant uses.

Land classifications for determining density credits are determined by the classification of the lands located on each legal parcel. Following is the allowed density credit for each land classification. These land classifications require from 60 acres to 160 acre for each density credit (d.c.) allowed.

Lands classified as: Land with Landslide Susceptibility, Land With Slope 50% or Greater, Prime Agricultural Land, and Remote Lands all require 160 acres for one density credit or a fraction of a density credit. The fraction of a density credit is determined by dividing the classified acres by 160 acres. (Example: 20 acres of a parcel is classified "Land with Landslide Susceptibility". The fractional credit would be $20/160 = .125$ of a density credit).

Lands classified as: Land Within Rift Zones or Active Faults, Land With Slope of 30%, but less than 50% would earn one density credit per 80 acres or a fraction thereof.

Lands classified as: Lands Within Flood Hazard Areas, Land With Slope of 15%, But Less Than 30% and Land Within Agricultural Preserves or Exclusive Agricultural Districts would earn one density credit per 60 acres or a fraction thereof.

The land classifications that make up the subject property would include: Lands Within Flood Hazard Areas (1 d.c. per 60 acres); Land Within Agricultural Preserve (1 d.c. per 60 acres); Land with Slope of 50% or Greater (1 d.c. per 160 acres); Land With Slope of 30%, But Less Than 50% (1 density credit per 80 acres); and Land With Slope of 15%, But Less Than 30% (1 d.c. per 60 acres)

Bonus Density Credits

Bonus density credits can be earned by either constructing new or enlarging existing water storage facilities by a schedule located in Section 6367 entitled "Density Bonus And Transfer Part B2 Agricultural Water Improvements". However, according to the zoning ordinances for a

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PAD District, bonus density credits are allowed as long as "*...the density credit are not used to convert Prime Agricultural Land or locate development within scenic corridors.*" Since the entire subject property is within the State Scenic Corridor such bonus credits cannot be earned by making agricultural water improvements.

Estimated Density Credits for the Subject Property

The subject parcel is near in size to the maximum density allowed in the PAD zone which is 40 acres for one density credit. Subject Parcel APN 066-330-230 is slightly larger at 49.155 acres. By virtue of its size and without the need to do further analysis, it can be determined that the subject property is limited to one density credit per legal parcel.

Also, Bonus Density Credits from agricultural water improvements cannot be granted either for development of the subject property because the PAD zoning regulation specifically state that bonus density credits cannot be used "*for development in scenic corridors*" and the subject property is located entirely within a State Scenic Corridor.

The above analysis of density credits is based on the extraordinary assumption that Subject Parcels APN 066-330-230 is a legal parcel as defined in the Local Coastal Program Policies under the section entitled "Parcel Legalization", which can be found in Section 1 starting on page 1.12. This extraordinary assumption is necessary because it is not known at this time if the subject parcel is or is not a separate, legal parcel.

Maximum Height-PAD (Planned Agricultural District) Chapter 21A, Section 6358 et. sec.

Section 6358 limits the maximum height of structures in the PAD zoning district to three stories or 36 feet in height. The exception to this height limitation of the PAD zoning (and the subject) is found in Chapter 22, Article 2, Section 6405 which states:

"Upon the securing of a use permit...towers, radio towers, television towers, gable, spires, penthouses, scenery lofts, cupolas water tower and tanks and similar structure and necessary mechanical appurtenances may be build and used to a greater height than the limit established...provided that the no such exception shall cover...more than fifteen (15) percent in area of the lot nor have an area at the base greater than sixteen hundred (1,600) square feet...no tower, gable, spire, or similar structure shall be used for sleeping or eating quarters or for any commercial purpose...and shall ever exceed a maximum height of one hundred fifty (150) feet."

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Minimum Yards- PAD (Planned Agricultural District) Chapter 21A, Section 6359 et. sec.

Minimum yards required in the PAD zoning district are 30 feet front, 20 feet side, and rear for Agricultural Development; and 50 feet front, 20 feet side and rear for non-agricultural development.

Parcel Size Created Before Ordinance Adoption-PAD(Planned Agricultural District) Chapter 21A, Section 6363 et. sec.

Section 6363 (C) states that any parcel legally created before the adoption of the present day ordinances, the minimum parcel size is determined in accordance with Section 6311 of the San Mateo Zoning Ordinances. Section 6311, in part, states:

"All parcels 5 acres or larger in size which were legally in existence at the time of the enactment of this ordinance shall continue to be legal parcels. Parcels smaller than 5 acres in size shall continue to be legal parcels only if no adjacent property was in the same ownership at the time of enactment of this ordinance, or if a potable on-site water supply had been developed on the parcel at the time of enactment of this ordinance. When such parcels can be aggregated to a minimum of 5 acres, each 5-acre aggregation shall constitute one legal parcel".

The legal status of the subject property is not known at this time; but it has been assumed, for the purpose of this analysis, that Subject Parcels APN 066-330-230 constitutes a separate, legal parcel. (See section entitled "Extraordinary Assumptions and Hypothetical Conditions" in the introduction section of this report.)

PAD Zoning Regulations and Transferable Development Rights (TDR)

San Mateo County includes within the PAD zoning a planning technique known generically as Transferable Development Rights (TDR). It is a technique used by communities that want to reduce or eliminate development in certain location while allowing it in areas the community wants more growth. Areas are defined as "sending areas" and "receiving areas". Sending areas may include environmentally sensitive places, farmland, historic land marks, open space or other resources the community wants to preserve. Areas determined by the community to be appropriate for growth are the receiving areas.

As will be explained in more detail later, the PAD includes three classification of land located in the Coastal Zone. They are "prime agricultural land", "lands suitable for agriculture" and "other land". Any division or conversion of land from agricultural use requires a Planned Agricultural Permit. To be granted a Planned Agricultural Permit a property owner must demonstrate to the County that the conversion or division of the land promotes specific goals contained within the PAD zoning regulation. In addition the division or conversion must meet six general criteria

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which include: minimize encroachment on agricultural land; cluster all development; supply all non-agricultural development with on-site well water; maintain water supply for agricultures and wildlife habitat; and deed restrict the transfer of riparian rights. Furthermore, the PAD zoning restricts or prohibits land subdivisions or conversions of land with additional special criteria.

San Mateo County regulates density through density credits with one density credit requiring from 40 acres to 160 acres.

Any land division also requires a Master Land Division Plan. PAD also limits the size of a non-agricultural parcel that are part of a land division to be 5 acres or less with the remaining agricultural portion of the parcel to be permanently preserved for agricultural uses by grant of an easement to the County.

Bonus credits can be earned by combining contiguous parcels or by constructing agricultural storage facilities. Bonus density credits can be transferred to approved receiving areas or sites located in the rural Coastal Zone. However, the County must make the determination that the proposed transfer complies with the Local Coastal Program and the transfer will not convert Prime Agricultural Land or scenic corridors. A deed restriction must be placed on the "sending" parcel acknowledging that the bonus density credit has been relinquished on the sending parcel. In addition a covenant must be recorded acknowledging the granting of the bonus density credits on the receiving parcel.

All of these requirements contained within the PAD zoning make it difficult to transfer density credits to a receiving parcel because any receiving parcel is controlled by the Local Coastal Program and the transfer must meet the goals of the LCP such as preservation of agricultural land.

From 1988 and 2001 only two density credits have been transferred in San Mateo County and they were credits earned through the development of an agricultural water impoundment.²²

²² "San Mateo County, California" by Smart Preservation The Smart Preservation Website (smartpreservation.net) includes profiles of communities that use TDR plus case studies of 283 TDR programs from around the US and 37 programs in other countries.

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Land Use Decisions and Oversight Authority

The subject property is located in the Coastal Zone and a Scenic Corridor and is subject to the California Coastal Act, the San Mateo County Local Coastal Program and two specific zoning designations (CD and PAD). Land use decisions and oversight authority relevant to the subject property use and development is vested mainly in the San Mateo Planning Commission, the San Mateo County Board of Supervisors and the California Coastal Commission.

The Planning Commission is composed of five individuals appointed from the five county districts.

The San Mateo County Board of Supervisors is composed of five elected individuals that supervise the operation of San Mateo County. Board members represent one of five districts of roughly equal population within the county, but are elected at-large by all county voters.

The California Coastal Commission is a state agency with quasi-judicial regulatory oversight over land use and public access in the California coastal zone. The Commission is composed of twelve voting members, appointed equally (four each) by the Governor, the Senate Rules Committee, and the Speaker of the Assembly. Six of the voting commissioners are locally elected officials and six are appointed from the public at large. Three ex officio (non-voting) members represent the Resources Agency, the California State Transportation Agency, and the California State Lands Commission.

The California Coastal Act

The California Coastal Act requires that any development as defined by the Coastal Act must be authorized through Coastal Permits. Generally, Coastal Permits are issued by cities and counties under their Local Coastal Program that is certified by the California Coastal Commission. Local coastal permit procedures must follow minimum noticing and hearing requirements, but otherwise permitting can occur pursuant to local practice consistent with the certified LCP. Where appropriate, permit procedures can allow for development to be authorized without a project specific public hearing by:

- Waiver
- administrative permit; or
- approval as a minor development.

San Mateo Planning Commission

The Planning Commission is authorized by County ordinance with reviewing and acting upon various development permits issued by the County. The County Planning Commission's jurisdiction is generally limited to the unincorporated areas of the County (outside city limits).

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Planning Department staff typically review and determine whether a proposed development project conforms with the County's General Plan, Zoning Ordinance, and other regulations. Planning Department staff also make findings, recommendations and conditions of approval of a proposed development. A decision on a development may be made at different levels depending on the development. On some projects, planning staff or a Zoning Hearing Officer may make decisions or the development may require approval by the Planning Commission. Generally, decisions made by staff or a Zoning Hearing Officer can be appealed to the Planning Commission and Planning Commission decisions can be appealed to the County Board of Supervisors.

The CD District (Coastal Development) zoning regulations in Section 6328.9, "Action on Coastal Development Permit", grants the above mentioned authority:

"Action to approve, condition or deny a Coastal Development Permit shall be taken only by the Planning Director...Zoning Hearing Officer, the Planning Commission or the Board of Supervisors..."

San Mateo County is required by regulations, to hold a public hearing prior to any action on a Coastal Development Permit, when the permit is for a project appealable to the Coastal Commission.

Section 6328.10 Public Hearing and Comment

(a) The appropriate person or body specified in Section 6328.9 shall hold a public hearing prior to any action on a Coastal Development Permit where any of the following apply:... (2) The permit is for a project appealable to the Coastal Commission..."

Before any development can take place on an approved Coastal Development Permit, all appeal periods have expired and appealable actions have been exhausted.

Section 6328.16 Appeals;

"Development pursuant to an approved Coastal Development Permit shall not commence until all applicable appeal periods expire or, if appealed, until all appeals, including to the Coastal Commission, have been exhausted..."

Local Coastal Program

Once a LCP is certified by the California Coastal Commission, a local government issues coastal development permits for development projects within its jurisdiction. If the developments are not appealable to the CCC the permit process ends with the final local decision.

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California Coastal Commission

The Coastal Commission Land Use and Oversight Authority

The Coastal Commission's roll under the Coastal Act includes:

- certification of LCPs with periodic reviews of the LCPs .
- making certain the LCPs are consistent with and conform to the Coastal Act and the California Code of Regulations. In addition they make certain that there is consistency within the LCP documents itself (internally consistent).
- proposing amendments in its periodic review of Local Coastal Programs when making a determination if the Program is inconsistent with the Coastal Act.
- hearing and making final decisions relevant to LCP appeals.

Most coastal development permits are issued by the local government and only certain locally issued permits are appealable to the Coastal Commission. If the permits are not appealable then the permit process ends with the final local decision.

Permits that can be appealed involve:

- permits issued for developments in defined areas such as near or in wetlands and riparian corridors or located in scenic corridors.
- permits issued for other than the principal permitted use.

On appeal, the Coastal Commission first determines if the permits conforms with the LCP and the Coastal Act's public access policies. If the Commission determines that no substantial issue exists, then the permit process is over and the local decision is final.

Projects Appealable to the California Coastal Commission Relevant to San Mateo's Zoning Regulations

Any project that is approved by the Board of Supervisors is appealable to the Coastal Commission if it meets certain criteria as outlined in Chapter 20B CD Zoning Regulations, Section 6328.3 Definitions (s):

“Project appealable to the Coastal Commission” if approved by the Board of Supervisors means:

(1) Projects between the sea and the first through public road paralleling the sea or within 300 feet of the inland extent of any beach or of the mean high tide line of the sea where there is no beach, whichever is the greater distance...”

All of the subject property falls within the above described area; so any project located on the subject property that is approved by the San Mateo County Board of Supervisors is appealable to the Coastal Commission. The appeal can be made by any "aggrieved person" (one who objects

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to the action taken by the Board of Supervisor's) in an area as defined above. "Aggrieved person" is defined in Chapter 20B. CD District Zoning, Section 6328.3 Definitions (a)

"Aggrieved person' means any person who in person or thorough a representative, appeared at a public hearing or by other appropriate means prior to action on a Coastal Development Permit informed the County of his concerns about an application for such permit, or who for good cause was unable to do either, and who objects to the action taken on such permit and wishes to appeal such action to a higher authority.."

The California Coastal Commission often imposes revised or additional conditions on permits that are appealed²³. Additional conditions imposed on permitted development by the CCC may include size, location, design and/or use in agricultural areas to eliminate, or reduce existing or potential conflicts with agricultural use.

An example is cited in a California Coastal Commission staff report entitled "Background Report for Workshop on Agriculture in the Coastal Zone" by California Coastal Commission staff dated April 26, 2013 that involved a property located in San Mateo County on lands with the same zoning as the subject property.

"Commission approved on appeal with additional conditions was for a new house on a 60-acre Planned Agricultural District zoned property in San Mateo County. The planned house site was moved from a portion of the site being farmed to a non-farmed already disturbed location. The maximum building envelope was reduced to 10,000 square feet. An existing road would be used to access the house instead of a new planned driveway. The Commission found that an affirmative easement (proposed by the applicant) was consistent with LCP requirements to maintain the maximum amount of agricultural land in production and to minimize conflicts with other land uses as required by the LCP"

Other examples of conditions imposed by the Coastal Commission through appeals that are cited in the above CCC report include: runoff controls, re-contouring and landscaping, setback and buffers and the imposition of deed restrictions or easements in agricultural areas.

Conclusion

Land use laws and regulations have a significant effect on development of property in San Mateo County in particular property that is located in the Coastal Zone, subject to the LCP and located in a Scenic Corridor, like the subject property. These particular land use laws and regulations grant local and state authorities broad discretion, powers and controls over development if a Coastal Development Permit is required. The land use regulators have the ultimate authority in many cases to decide what is "adequate" "appropriate" and can modify a projects design including colors and plantings used, and even modify or change the situs of a project. They determine what is considered adequate public access both physically and legally and what level of visual impact will be allowed in a Scenic Corridor before a Coastal Development Permit is

²³ "Background Report for Workshop on Agriculture in the Coastal Zone" by California Coastal Commission staff dated April 26, 2013.

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granted. They can impose deed restriction or easements in agricultural areas that limited any future development.

The process and procedures for granting a development permit can be: multi layered locally and include planning staff, the Director of Planning; a hearing officer, the Planning Commission and the County Board of Supervisor; and multi-jurisdictional at the local and state level with the California Coastal Commission having the final authority and say in land use decisions. Such land use decisions and oversight authority has a significant impact on the value of a property.

Highest and Best Use Analysis

Introduction.

Highest and best use is basically an analysis to identify the most profitable, competitive use to which a subject property can be put. The highest and best use is shaped by the competitive forces within the market where the property is located and provides the foundation for a thorough investigation of the competitive position of the property in the minds of market participants. The initial focus of highest and best use analysis is on the potential uses of the land as though vacant. If the property is improved, the contributory value of the improvements is also analyzed.

The analysis of the highest and best use of the land as though vacant includes consideration of alternative uses that are reasonably probable and includes testing which or those uses are physically possible, legally permissible, financially feasible and maximally productive.

These four tests are also used in the analysis of the property as improved but the focus is not on alternative uses but on whether the property as improved can continue, possible modification of the existing use or demolition and redevelopment of the land.

Highest and Best Use Analysis Defined

Highest and best use analysis is a basic appraisal rule and fundamental to the appraisal process and is the foundation on which market value rests. Per the Dictionary of Real Estate Appraisal, fifth edition (2009, page 93), the definition is as follows:

“The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value.”

Test of Highest and Best Use

Per the definition, a highest and best use analysis involves a series of tests. The appraiser must, as mentioned above, consider what is legally permissible, physically possible, financially feasible and maximally productive for the site. The four steps in the highest and best use are applied sequentially. The first step in the analysis is to determine uses that are physically possible. Then consideration is given to uses that are legally permissible as well as physically possible. Finally the uses that are both physically possible and legally permissible are analyzed to determine the use which is financially feasible and maximally productive.

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Highest and Best Use Analysis as if Vacant

Physically Possible

Relative to its present use, conversion and/or development, the subject has a number of physical limitations which are discussed below.

Size of the parcel. In order to acquire density credits as described in a previous section of this report, the size of the parcel can dictate how many credits can be earned for any development and/or conversion. For example the subject consists of one parcel containing 49 + acres. If the subject property was over 320 acres than, depending on limitations imposed by the previously described legal requirements, the parcel may receive up to 8 density credits (320 acres/40 acres = 8) or as few as two (320 acres/160acres = 2). Since the size of the subject parcel is only 49 acres, it can only acquire one density credit.

Shoreline Erosion and Other Associated Hazards. The USGS geological hazards report, described in an earlier section of this report, identified Martins Beach as having critical erosion potential relevant to shoreline erosion and described on a map the 1982-83 El Nino storm damage to the subject as:

- *"Beach erosion. Waves surged over road"*. (Critical Erosion-Subject Parcel APN 066-330-230-at northern end),
- *"Sea wall below houses eroded"*. (Critical Erosion-Subject Parcel APN 066-330-230)
- *"Major slumps on north wall of small canyon"*. (Non-Critical Erosion-Subject Parcel APN 066-330-230)
- *"Severe beach and cliff erosion. Parking lot and road cut into by waves"*. (Critical Erosion-Subject Parcel APN 066-330-230)

The report indicates that the Terrace deposits located on the subject property consist of non-resistant sand and gravel and are susceptible to landslides.

The report concluded that erosion was the primary or initiating erosive process which over-steepens and destabilizes the coast. The USGS report states in part:

"coastal erosion hazards and damage could have been avoided or minimized by recognizing the nature of the active coastal processes, establishing their rates and planning set-backs and restrictive zones accordingly...The erosional effects and resultant coastal hazards of the severe 1982-1983 El Nino winter storms documented in this report should be a reasonable guide to what might be expected along the coast of San Mateo County in the coming winters."

(For more information of the USGS geological report, see section entitled "Physical Hazards and the Subject Property" under the heading "General Description of Subject")

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Tsunami Hazards. The area along the beach of the subject property is identified as a "Tsunami Evacuation Area" by the Association of Bay Area Government's (ABAG) Geographic Information System (GIS) and will physically limit any development in this area.

Earthquake Hazards. West of the subject is the San Gregorio Fault and to the east is the San Andreas Fault. The Association of Bay Area Government's (ABAG) Geographic Information System (GIS) categorizes the subject property relevant to these faults as:

- San Gregorio Fault- "Violent" in the shaking overlay.
- San Andreas Fault-"Very Strong" in the shaking overlay.

Since the subject is not located on a fault line or in close proximity to a fault line, it does not appear that this would be a physical limitation to development.

Floodplain Limitations. The subject properties ocean frontage is located within a floodplain which will limit its potential for development. The San Mateo County Geographical Information System identifies the beach area and what appears to be the first row of houses on Subject Property APN 066-330-230 as being within a 100 year floodplain and is identified by FEMA as being in the "VE" flood zone. In addition, the remaining beach area and cliffs of the subject parcel is all within the "V" zone.

The "VE zone is defined by FEMA as:

" Areas subject to inundation by the 1-percent-annual-chance flood event with additional hazards due to storm-induced velocity wave action. Base Flood Elevations (BFEs) derived from detailed hydraulic analyses are shown. Mandatory flood insurance purchase requirements and floodplain management standards apply."

The "V" zone is defined by FEMA as:

"areas along coasts subject to inundation by the 1-percent-annual-chance flood event with additional hazards associated with storm-induced waves. Because detailed hydraulic analyses have not been performed, no Base Flood Elevations (BFEs) or flood depths are shown. Mandatory flood insurance purchase requirements and floodplain management standards apply".

Because of the physical limitations of building in a floodplain, development within these flood zones would be restricted and more likely not allowed.

Liquefaction

The subject does not appear to be threatened by liquefaction. It is rated as "low" to "very low" by ABAG's GIS mapping.

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Wildfires

The threat from wildfires is also considered low. The ABAG GIS mapping ranks the subject as being "little or no threat" to "moderate" with a few areas identified as "high". The San Mateo County GIS mapping system identifies the subject as not being within any of the three Fire Hazard Severity Zones (Moderate, High & Very High) as mapped by Cal Fire.

Topography

The topography on Subject Property APN 66-330-230 is gently sloping to sloping from Highway 1 at its eastern border to the edge of the cliff to the west. According to NRCS soil survey the slope on this portion of the subject property varies from 1% to 11%. This area is physically well suited for dry farming and other non agricultural uses such as residential or commercial use.

Approximately 44% of Subject Property APN 066-30-230 is made up of what is described on NRCS soil map as "Terrace Escarpment" which varies from steep to very steep. A portion of this area has been developed with a roadway down to the beach. The roadway runs along the northerly border of the subject than parallels the beach in a switch-back fashion. Cabins and other structures have been developed along the roadway in this area. It is self-evident from existing uses that certain portions of this relatively steep area can physically be developed with structures including farm buildings, single family residences and other related structures. However, because of the steepness of the remaining undeveloped area it is most likely that this area will remain undeveloped.

The subject has a gully and natural drainage area running in an east-west direction which bisect the dry farmed area. It is not likely that any development will take place in these areas including dry farming. The drainage area runs from the smaller single family residence located on Subject Parcel APN 066-330-230 starting at Highway 1 and running westerly down to the beach.

Access

The subject property has an existing, single-lane paved road from Highway 1 along the northerly border down to the beach area located on Subject Parcel APN 066-330-230 that services cabins located near the beach. There is also two additional driveways from Highway 1 that provide access to two existing single family residences and a barn located on Subject Property APN 066-330-230.

Utilities

The subject property has electrical service but is not serviced by any municipal sewage treatment facility and any development of the subject would require an on-site sewage treatment system (septic system). Presently, each cabin is serviced with its own individual septic system.

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Ocean Views and Frontage

Subject Property APN 066-330-230 provides both ocean views and over 2,100 lineal feet of frontage along the shoreline in addition to a sandy beach area.

Soils and Farming Capabilities

Approximately 25 + acres of Subject Property APN 066-330-230 is devoted to dry farming, that, in the past, has included oat hay. The soil types for the 25+ acres devoted to dry farming are in the Watsonville soil series with a non-irrigated soil capability class of 3 and 4. Class 3 soils are described as soils with *"severe limitations that reduce the choice of plants or that require special conservation practices, or both"*. Class 4 soils are described as soil with *"very severe limitations that reduce the choice of plants or that require special conservation practices or both"*. This portion of the property has been dry farmed for decades which demonstrates its physical capabilities and financial viability as non-irrigated farm land.

The remaining non-farmed acreage of the subject parcel make up a beach area (classified as Cf - Coastal beaches) and steep, landslide prone lands classified as Ta (Terrace escarpments).

Cf soils have a soil capability of 8. Class 8 soils *"have limitations that preclude commercial plant production and that restrict their use to recreational purposes, wildlife habitat, and watershed esthetic purposes"*

Ta soils have a soil capability class 7. Class 7 soils *"have very severe limitations that make them unsuitable for cultivation and that restrict their use mainly to grazing, forestland or wildlife habitat"*.

Summary of Physical Limitations

The subject beach area and immediately adjacent uplands as well as the bluff area have significant physical limitations for any type of development.

- The beach area and immediate uplands are identified as being within a Tsunami Evacuation Area which would physically limit most development.
- This area is also identified by FEMA as being within a floodplain "VE" zone which appears to include the first row of houses that are located along the beach. The "VE" zone is defined by FEMA as having a 1-percent-annual-chance of a flood event with additional hazards due to storm induced velocity wave action. The remaining beach area and the area below the cliffs along the subject shoreline are in the "V" which is described the same as the "VE" zone except that wave action hazard is defined as *"hazards associated with storm-induce waves"* whereas in the "VE" zone they are described as *"hazards due to storm-induced velocity wave action"* In either case, any development within these flood zones would be restricted and more likely not allowed.

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- The 1998 USGS geological hazards report on shoreline erosion and other associated hazards along Martins Beach also place significant physical barriers to any development in this area. It identifies the Terrace escarpment area is composed of soft non-resistant sand and gravel and is susceptible to landslides. The report recommends that in the active coastal erosion processes that is occurring along Martins Beach that the County of San Mateo should establish planning set-backs and restrictive zones in this coastal erosion hazards area.

Physical threats to the subject property from liquefaction and wildfires are minimal as described above.

Earthquake hazards do exist but are no greater threat to the subject than developed areas along the immediate coast and would not preclude development.

The topography of the subject that is dry farmed and lies between Highway 1 and the edge of the bluff area is well suited physically for any type of development with gentle to moderate slopes of from 1% to 11%.

The area identified as "Terrace escarpment" on the soil maps contained within this report has physical limitation because of the steepness of the area and the soils of the Terrace escarpment area consist of soft non-resistant sand and gravel and are susceptible to landslides. It is most likely that development would not be allowed on this area with the exception of the area on which existing cabins and other associated structures have been built. Please see discussion that follows relevant to the highest and best use of the subject property as improved.

Physical access to and within the subject property is considered to be good to excellent and would provide no physical barrier to any type of development.

The area of the subject property that has been for decades and is presently dry farmed has soils that are well suited for that type of use. The longevity of the use not only demonstrates that it is physically capable of being dry farmed but also financially viable.

The size of the subject property is a physical limitation because San Mateo County bases any development or conversion of property in this area on density credits; and density credits are based on the size of the parcel.

In summary:

- the area of the subject that is presently dry farmed is physically capable as continued use as farmland or being developed with residential or commercial uses.
- The beach area and land area immediately adjoining the beach as well as the bluffs are not physically suitable for any type of development.

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- The Terrace Escarpment area is not physically suitable for development because of the slope and the possibility of landslides.

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Legally Permissible

The highest and best use as if vacant will be somewhat straight forward in the valuation aspects, but requires an in-depth analysis of legally permissible uses for the following reasons:

- In most cases any conversion or development of the subject property must be reviewed and approved by the San Mateo County Planning Commission, the San Mateo County Board of Supervisor; and development or conversion approvals at the local level are appealable to the California Coastal Commission.
- The subject property and any development or conversion of the subject must conform to requirements of the California Coastal Act, the San Mateo County Local Coastal Program and two zoning district regulations ("CD" and "PAD zoning districts).
- The subject property is located in the Coastal Zone and a Scenic Highway Corridor which places significant limitation on any development or conversion of the land.
- The subject is encumbered with an agricultural preserve contract with San Mateo County. (Please see section entitled "Supplemental Standards and Authority of the CSLC-- Supplemental Standard 6" for further explanation)

Much of this section is redundant of the previous material in the report but is in a summarized form with emphasis on important legal aspect relevant to the use and development of the subject property. It is the belief of this appraiser that such a summarization is necessary because of the amount of material and documents that address the legal uses of the subject and the summarization helps in following the reasoning and rationale used in arriving at legally permissible uses and ultimately, the highest and best use of the subject property

The Coastal Zone

The Coastal Zone is defined in Section 30103 of the Coastal Act. The Coastal Zone generally extends seaward to the state's outer limit of jurisdiction and inland 1,000 yards from the mean high tide line of the sea. In significant coastal estuarine, habitat and recreational areas it extends inland to the first major ridgeline paralleling the sea or five miles from the mean high tide line of the sea, whichever is less.

The California Coastal Act and its affect on Agricultural Lands

The California Coastal Act states that any development as defined by the Act and located within the Coastal Zone must be authorized through Coastal Permits. The subject property is located within the Coastal Zone and is therefore subject to the requirements of the Coastal Act.

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The subject property has been dry farmed for decades and is subject to an agricultural preserve contract with San Mateo County. Even though the subject property is farmed, the land is not considered to be "prime agricultural land" as defined by the Coastal Act. However, the subject is considered by the Act to be "lands suitable for agricultural use" and such lands are addressed in Section 30242 of the Coastal Act. This section of the Act, in summary, states that such lands shall not be converted to non agricultural uses unless continued agricultural use is not feasible or, if a conversion is permitted, it must be compatible with continued agricultural use on the surrounding lands.

Section 30250 of the Act requires, in general, that any new residential, commercial or industrial development must be located within, contiguous with or in close proximity to existing developed areas. In other words, the Act is directing development to take place in an around existing developed areas, in urban areas or near urban/rural boundaries.

The Coastal Act, in part, defines development on land as: the placement or erection of any solid material or structure, grading, removing of any materials; change in the density or intensity of use of land including subdivisions, lots splits, the construction, reconstruction, demolition or alteration of the size of any structure. Structure is broadly defined as any building, road, pipe, flume, conduit, siphon, aqueduct, telephone line and electrical power transmission and distribution line.

Section 30212 defines "new development projects" and requires that such projects provide public access from the nearest public roadway to the shoreline (with a few exceptions). This section of the Act also defines what is not classified as "new development".

According to Section 30212, new development does not include:

- replacement of a structure.
- the demolition and reconstruction of a single-family residence so long as the reconstructed residence does not exceed the floor area, height etc by more than 10% and the reconstructed residence is sited in the same location as the original.
- Improvements to any structure so long as it does not change the intensity of its use or increase the floor area, height etc. by more than 10%. In addition the structure cannot block or impede public access.
- The reconstruction or repair of a seawall so long as it is in the same footprint as the former structure.
- Any repair or maintenance activity so long as it does not interfere with lateral public access along the beach.

Section 3022 of the Act in general states, with regard to uses on private lands, that visitor-serving commercial recreational facilities that enhance public opportunities for coastal recreation trumps

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residential, general industrial or general commercial development; and agriculture or coastal-dependent industrial uses trumps all contemplated uses of private lands.

Local Coastal Program

Local Coastal Programs are developed and administered by local government but must be certified by the California Coastal Commission as being compliant with the Coastal Act. The purpose of an LCP is to guide development within the Coastal Zone. The LCP consists of a land use plan and zoning ordinances.

The subject property is located in the unincorporated area of San Mateo County and therefore falls within San Mateo's Local Coastal Program which was certified by the Coastal Commission on August 8, 2012. The Coastal Act, among other things, requires that LCPs protect and expand public access to the shoreline; protect agricultural land; and protect the scenic beauty of coastal landscapes and seascapes. The San Mateo County LCP addresses those requirements and essentially dictates what use or activity can occur and under what circumstances on agricultural land. In order to do any development or conversion of agricultural land, the local government must first issue a coastal permit. The definition of development in the San Mateo LCP essentially mirrors the definition contained in the Coastal Act that is summarized in the previous section.

The subject property is located in a rural area and the San Mateo County LCP will allow development in rural areas, only if it is demonstrated to the satisfaction of local authorities that it will not have significant adverse impacts on coastal resource or diminish lands, like the subject, that are suitable for agriculture and in agricultural production.

The San Mateo County LCP lays out what density of development can occur on agricultural land by allowing certain density credits based on acreage and the characteristics of the land being developed.

Below is an explanation of the potential development density credits that are allowed on lands like the subject property.

Lands within 100-year Floodplain.

Portions of Subject Property APN 066-330-230 are located within a 100-year floodplain as described above under the section entitled "Physically Possible". The allowed density credit is one density credit per 60 acre or a fraction thereof based on 60 acres. The area affected by the 100-year floodplain includes the first row of houses nearest the water's edge and the entire beach area and base of the bluffs of the remaining ocean frontage. It appears the second row of houses may be out of the floodplain.

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Land With a Significant Slope

A major portion of Subject Property APN 066-330-230 is "Terrace escarpment" as identified on the soil map that is included in this report. This area has, for the most part, a significant slope. The San Mateo County LCP allows from one density credit per 60 acres to one density credit per 160 acres or fraction thereof depending on the steepness of the slope.

Land Within Agricultural Preserve

The subject is under an Agricultural Preserve contract. The San Mateo County LCP allows one density credit per 60 acres for lands under an Agricultural Preserve contract.

Legal Parcels and Minimum Density Credits

According to the San Mateo County LCP, all legal parcels accumulate at least one density credit. It is assumed²⁴, for the purposes of this appraisal, that the subject consists of a legal parcel. So, at a minimum, the subject property would be allowed one density credits based on this extraordinary assumption.

Bonus Credits

The LCP allows for bonus density credits for new water storage facilities that serve agricultural cultivation or livestock. However, bonus credits may not be used on properties located in a scenic corridor. The subject property lies within a State scenic corridor identified as the Cabrillo Highway State Scenic Corridor and therefore no bonus density credits would be allowed.

Permitted Uses On Agricultural Lands Located Within the LCP

The subject property is classified as lands suitable for agriculture and is identified as such on San Mateo land use maps. The LCP policies document states that only the following specific uses are allowed on such lands: 1. Agriculture; 2. non-residential development considered accessory to agricultural uses i.e. barns storage shed etc. 3. dairies 4. greenhouses/nurseries 5. repairs, alterations, and additions to existing single-family residences.

"Conditionally Permitted" Uses

The LCP policies document also lists broad categories of uses that may be "conditionally permitted". Conditionally permitted uses that may be considered for the subject property include: 1. single-family residences 2. farm labor housing; 3. commercial recreation including country inns, stables, riding academies campgrounds and private beaches; 4. uses ancillary to agriculture; 5. dog kennels and breeding facilities. However, the LCP specifically prohibits the conversion of lands suitable for agriculture to a "conditionally permitted" use unless it can be

²⁴ Extraordinary Assumption. See section entitled "Assumptions and Limiting Conditions-Extraordinary Assumptions"

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demonstrated to the satisfaction of local authorities that all agriculturally unsuitable lands have been developed; continued agricultural use is not feasible; that buffer areas are part of the development between agricultural and non-agricultural uses; and the productivity of any adjacent agricultural lands is not diminished.

Minimum Size for Non-agricultural Development

The LCP also requires that any non-agricultural development on agricultural parcels be as small as practicable with residential parcels not exceeding five acres.

Water Supply Requirements for Development/Conversion

The LCP requires that before any conversion of agricultural land takes place, it must be demonstrated to the satisfaction of the local authorities that there exists adequate and potable well water located on-site and that water needed for agriculture production is not diminished.

Developments on Beaches, Cliffs and Bluffs

The subject property consists of coastal terrace, bluffs, headlands and a beach. These land forms are identified in the LCP along with uses and activities allowed on each particular land form.

- Beaches. The LCP prohibits permanent structures on open sandy beaches (exceptions-beach erosion control and public health and safety)
- Cliffs and Bluffs. The LCP prohibits development of bluff faces except for public stairways and erosion control structures as long as they do not conflict with coastal policies on access and erosion. Also, any bluff top development and landscaping is to be placed sufficiently far back to ensure it is not visually obtrusive when viewed from the shoreline.

Location of Development

On rural land the size of the subject, the LCP requires that any new development be placed where it is least visible from State and County Scenic Roads and that any new building sites must not be visible or, at least, minimize visibility from scenic roads. The entire length of the subject property fronts on a State Scenic Highway.

LCP Development Requirements Relevant to Structures in Rural Areas

The subject is identified on the LCP land use map as rural. The LCP has certain development criteria relative to any development that involves structures.

- Coastal Views: *"Prevent development (including buildings, structures, fences, unnatural obstructions, signs and landscaping) from substantially blocking views to or along the shoreline from coast roads...coastal access ways, and beaches."*

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- Paint/Landscaping: Paints material must be used that integrates the man-made structures with the natural environment and soften the visual impact. New development must protect existing desirable vegetation and new plantings common to the area are encouraged.
- Restoration of Topographic Contours: Topographic contours must be restored after any alteration.
- Access Roads: avoid constructing access road that will be visible from State and County Scenic Roads. Roads are to be shared wherever possible. New access roads may be permitted if it can be demonstrated that the use of existing roads is physically or legally impossible or unsafe.
- Scale of Development: The LCP requires that the scale of any structure must be sized and scaled so that it "relates to adjacent building and landforms".
- Utilities in State Scenic Corridors. The LCP requires that new distribution lines in a State Scenic Corridor, like the subject, be underground and that existing overhead lines be placed underground if they are to be relocated.

Hazard Areas and LCP Development Requirements

Various hazardous areas are defined by the LCP. Ones that may affect development on the subject property are discussed below.

- Development within Coastal Bluff Tops. Development is required to be set back a distance that will assure structural integrity for the economic life of the development (a minimum of 50 years) and sited so it does not contribute to geologic instability. Such a development requires a site stability evaluation report. Any new structures or land division that would require bluff protection work is prohibited by the LCP.
- Shoreline Development. Any shoreline development along the subject property must be located in areas where beach erosion hazards are minimal and where no additional shoreline protection is needed.
- Shoreline Structures. Shoreline structures can be used to protect existing structures but must not impact sand movement and supply or at the least mitigate such impacts. In addition, it cannot impede lateral access along the beach. Also, shoreline structures require a report prepared by a certified engineering geologist or soils engineer that analyzes the project on physical shoreline processes.

Shoreline Access Component of the LCP and Development Requirements

The Shoreline Access Component of the LCP requires certain conditions must be met for a development permit on property that is located within the area between the shoreline and the nearest public road. These requirement would affect the entire subject property.

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- Vertical/Lateral Access Requirements. Any development on land that is primarily used for agriculture requires the establishment of vertical and/or lateral access to beaches where no established vertical or lateral access exists. The vertical access is to be from the road to the mean high tide line (MHTL) and the lateral access is to be from the MHTL to either the bluff or first line of terrestrial vegetation. The Shoreline Access Component of the LCP sets forth development standards of lateral and vertical access trails including the width of the access, parking areas and landscaping requirements.
- Protection of Adjacent Land. According to this Component of the LCP the access trails are to be located on lands unsuitable for agriculture to the "greatest extent possible" in agricultural areas.
- Exemptions to Requirements. There are exemptions to this requirement and include: 1. The demolition and reconstruction of a single-family residence as long as it does not exceed the size of the reconstructed residence by more than 10% and does not change the intensity of use. 2. Agricultural operation development is excluded and includes wells for agricultural use, storage/equipment sheds, fences, utility poles to serve agricultural uses, water storage tanks with a maximum of 10,000 gallons and barns not to exceed 5,000 square feet.

The California Coastal Trail (CCT); the Shoreline Access Component of the LCP and the Subject Property

The California Coastal Trail is a planned continuous interconnected public trail system along the 1,100 mile California coastline. The Trail, at this time, is a work-in-progress with an estimated 50% of the CCT available for public use. The CCT is addressed in the Shoreline Access Component of the LCP. It is a trail system that will accommodate pedestrian, bicyclist and equestrian use. It is to be located along or as close to the shoreline as possible. At this time there are no detailed maps depicting the trail relative to the subject but there is a map depicting the general location of the trail. The Coastal Conservancy Map #3 located on the Coastal Commission's web site appears to show the CCT trail as paralleling Highway 1 which fronts along the entire eastern boundary of the subject. Since there is no specific detailed maps would indicate the trail is at the preliminary stage of planning, but it does appear that it will most likely, parallel Highway 1. It appears the trail maybe be located within the existing right-of-way or may require some land on either side of the right-of-way which may include the a portion of the subject. It is this appraiser's opinion that the impact the proposed trail may have on the subject is unknown and remote enough in time with lack of location and design specificity to have little or no impact on the present day value of the subject.

Visual Resource Component of the LCP

This Component of the LCP addresses "landforms" that are subject to the Visual Resource Component. They include cliffs, bluffs, beaches and coastal terraces; all landforms that make up the subject property.

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This component prohibits (with a few exceptions) permanent structures on open sandy beaches and development of bluff faces and requires on a bluff tops to be *"sufficiently far to ensure it is not visually obstructive when viewed from the shoreline"*. It also requires that *"any development is to be located on a parcel where the development is the least visible from State and County Scenic Roads... and best preserves the visual and open space qualities of the parcel overall."*

Furthermore, the Visual Resources Component requires that:

- new development minimize tree removal.
- any development in a rural area, that coastal view not be substantially blocked by structures, fences and landscaping.
- design criteria include colors and materials used in a proposed development.

Land Use and Development Densities in Rural Areas (Per LCP)

The area in which the subject is located is designated a "Rural" area on the LCP Land Use Plan Map. San Mateo County Planning staff use Table 1.5 as a guide and refer to the column entitled: "Number of Measuring Units Per Density Credit Based on Peak Daily Water Use With Conservation Fixtures" to determine the density allowed on a parcel located within the designated "Rural" area like the subject. The table is based on average daily water use for different type uses.

The subject has one density credit. Using Table 1.5, that density credit can be converted to a number of possible uses.

For a residential/commercial type use, the density for a small and large hostelrys the measure that is used is the "rental room" with a density of 6.33 (rooms) per density credit. For a resort facility it is the same room count- 6.33 rooms per density credit.

If, for example, a visitor-serving facility consisting of individual detached rentable cabins is planned along with a residential dwelling unit associated with the cabin rentals; and the single family residence is occupied by the facility owner or operator, one density credit would allow the single family residence plus 6.33 rooms (cabins). San Mateo Planning staff stated the cabins, in this example could not have kitchens or baths but just consist of one-room cabins. The cabins would need to share the bath and kitchen facilities located in the single family residence.

Another example would be the development of the subject with a bed and breakfast facility. San Mateo planning staff would use Table 1.5 as a guide to determine the size of the project. The table states a hotel/motel use allows 6.33 rooms per density credit. Since, in this example, no single family residence is planned, the LCP allows the room count to be 1 1/2 times what is stated in the table, so the room count would be increased to $6.33 \text{ rooms} \times 1.5 = 9 \text{ rooms}$, assuming no single family residence will be built.

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Conclusion

The density of development on the subject property is quite limited with only one density credit and no ability to transfer a bonus density credit from another parcel or earn it in other ways. The subject if vacant could be developed with a large single family residence. Other possible likely uses would be a bed and breakfast with nine rooms or possibly a single family residence with 6 individual cabins (no bathrooms or kitchens in the cabins) The cabins would need to share the bath and kitchen facilities located in the single family residence.

Bottom line: the number of density credits a parcel may have is determined by land use laws and regulations. Once the density credits are determined, the density of a particular development is determined by using Table 1.5 of the LCP. Table 1.5 is based on average water usage. So, water use drives the intensity of a development.

CD (Coastal Development District) San Mateo County Zoning Regulations

The subject property is located in the CD overlay zone of the San Mateo County zoning regulations. According to zoning regulation, the CD zoning designation was establish *"for the purpose of implementing the Coastal Act of 1976"*.

The definition of "development" in the CD zone is exactly the same as in the Coastal Act definition. (Please see previous section on Coastal Act for definition)

Requirements of a Coastal Development Permit in the "CD" District

Any development project located in the "CD" District is required to obtain a Coastal Development Permit as well as any other permit required by law. Any development that does take place must conform to the plans, specifications, terms and conditions approved or imposed in granting the permit by the local authorities. However there are a number of exemptions to the requirements of a Coastal Development Permit, including the following:

1. The maintenance, alteration, or addition to existing single-family dwellings or the maintenance, alteration or additions to existing structures that are not single family dwellings. There is also some significant exceptions to this exemption that may impact development on the subject property including the following which would require a Coastal Development Permit:
 - when the development involves improvements to a single-family structure on a beach. The subject has numerous residential and other structures located on or near the beach. Any maintenance, alteration or addition to these single-family dwellings or other structures located on or near the beach may require a Coastal Development Permit;

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- a significant alteration of landforms including development within 50 feet of the edge of a coastal bluff for single family residences and 100 feet for other structures or developments would require a Coastal Development Permit;
 - any development within a scenic corridor that results in an increase of 10% or more of external floor area and/or the construction of an additional story including lofts in an existing structure would require a Coastal Development Permit (The subject is located within a Scenic Corridor).
 - Repair or maintenance activities of seawalls, bluff retaining walls, shoreline work that involves the placement of riprap, artificial berms of sand or other beach materials;
 - the replacement of 20% or more of the materials of an existing structure with materials of a different kind;
 - the presence of mechanized construction equipment or construction materials on any sand area or bluff.
2. The installation, testing and placement in service or the replacement of any necessary utility connection between an existing service facility is exempt.
3. The replacement of any structure destroyed by natural disaster is exempt. However any replacement must conform to applicable existing zoning requirements and not exceed the floor area, height or bulk of the destroyed structure by more than 10% and be sited in the same location. This requirement may limit the rebuilding of any of the residences located on the beach if destroyed by a natural disaster. Such replacement will have to be near the same size and sited in the same location which may not be allowed because of Tsunami and flooding hazards.
4. Harvesting of agricultural crops is exempt.
5. Land division brought about in connection with the purchase of land by a public agency for public recreation use is exempt.

PAD (Planned Agricultural District), San Mateo County Zoning Regulations

The PAD zoning is considered to be the "underlying" zoning district for the subject property which is also subject to the "overlay" "CD" District" zone as discussed above. According to zoning regulations, the PAD zoning was established to preserve and maintain the maximum amount of existing and potential agricultural operations in production and to minimize conflicts between agricultural and non-agricultural land uses.

The PAD zoning divides lands into three classifications, two of which are applicable to the subject property. They are "Lands suitable for Agriculture" and "Other Lands".

Subject Property APN 066-330-230 consists of 49.155 acres of which approximately 25.6 +/- acres that are dry farmed and would be considered "Lands Suitable for Agriculture". This farmed

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area also has two existing home site and a barn on it. The remaining 23.515 +/-acres would be classified as "Other Lands". "Other Lands" are defined as any lands that do not meet the definition of "Prime Agricultural Lands" or "Lands Suitable for Agriculture".

Uses Permitted in the PAD Zone District in "Land Suitable for Agriculture" and "Other Lands" Classifications

Permitted uses allowed in these lands classifications include:

- Agriculture.
- Non-residential development customarily considered accessory to the agricultural uses.
- Dairies.
- Greenhouses and nurseries.
- Temporary road stands for season sale of produce grown in San Mateo County (with specified limitations).
- Repairs, alterations, and additions to existing single-family residences.

Uses Permitted Subject to the Issuance of a Planned Agricultural Permit

Planned Agricultural Permits expand on possible uses of lands located within the PAD District beyond what is allowed under "Permitted Uses". Uses allowed on "Lands Suitable for Agriculture and "Other Lands" with a Planned Agricultural Permit include:

- Single-family residences.
- Farm labor housing.
- Public recreation/shoreline access trail. Schools.
- Fire stations.
- Wineries (with specific limitations).
- Commercial recreation.
- Onshore oil and gas exploration, production and storage (with limitations).
- Facilities for the processing, storing, packaging, and shipping of agricultural products.
- Uses ancillary to agriculture.
- Kennels.
- Scientific/technical research and test facilities (with specific limitations).
- Permanent road stands for the sale of produce, subject to specific findings.

Criteria for Issuance of a Planned Agricultural Permit

An applicant for a Planned Agricultural Permit must *"demonstrate that any proposed land division or conversion of land from an agricultural use will result in uses which are consistent with the purpose of the Planned Agricultural District"*. In addition, a division or conversion of land must be found to be consistent with the following criteria:

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- The encroachment of development on lands suitable for agricultural use is to be minimized.
- All development is to be clustered.
- The project must conform to Development Review Criteria found in Chapter 20A.2 of the San Mateo County Ordinance Code. (See discussion in section below)
- There is specific water supply criteria that must be met as outlined in Chapter 21A Section 6355B1 of the zoning regulations.

There is specific criteria for the division of lands classified as "Lands Suitable for Agriculture and "Other Lands". In summary these lands are not to be divided unless it can be demonstrated that existing or potential agricultural productivity of any resulting agricultural parcel would not be reduced.

The criteria for the conversion of lands classified as "Lands Suitable for Agriculture and Other Land" requires that it must be demonstrated that all agriculturally unsuitable lands on the parcel have already been developed; continue or renewed agricultural use of the soils is not capable of being accomplished; clearly defined buffer areas are developed between agricultural and non-agricultural uses; and the productivity of adjacent agricultural lands is not diminished.

Development Review Criteria (Chapter 20A.2 of the San Mateo County Ordinance Code)

As mentioned above, the issuance of a Planned Agricultural Permit for properties within the PAD District Zone requires that a proposed project must conform to "Development Review Criteria" found in Chapter 20A.2 of the San Mateo County Ordinance Code. This is the same criteria as is found for the "RM" zoning district. It is quite lengthy and so the discussion that follows will be limited to the more likely issues that would involve the subject property and include criteria for Site Design, Utilities, Hazards to Public Safety, Scenic Corridors, Agricultural Resource Areas, Ocean Shoreline, Flood Plain Areas and Tsunami Inundation Areas.

Site Design Development Criteria: must be located, sited and designed to fit the environment; any required grading relevant to location, site and design must fit the natural topography and minimize grading; small, separate parking areas are preferred to parking lots; geometrically terraced building sites are not allowed that detract from the scenic and visual quality or natural characteristics of a major water course; must be sited and designed to minimize noise, light, glare and odors; not result in the instability of the parcel or adjoining lands; must use colors and materials that blend with surrounding soils and vegetative cover; wherever possible, vegetation removed during construction needs to be replaced.

Utilities: must be of minimum bulk, height and design in order to have an uncluttered appearance; utility lines are required to be underground (with some exceptions); a public water

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supply or the existence of an adequate local water supply is required; suitability for septic tank installation or other treatment facilities must be demonstrated.

Hazards to Public Safety: No development shall disrupt the natural erosion and transport of sand or other beach material from coastal watershed in the coast's littoral circulation system; generally, structures shall not be placed where there is severe hazards to life and property due to soils, geologic, seismic, hydrological, or fire factors; no land shall be developed which is held unsuitable by the Planning Commission for reason of exposure to fire, flooding, inadequate drainage, soil and rock formations with severe limitations, susceptibility to mudslides or earth slides, severe erosion potential, steep slopes, inadequate water supply or sewage disposal capabilities' or any other feature harmful to the health, safety or welfare of future residents or property owners of the development or the community-at-large.

Scenic Resource Areas Criteria (including State Scenic Highway Corridors): Public views within and from Scenic Corridors are to be protected and enhanced and any development must not significantly obscure, detract from or negatively affect the quality of these views. Generally, clear cutting or removal of existing vegetation from right-of-way is prohibited; within scenic corridors, pathway pavements are to be colored so as to blend with the surrounding landscape; curved approaches to Scenic Corridors are to be used along with native plants to screen access roads from view; the number of access roads to a Scenic Corridor are to be kept to a minimum wherever possible; colors and plant material are to be used that minimize the visual impact to a Scenic Corridors; Scenic Corridor developments are to include vista point and roadside rests; no off-premise outdoor advertising is permitted; any screening that is required is not to consist of solid fencing but should be of natural materials.

Primary Agricultural Resource Areas (including designated agricultural districts such as PAD and CD): only agricultural and compatible uses are permitted; clustering of uses are not to be permitted unless and until the Planning Commission decides if the clustering would promote the use or potential use of the land for agriculture purposes.

Ocean Shoreline Criteria: Public access from state or local roads or trails to the ocean shoreline are to be provided to the maximum extent practicable while minimizing harm to the environment and preventing trespass over private lands:

- for land divisions, a public access easement shall be dedicated along the ocean shoreline before any private development is permitted;
- an applicant must demonstrate the there is no non-ocean shoreline sites available or suitable for development; and
- any proposed development will not cause significant harm to water quality, the natural beauty of the area, safety or health or public use of the adjacent waters or underlying lands.

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Flood Plain Area Criteria: No land can be developed which is found to be unsuitable for its proposed use by reason of flooding; the suitability of a site for its intended use must consider the danger to life and property due to the increased flood heights, velocities caused by excavation, fill, roads, and intended uses, the safety of access to the property for emergency vehicles in times of flood and the expected heights, velocity, duration rate of rise and sediment transport of flood waters expected at the site; no development will be allowed unless it can be demonstrated the development will not cause adverse disturbance to any beaches; uses that are allowed so long as they are not prohibited by other ordinances include agricultural uses such as farming, pasture and grazing, private and public recreation uses such as beaches, steps and platforms to permit access across beaches, life guard stations, hiking and horseback riding trails, residential uses such as lawns, gardens, parking areas and play areas; erosion control devices are permitted so long as they are not otherwise prohibited or do not threaten other lands during times of flooding; buildings are not to be designed or used for human habitation and must be placed on the site to minimize resistance to the flood waters but also be firmly anchored to prevent flotation; any service facilities such as electrical and heating equipment are to be flood proofed or constructed above the 100-year flood elevation; sewage disposal facilities are prohibited where such systems might not function due to high groundwater; water systems are to be flood proofed or located above the flood protection elevation.

Tsunami Inundation Area Criteria: Residential structures and resort developments designed for transient or other residential uses may be permitted as long as a competent authority estimates the probable maximum wave height, wave force, run-up angle, and level of inundation of the parcel; no structure is allowed where the projected wave height and force is fifty percent or more of the projected maximum unless the highest projected wave height above ground level of the structure is less than six feet and no residential floor level is less than two feet above the wave height and the structural support is sufficient to withstand the projected wave force; the residential floor level must be one foot above the highest projected level of inundation; permission will not be granted if the Planning Commission determines that there is not sufficient data made available by the applicant.

Maximum Density of Development Within PAD Zone (Planned Agricultural District).

The maximum density credits allowed in the Planned Agricultural District is one density credit per 40 acres. All other land classifications found on the subject property require from 60 to 160 acres to achieve one density credit. The subject property consists of 49.155. Therefore the maximum density credits that would be allowed on the subject property under the PAD zone would be one density credit.

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Bonus Density Credits

Bonus Density Credits cannot be earned on the subject property because the PAD zoning ordinance states that bonus density credits are not to be used to locate development within scenic corridors; and the subject property is located within a scenic corridor.

Maximum Height Within PAD Zone

The maximum height of structures in the PAD zone is three stories or 36 feet (with some exceptions, like, radio towers, water towers-but all such exceptions have limited ground coverage per zoning regulations).

Minimum Yards Within PAD Zone

For agricultural land, the minimum yard setback is 30 feet front and 20 feet side and rear. For non-agricultural development, which includes residential, the minimum yard setback is 50 feet front and 20 feet side and rear.

Summary of Legal Limitations That Affect The Subject Property

- Located within the Coastal Zone and development requires a Coastal Development Permit. (Source: Coastal Act)
- "New Development Projects" require public access from nearest public roadway to shoreline. (Sources: Coastal Act, Section 30212 and Shoreline Access Component of the San Mateo County LCP)
- LCPs must protect and expand public access to the shoreline; protect agricultural lands; and protect the scenic beauty of coastal landscapes and seascapes. (Source: Coastal Act and Shoreline Access Component of the San Mateo County LCP)
- Density Credits for development are limited on lands under and agricultural preserve contract like the subject--limited to one density credit per 60 acres (Source: San Mateo County LCP)
- Bonus Density Credits cannot be used on properties like the subject that are located in a Scenic Corridor. (San Mateo County LCP)
- Under the CD District Zone there are certain exemptions to the requirement of the need for a Coastal Development Permit. They are: maintenance, alteration, addition to existing single-family dwelling and other structures (with exceptions-see below); certain utility connections; the replacement of structure destroyed by natural disaster (with exception-see below); harvesting of agricultural crops; and land division brought about

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by the purchase of land by a public agency for public recreation use. (Source: "CD" - Coastal Development District-Zoning Regulations)

- Exceptions to "no coastal permit required" as mentioned above. A Coastal Development Permit is required for the maintenance, alteration or addition to existing single-family dwellings when the development involves improvements to a single-family structure located on a beach; significant alteration of landforms including development within 50 feet of the edge of a coastal bluff for single family residences and 100 feet for other structures; any development within a scenic corridor that results in an increase of 10% or more of the floor area or additional stories; repairs and maintenance activities of seawalls, retaining walls etc.; the replacement of 20% or more of the materials of an existing structure with materials of a different kind; the presence of mechanized construction equipment or construction material on any sand area or bluff. (Source: "CD" -Coastal Development District-Zoning Regulations)
- The density and intensity of development on the subject property is quite limited with only one density credit. The intensity of any contemplated use on the subject will be determined by the amount of water usage for that particular use. San Mateo County Planning uses LCP Table 1.5, as a reference in determine intensity of use. The table is based on average daily water use for different type uses. Three possible uses for the subject property and the intensity of the use as if vacant are development with a: single family residence; a bed and breakfast lodging facility with 9 rooms; or a single family residence used in conjunction with the development of 6 cabins that share a common bathroom and kitchen in the single family residence. Bottom line: the number of density credits a parcel may have is determined by land use laws and regulations. Once the density credits are determined, the density of a particular development is determined by using Table 1.5 of the LCP. Table 1.5 is based on average water usage. So, water use drives the intensity of a development.

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Potential Uses Considering Physical and Legal Limitations Relevant to Subject Property APN 066-330-230

Subject Property APN 066-330-230 is a 49.155 acre parcel with a number of physical and legal limitations. The physical limitations will be discussed first, followed by a discussion of the legal limitations applicable to this parcel. Also applicable to this parcel are the legal limitations listed above under the section entitled "Summary of Legal Limitations That Affect the Subject Property"

The property is composed of three land types with two that may not be developable with any type of structure. The three land types are: farmed portion, terrace escarpment and beach area. (Source PAD Zoning Regulations)

Terrace Escarpment (Approximately 21 + acres).

Access to the Terrace Escarpment area is good with a paved road running through the northerly part of this portion of the subject property. The paved road has a number of switchbacks providing access to the center portion of the Terrace escarpment as well as access paralleling the sandy beach area. This portion of the subject has unrestricted ocean views. The parcel has electricity but no municipal sewage treatment facilities.

Physical Limitations of Terrace Escarpment:

- Topography is steep to very steep.
- Consists of non-resistant sand and gravel and is susceptible to landslides (Source: USGS Geological hazards report on Martin's Beach)
- Subject to erosion and destructive wave action. (Source: USGS Geological hazards report on Martin's Beach)
- The area nearest the beach may be in the Tsunami Evacuation area. (Source: ABAG GIS mapping system)
- The area nearest the beach may be in the "V" flood zone. (Source: FEMA and San Mateo County GIS mapping)
- Composed of Class 7 Soils. The soil capability classes run from 1 to 8 with the numbers indicating progressively greater limitations. Class 7 soils are soils with very severe limitations that make them unsuitable for cultivation and restrict their use mainly to grazing, forestland or wildlife habitat. (Source: Natural Resources Conservation Service of the USDA Soil Survey)

Legal Limitations of Terrace Escarpment Area:

- Hazards to Public Safety Criteria: No development can disrupt the natural erosion and transport of sand. Structures are not to be placed where there is severe hazards to life and

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property due to soils, geologic, seismic, hydrological or fire factors. No land shall be developed which is held unsuitable by the Planning Commission for reason of exposure to flooding, soil and rock formations with severe limitations, susceptibility to mudslides or earth slides, severe erosion potential, steep slopes, or any other feature harmful to the health, safety, or welfare of residents, property owners or the community. (Source: PAD Zoning Regulations, "Development Review Criteria", Chapter 20A.2 of the San Mateo County Ordinance Code)

- The property is in a Coastal Development District which would require a Coastal Development Permit for the maintenance, alteration or addition to an existing single-family dwelling, if the improvements exceed the "50% Rule" as described later on in this report.
- The Site Design Development Criteria found in PAD Zoning Regulations and Chapter 20A.2 does not allow development: that would disrupt the natural erosion and transport of sand; where there is severe hazards to life and property due to soils, geologic and hydrological factors; when the Planning Commission finds land unsuitable for development due to exposure to flooding, soil and rock formations with severe limitations, susceptibility to mudslides or earth slides, severe erosion potential or any other feature harmful to the health, safety or welfare of residents, property owners or the community.
- Flood Plain Area Criteria: No land can be developed which is found to be unsuitable for its proposed use by reason of flooding. No development will be allowed unless it can be demonstrated the development will not cause adverse disturbance to any beaches. Buildings are not to be designed or used for human habitation and must be placed on the site to minimize resistance to flood water. Utility and water service facilities are to be flood proofed . Sewage disposal facilities are prohibited where such systems might not function due to high groundwater. (Source: PAD Zoning Regulations, "Development Review Criteria", Chapter 20A.2 of the San Mateo County Ordinance Code)
- Tsunami Inundation Area Criteria: Residential structures and resort development designed for transient or other residential uses may be permitted as long as authorities are able to determine maximum wave height, wave force, run-up angle and level of inundation. The residential floor level must be one foot above the highest project level of inundation. (Source PAD Zoning Regulations, "Development Review Criteria", Chapter 20A.2 of the San Mateo County Ordinance Code)
- Structures cannot substantially block views to or along the shoreline from coastal access ways and beaches. (Source: San Mateo County LCP)

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- If a structure is destroyed by natural disaster the rebuild must be near the same size and sited in the same location. Under these circumstances a rebuild would have to be in the same location and may not be allowed for residences located near the beach on the subject property because of the safety threats of erosion, Tsunami or flooding in this area. In other words, safety trumps "exception" in the zoning code (Source: "CD" -Coastal Development District-Zoning Regulations). In addition, Section 30610 (g) (1) of the Coastal Act states that: The replacement structure shall conform to applicable existing zoning requirements, shall be for the same use as the destroyed structure, shall not exceed either the floor area, height, or bulk of the destroyed structure by more than 10 percent, and shall be sited in the same location on the affected property as the destroyed structure.

Other Issues with Terrace Escarpment Area--Existing Single-Family Residences/Other Structure

It is possible that the numerous existing residences and structures located in this area could be maintained, altered (with limited additions) without the need for a Coastal Development Permit if it is determined that they are not located on a beach. If this is the case then "Coastal Development Permit" requirements would not be imposed on such activity. A determination would have to be made as to whether the residences and other structures are, or are not, located on a beach area. It does appear that the first row of house are within the 100-year floodplain (Source: San Mateo County GIS mapping website)

Conclusion, Terrace Escarpment Area

Considering the steepness, the instability of the Terrace escarpment and the potential for erosion and destructive wave action, it is unlikely that any new development involving structures for human habitation would be allowed on this portion of the property. However, it may be possible to allow the continuation of residential use in the area that is developed with single-family residences (cabins) and other associated structures. Also, the soils are unsuitable for agricultural production.

Beach Area

This area runs the entire length of Subject Property APN 066-330-230 along the ocean on one side and borders the Terrace escarpment on the other. The parcel has good access with a road paralleling the beach.

Physical Limitations of Beach Area:

- In a Tsunami Evacuation Area (Source: ABAG GIS mapping system)
- In a Floodplain "VE" and "V" zones-Subject to flooding and storm-induced velocity wave action. (Source: FEMA and San Mateo County GIS mapping)

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- Critical shoreline erosion potential and destruction by wave action (Source: USGS Geological hazards report on Martin's Beach)
- Soil Capability is 8 out of a scale of 1 to 8. Soils unsuitable for any type of farming restricting use to recreational purposes, wildlife habitat, and watershed esthetic purposes. (Source: Natural Resources Conservation Service of the USDA Soil Survey)

Legal Limitation of Beach Area:

- The property is in a Coastal Development District which would require a Coastal Development Permit for the maintenance, alteration or addition to an existing single-family dwelling.
- Hazards to Public Safety Criteria: No development can disrupt the natural erosion and transport of sand. Structures are not to be placed where there is severe hazards to life and property due to soils, geologic, seismic, hydrological or fire factors. No land shall be developed which is held unsuitable by the Planning Commission for reason of exposure to flooding, soil and rock formations with severe limitations, susceptibility to mudslides or earth slides, severe erosion potential, steep slopes, or any other feature harmful to the health, safety, or welfare of residents, property owners or the community. (Source PAD Zoning Regulations, "Development Review Criteria", Chapter 20A.2 of the San Mateo County Ordinance Code)
- Any new shoreline development along the subject property must be located in areas where beach erosion hazards are minimal and where no additional shoreline protection is needed. Shoreline protection is allowed for existing development, coastal-dependent uses or public recreation facilities. (Source: San Mateo County LCP).
- Ocean Shoreline Criteria: public access from state roads to the ocean shoreline are to be provided to the maximum extent practicable while minimizing harm to the environment and preventing trespass over private lands. If a land division is contemplated, a public access easement shall be dedicated along the ocean shoreline before any private development is permitted. An applicant must demonstrate that there is no non-ocean shoreline sites available or suitable for development and that any proposed development will not cause significant harm to water quality, the natural beauty of the area, safety or health or public use of the adjacent waters or underlying lands. (Source: PAD Zoning Regulations, "Development Review Criteria", Chapter 20A.2 of the San Mateo County Ordinance Code)
- Flood Plain Area Criteria: No land can be developed which is found to be unsuitable for its proposed use by reason of flooding. No development will be allowed unless it can be demonstrated the development will not cause adverse disturbance to any beaches.

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Buildings are not to be designed or used for human habitation and must be placed on the site to minimize resistance to flood water. Utility and water service facilities are to be flood proofed. Sewage disposal facilities are prohibited where such systems might not function due to high groundwater. (Source PAD Zoning Regulations, "Development Review Criteria", Chapter 20A.2 of the San Mateo County Ordinance Code)

- Tsunami Inundation Area Criteria: Residential structures and resort development designed for transient or other residential uses may be permitted as long as authorities are able to determine maximum wave height, wave force, run-up angle and level of inundation. The residential floor level must be one foot above the highest project level of inundation. (Source PAD Zoning Regulations, "Development Review Criteria", Chapter 20A.2 of the San Mateo County Ordinance Code)
- Structures cannot substantially block views to or along the shoreline from coastal access ways and beaches. (Source: San Mateo County LCP)
- If a structure is destroyed by natural disaster the rebuild must be near the same size and sited in the same location. Under these circumstances a rebuild would have to be in the same location and may not be allowed for residences located near the beach on the subject property because of the safety threats of erosion, Tsunami or flooding in this area. In other words, safety trumps "exception" in the zoning code (Source: "CD" -Coastal Development District-Zoning Regulations). In addition, Section 30610 (g) (1) of the Coastal Act states that: The replacement structure shall conform to applicable existing zoning requirements, shall be for the same use as the destroyed structure, shall not exceed either the floor area, height, or bulk of the destroyed structure by more than 10 percent, and shall be sited in the same location on the affected property as the destroyed structure.

Conclusion, Beach Area

Because of the physical limitations of building in a floodplain, Tsunami Evacuation Area, an area with critical shoreline erosion potential and destruction by wave action, it is highly unlikely that any new development would be allowed in the beach area.

The legally permissible limitations also make any development not only difficult but unlikely. The entire subject property (APN 066-330-230), as discussed earlier in the report, is most likely going to be limited to one density credit since it is only 49.155 acres and cannot earn Bonus Density Credits because it is in a Scenic Corridor. With the limitation of "one density credit", development is more likely to take place on the bluff area as described below. The existing residential structures on the Terrace Escarpment may be, altered, repaired and maintained "as is" without a Coastal Development Permit if it can be determined that they are not considered to be in a beach area.

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Bluff Top Area-Farmed Portion (Approximately 25 + acres)

This area is presently dry farmed and generally lies between Highway 1 and the edge of the bluffs. This area is considered physically capable of supporting most any type of development including dry farming, residential or commercial. It is reasonable level with a slope of from 1% to 11% and generally rectangular in shape. The entire eastern boundary of this portion of the subject fronts on Highway 1. There is good access from Highway 1 provided by a gravel road on the northerly edge as well as access to two residential home sites and a barn. The soil types that compose this portion of the subject are capable of dry farming such as oat hay as has been done for decades. The property slopes toward the ocean providing unrestricted views of the ocean. Electricity is available but no sewer service. Any development would require an on-site sewage treatment system.

The farmed portion has legal limitations relevant any type of development.

- Considered "Land Suitable for Agricultural Use"-Such lands are not be converted to agricultural uses unless agricultural use is not feasible or if conversion is permitted, it must be compatible with continued agricultural use of the surrounding lands. (Source: Coastal Act, Section 30242, PAD Zoning Regulations and San Mateo County LCP)
- It must be demonstrated to the satisfaction of local authorities that new development will not impact coastal resources or diminish lands suitable for agriculture or in agricultural production. (Source: San Mateo County LCP)
- Permitted uses on agricultural lands include: agriculture; non-residential development considered accessory to agricultural uses; dairies; greenhouses/nurseries and repairs, alterations, and additions to existing single-family residences. (San Mateo County LCP, PAD Zoning Regulations)
- "Conditionally Permitted" uses included: single-family residence; farm labor housing; commercial recreational uses like country inns, stables, campgrounds; uses ancillary to agriculture (Source: San Mateo County LCP)
- A Planned Agricultural Permit is required when expanding uses beyond "permitted uses" under the PAD zoning designation. (Source: PAD Zoning Regulations)
- The issuance of a Planned Agricultural Permit (PAP) requires the applicant to *"demonstrate that any proposed land division or conversion of land from an agricultural use will result in uses which are consistent with the purpose of the Planned Agricultural District"* (PAD).

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- Lands classified as "Lands Suitable for Agriculture" and "Other Lands" are not to be divided unless it can be demonstrated that existing or potential agricultural productivity of any resulting agricultural parcel would not be reduced. (Source: PAD Zoning Regulations)
- The criteria for the conversion of lands classified as "Lands Suitable for Agriculture and "Other Land" requires that it be demonstrated that all agricultural unsuitable lands on the parcel have already been developed; continued or renewed agricultural use of the soils is not capable of being accomplished; buffer areas are provided; and the productivity of adjacent agricultural lands is not diminished. (Source: PAD Zoning Regulations)
- Site Design Development Criteria require that development be located, sited and designed to fit the environment and natural topography and minimize grading. Must be sited to minimize noise, light, glare and odors. Must use colors and material that blend with surrounding soils and vegetative cover. Vegetation removed needs to be replaced. (Source PAD Zoning Regulations, "Development Review Criteria", Chapter 20A.2 of the San Mateo County Ordinance Code)
- Criteria for Utilities: designed to have uncluttered appearance, utility lines are to be underground. Must have public water supply or an adequate local water supply. Suitability for septic tank installation must be demonstrated. (Source PAD Zoning Regulations, "Development Review Criteria", Chapter 20A.2 of the San Mateo County Ordinance Code)
- Scenic Resource Areas Criteria: Public views within and from Scenic Corridors are to be protected, enhanced and any development must not significantly obscure, detract from or negatively affect the quality of these views. The number of access roads to a Scenic Corridor are to be kept to a minimum wherever possible. Colors and plant material are to be used to minimize visual impacts to a Scenic Corridors. (Source PAD Zoning Regulations, "Development Review Criteria", Chapter 20A.2 of the San Mateo County Ordinance Code)
- Criteria for Primary Agricultural Resource Areas--CD and PAD Zones: Only agriculture and compatible uses are permitted. (Source PAD Zoning Regulations, "Development Review Criteria", Chapter 20A.2 of the San Mateo County Ordinance Code)
- Maximum density of development within a PAD Zone is one density credit per 40 acres. (Source: PAD Zoning Regulations)

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- Bonus Density Credits cannot be earned or used to locate development within scenic corridors. (Source: PAD Zoning Regulations)
- The maximum height for structures in the PAD zone is three stories or 36 feet. (Source: PAD Zoning Regulations)
- The minimum yard setbacks within the PAD zone for agricultural land are 30 feet for front and 20 feet for side and rear; and for non agricultural land is 50 feet for front yard and 20 feet for side and rear. (Source: PAD Zoning Regulations)
- LCP specifically prohibits the conversion of lands suitable for agriculture to a "conditionally permitted" use unless it can be demonstrated to the satisfaction of local authorities that all agriculturally unsuitable lands have been developed; continued agricultural use is not feasible; and the productivity of any adjacent agricultural lands is not diminished. (San Mateo County LCP)
- Any non-agricultural development on agricultural parcels must be as small as practicable with residential parcels (San Mateo County LCP)
- Before conversion of any agricultural land, it must be demonstrated that there exists adequate and potable well water located on-site and that water needed for agriculture production is not diminished. (San Mateo County LCP)
- Bluff top development and landscaping is to be placed sufficiently far to ensure it is not visually obtrusive when viewed from the shoreline. (San Mateo County LCP)
- Any development is to be placed where it is least visible from State and County Scenic Roads and any new building sites must not be visible or, at least, minimize visibility from scenic roads. The entire length of the subject property fronts on a State Scenic Highway (San Mateo County LCP)
- Structures cannot substantially block views to or along the shoreline from coastal access ways and beaches; paint material must integrate a structure with the natural environments; topographic contours must be restored after alteration; must avoid constructing access roads that are visible from State and County Scenic Roads; new access roads are permitted if it can be demonstrated that the use of an existing road is physically or legally impossible or unsafe; the scale of any structure must be sized and scaled so that it "relates to adjacent building and landforms" . (San Mateo County LCP)

Martins Beach Property, San Mateo County

- Development of coastal bluff tops is to be setback a distance that will assure structural integrity for the economic life of the development with a minimum of 50 years and sited so it does not contribute to geologic instability. Requires an engineering study. (San Mateo County LCP)
- Any development that would require bluff protection work is prohibited. (San Mateo County LCP)
- A development permit on agricultural land requires the establishment of vertical and/or later access to beaches--an exception to the requirement is if it is the demolition and reconstruction of a single-family residence as long as the new residence does not exceed the size of the old by 10% and does not change the intensity of use. (Shoreline Access Component of the San Mateo County LCP)
- PAD zoning was established to preserve and maintain the maximum amount of existing and potential agricultural operations in production and minimize conflicts between agricultural and non-agricultural land uses. (Source: PAD Zoning Regulations)

Required Setbacks

With all the constraints placed on development of a beach area or an unstable area like the subject Terrace Escarpment, the most likely area that could be developed would be the bluff top area with the following physical limitations:

- 100 foot minimum setback from State Scenic Highway 1 right-of-way. (LCP)
- The setback from the bluff is unknown but the setback from the bluff must be an adequate distance to assure stability and structural integrity of the economic life span of the development (at least 50 years) and sited so that it does not create or contribute significantly to erosion or geologic instability. Development of the bluff top would require the submittal of a site stability evaluation report by a soil engineer or a certified engineering geologist. Any proposed bluff top development that would require the need for bluff protection work is prohibited. (LCP, Section 9.8(d)).
- The "CD" Zoning District requires a Coastal Development Permit when there is any significant alteration of landforms including development within 50 feet of the edge of a coastal bluff for single family residences.
- Rear and side yards would need to be setback a minimum of 20 feet (PAD Zoning Requirement)

Martins Beach Property, San Mateo County

Area Devoted to Agriculture vs Non-Agricultural On Bluff Top

The area that is the most likely to be approved for development on the bluff top would be the disturbed area (an existing non-agricultural use area) which would be where the existing main house is sited. The Coastal Commission by past action (2006 example provided earlier in the report²⁵ See footnote below) would most likely require this as a condition of approval. Revisions or additional conditions on permits that are appealed to the Commission can encompass size, location, design and/or use in order to eliminate or minimize conflicts with or reductions, in, existing or potential agricultural use. Any new development proposed for the subject property is, by law, appealable the Coastal Commission.

The Coastal Act requires the protection of agricultural lands in the Coastal Zone.

The San Mateo County LCP determines what use or activity can occur on agricultural land and under what circumstances. The LCP specifically prohibits the conversion of lands suitable for agricultures like the subject property to a "conditionally permitted" use (like a new single-family residence as well as other conditionally permitted uses) unless it can be demonstrated that all of the following conditions are met:

1. all agriculturally unsuitable lands on the parcel have been developed or determined to be undevelopable;
2. continued or renewed agricultural use of the soils is not feasible;
3. clearly defined buffer areas are developed between agricultural and non-agricultural uses; and
4. the productivity of any adjacent agricultural lands is not diminished.

The LCP requires that the non-agricultural use be as small as practicable and if it is a separate parcel by division, it can be no larger than 5 acres.

Visual Requirements for Development on Bluff Top

- The LCP requires that landscaping associated with a development be placed sufficiently far to ensure it is not visually obtrusive when viewed from the shoreline. In the case of the subject bluff tops land, landscaping would need to be set back from the bluff edge to accommodate this condition.

²⁵ In 2006 the Coastal Commission added additional conditions to a Coastal Permit for a new 2,595 square foot single family residence located in San Mateo County on 60 acres. The parcel was under the same zoning as the subject (PAD). The Commission required the planned house site to be moved from a portion farmed to a portion that was not farmed and reduced the building site from 15,000 square feet to 10,000 square feet. In addition, the Coastal Commission required that an existing road be used to access the project instead of a new driveway as initially planned. Also, the applicant had to agree to an "Affirmative Agriculture Easement" over the remainder of the property outside of the building site itself in order to assure agricultural production in perpetuity.

Martins Beach Property, San Mateo County

- The LCP requires that in rural areas, like the subject property, any development be placed where it is least visible from a State Scenic Road and *"...best preserves the visual and open space qualities of the parcel overall..."* (State Scenic Highway 1 fronts the entire length of the bluff top land as well as visible from beaches).
- The subject is located in the PAD District (Planned Agricultural District) of the zoning regulations. The purpose of the PAD zone is to: *"...preserve and foster existing and potential agricultural operations...in order to keep the maximum amount of ...lands suitable for agriculture in agricultural production..."*

The PAD zone allows the development of single-family residences but requires a Planned Agricultural Permit to do so. When there is a planned division or conversion of land under a Planned Agricultural Permit it must be consistent with the following criteria:

- The encroachment of development on lands suitable for agricultural use is to be minimized.
- any conversion of land, like the subject bluff top, requires that it be demonstrated that all agriculturally unsuitable land on the parcel had already been developed; continued or renewed agricultural use of the soils is not capable of being accomplished and the productivity of adjacent agricultural land is not diminished.
- All development is to be clustered.

Conclusion-Physically Possible and Legally Permissible- Bluff Top-Subject Property APN 066-330-230

It is highly likely that new development could take place on the bluff top area of Subject Property APN 066-330-230 and not the Terrace Escarpment or beach area as discussed above; and as long as it meets the legal requirements as pointed out above for a Coastal Development Permit and Planned Agricultural Permit. The bluff top is physically well suited for dry farming and land use laws and regulation encourage the continuation of the agricultural use. However, legal requirements discourage any conversion of agricultural land and require it to be located on non-agricultural land if possible. The most likely area on the bluff top for new development would be the non-framed area where the main house and barn are located. If no development is contemplated, the existing non-farm uses, including the main residence/barn and the small residence may continue.

Conclusion

In summary, it is the opinion of this appraiser, that any new development of Subject Property APN 066-330-230 would: be based on one (1) Density Credit; be on the bluff top; take the least amount of land out of agricultural production; meet setback and visual requirements of the Coastal Act, The San Mateo County LCP, and regulations as required under the CD and PAD

Martins Beach Property, San Mateo County

zoning requirement land use zones; would be limited in intensity of use by water usage as determined by LCP Table 1.5; and also withstand the California Coastal Commission appeal process (See section entitled: "Land Use Decisions and Oversight Authority"). The development would need to be on the smallest area possible for the contemplated development so as to minimize the non-agricultural use area and preserve the greatest amount of the farmed area. Likely uses, if the subject was vacant, would be the continuation of farming on the bluff top along with development of a single family residence; or a 9 room bed and breakfast lodging facility; or a single family residence used in conjunction with 6 one-room cabins with no baths or kitchens.

Highest and Best Use of the Legally Non-Conforming Cabin Improvements

Physically Possible Uses of the Improvements

The subject property has a number of cabins and other structures located on the Terrace Escarpment area of Subject Property (066-330-230). In order to analyze the subject as improved certain information was needed relative to the cabins including cabin count, lease terms and conditions, termination dates, square footage, bedroom and bathroom count as well as other factors. The owners of Martins Beach provided some of the needed information. In addition to the information furnished by the owners the appraiser conducted independent research to find out as much information as possible about the subject cabins. The information is presented below in three sections. The sections are entitled: "Information From Independent Research"; "Information Provided by the Owners" and "Reconciliation of the Cabin Data".

Information from Independent Research

According to Exhibit "A", which was attached to several lease documents furnished by the owners of Martin's Beach, there are 57 cabins/structures that are below the bluffs on Parcel 066-330-230 and located along the terrace escarpment area as described earlier in this report. A copy of Exhibit "A" from one of the lease documents is provided below.

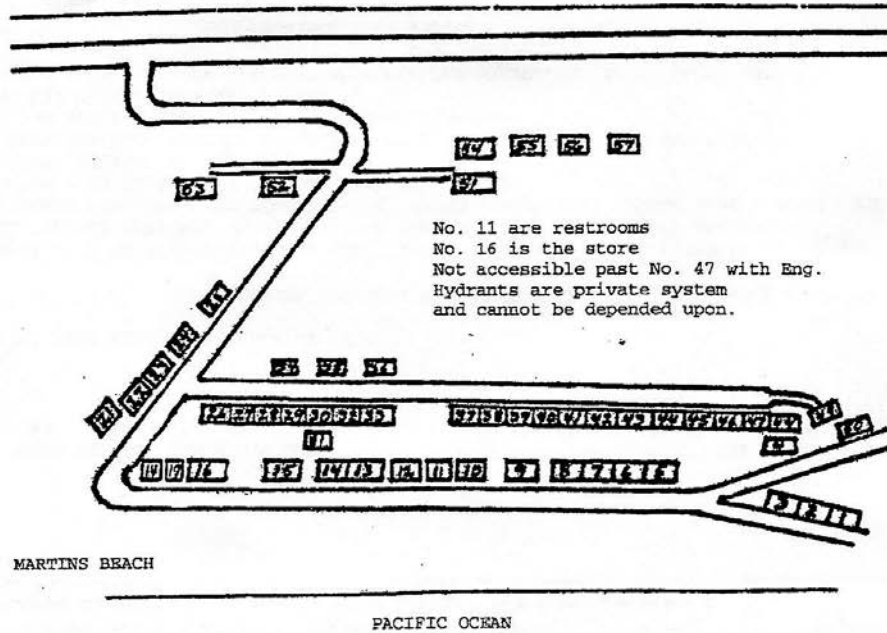
Martins Beach Property, San Mateo County

EXHIBIT A

I. Legal Description of Premises:

The circled cabin site which is part of that certain parcel of real property designated as San Mateo County Assessor's Parcel #066-330-170, being 88.61 AC MOL LYING BTW CABRILLO HWY & PACIFIC OCEAN SELY OF LOBITOS CRK PTN OF PURISIMA RANCHO CABRILLO UNIFIED SCH DIST.

II. Diagram of Premises:



III. Cabin(s) located on the Premises labeled hereunder:

48

Initials: Lessee Lessee

000613368.1

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Determination of the Number of Cabin Through Independent Research

The above exhibit states that Structure #11 is a restroom, and #16 is a store. Also, it is noted that there are two #14 structures identified on the exhibit with no structure #18. It is assumed the exhibit is mislabeled, and one of the structures labeled #14 is Structure #18.

A search of assessor records on the unsecured roll uncovered assessor accounts for 40 cabins that are assessed to individuals other than the owners of Martins Beach. The list of accounts and assessees can be found on the spreadsheet entitled "Ownerships and Assessment of Leasehold Improvements at Martins Beach" that follows.

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	A	B	C	D	E	F	G
1	Ownerships and Assessment of Leasehold Improvements at Martins Beach						
2	(San Mateo County Assessor Unsecured Roll for 2015)						
3	Assessor Acct. #, Unsecured Roll	Cabin #	Assessee		Homeowner Exemption		2015 Assessed Value
4	002345-02-N	1	Albert Cunha		No		\$ 4,790.00
5	032974-01-N	2	Renee Ellis		No		\$ 90,900.00
6	040062-01-N	3	Frank & Joan Ratts		No		\$ 89,100.00
7	032977-01-N	4	Martins Beach LLC		No		\$ 73,730.00
8	Unk	5	Unknown		No		Unk
9	006361-01-N	6	Ronald & Jeanne Goularte		No		\$ 1,458.00
10	038678-01-N	7	David & Virginia Taylor		No		\$ 91,460.00
11	006213-01-N	8	Antoinette Mascariello		No		\$ 2,998.00
12	004042-01-N	9	James Vanpatten		No		\$ 156,550.00
13	004393-01-N	10	Grieg & Janet Wylie		No		\$ 151,500.00
14	004096-01-N	11	Account Includes Cabin 11, 16, 17 & 18		No		\$ 13,641.00
15	000684-01-N	12	Account Includes Cabin 12 & 14		No		\$ 94,435.00
16	038697-01-N	13	David Berman		No		\$ 210,161.00
17	000684-01-N	14	Account Includes Cabin 12 & 14		No		\$ 94,435.00
18	021631-01-N	15	James & Janioe Chambers		No		\$ 120,000.00
19	004096-01-N	16	Account Includes Cabin 11, 16, 17 & 18		No		\$ 13,641.00
20	004096-01-N	17	Account Includes Cabin 11, 16, 17 & 18		No		\$ 13,641.00
21	004096-01-N	18	Account Includes Cabin 11, 16, 17 & 18		No		\$ 13,641.00
22	Unk	19	Unknown		No		Unk
23	Unk	20	Unknown		No		Unk
24	027155-01-N	21	Kim Harman		No		\$ 194,425.00
25	004276-01-N	22	Everett & Norma De Salles		No		\$ 42,011.00
26	004280-01-N	23	Dorothy Russell		No		\$ 49,013.00
27	009082-01-N	24	DeJesus & Rebecca Castro		Yes		\$ 131,500.00
28	008369-01-N	25	Kathleen Anne Jason-Moreau		No		\$ 126,250.00
29	004091-01-N	26	Roy, Max, Nancy Grandfield		No		\$ 49,013.00
30	049959-01-N	27	Eric Falk		No		\$ 19,071.00
31	032976-01-N	28	David & Mary Pasternak		No		\$ 1,787.00
32	004279-01-N	29	No name. Was on 2011 roll. Not on current roll.		No		\$ 55,460.00
33	039198-01-N	30	William Kastelic		No		\$ 1,431.00
34	Unk	31	Unknown				Unk
35	Unk	32	Unknown				Unk
36	007696-01-N	33	Steven and Judith Puthuff		No		\$ 202,000.00
37	004275-01-N	34	Carlene Fulton		No		\$ 128,700.00
38	027154-01-N	35	Liz Figueroa-Bloom		No		\$ 192,927.00
39	004278-01-N	36	Jo Ellen Chew		No		\$ 116,150.00
40	008658-01-N	37	Jack Lemein		No		\$ 151,500.00
41	006888-01-N	38	S M Lieu Revocable Trust		No		\$ 138,500.00
42	003610-01-N	39	Dana Raimondi		No		\$ 261,267.00
43	003196-01-N	40	M. Walker		No		\$ 1,022.00
44	004976-01-N	41	Andrew Martin LLC		No		\$ 85,220.00
45	002064-01-N	42	Yvonne & Carol Lawrence		No		\$ 32,586.00
46	006623-01-N	43	John Brasil		No		\$ 18,183.00
47	Unk	44	Unknown				Unk
48	002349-01-N	45	Madeline Rose		No		\$ 32,165.00
49	024965-01-N	46	JP, RA, RE & Dosea Rose		No		\$ 68,646.00
50	004992-01-N	47	Kenneth Jones		No		\$ 299,000.00
51	006331-01-N	48	Andrei Urasov		No		\$ 128,775.00
52	003439-01-N	49	Frank & Joan Ratts		No		\$ 90,000.00
53	028692-01-N	50	James & Marilyn Calvey		No		\$ 120,000.00
54	005765-01-N	51	Diana Hansen		No		\$ 29,282.00
55	039192-01-N	52	John & Dagmar Searle		No		\$ 90,900.00
56	003495-01-N	53	Paul Diangelo		Yes		\$ 62,488.00
57							
58	There are 40 Cabins listed to individual assessees on the unsecured roll plus one in the name of Martins Beach LLC (Cabin 4)						
59	There are six cabins/structures that are not included on the unsecured roll. They are Cabins 5, 19, 20, 31, 32 and 44.						
60	Cabin 29 has not appeared on the unsecured roll since 2012. It last appeared on the 2011 roll.						
61	Property tax bills for Cabin 29 have been returned to the Tax Collector and marked as undeliverable.						

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One of the cabins is held in the name of Martins Beach LLC (Cabin #4). There are six cabins/structures that could not be found on the unsecured roll. They are Cabins/Structures 5, 19, 20, 31, 32 and 44. Also Cabin 29 has not appeared on the unsecured roll since 2012. It has been reported that property tax bills for Cabin 29 have been returned to the San Mateo County Tax Collector and marked as undeliverable. Cabins #12 & 14 are accounted for on the unsecured roll under one account with no assessees identified and physical characteristics for only one of the two structures, therefore only one is included as a cabin for this analysis. San Mateo County Assessor staff provided physical characteristics for Cabins 5, 32, and 44 so they are included in the following analysis. There was no information available for Cabin/Structures #17, 18, 19, 20, 31, 54, 55, 56, and 57.

All total, the analysis includes the 40 cabins with an identified leasehold interest; Cabin #4 owned by Martins Beach LLC; Cabin #29 which is no longer included on the unsecured roll; and Cabins 5, 12, 32 and 44 on which there were identified physical characteristics that would indicate they were cabins.

The above count adds up to 46 cabins.

Not included in the analysis are 12 structures. They are Structures #11(restrooms), 14 (store), 16,17, 18, 19, 20, 31, 54, 55, 56, and 57. The ownership and use of these structures could not be verified by independent research and are therefore not included in the cabin count in this part of the analysis.

Primary Residence

According to the assessor records only two of the cabins are primary residences (Homeowners exemption claimed) with the rest, most likely, being second homes.

Physical Characteristics of Subject Cabins

There was no information provided by the owners as to the physical characteristics of the subject cabins as was promised on April 29 2015 during a site visit other than the estimated square footage of the cabins which will be covered in the following section entitled "Information Provided by the Owners". This appraiser has not been provided the opportunity to make a thorough inspection of the cabins including physical measurements, condition of each cabin, a detailed description etc. Therefore, information obtained from San Mateo County Assessor's office staff was used to estimate the physical characteristics of the cabins and there make-up relative to bedroom and bathroom count. Following is a spreadsheet entitled "Physical Characteristics of Leasehold Improvements at Martins Beach" which was obtained from independent research. The spreadsheet lists the known characteristics of 19 of the 46 cabins identified above.

Martins Beach Property, San Mateo County

Physical Condition

This appraiser's knowledge of the physical condition of each of the cabins is limited to a site visit that took place on April 29, 2015. During the site visit, it was observed that the cabins varied from poorly maintained to average-to-good condition. The size and quality of the cabins varied considerably. Some appeared to be mobile homes/manufacture homes. Many of the cabins were very close with very little side yard setback. The general impression of the cabin development was that it had a unique character which may be described as eclectic with various diverse styles, wide ranging in quality and condition, and very mixed as to architecture and appeal. For the purposes of this appraisal, it is assumed that all the cabins are in average condition with no significant physical or functional deficiencies.

Square Footage Estimate for Cabins

The average square footage of the 19 cabins was 744 square feet. It is assumed for this portion of the analysis that the cabins have an average of 744 square feet.

Unit Mix

The 19 cabins with identified physical characteristics consisted of a mix of units as follows: (Please refer to the spreadsheet entitled "Physical Characteristics of Leasehold Improvements at Martins Beach" below):

8 cabins with 1 bedroom/1bathroom (42.11%)

8 cabins with 2 bedrooms/ 1 bathroom (42.11%)

2 cabins with 2 bedrooms/2 bathrooms (10.53%)

1 cabin with 3 bedrooms/1 bathroom (0.53%)

Cabin Ground Leases

Two ground leases for the 40 cabins with a leasehold interest were furnished by the attorney acting on behalf of the owners of Martins Beach in June 2015. A summary of these two leases are provided below under the headings 1991 Lease and 2008 Lease. Two different leases were provided by the owner on August 12, 2015. They are analyzed in the following section entitled "Information Provided by the Owners".

The owner's representative initially stated that all of the ground leases terminate in 2021. However, there was some evidence uncovered that indicated that was not the case. The termination date of the leases was later clarified in a letter from the owner's attorney dated August 12, 2015 which will be discussed in the following section entitled "Information Provided by the Owners".

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1991 Lease

The 1991 Lease was entered into by the previous owner (William P. Deeney and Margaret Deeney as trustees of the Deeney Family Trust U/T/A dated January 9, 1991) on April 1, 1991. The cabin number, amount of rent, the initial term of the lease and lessees name were either crossed out or "whited" out. The lease renewal was for up to twenty-nine successive one year periods following the expiration of the initial term of the lease (which was "whited" out). After the initial term of the lease ("whited" out), Lessor retained the right to increase the rent equal to 75% of the then prevailing average monthly rent for one standard size mobile home space located at Canada Cove Mobile home Park, Half Moon Bay, California or if Canada Cove is not then in existence, at an established similarly located mobile home park.

2008 Lease

The 2008 ground lease was entered into on December 4, 2008. The Lessor was the present owners of Martins Beach 1, LLC, a California limited liability company. The name of the Lessee was crossed out. However, the cabin number was identified on Exhibit A which was attached to the lease as Cabin #48. A search of Assessor's unsecured roll indicates the owner of the Cabin #48 is assessed to Andrei Urasov. Following is a summary of the 2009 lease provisions:

Term: The initial term was for one year commencing as of October 1, 2008 and ending for the first term on March 31, 2019. The renewal term was for successive (1) one-year terms through the term that ends March 31, 2019. After March 31, 2019, the lease may continue on a month-to-month basis up to March 31, 2021. The lease states that "in no event shall the lease term, under any circumstance, go beyond March 31, 2021.

Rent: Monthly rent of \$665.00(base rent) payable in two semiannual installments of \$3,990.00 due April 1, and October 1 of each year. The base rent is to increase to an amount equal to the greater of "(i) the then prevailing average monthly rent for one (1) standard size mobile home space located at Canada Cove mobile home park, Half Moon Bay, California or if Canada Cove is not then in existence, at an established, similarly located mobile home park, or "(ii) *the Base Rent for the prior year plus the percentage change shown in the Consumer Price Index (All Items, Base 1982-84 = 100) as published by the United States Department of Labor, Bureau of Labor Statistics for All Consumers for the San Francisco-Oakland-San Jose Metropolitan area (hereinafter "CPI") for the month of March of the same year as compared with the CPI for the month of March in the immediately preceding calendar year...*"

Taxes and Other Expenses: Lessee is responsible for property taxes and special assessments levied against the improvements.

Utilities: Lessee is responsible for their pro-rata share of the cost garbage disposal , all utilities and fire services. (At the commencement date of the lease, the fire services were \$35 per year)

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Water: The Lessee is responsible for obtaining water from the service provider for the water services for Martin's Beach.

Use: The use of the premises is exclusively for a single family residence. The Lessee is prohibited from renting the improvements to a third party.

Parking: Lessee is allowed one parking space for one motor vehicle at no additional monthly rent. All other vehicles are to be parked in the guest parking spaces or the public parking area. Vehicles parked in the guest parking spaces must have a parking permit. The Lessee is granted one additional parking space per year in the guest parking area at no additional cost. Lessee may purchase additional guest parking spaces at the going rate of \$10 per day or other rate as determined by the Lessor. Any cars parked in the public parking area will be charged the then posted daily rate.

Maintenance: Lessee is solely responsible for the cost is to maintain the premises and all improvements in good condition and repair including the septic tank and leach field. The Lessor is not responsible for furnishing any services or facilities or to make any repairs or alterations of any kind on the Premises.

Construction: Any construction activity undertaken by the Lessee must comply with applicable codes, ordinances, regulations, and requirements for permits and approvals. The Lessee must first obtain permission from the Lessor before commencing any construction work. Lessor's approval is not required for minor repairs, alterations, or additions. "Minor" means cost not exceeding \$1,000.00.

Ownership of New Improvements. The Lessee owns any new improvements until the expiration or earlier termination of the Lease.

Ownership at Termination: *"All improvements on the Premises at the expiration of the Term of this Lease (or sooner termination of this lease) shall, without compensation to Lessee, then become Lessor' property free and clear of all claims..."*

Right of First Refusal: If the Lessee receives and offer to purchase the improvement, the Lessor has the right to purchase the improvement at the price and terms set forth in any such offer.

Lessee Right to Mortgage Leasehold: The Lessee can obtain a loan with the leasehold estate and any and all improvements as security for the loan.

Lessee's Right to Assign: Lessee may assign the Lease, providing the Lessee has prior written consent of Lessor.

No Right to Sublet: Lessee has not right to sublet all or any part of the Premises or improvements.

Martins Beach Property, San Mateo County

Insurance: The Lessee is required to keep improvement insured at the Lessee's sole cost. Insurance is to include property damage and broad form general public liability insurance with at least \$300,000 for bodily injury or death, or for any one accident with a general aggregate limit of not less than \$500,000. Lessee is to furnish Lessor with copies of the policies.

Takings: In the event of a total, substantial or partial taking, the rights of the parties with respect to the term, the rent, and the award shall be according to the law in effect at the time of the taking.

Martins Beach Property, San Mateo County

	A	B	C	D	E	F	G	H
1	Physical Characteristics of Leasehold Improvements at Martins Beach							
2	Cabin #	Assessee	Square Footage	bedrooms	bathrooms	Yr Built	Lot Size	Other
3	1	Albert Cunha						
4	2	Renee Ellis	600			1930	1500	
5	3	Frank & Joan Ratts	800	1	1	1900		1-car Garage
6	4	Martins Beach LLC	500	1	1	1950		
7	5	Unknown	1800	2	2	1951	5000	1-car Garage
8	6	Ronald & Jeanne Goularte						
9	7	David & Virginia Taylor	466					
10	8	Antoinette Mascariello						
11	9	James Vanpatten	750	1	1	1920	1000	1-car Garage
12	10	Grieg & Janet Wylie	650	2	1	1940	1300	1-car Garage
13	11	Account Includes Cabin 11, 16, 17 & 18						
14	12	Account Includes Cabin 12 & 14	650	1	1	1910		
15	13	David Berman	755					
16	14	Account Includes Cabin 12 & 14						
17	15	James & Janioe Chambers	1000	2	1	1950		1-car Garage
18	16	Account Includes Cabin 11, 16, 17 & 18						
19	17	Account Includes Cabin 11, 16, 17 & 18						
20	18	Account Includes Cabin 11, 16, 17 & 18						
21	19	Unknown						
22	20	Unknown						
23	21	Kim Harman	700	1	1	1980		
24	22	Everett & Norma De Salles	304					
25	23	Dorothy Russell	304					
26	24	DeJesus & Rebecca Castro	1000	2	2	1941	1500	
27	25	Kathleen Anne Jason-Moreau	800	2	1	1900		1-car Garage
28	26	Roy, Max, Nancy Grandfield	348					
29	27	Eric Falk						
30	28	David & Mary Pasternak						
31	29	No name. Was on 2011 roll. Not on current roll.	650	2	1	1920	1000	
32	30	William Kastelic						
33	31	Unknown						
34	32	Unknown	1080	2	1	1900		
35	33	Steven and Judith Puthuff	800	2	1	1900		
36	34	Carlene Fulton	525	1	1	1980		
37	35	Liz Figueroa-Bloom						
38	36	Jo Ellen Chew						
39	37	Jack Lemein	550	1	1	1920	1000	
40	38	S M Lieu Revocable Trust	575			1950	1100	
41	39	Dana Raimondi						
42	40	M. Walker						
43	41	Andrew Martin LLC						
44	42	Yvonne & Carol Lawrence						
45	43	John Brasil						
46	44	Unknown		1	1		1950	
47	45	Madeline Rose						
48	46	JP, RA, RE & Dosea Rose						
49	47	Kenneth Jones	1400	3	1	1930	1700	
50	48	Andrei Urasov		2	1	1930		
51	49	Frank & Joan Ratts	884			1920	1000	
52	50	James & Marilyn Calvey	723	2	1			
53	51	Diana Hansen						
54	52	John & Dagmar Searle						
55	53	Paul Diangelo						
56								
57		Average square Footage of 25 cabins	744.56				1640.909	
58								
59		19 Cabins-Bathroom Count: 17 cabins with one bath and 2 cabins with two baths						
60		19 Cabins-Bedroom Count: 8 cabins with 1-bedroom; 10 cabins with 2 bedrooms, and 1 cabin with 3 bedrooms						

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	A	B	C	D	E	F	G	H
1	Cabins -Square Footage & Type of Lease (Source: Owner)							
2	Cabin #	Square Footage	Cabin Count	Original Leases Expired in 2021. Allows for 1 yr renewal up to 29 yrs	Updated Leases end in 2019; mo-to-mo thereafter until termination in 2021. Yearly renewal required	Updated Leases end in 2019; mo-to-mo thereafter until termination in 2021. Lease is on a Fixed Term	Updated Leases that expire in 2040 with two 5 yr renewal options	Under a month-to-month lease not to exceed 2021
3	1	710	1				X	
4	2	475	2				X	
5	3	846	3		X			
6	4	624	4				X	
7	5	1510	5	X				
8	6	687	6	X				
9	7	1300	7		X			
10	8	735	8		X			
11	9	660	9		X			
12	10	592	10		X			
13	13	618	11					X
14	14	690	12		X			
15	15	885	13		X			
16	21	791	14		X			
17	22	395	15			X		
18	23	440	16	X				
19	24	1089	17			X		
20	25	840	18					
21	26	420	19			X		
22	27	1486	20			X		
23	28	918	21	X				
24	29	648	22			X		
25	30	666	23			X		
26	31	414	24	X				
27	32	926	25			X		
28	33	680	26	X				
29	34	628	27			X		
30	35	1210	28			X		
31	36	439	29	X				
32	37	675	30			X		
33	38	637	31	X				
34	39	1300	32			X		
35	40	450	33			X		
36	41	690	34			X		
37	42	620	35			X		
38	43	1394	36	X				
39	44	576	37					
40	45	520	38	X				
41	46	592	39	X				
42	47	1437	40			X		
43	48	826	41			X		
44	49	985	42			X		
45	50	1184	43			X		
46	51	985	44			X		
47	52	1114	45			X		
48	53	1710	46			X		
49		38017						
50								
51	Average Square Feet	826.46						
52	Cabin Count by Type of Lease			11	8	21	3	1
53	Total Cabins Under Lease		44					
54	Structure 25 and 44 are not cabins under lease according to Martin's Beach Owners Attorney							
55	Structure 11 is a restroom							
56	Structure 16 is a store							

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Information Provided by the Owners

In a letter dated August 12, 2015, the owner's attorney provided the following information about the cabins and ground leases:

- The cabin number, number of cabins and the estimated square footage. The August 12, 2015 letter stated that was *"all we (Martins Beach owners) have in response to"* the request by CSLC for *"any information on the physical characteristics of the residences, including age (if known), square footage, and the number of bathrooms and bedrooms"*. The August 12, 2015 letter also stated relative to the cabin number and square footage that was provided: *"We (Martins Beach owners) do not know if this information is accurate, but it is all we have in response to this question (request from CSLC)"*
- Two leases which, according to the August 12, 2015 letter, represent the two types of leases of all of the leased residential sites. The two types of leases are the "original lease" and the "updated lease".
- The "original lease" is a lease for a one-year term with the option to renew the lease for up to twenty-nine successive one-year periods following the expiration of the initial term which ended in 2021. (The letter stated 2012 but it is assumed this was an error). The letter noted that this type of lease was applicable to Cabins 5, 6, 23, 28, 31, 33, 36, 38, 3, 45 and 46.
- The "updated lease" type, which all end in 2019 and become a month-to-month thereafter, with an agreement that the lease term may not go beyond 2021. The "updated lease" type was further subdivided into either an "annual renewal" or a "fixed term" lease with no yearly renewal. The letter stated that the "updated lease" type with annual renewal was applicable to Cabins 3, 7, 8, 9, 10, 14, 15, and 21. The "updated lease" type with a fixed term was applicable to Cabins 22, 24, 26, 27, 29, 30, 32, 34, 35, 37, 39, 40, 41, 42, 47, 48, 49, 50, 51, 52, and 53.
- Cabins 1, 2, and 4 are an "updated lease" type but end in 2040 instead of 2019 (see above). These three leases also contain two five-year renewal options to extend the lease beyond 2040.
- Cabin #13 is different from those mentioned above in that it is a month-to-month lease, not to exceed 2021.

Terms of the "Original Lease" Type

(Information taken from sample lease attached to the August 12, 2015 letter from the owner's attorney)

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Term: Whited out on the lease but the August 12, 2015 letter stated the term of the "original lease" type was for a one-year term with the option to renew the lease for up to twenty-nine successive one-year periods following the expiration of the initial term, ending in 2021. (It is assumed the attorney meant 2021 instead of 2012 as stated in the letter)

Rent: Initial rent is whited out on the lease provided by the owner's attorney. The initial rent may be increased but not to exceed *"seventy-five percent (75%) of the then prevailing average monthly rent for one (1) standard size mobile home space located at Canada Cove mobile home park, Half Moon Bay, California or if Canada Cove is not then in existence, at an established similarly located mobile home park"*.

Taxes and Other Expenses: Lessee is responsible for property taxes and special assessments levied against the improvements.

Water: Lessee is to obtain water from Deeney Brothers and to be solely responsible for the maintenance of the pipelines distributing water to the leased premises.

Use: Leased premises are to be used as a location for a single family dwelling and Lessee is not to alter, modify or demolish the existing or subsequent improvements located on the premises or lease or rent the improvements to any third party.

Parking: Lessee is allowed one parking space at no cost. Lessee may park additional vehicles at a charge of \$5.00 per day. There is no additional charge for parking if vehicles belong to immediate family members of Lessee. Lessee is responsible for ensuring the gate at the main entrance remains closed during non-business hours.

Maintenance: The Premises and all improvements are to be maintained in good condition and repair at Lessee's sole cost. The Lessee is responsible for any damage to or destruction of all or any part of the improvements including the septic tank or leach field located on the Premises. Lessor is not required to furnish any services or facilities or to make any repairs or alterations of any kind on the Premises.

Construction: Before any work of construction, alteration or repair is commenced, Lessee must comply with all applicable code, ordinances, regulations and requirements for permits and approvals. Lessee must obtain Lessor's written consent prior to commencing any such construction, alteration or repair. Lessee is to pay for all costs associated with any construction, alteration or repair. No cost of alterations, construction or repairs are to be considered to be payment of rent. Lessee is to indemnify Lessor for any loss arising out of work performed on the Leased Premises.

Major/Minor Repairs: Lessor's approval is not required for minor repairs, alterations or additions in which the construction cost does not exceed \$1,000.00

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Ownership of Improvements: During the term of the lease all improvements are owned by the Lessee until expiration of the term of the lease.

Ownership at Termination: All improvements on the Lease Premises at the expiration of the lease and any renewal shall, without compensation, then become the property of the Lessor.

Right of First Refusal: If Lessee receives an offer to purchase the improvements, Lessee is to first offer in writing to sell such improvements to Lessor at the price and on the terms set forth in the offer. Lessor has 20 days to respond.

Lessee's Right to Mortgage Leasehold: The Lessee has the right to subject the leasehold estate to one or more mortgages as security for the loan but must give Lessor prior written notice.

Lessee's Right to Assign: Lessee has the right to assign or otherwise transfer Lessee's interest to an assignee that is financially responsible and able to meet all of the obligations of the Lessee but must give Lessor notice of the assignment.

Right to Sublet: Lessee has no right to sublet the Leased Premises.

Insurance: Lessee has an obligation to keep improvements insured at the Lessee's sole expense. The amount of insurance can be no less than 90% of the actual replacement cost of the improvements and the insurance policy is to name the Lessor as "additional insured". The Lessee is to keep enforce a comprehensive general public liability insurance policy of at least \$300,000 for bodily injury or death and at least \$50,000 for property damage.

Takings: The "Original Lease" type does not address "takings".

Terms of the "Updated Lease" Type

(Information taken from sample lease attached to the August 12, 2015 letter from the owner's attorney)

Term: The initial lease term is to end on March 31, 2019. Upon the expiration of the initial the lease may continue on a month-to-month basis, which may be terminated thereafter by either party on ninety (90) days prior written notice, but in no event shall the Lease term, under any circumstance, go beyond March 31, 2021.

Rent: \$665.00 per month base rent payable in two semiannual installments of \$3,990 due April 1 and October of each year with the base rent increasing by an amount equal to the greater of the (i) then prevailing average monthly rent for one (1) standard size mobile home space located at Canada Cover mobile home park, Half Moon Bay, California or if Canada Cove is not then in existence, at an established, similarly located mobile home park or (ii) the Base Rent for the prior year plus the percentage change shown in the Consumers Price Index (all Items, Base 1982-84 =100)

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Taxes and Other Expenses: Lessee is responsible for property taxes and special assessments levied against the improvements.

Utilities: Lessee is responsible for their pro-rata share of the cost garbage disposal , all utilities and fire services. (At the commencement date of the lease, the fire services were \$35 per year)

Water: The Lessee is responsible for obtaining water from the service provider for the water services for Martin's Beach.

Use: The use of the premises is exclusively for a single family residence. The Lessee is prohibited from renting the improvements to a third party.

Parking: Lessee is allowed one parking space for one motor vehicle at no additional monthly rent. All other vehicles are to be parked in the guest parking spaces or the public parking area. Vehicles parked in the guest parking spaces must have a parking permit. The Lessee is granted one additional parking space per year in the guest parking area at no additional cost. Lessee may purchase additional guest parking spaces at the going rate of \$10 per day or other rate as determined by the Lessor. Any cars parked in the public parking area will be charged the then posted daily rate.

Maintenance: Lessee is solely responsible for the cost is to maintain the premises and all improvements in good condition and repair including the septic tank and leach field. The Lessor is not responsible for furnishing any services or facilities or to make any repairs or alterations of any kind on the Premises.

Construction: Any construction activity undertaken by the Lessee must comply with applicable codes, ordinances, regulations, and requirements for permits and approvals. The Lessee must first obtain permission from the Lessor before commencing any construction work. Lessor's approval is not required for minor repairs, alterations, or additions. "Minor" means cost not exceeding \$1,000.00.

Ownership of New Improvements. The Lessee owns any new improvements until the expiration or earlier termination of the Lease.

Ownership at Termination: *"All improvements on the Premises at the expiration of the Term of this Lease (or sooner termination of this lease) shall, without compensation to Lessee, then become Lessor' property free and clear of all claims..."*

Right of First Refusal: If the Lessee receives and offer to purchase the improvement, the Lessor has the right to purchase the improvement at the price and terms set forth in any such offer.

Lessee Right to Mortgage Leasehold: The Lessee can obtain a loan with the leasehold estate and any and all improvements as security for the loan.

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Lessee's Right to Assign: Lessee may assign the Lease, providing the Lessee has prior written consent of Lessor.

No Right to Sublet: Lessee has not right to sublet all or any part of the Premises or improvements.

Insurance: The Lessee is required to keep improvement insured at the Lessee's sole cost. Insurance is to include property damage and broad form general public liability insurance with at least \$300,000 for bodily injury or death, or for any one accident with a general aggregate limit of not less than \$500,000. Lessee is to furnish Lessor with copies of the policies.

Takings: In the event of a total, substantial or partial taking, the rights of the parties with respect to the term, the rent, and the award shall be according to the law in effect at the time of the taking.

"Reconciliation of the Cabin Data"

The data gathered independently by the appraiser needs to be reconciled with information furnished by the owners (August 12, 2012 letter) since the data differs.

Cabin Count

Independent research indicated a total cabin count of 46 cabins. Information furnished by the owners indicate a total cabin count of 44 cabins under lease. The independent research was gathered from several sources and based on a number of assumptions to arrive at a total cabin count of 46 (assessor records indicated that 40 cabins had an identified leasehold interest; one cabin was owned by Martins Beach LLC; another cabin was not on the present day assessor roll but was identified as having a leasehold interest on previous assessor rolls; and four cabins had no assessee listed on the unsecured roll but the assessor staff provided physical characteristics that would indicate the four structures were cabins) The owners cabin count is based on actual number of cabin leases as detailed in their August 12, 2015 letter. For obvious reasons, the 44 cabin count provided by the owner will be used in this analysis.

Average Size of Cabins

The average size of the cabins as indicated by the independent research conducted by the appraiser is 744 square feet but is based on only 25 cabins which is about 55% of the total cabins. Whereas the information furnished by the owners relative to the size of the cabins (attached to the letter dated August 12, 2015) is based on the estimated square footage of all the cabins with an indicated average square footage of 826 which is about 11% higher than the 744 square feet as indicated by the independent research. A comparison was made of the square footage of each of the 25 cabins with that of the same cabins furnished by the owners. Only one of the 25 cabins showed a significant difference in size (Cabin #7). It is this appraiser's opinion that the average square footage arrived at from the information furnished by the owner is

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probably more accurate because it is an average of all of the leased cabins even though the owner's representative states in the August 12, 2015 letter that *"we do not know if this information is accurate...it is all we have"*.

Unit Mix

The owners were unable to furnish any information relative to the physical characteristics of the cabins other than the estimated square footage of each of the cabins. The appraiser, through independent research was able to find information on the unit mix of 19 of the cabins (Please refer to the spreadsheet entitled "Physical Characteristics of Leasehold Improvements at Martins Beach" above):

8 cabins with 1 bedroom/1bathroom (42.11%)

8 cabins with 2 bedrooms/ 1 bathroom (42.11%)

2 cabins with 2 bedrooms/2 bathrooms (10.53%)

1 cabin with 3 bedrooms/1 bathroom (0.53%)

It is assumed that the ratio of the unit mix for the 19 cabins would stay the same for the all of the estimated 44 cabins. (See above section entitled "Cabin Count")

The estimated cabin mix based on this assumption is as follows:

$44 \times 42.11\% = 18.53$ cabins with 1 bedroom/1bathroom

$44 \times 42.11\% = 18.53$ cabins with 2 bedrooms/1 bathroom

$44 \times 10.53\% = 4.63$ cabins with 2 bedrooms/2 bathrooms

$44 \times 0.53\% = 2.33$ cabins with 3 bedrooms/1bathroom

Rounded as follows:

1 bedroom/1bathroom = 19 Cabins (rounded up)

2 bedroom/1 bathroom = 19 Cabins (rounded up)

2 bedroom/2 bathroom = 4 Cabins (rounded down and subtracted 1 cabin to equal a total of 44)

3 bedroom/1 bathroom = 2 Cabins (rounded down)

Rent

The owners provided no information about the base rent or present day rent of any of the cabins. Independent research indicated an initial base rent of \$665 for Cabin #48 in 2008. When the initial base rent for Cabin #48 is factored by the CPI it indicates a present day rent of \$770 per month. The \$770 monthly rent is used in the following analysis.

Conclusion as to Physically Possible Uses as Determined from Independent Research

After reconciling the information provided by the owners with information obtained from independent research, it is assumed that there are 44 cabins and that all:

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- are and have been maintained to a point where they are in average condition and suitable for occupancy;
- contain 826 square feet with a unit mix as described above;
- have a present day ground rent of \$770 per month;
- do not suffer from any physical or design deficiencies that would make them inhabitable; and
- would meet the expectations of a typical buyer or renter in today's market.

Legally Permissible Uses as Improved

According to the San Mateo County Planning Department, the subject cabins are consider to be a legally non conforming use and the cabins can continue to be used as they have been in the past even though they are considered a (legal) non-conforming use. Any improvements classified a legal non-conforming use falls under San Mateo County Zoning Regulations, Section 6134. "Non-Conforming Uses".

The Appraisal of Legally Non-Conforming Uses.

Properties, like the subject, are classified as pre-existing nonconforming uses under existing zoning. This situation may result, as in the case of the subject cabins, when the improvements predate the applicable zoning ordinances and/or the zoning ordinance has changed since the improvements were constructed. A nonconforming use is defined as:

"A structure the size, dimension or location of which was lawful prior to the adoption, revision, or amendment of a zoning ordinance, but now fails to conform to the requirements of the zoning district in which it is located by reason of such adoption, revision, or amendment. A use which does not comply with present zoning provisions but which existed lawfully and was created in good faith prior to the enactment of the zoning provision.

*Uses permitted by zoning statutes or ordinances to continue notwithstanding that similar uses are no longer permitted in an area in which they are located."*²⁶

The San Mateo County non conforming use ordinance, which is explained below, has a beneficial effect on the market value of the subject property. The subject property under existing zoning would never be developed with the cabins and structures as they now exist. There are 44 separately owned improvements located on the subject property. Many of the cabins considering their physical age, most likely, do not meet present day building requirements but are allowed to remain and be used as single family residences. They definitely surpass the density presently allowed under the "CD" and "PAD" zonings. The cabins not only create a leasehold value at this time, they also create an income stream for the present owner as a result of the cabin ground leases that would not otherwise be there. In addition, the present owner is entitled to ownership

²⁶ Black's law Dictionary, abr. 6th ed. s.v. "nonconforming use".

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of the cabins at the projected termination of the ground leases with 41 of the leases having a final termination date of 2021 and the three remaining lease terminating in 2040. The 2040 leases may be extended with two 5-year renewal options. At that time, the owner may re-lease the cabins under a ground lease and sell the cabins to others creating a leasehold interest, or treat the cabins as rental units. (or do neither, but that would not be maximally productive, so that option is disregarded in this analysis)

This value bonus is created by the existence of the cabins, not because of some special characteristic of the land. It is therefore appropriate to attribute the bonus value created by the legal non-conforming cabins to the improvements. The land as though vacant is determined from sales of similarly zoned land with similar potential use as the subject under the existing "CD" and "PAD" zoning as described earlier in the report with no bonus value from the legally non-conforming cabins attributable to the land.

San Mateo County Zoning Regulations, Section 6134. Non-Conforming Uses

According the zoning regulation Section 6134: *"a non-conforming use may continue to exist providing all other provisions of this Chapter are met"*.

However, some repairs, remodeling or upgrades may not be allowed, or allowed only if a use permit is obtained; or if they are allowed, need to be in the same location as originally existed. The following section provides citations of relevant non-conforming zoning regulations and their impact on any repairs, remodeling or upgrades that may be contemplated for the subject cabins.

Other Relevant Provisions for Zoning Non-Conformities

Minor repairs, remodel or upgrade of non-conforming use is permitted. Any portion of the use may be replaced as it previously existed on the property.

"Major repair, remodel or upgrade of a residential non-conforming use is permitted. Any portion of the use may be replaced as it previously existed on the property"

Enlarged Non-conforming Use

A non-conforming residential use in a non-residential zoning district...may be enlarged subject to the issuance of a use permit, and provided that the enlargement conforms with Combining Zoning District Regulations S-17 (inside coastal zone)²⁷. Physical requirements of the Combining Zoning District Regulations S-17 would preclude any enlargement of the subject cabins i.e. a building site area of at least 5,000 square feet; side setback of a minimum of 5 feet; and parcel coverage of less than 50%, to name a few of the requirements. These standards cannot be met by most if not all of the existing cabins.

²⁷ San Mateo County Zoning Regulations, December 2012, Chapter 20, page 20.4 to 20.9.

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Destruction

"If a non-conforming residential use in a non-residential zoning district is destroyed, it may be replaced or rebuilt subject to the issuance of a use permit. Replacement structures shall be located either as they previously existed on the property or in conformance with Combining Zoning District Regulations S-17 (Inside Coastal Zone). It is possible the subject cabins could be replaced as they previously existed. Therefore the cabins could be replaced if destroyed.

Demolition or Removal

"If a non-conforming residential use is demolished or removed from the site, it shall only be rebuilt or replace by a use that conforms with the zoning and building code regulation currently in effect". In other words if the cabins are purposely demolished or removed, any attempt at rebuilding will end up being scrutinized by all agencies and departments including the planning department.

Conclusions Relative to Non-conformity

- Minor repairs, remodel or upgrade of the subject cabins are permitted as long as the cabins remain as previously existed prior to the minor repairs etc.
- Major repair, remodel and upgrade of the cabins are permitted as long as they remain as they previously existed on the subject property and, at the same time, fall below the 50% rule as is discussed in the following section entitled "The 50% Rule".
- In general, enlargement of a residential use would be allowed as long as a use permit was obtained and the enlargement conformed to the requirements of Combining Zoning District Regulations S-17. However, the physical limitations of the subject cabins and subject cabin sites preclude them from meeting Combining Zoning District Regulations S-17 and therefore precludes any consideration for enlargement of the cabins. According to the Combining Zoning District Regulations S-17 a building site area of at least 5,000 square feet; side setback of a minimum of 5 feet; and parcel coverage of less than 50%. These are just some of the requirements and standards most of not all of the subject cabins cannot meet.
- If any of the cabins are destroyed they may be replaced or rebuilt subject to the issuance of a use permit and are located as they previously existed on the property.
- If any of the cabins are demolished or removed they can only be rebuilt or replaced if they conform to zoning and building code regulations currently in effect. The replaced cabins would need to conform to present day septic system, water system requirements and all building health and safety requirements.

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If a Coastal Development Permit is Required

It is assumed in this analysis that a Coastal Development Permit would be required if any:

- major repair/remodel is done that goes above the 50% rule;
- if the cabins are destroyed and are replaced; and
- if the cabins are demolished and then rebuilt.

A Coastal Development Permit for any of the above actions would be appealable to the California Coastal Commission, because the subject property is located in a Scenic Corridor.

It is also assumed that any minor repairs, remodels or upgrades, taking into account the "50% Rule", would not require any planning approval including a Coastal Development Permit or review by any other agency except the Building Department. It is assumed the only permit needed for such minor activities would be a building permit.

The "50% Rule

San Mateo County Construction Ordinance, Division VII Section 9022.3 states:

"When additions, alterations, or repairs within any 12-month period or from the date of completion of any permit exceed 50% of the value of an existing building or structure, as determined by the Building Official, such building or structure shall be made in its entirety to conform with the requirements of new building and structures".

If any major remodel, alteration of any of the cabins exceed the 50% rule, the cabins need to be brought up to present day standards. That includes plumbing, electrical wiring, fire sprinkler system requirements, and other health and safety requirements. The 50% rule also makes the project subject to review from all county departments and outside reviewing agencies and the project must comply with any conditions imposed by other county departments including the planning department and fire agencies that have requirements for defensible space, access roads for fire equipment and adequate water supply for fighting fires.

If the project is under the 50% rule, the only agency that reviews and approves the project is the building department.

Conclusion

The subject cabins may legally continue as leasehold improvements subject to a ground lease as is the case at this time. They may also be converted to rental units upon the termination of the existing leases. Any alterations, additions or remodels of the cabins that are under the 50% Rule will only require a building permit without a review by other agencies. In summary, the cabins can continue to be used as residences.

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However, if any alterations, additions or remodels exceed the 50% Rule, all agencies will have input on the proposed project which would most likely lead to the need for a Coastal Development Permit and review and approval by a number of local agencies as well as the Coastal Commission because a Coastal Development Permit for a project located in a Scenic Corridor like the subject property, can be appealed to the California Coastal Commission.

Under the CD District Zone, there is an exemption to a Coastal Development for the maintenance, alteration, addition to existing single-family dwelling or the replacement of structure destroyed by natural disaster with certain exception. There are exceptions to the above mentioned exemption.

A Coastal Development Permit is required under the CD District Zone:

- for the maintenance, alteration or addition to existing single-family dwellings when the development involves improvements to a single-family structure located on a beach.
- any development within a scenic corridor that results in an increase of 10% or more of the floor area or additional stories thus limiting any contemplated additions.
- structures are not to be placed where there is severe hazards to life and property due to soils, geologic, seismic, hydrological or fire factors. No land shall be developed which is held unsuitable by the Planning Commission for reason of exposure to flooding, soil and rock formations with severe limitations, susceptibility to mudslides or earth slides, severe erosion potential, steep slopes, or any other feature harmful to the health, safety, or welfare of residents, property owners or the community. (Source: PAD Zoning Regulations, "Development Review Criteria", Chapter 20A.2 of the San Mateo County Ordinance Code)

The bottom line, relevant to the use and development of the cabins:

- If the cabins are used as they presently are with continued maintenance and minor alterations and/or remodels, the cabins can continue to exist and provide the owner with an income stream indefinitely.
- If a major renovation, alteration or additions are contemplated, the project would not only need to address existing zoning requirements but numerous health and safety issues considering where the cabins are located; and the project would be scrutinized by not only local agencies but the California Coastal Commission. It is this appraiser's opinion that such a project would be denied. In addition, it is this appraiser's opinion that the project would most likely prove to be financially infeasible²⁸.

²⁸ Financially Feasible defined: "The ability of a property to generate sufficient income to support the use for which it was designed". The Dictionary of Real Estate Appraisal, Fifth Edition, page 79.

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Financially Feasible and Maximally Productive.

As If Vacant

The financially feasible and maximally productive use of the subject property as vacant is the continued use as agricultural land with limited residential/commercial development potential.

The proposed lateral, vertical and parking area easements will impact the value of the subject properties but not to the extent the impact would make the continued agricultural use with limited residential/commercial development infeasible. The subject property is among the highest valued agricultural/residential properties in the Half Moon Bay area and it is the opinion of the appraiser that will continue to be true after the acquisition of the proposed easements. Therefore, the continued use of the subject with a farming operation along with a limited residential/commercial development is considered the highest and best use of the subject as if vacant.

As Improved

The subject cabin improvements add significant value to the subject property even though they are considered to be a legally non-conforming use. The subject cabins may legally continue as leasehold improvements subject to a ground lease as is the case at this time. They may also be converted to rental units upon the termination of the existing leases. Both of these particular uses would provide the owner with a substantial income stream that can go on indefinitely with proper maintenance and repairs. Therefore, the continued use of the cabins as described above is considered financially feasible and maximally productive and the highest and best of the legally non-conforming cabin improvements.

Valuation Section

The complexity of the valuation of the subject property along with the value of the subject easements has required that the valuation portion of this report be broken down into a number of valuation sub-sections. Following is the title of each valuation section that follows including a brief description of what is provided in that section.

Valuation, Section I A: Value As If Vacant. This section uses the sale comparison approach to value the 49.155 acre subject as if it were vacant.

Valuation Section II B: Cabin Property Value. Two different techniques were used to value the cabin improvements:

- the valuation of the split estate created by the existing ground leases. This required the use of the sales comparison approach to value the leasehold estate and the income approach to value the ground lease.
- The valuation of the cabin improvement as rentals. This approach assumed that the cabins would be converted into rental units after 2021 with the owner receiving the present ground rent for an interim period from the present until 2021. This approach is based on the assumptions: that all leases terminate in 2021; the ownership of the cabin improvements revert to the owner of Martins Beach; the cabins are remodeled (under San Mateo Counties 50% Rule); in 2022 and fully leased by the beginning of 2023.

Valuation Section III-Valuation of the Lateral and Vertical Easements

This section attempts to estimate the percentage of diminution in value that may result from the proposed easements. The percentage estimate is presented in a very broad range with factors that may be considered in estimating a percentage of diminution that can be used in negotiations with the owners relative to the value of the vertical, lateral and parking lot easements.

This section includes the following:

- A summary of the results of a study conducted by the author of this report entitled "The Broad Beach Study". This study was an attempt at measuring the affect that existing lateral access easements have on ocean front single family properties near Malibu along a beach known as Broad Beach. Sales of residential properties along Broad Beach with lateral access easements were compared with similar residential properties without lateral access easements. The study used the "before and "after" methodology to arrive at a estimated range in the percentage of loss of value due to the lateral easements.

Martins Beach Property, San Mateo County

- A summary of other studies that attempted to arrive at a percentage of loss in value to residential properties resulting from various detrimental conditions.
- A summary of a study provided by the International Right-of-Way Association relative to the diminution of value as a result of easements.

Valuing Cabin Property Using Sales of Single Family Residences. Why Not?

What seems to be an obvious more simplified method for valuing the cabins is not presented in the valuation of the cabin property in this report. Why not use the sales of single family residences to value the cabins? The subject cabins are individual single family residential units. Therefore, on its face, it would seem that they could be valued using the sales of single family residences as comparables. However, such an approach is not appropriate, would not be credible and would be misleading.

The main reason why such an approach would not be credible is because the improvements (cabins) are considered a legally non-conforming use and would not be allowed under existing zoning and land use laws. They consist, at this time as a split estate with the cabins improvement being owned by 44 lessees under a ground lease that will end in either 2021 or 2040. The leasehold improvements and the ground under the improvement that are leased are not as a package severable from the 49.155 acre parcel.

Another issue with using the sale of single family residences as comparables is that the cabins (leasehold improvements) have sold for considerably less than comparable single family residences and for good reasons. Those reasons are explored more fully in the following section entitled "Reasons Why Martins Beach Cabins Sell for Less Than Other Single Family Residences".

Reasons Why Martins Beach Cabins Sell for Less Than Other Single Family Residences

Reasons why Martins Beach cabins sell for considerably less than competing single family housing not on a ground leases include the following:

- There is no or little expectation of appreciation that can be captured by the Lessee under a ground lease like the subject's. The terms of the subject lease outlined above demonstrate the lack of control by the Lessee in many situations that are not faced with typical single family residential ownership including:
 - At the termination of the lease, all leasehold improvements revert back to the landlord without any compensation.
 - The landlord retains the right of first refusal if the Lessee enters into an agreement to sell the leasehold interest.
 - The landlord sets the amount and type of property and liability insurance the Lessee must carry.
 - The landlord must approve any construction work that amounts to more than \$1,000.00.
 - The Lessee cannot sublet the improvements without first obtaining the Lessor's approval.
 - The Lessee cannot assign the lease without first obtaining the approval of the Lessor.
 - The availability of parking is quite limited and controlled by the Lessor
- The land rents for the leased sites on which the subject cabins are located are estimated to be from \$650 to \$800 per month (a current rent roll was not furnished by the owners). This is an expense associated with the ownership of a cabin at Martins Beach that could go toward the purchase of competing housing located on fee owned lands on which a mortgage can be obtained. For example, a home buyer can put the \$700 per month land rent toward the purchase of competing housing which equates to an additional \$146,622 of financing at 4% with a 30 year amortization.

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- Conventional lending is not available for the purchase of the cabins because of the short duration of the leases as well as the fact that the cabins are considered a "non-conforming use". No lender is going to assume such risks presented by these factors. The only way the cabins can be sold is by an "all cash" transaction or with seller financing (with conditions acceptable to the Lessor of the ground lease).
- The land lease terms are so short that lessees are less likely to maintain or make improvements to the cabins.
- The present short term land leases do not provide the owner/buyer of the improvements with any meaningful use or enjoyment of the cabins that even remotely comes close to their economic-life. Many of the leases expire in about six years (2021) whereas the economic life of the cabins, with good maintenance could exceed 50 or more years.
- Ground rent payments, unless specifically subordinated, take priority over any mortgage payments associated with leasehold improvements. That is why many lenders refuse to underwrite loans for leasehold improvements unless the ground rent has been prepaid or the amount of the ground rent can be reasonably ascertained throughout the entire term of the ground lease²⁹.
- Leasehold mortgagees are extremely cautious and apply conservative underwriting standards that typically require repayment of self-liquidating mortgage loans at least 10 years prior to the expiration of the existing lease term. Leases whose unexpired terms are less than 20 years are generally not considered suitable for mortgage financing.³⁰
- The predominant factor in the value of a leasehold interest is the length of the lease term, especially in a mortgage-dependent market like residential use.
- Over time, the value of a leasehold position gets progressively less as the lease approaches the expiration date when the existing leasehold improvements revert to the landowner.
- The cabins are a "legal, non-conforming use". This means they do not conform with the current zoning regulations. Zoning non-conformities are addressed in Chapter 4 of San Mateo County Zoning Regulations dated December 2012.

The counties general intent of regulations relevant to nonconforming residential uses like the subject cabins is to allow residential zoning non conformities to continue in order to maintain

²⁹ "Ground Leases: Rent Reset Valuation Issues", by Tony Sevelka, MAI, The Appraisal Journal, Fall 2011, page 315.

³⁰ Ibid, page 315.

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and preserve the existing housing stock.³¹ However, there are significant limitations imposed on non-conforming use as discussed in a previous section entitled: "The Appraisal of Legally Non-Conforming Uses".

³¹ San Mateo County Zoning Regulations, December 2012, Chapter 4, page 4.1.

Valuation Section IA: Value As If Vacant

Introduction

The three main approaches to value are the sales comparison approach, the income approach and the cost approach.

The cost approach is not used in this analysis because this part of the appraisal assignment is to value the subject property as if vacant.

The income approach is not used in this portion of the report even though the property is capable of producing an income stream from dry land farming because:

- dry farming produces only a marginal income stream which is considered a secondary use to its primary highest and best use as a ocean front property; and
- an analysis of the dry farming income stream would not represent a valid indicator of this high end ocean front property as will be demonstrated in the sales comparison approach that follows.

Sales Comparison Approach

Introduction

Generally, the market research and analysis used in this report in the valuation of the subject as if vacant relies on direct market evidence and comparison techniques. This method is called the sales comparison approach. The sales comparison approach is based on the concept that an informed buyer would pay no more for a property than the cost of acquiring a similar property with the same utility.

The sales comparison approach is defined as:

“The process of deriving a value indication for the subject property by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making qualitative comparisons with or quantitative adjustment to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison”³².

The sales comparison approach is a method of comparing the subject property to recent sales, listing and offers of similar types of properties located in the subject or competing areas. The most similar sales are analyzed based on the degree of comparability between the sale and the subject property, the length of time since the sale transactions were completed, the accuracy of

³² The Dictionary of Real Estate Appraisal, Fifth Edition, 2010, Appraisal Institute, page 175.

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the sales data, and the absence of unusual conditions affecting the sale. Appropriate units of comparison are identified and compared to the subject property.

An investigation of recent sales activity in the subject market area for transactions that are similar enough to be utilized as comparable market data was conducted. The primary market area was determined to be oceanfront, large acreage sales along the San Mateo County Coastline that are within the Cabrillo Highway Scenic Corridor. The ideal comparable would consist of rural/residential estate acreage that has ocean views and frontage; with a mix of bluff top land, terrace escarpment (as described earlier in this report) and beach frontage and with soils capable of dry land farming.

Properties like the subject will most likely be developed with a residence along with farming as a secondary or alternative use. Therefore, the unit of comparison used by most market participants for this property type is the price per acre.

In utilizing the sales comparison approach, a search was made of public records for similar large acreage ocean front property with a similar highest and best use that were located in the subject area as described above. Three sales were uncovered in the search of public records. There were two recent 2015 sales uncovered as well as a 2011 sale that had similar characteristics as the subject property. Information was gathered about the legal, economic, and physical characteristics of the three sales. Real estate brokers that were parties to the three transactions were contacted to verify the information about each sale as well as provide additional details about the sales.

The following sales comparison analysis consists of the following sections:

- "Valuation Issues": A discussion of valuation issues encountered with estate size ocean front properties.
- Description of Comparables: A description of the comparables relevant to legal, physical, economic characteristics.
- Explanation of Adjustments to Comparables: A brief description of legal, physical, and economic characteristics along with an explanation as to why or why not an adjustment may be needed for each particular characteristic.
- Table entitled: "Comparison of Physical, Legal/Regulatory & Other Characteristics": Provides a summary of the comparability of the characteristics.
- "Adjustment Grid": The estimated affect on value of each characteristic that differs from the subject.

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- Conclusion: An estimate of the value of the subject property, as if vacant, based on the analysis of the sales.

Valuation Issues

There are a limited number of properties sold or that are for sale and a limited number of potential buyers in this area because:

- Most of the properties along this stretch of the coast consist of large acreage parcels of land under one ownership which limits the number of potential properties that enter the market at any given point in time.
- Typical exposure and marketing time for larger parcels of ocean front land is quite lengthy and, even if priced right, can range from two to two and one-half years.
- Land use restrictions and development standards in this area (properties lying within the scenic corridor between the Cabrillo Highway and the coast line) limit the potential uses that properties can be improved with thus limiting development potential and resulting in fewer potential buyers.
- Most of these properties are sold for all cash or with significant down payments which again limits the number of potential market participants.
- Vacant ocean front land produces no income or marginal income from farming, with the economic appeal for market participants being limited to the potential for appreciation over time.

As stated above, this appraiser attempted to locate relevant market sales and listings in this area that are within the boundaries of the Scenic Highway Corridor and the coastline from various sources but found very little market activity reflecting the limited market for large estate acreage with ocean frontage. In the following section three sales are analyzed to estimate the market value of the subject property as if vacant.

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Description of Comparables

Sale #1

Sale #1 is a 35 + acre ocean front property north of the subject and adjacent to the southern boundary of the City of Half Moon Bay. Its northern border is shared with a golf course. The property is at this time (8/7/15) in escrow for a reported sale price of more than \$3,000,000 but less than \$3,900,000. This equates to a per acre price of between \$84,326/acre and \$109,624/acre. The property has a small 800 square foot residence built at the turn of the century and, according to the listing broker, has no value. The buyer intends to develop the property with a large single family residence.

It took approximately 2.5 + years to market the property which is considered to be a typical marketing time for estate sized ocean front property because, according to the listing broker, of government land use restriction and development requirements.

The property consists of three land types. They are bluff top, terrace escarpment and beach area. Over 85% of the property is bluff top (developable portion) with the remainder consisting of terrace escarpment and beach area (non-developable portion).

The Natural Resources Conservation Service Soil Survey of Sale #1 indicates that the bluff top consists of Class 3 soils which are capable of supporting a farming operation. However, none of the land is classified by San Mateo County as "Prime Agricultural Land".

The property has frontage along and good access from the Cabrillo Highway.

The property is located in the Coastal Zone and is subject to the Local Coastal Program. Any development of the property will require a Coastal Development Permit. It is also within the Scenic Highway Corridor which places limitations on the type of development, the maximum density, and other development factors. No Bonus Density Credits can be used because it is in a Scenic Corridor. Also, because it is in a Scenic Corridor, any development of the property is appealable to the California Coastal Commission. The property carries two zoning designations. They are Planned Agriculture District (PAD); and Coastal Development District (CD) which is the same two zoning designations as applies to the subject property.

Sale #1 is under the same land use regulations as the subject property. Please see the section entitled "Legally Permissible" that can be found in the Highest and Best Use Section of this report. All of the information relevant to the Coastal Zone, California Coastal Act, Local Coastal Program, Density Credits, Bonus Density Credits, CD and PAD zoning designations contained within that section of this report is applicable to Sale #1.

Following is a brief summary of legal and physical characteristics and locational information about Sale #1. The physical and locational information was obtained from two sources. They were the San Mateo GIS Website and the ABAG GIS Hazards Data website. The legal characteristics were obtained from numerous sources including Local Coastal Program documents and San Mateo County Zoning Ordinances. Two maps of Sale #1 are provided. They are an assessor plat and an aerial with soil types.

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San Mateo County GIS Website

Urban Rural Boundary: Property located within in designated Rural Area but the north property line borders the Urban Coastal Boundary.

California Coastal Commission Appeals Jurisdiction: Located within the CCC appeals jurisdiction

California Coastal Commission Permit Jurisdiction: Not within the CCC permit jurisdiction.

Within Coastal Zone: Yes

Topography: the entire bluff top is almost level at 100 feet elevation

Flood Zone: Not located within a flood zone.

Within Scenic Corridor: Yes

Fire District: Coastside Fire Protection District

Prime Agricultural Lands Designation: No

General Plan Land Use Designation: Agriculture/Rural

Sphere of Influence: County mapping indicated the property is not within the sphere of influence of Half Moon Bay.

Fire Hazard Area: Outside of all designated fire hazard area.

Supervisory District: District #3.

Unincorporated Community: Rural Midcoast.

Water District: None, but borders to the north the Coastside County Water District.

Agricultural Preserve Contract: No. Not under a contract.

Zoning: PAD/CD

Special Flood Hazard Area: The beach area is within FEMA designated flood area "V". "V"= Within 100-year flood plain.

ABAG GIS Hazards Data

The Association of Bay Area Governments has identified a number of hazards on their GIS AGAB website (www.gis.abag.ca.gov/website/hazards) for areas within the Bay Area including San Mateo County. Following are a number of the hazards and the level of the hazard for Sale #1 as identified on the website.

Tsunami Hazard Area: The area along the beach is located in a tsunami evacuation area.

Shaking from Earthquakes Along Fault Lines (MMI defined below³³)

San Gregorio Fault Line: Violent MMI 9 (Same as subject)

Northern San Andreas Fault Line: Very Strong MMI 8 (Same as the subject)

Southern Hayward Fault Line: Moderate MMI 6 (Same as the subject)

Southern + Central + Northern Calaveras Fault Line: Moderate MMI 6 (Same as subject)

³³ MMI: The Modified Mercalli Intensity (MMI) estimates the intensity of shaking from an earthquake at a specific location or over a specific area by considering its effects on people, objects and buildings. For example, a MMI equal to or greater than MMI 6 would damage buildings.

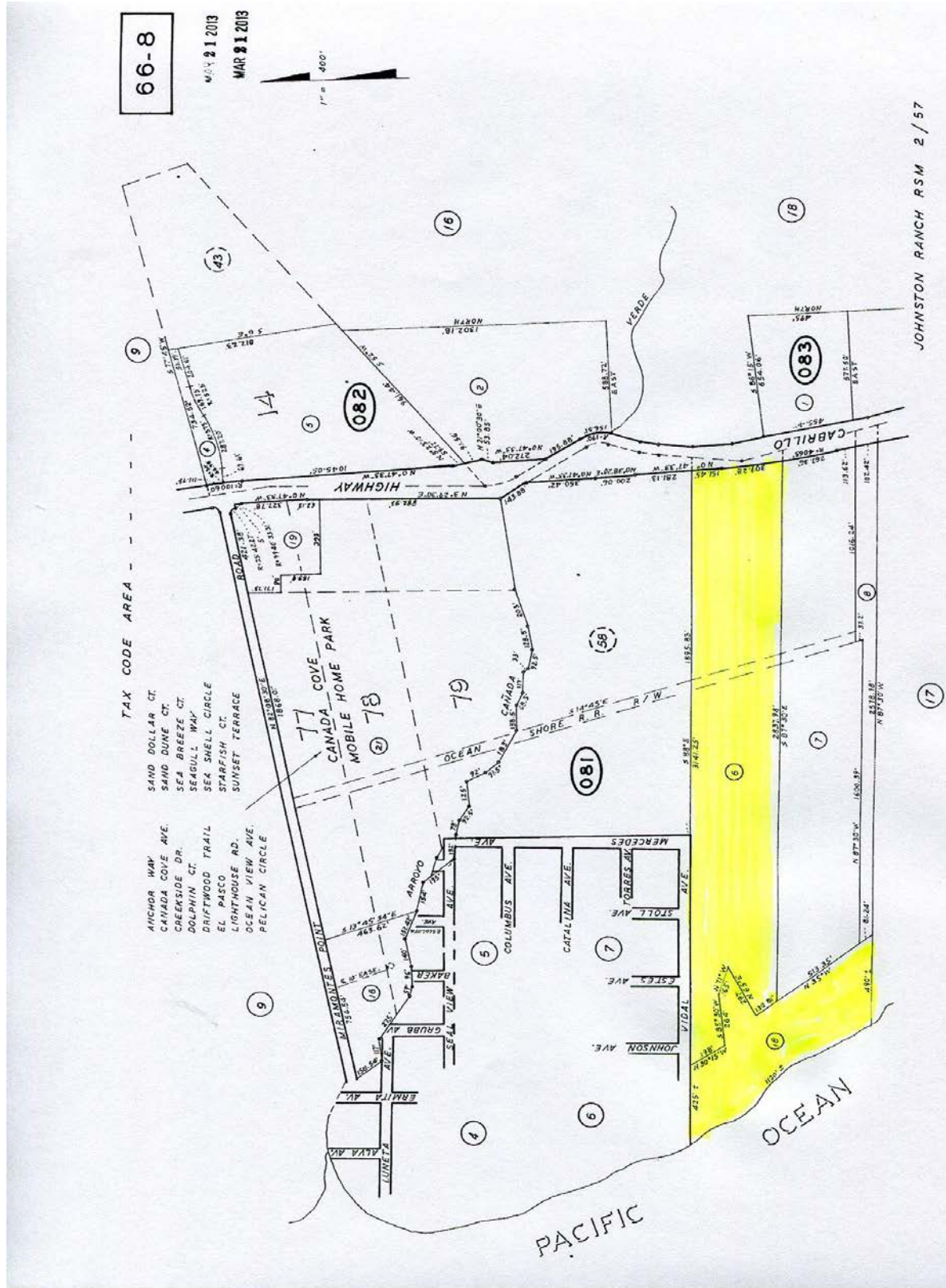
Martins Beach Property, San Mateo County

Landslides: Few landslides along beach/bluff area.

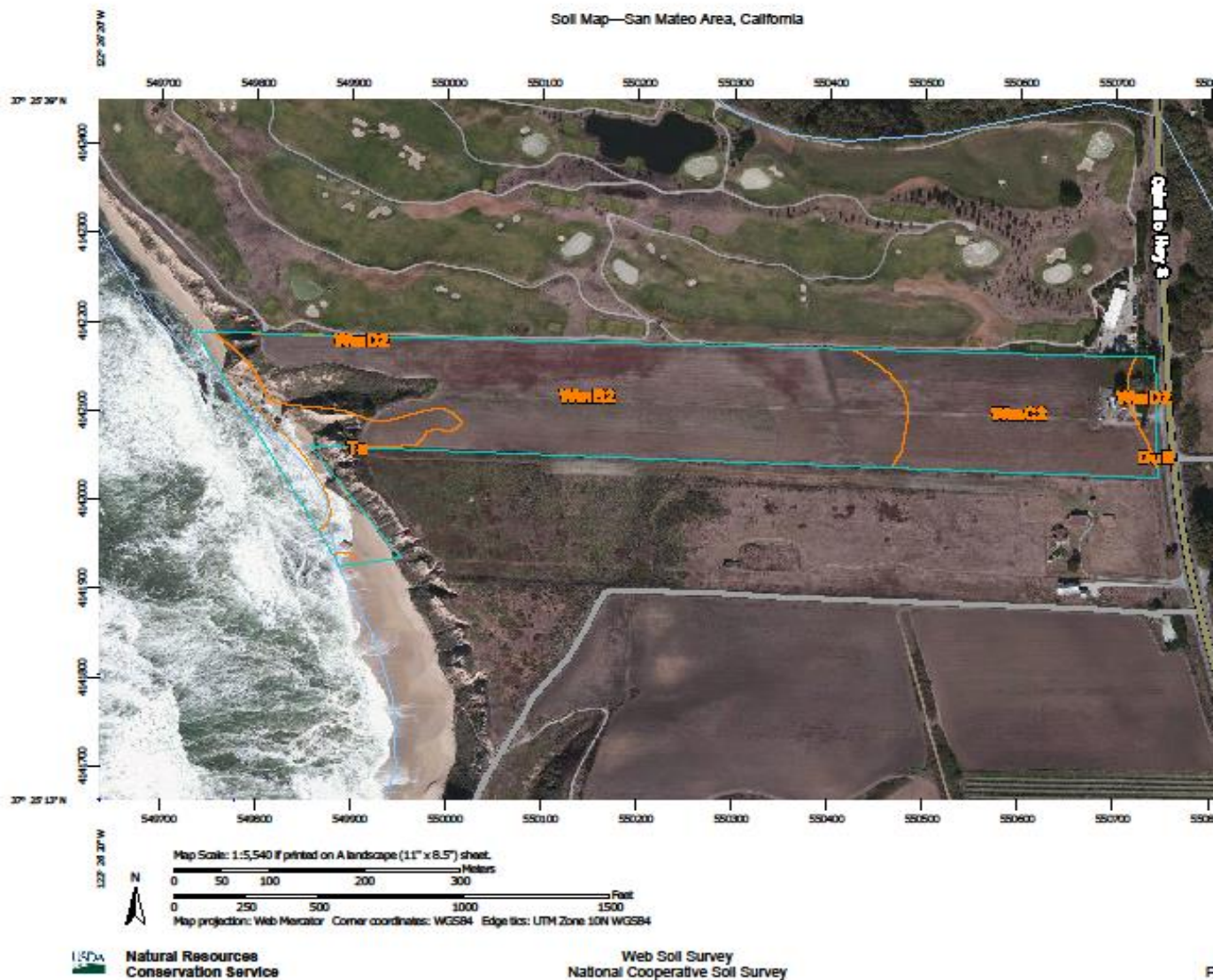
Wildfire Threat: Most of the area is classified as "little or no threat". (Same as subject)

Liquefaction Susceptibility: Low (Same as the subject)

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Soil Map Unit Legend (Approximate Acreage and Percentage of Soil Type)

Ta (Terrace Escarpments):	10.2%; 3.4+/- acres
WmB2 (Watsonville loam, gently sloping, eroded):	59.1%; 19.5 acres
WmC2 (Watsonville loam, sloping, eroded):	25.5%; 8.4 acres
WmD2 (Watsonville loam, moderately steep, eroded):	2.0%; .07 acres

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Sale #2 & 3

Sale #2 is a re-sale of Sale #3. Sale #3 occurred in 2011 and Sale #2 occurred in 2015.

Sale #2 took place on April 10, 2015 for a price of \$3,000,000 net to the seller.³⁴ This equates to a sale price of \$121,664/acre (includes improvements) and \$101,387 net to the land. The property was first listed in February 2013 for a price of \$3,995,000. In December 2014 the price was lowered to \$3,450,000. The listing was removed on March 8, 2015 with the sale closing 32 days later on April 10, 2015. The sale, according to the selling broker, was an arms-length transaction with a knowledgeable buyer and seller. The new owner intends to use the parcel for farming purposes.

Sale #3 took place on September 6, 2011 at a price of \$3,800,000 which equates to a gross per acre sale price of \$154,108 per acre and an estimated land value of \$146,403 (net of improvements). The property was acquired at a foreclosure auction on February 2, 2011 for a reported \$425,000 and immediately listed for sale at \$4,900,000. Approximately seven months later the property sold for the reported \$3,800,000. This was an all-cash purchase. This transaction was also an arms-length transaction with the buyer intending to develop it to a multi-residential use.

Since Sale #2 and Sale #3 are the same property, the following information is applicable to both sales.

The property is improved with a two-story, three-bedroom, two and one-half bath single family residence built in 1940. According to the selling/listing broker the residence is in need of extensive rehab and remodeling. Other improvements include a barn, in-law apartment, small guest house and an old airplane hangar/garage. The selling broker placed a value of the improvements at an estimated \$500,000. According to the selling broker, there is a lot of value in old structures located on properties along the coast because the existence of the old structure and structure footprint shorten the process considerably in building a new residence. The process to build a new home without the benefit of an existing structure, in this area with permitting and other legal requirements, can take as long as eight to ten years.

The San Mateo County Assessor's office allocated approximately 5% of the value to the improvements which equated to about \$190,000. The 2011 sale triggered a reassessment of the property per Proposition 13. The property is reported to have been owned by the DuPont family at one time and used as an airstrip. According to the selling broker a more recent owner used the airstrip and the hanger to store his private plane. The airstrip is located along the northerly boundary with the airstrip still visible on recent aerials. This property has city water, even though it is not within the boundaries of the water district. In the past, owners along Highway 92

³⁴ Transfer Stamps indicate a sale price of \$2,950,000, however according to the selling broker the price was really \$3,000,000 net to the seller because of concessions.

Martins Beach Property, San Mateo County

were offered the opportunity to hook up to city water. Some owners accepted the offer and paid the hook-up fee. Others elected not to and developed their own private water source.

The property consists of three land types. They are bluff top, terrace escarpment and beach area. Over 94% of the property is bluff top (developable portion) with the remainder consisting of terrace escarpment and beach area (non-developable portion).

The Natural Resources Conservation Service Soil Survey of Sale #2 & #3 indicates that the bluff top consists of Class 3 soils which are capable of supporting a farming operation. However, none of the land is classified by San Mateo County as "Prime Agricultural Land".

The property has frontage along and good access from the Cabrillo Highway.

The property is located in the Coastal Zone and is subject to the Local Coastal Program. Any development of the property will require a Coastal Development Permit. It is also within the Scenic Highway Corridor which places limitations on the type of development, the maximum density, and other development factors. No Bonus Density Credits can be used because it is in a Scenic Corridor. Also, because it is in a Scenic Corridor, any development of the property is appealable to the California Coastal Commission. The property carries two zoning designations. They are Planned Agriculture District (PAD); and Coastal Development District (CD) which is the same two zoning designations as applies to the subject property.

Sale #2 and #3 are under the same land use regulations as the subject property. Please see the section entitled "Legally Permissible" that can be found in the Highest and Best Use Section of this report. All of the information relevant to the Coastal Zone, California Coastal Act, Local Coastal Program, Density Credits, Bonus Density Credits, CD and PAD zoning designations contained within that section of this report is applicable to Sale #2 and #3.

Following is a brief summary of legal and physical characteristics and locational information about Sale #1. The physical and locational information was obtained from two sources. They were the San Mateo GIS Website and the ABAG GIS Hazards Data website. The legal characteristics were obtained from numerous sources including Local Coastal Program documents and San Mateo County Zoning Ordinances. Two maps of Sale #2 and #3 are provided. They are an assessor plat and an aerial with soil types.

San Mateo County GIS Website

Urban Rural Boundary: Property located within a designated Rural Area.

California Coastal Commission Appeals Jurisdiction: Located within the CCC appeals jurisdiction

California Coastal Commission Permit Jurisdiction: Not within the CCC permit jurisdiction.

Within Coastal Zone: Yes

Topography: the entire bluff top is almost level at 100 feet elevation

Martins Beach Property, San Mateo County

Flood Zone: Not located within a flood zone.

Within Scenic Corridor: Yes

Fire District: Coastside Fire Protection District

Prime Agricultural Lands Designation: No

General Plan Land Use Designation: Agriculture/Rural

Sphere of Influence: County mapping indicated the property is not within the sphere of influence of Half Moon Bay.

Fire Hazard Area: Outside of all designated fire hazard area.

Supervisory District: District #3.

Unincorporated Community: Rural Midcoast.

Water District: None, but borders to the north the Coastside County Water District.

Agricultural Preserve Contract: No. Not under a contract.

Zoning: PAD/CD

Special Flood Hazard Area: The beach area is within FEMA designated flood area "V". "V"= Within 100-year flood plain.

ABAG GIS Hazards Data

The Association of Bay Area Governments has identified a number of hazards on their GIS AGAB website (www.gis.abag.ca.gov/website/hazards) for areas within the Bay Area including San Mateo County. Following are a number of the hazards and the level of the hazard for Sales #2 and #3 as identified on the website.

Tsunami Hazard Area: The area along the beach is located in a tsunami evacuation area.

Shaking from Earthquakes Along Fault Lines (MMI defined below³⁵)

San Gregorio Fault Line: Violent MMI 9 (Same as subject)

Northern San Andreas Fault Line: Very Strong MMI 8 (Same as the subject)

Southern Hayward Fault Line: Moderate MMI 6 (Same as the subject)

Southern + Central + Northern Calaveras Fault Line: Moderate MMI 6 (Same as subject)

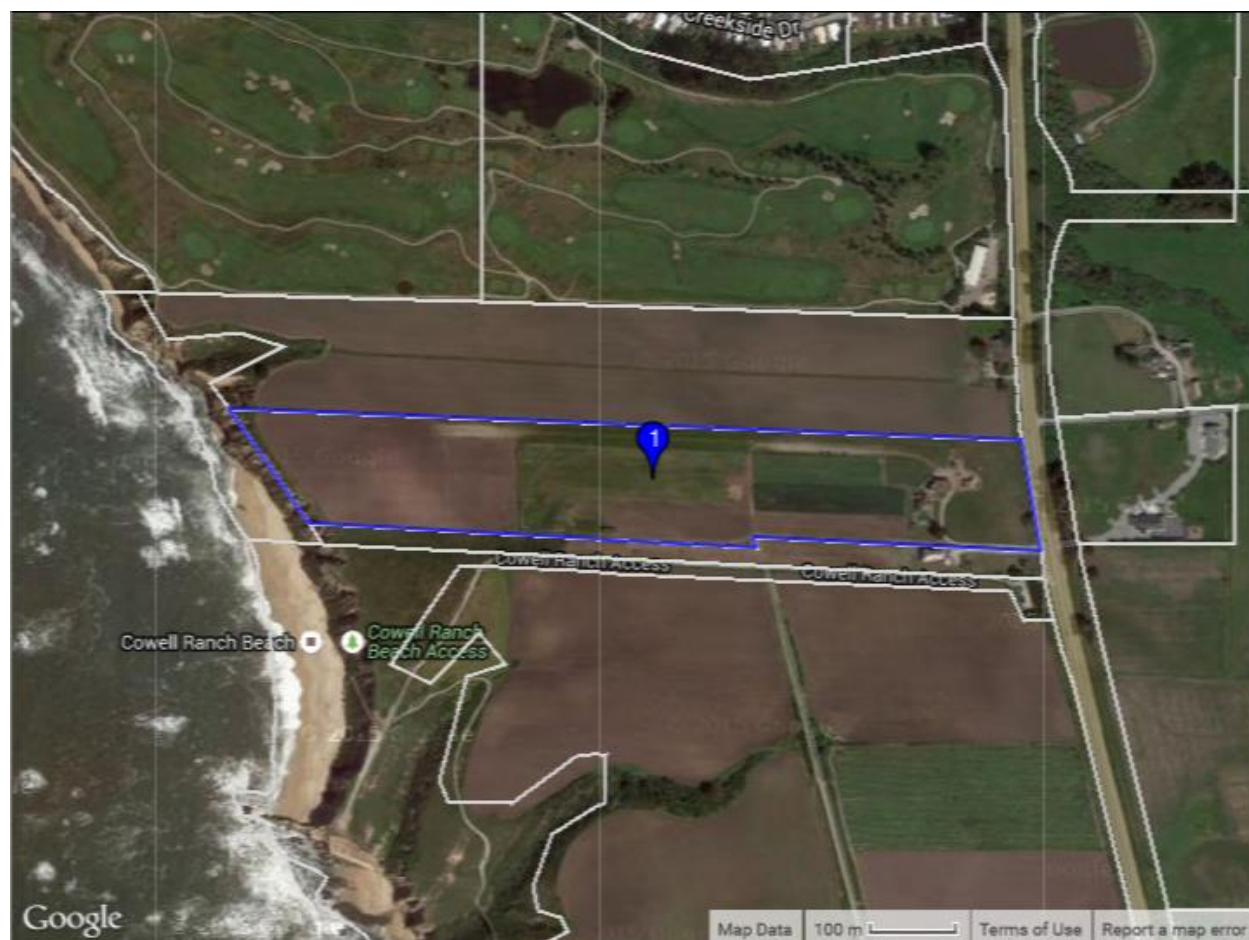
Landslides: Few landslides along beach/bluff area.

Wildfire Threat: Most of the area is classified as "little or no threat". (Same as subject)

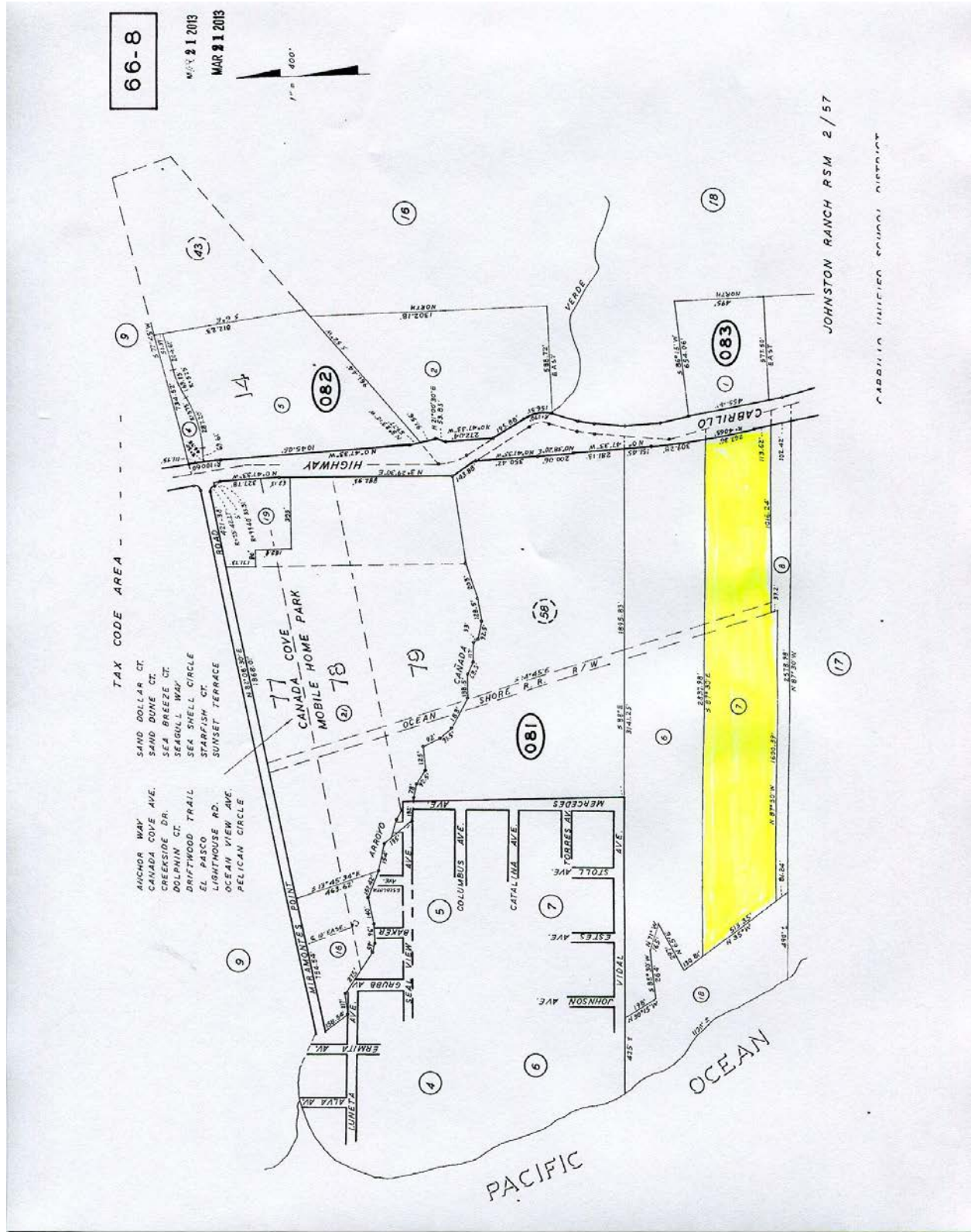
Liquefaction Susceptibility: Low (Same as the subject)

³⁵ MMI: The Modified Mercalli Intensity (MMI) estimates the intensity of shaking from an earthquake at a specific location or over a specific area by considering its effects on people, objects and buildings. For example, a MMI equal to or greater than MMI 6 would damage buildings.

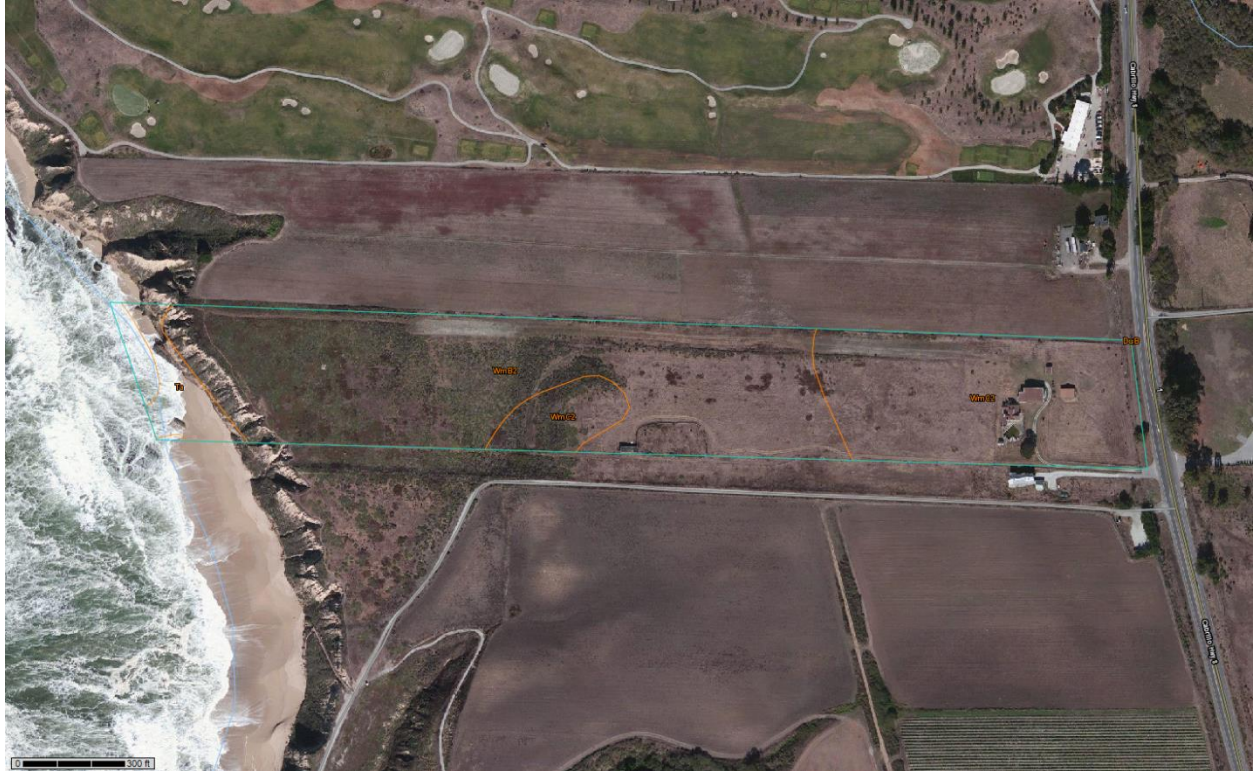
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Martins Beach Property, San Mateo County



Soil Map Unit Legend (Approximate Acreage and Percentage of Soil Type)

Ta (Terrace Escarpments):	4.9%; 1.3+/- acres
WmB2 (Watsonville loam, gently sloping, eroded):	57.8%; 15.2 acres
WmC2 (Watsonville loam, sloping, eroded):	35.7%; 9.4 acres

Martins Beach Property, San Mateo County

Explanation of Adjustments to Comparables

Following is a brief description of legal, physical, and economic characteristics of the subject and comparables; and a determination as to whether an adjustment to the comparables is warranted. The adjustments that follow are subjective but reflect the opinion of the appraiser based on his professional judgment.

Property Rights Conveyed. The estimated value of the subject property is of the fee simple estate as if vacant. The three sales used in the analysis were all sales of the fee simple ownership. Therefore no adjustment was necessary for the property rights conveyed.

Financing Terms. The subject property is appraised in terms of cash or the equivalent. All three sales used in this analysis were for "all-cash" or the equivalent of cash. Therefore no adjustment was necessary for financing terms.

Changes in the market over time. The two 2015 sales are considered recent enough to represent present day market value. The third sale is a sale that occurred in 2011. The 2011 sale is considerably higher than the two recent sales but, in the opinion of the appraiser, is a good indicator that the value of large ocean front properties lying within the scenic corridor have not increased in value during that time period. All properties were exposed to the open market for a considerable time before finding a buyer; and all three sales were arms-length transactions. According to the brokers interviewed, the reason for not seeing higher values for the subject and comparables is the restrictive land use, regulatory, and development standards imposed on ocean front properties in this area. A downward adjustment is made to Sale #3 for changes in market conditions. The pairing of Sale #3 with Sale #2 indicates the amount of adjustment that is necessary. Please see the spreadsheet below entitle "Sales Adjustment Grid".

Size. Typically large parcels sell for less per acre than smaller parcels. There is no conclusive pattern relative to size shown using the three comparables. However, it is the appraiser's professional opinion that a size adjustment is warranted. The adjustment for size is based on the appraiser's judgment without direct market evidence.

Shape. The shape of the subject and the comparables present unique challenges relevant to development. The Cabrillo Highway fronts the entire length of the subject's bluff top. The depth of the developable portion (bluff top) of the subject is significantly narrower than that of the comparables forcing any potential development closer to the highway, especially when considering the needed set back from the bluff edge, creating issues with privacy and traffic noise. The set back from the bluff edge will need to be determined by a geological study. The comparables have considerably more depth on the bluff top, so potential development can occur farther from the negative impacts of the highway.

Both the subject and comparables have ocean frontage. However, the subject has far more ocean frontage than the comparables. This factor, in the opinion of the appraiser, compensates for the

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depth issues but is a more important factor in value than the depth of the parcels and an upward adjustment is required since the comparables are considered inferior to the subject relative to ocean frontage.

Location. The adjustment for location is based on the comparables location to a population center or human activity relative to the subject. The subject is in a more remote area whereas the sales are located near or adjacent to the Half Moon Bay city limits. The comparables are considered slightly superior to the subject relevant to location.

Land Types. The comparables and the subject are composed of three land types: bluff top, terrace escarpment and beach. Percentage wise the comparables are considered slightly superior to the subject in that most of the comparable's land area is bluff top which is the developable portion of the property. The subject's bluff top land makes up approximately 52% with remainder being terrace escarpment and beach (non-developable portions). In comparison, the bluff top lands for Sale #1 are over 85% of the total; and bluff top land on Sale #2 and #3 equates to over 94% of the land area. The comparables are considered slightly superior relevant to land types and require an adjustment.

Access. The three sales as well as the subject all have adequate as well as similar access from the Cabrillo Highway. Therefore, no adjustment is warranted.

Topography. The sales as well as the subject offer a bluff top location where development can take place. The bluff top of the subject is a gentle slope toward the ocean whereas the comparables are near level. In the opinion of the appraiser this difference in elevation of the bluff top is inconsequential and does not warrant any adjustment.

Water. Sale #2 and #3 have city water whereas the subject and Sale #1 are dependent on a private water source. The availability of city water is more reliable and requires an adjustment to Sale #2 and #3; but none to Sale #1.

Utilities. The sales as well as the subject have access to necessary utilities for any potential development (considering land use, regulatory and development restrictions) and no adjustment for utilities is warranted.

Soil Capability. The soil types and farming capabilities are considered the same for the subject and the comparables. The bluff top lands of the sales and the subject are made up of the same soil map units according to the Natural Resources Conservation Service of the USDA. They are all composed of Class 3 soils, therefore no adjustment is warranted.

Physical Characteristics & Land & Regulatory Requirements. The following physical characteristics and land and regulatory requirements, when compared to the subject, are surprisingly similar. Following is a spreadsheet that compares these factors. Any characteristic

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that is the same as the subject requires no adjustment. Following the Comparison spreadsheet is a Sales Adjustment Grid.

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	A	B	C	D
2	Comparison of Physical, Legal/Regulatory & Other Characteristics			
3	Characteristics	Subject	Comparable #1	Comparable #2 & #3
4				
5	Property Rights			
6	Fee Simple Estate	Yes	Yes	Yes
7				
8	Financing Terms			
9	All Cash or Cash Equivalent	Yes	Yes	Yes
10				
11	Marketing Conditions			
12	Reflect Present-Day Value	Yes	Yes	Sale #2 = Yes. Sale #3= No
13				
14	Physical Characteristics			
15	Size- Same as the Subject		No	No
16	Shape--Same as Subject		No	No
17	Location. Same as the Subject		No	No
18	Land Type Percentages the Same as the Subject		No	No
19	Access from Cabrillo Highway adequate	yes	yes	yes
20	Topography of bluff top level or near level	yes	yes	yes
21	Soil Capability of Bluff Top Land Suitable for Farming	Yes	Yes	Yes
22	Utilities adequate for development	Yes	Yes	Yes
23	Prime Agricultural Land Designation	No	No	No
24	Within Water District or Access to City Water	No	No	Yes
25	Special Flood Hazard Area (FEMA), Beach Area: "V" or "VE" designation	yes	yes	yes
26	Three Land Classification: Terrace Escarpment, Bluff Top & Beach	Yes	Yes	Yes
27	Wildfire Threat Classified as "little or no threat"	Yes	Yes	Yes
28	Classified as Tsunami Hazard Area Along Beach	Yes	Yes	Yes
29	Low Liquefaction Susceptibility	Yes	Yes	Yes
30	Shaking from Earthquakes ranging from Moderage to Violent	Yes	Yes	Yes
31	Landslides Along the Beach (Described as "Few")	Yes	Yes	Yes
32				
33	Legal/Regulatory			
34	Within Coastal Zone	Yes	Yes	Yes
35	Within Scenic Corridor	Yes	Yes	Yes
36	Zoning PAD/CD	Yes	Yes	Yes
37	Within Urban Boundary	No	No	No
38	Within Sphere of Influence of City	No	No	No
39	Within California Coastal Commission Appeals Jurisdiction	Yes	Yes	Yes
40	Within California Coastal Commission Permit Jurisdiction	No	No	No
41	General Plan Land Use Designation: Agriculture/Rural	Yes	Yes	Yes
42				
43	Other			
44	Under Agricultural Preserve Contract	Yes	No	No
45	Supervisory District #3	Yes	Yes	Yes
46	Part of an Unincorporated Designated Community	Yes	Yes	Yes
47				
48	Note: Differences between Subject and Comparables that require an adjustment to the sales are highlighted			

Martins Beach Property, San Mateo County

	A	B	C	D	E	F	G	H
	Sales Adjustment Grid							
1								
2	Characteristic	Sale #1: Adjustment	Sale #1: Percent adjust.	Sale #2: Adjustment	Sale #2: Percent adjust.	Sale #3: Adjustment	Sale #3: Percent adjust.	Comment
3								
4	Change in Market Conditions Over Time	No adjustment	0.00%	No Adjustment	0.00%	Values have gone down since 2011	-30.75%	Sale (#3-Sale #2)/Sale #3: \$146,403- \$101,387 = \$45,016/\$146,403 = 30.748%
5	Size Adjustment	Slightly Superior	-2.00%	Slightly Superior	-2.00%	Slightly Superior	-2.00%	
6	Shape Adjustment	Inferior	10.00%	Inferior	10.00%	Inferior	10.00%	The comparables have considerably less beach area than the subject.
7	Location Adjustment	Slightly Superior	-2.00%	Slightly Superior	-2.00%	Slightly Superior	-2.00%	
8	City Water	No adjustment	0.00%	Slightly Superior	-2.00%	Slightly Superior	-2.00%	
9	% Land Types: Bluff, Terrace and Beach Area	Slightly Superior	-2.00%	Slightly Superior	-2.00%	Slightly Superior	-2.00%	
10								
11	Total Adjustment		4.00%		4.00%		-26.75%	
12								
13	Unadjusted Sale Price Per acre	Low End, Sale #1	\$84,326.00		\$101,387.00		\$146,403.00	
14	Factor		1.04		1.04		0.73	
15	Adjusted Sale Price		\$87,699.04		\$105,442.48		\$107,240.20	
16								
17		High End, Sale #1	\$109,624.00					
18			1.04					
19			\$114,008.96					
20								
21	Adjusted Range in Value of Subject as if Vacant and in the "Before" Condition							
22	Low	\$87,699.04		Mean	\$103,597.67			
23								
24	High	114,008.96		Median	\$106,341.34			

Martins Beach Property, San Mateo County

Conclusion

The purpose of this section of the report is to estimate the value of the subject property as if vacant.

Subject Property APN 066-330-230 consists of 49.155 acres of ocean front property located south of the city of Half Moon Bay and lying between the Cabrillo Highway and the Pacific Ocean. It has over 2,000 lineal feet of ocean frontage. The property consists of three land types: Bluff Top, Terrace Escarpment and Beach area. The Bluff Top makes up approximately 52% or 25.6 +/- acres of the property which is dry farmed; with the remaining 48% (23.6 +/- acres) consisting of Terrace Escarpment and Beach area. The entire length of the property runs along the Cabrillo Highway. The Terrace Escarpment area is improved with 44 cabins and other structures, most of which are under a ground lease agreement with at least 44 separate leasehold interests at this time.

On July 22, 2008 Subject Property APN 066-330-230 sold along with APN 066-330-240 (an adjoining 39.545 acres parcel of vacant ocean front land). Combined, the properties sold for a reported \$33,750,000 of which the owner allocated \$27,750,000 to the subject property and \$6,000,000 to the adjoining APN 066-330-240. The owner's representatives have indicated the allocation of values between the two parcels did not necessarily represent the market value of the property but was just an allocation required for assessment purposes. The allocated value for vacant parcel APN 066-330-240 on a per acre basis equates to \$151,726/acre. (\$6,000,000/39.545 acres) .

There is evidence that the 2008 sale of the subject property may not meet all the requisites of market value as defined in the section entitled "Market Value of the Subject Property". One of the requisites of market value is that *"the buyer and seller are each acting prudently knowledgeably..."* In the case of the sale of the subject property, the buyer apparently did not and does not have full knowledge as to what was purchased based on the following:

- According to the listing/selling broker the sale price was based on a general knowledge of what residences are selling for in the subject area without any financial or highest and best use analysis as would normally occur for a property of this type.
- The attorney for the owner stated in a letter dated August 12, 2015 relevant to a request by the California State Lands Commission staff (CSLC) for information on the physical characteristics of the cabins including age, square footage and the bedroom and bathroom count that they only had information on the square footage of the cabins and weren't certain of the accuracy of that (square footage) information . More specifically, the letter stated relative to CSLC request: *"we do not know if this (square footage) information is accurate, but it is all we have in response to this question"*.

Martins Beach Property, San Mateo County

Three sales were used in this analysis. The unadjusted sale price ranged from \$84,326/acre to a high of \$146,403/acre. The sales were analyzed for numerous characteristics as discussed above. The sales were remarkably similar considering the few sales available to estimate the value of an estate sized, oceanfront property like the subject. Over thirty characteristics were analyzed and all were found to be similar enough or the same as the subject except for the following six characteristics:

- Changes in Market Conditions Over Time
- Size
- Shape
- Location
- City Water Availability
- Land Types

These six characteristics require adjustment.

Market Conditions Adjustment

An adjustment for changes in market conditions was required for Sale #3 which occurred over four years ago. The change was determined by pairing it with a resale of the same property in 2015. The adjustment shows a downward adjustment was needed for changes in market conditions during this time period. The broker that handled both sales transactions stated that the buyer in 2013 planned on developing the property with a multi-residential use, but because of the land use, regulatory and development requirements gave up on the project and sold it in 2015 for the reported price of \$3,000,000 or \$101,387/acre. A -30.75% adjustment was made to Sale #3 for changes in market conditions as is shown in the above spreadsheet entitled: "Sales Adjustment Grid".

Size Adjustment

The sales used in this analysis are all smaller than the subject. Sale #1 is 35.576 +/- acres. Sale #2 and #3 consist of 24.658 acres. The subject, as stated above, is 49.155 +/- acres. Typically large parcels sell for less per acre than smaller parcels. There is no conclusive pattern relative to size shown using the three comparables. However, it is the appraiser's professional opinion that a size adjustment is warranted. The adjustment for size is based on the appraiser's judgment without direct market evidence. Please refer to the above Sales Adjustment Grid.

Water

Sale #2 and #3 have city water whereas the subject and Sale #1 are dependent on a private water source. The availability of city water is more reliable and requires an adjustment to Sale #2 and

Martins Beach Property, San Mateo County

#3; but none to Sale #1. The adjustment is based on the appraiser's judgment without direct market evidence.

Shape Adjustment

Shape was another characteristic that required adjustment. The three sales are long, narrow parcels whereas the subject is more rectangular in shape. The shape of the subject and the comparables present unique challenges relevant to development. The Cabrillo Highway fronts the entire length of the subject's bluff top. The depth of the developable portion (bluff top) of the subject is significantly narrower than that of the comparables forcing any potential development closer to the highway, especially when considering the needed set back from the bluff edge, creating issues with privacy and traffic noise. The set back from the bluff edge will need to be determined by a geological study. The comparables have considerably more depth on the bluff top, so potential development can occur farther from the negative impacts of the highway.

Both the subject and comparables have ocean frontage. However, the subject has far more ocean frontage than the comparables. This factor, in the opinion of the appraiser, compensates for the depth issues but is a more important factor in value than the depth of the parcels and an upward adjustment is required since the comparables are considered inferior to the subject relative to ocean frontage. Please refer to the above Sales Adjustment Grid.

Location Adjustment

The comparables either border or are a short distance from the southern boundary of the city of Half Moon Bay. The subject is several miles south of the City. The adjustment for location is based on the fact that the comparables are located nearer to a population center and human activity relative to the subject. The subject is in a more remote area whereas the sales are located near or adjacent to the Half Moon Bay city limits. The comparables are considered slightly superior to the subject relevant to location. Please refer to the above Sales Adjustment Grid.

Land Type Adjustment

The comparables and the subject are composed of three land types: bluff top, terrace escarpment and beach. Percentage wise the comparables are considered slightly superior to the subject in that most of the comparable's land area is bluff top which is the developable portion of the property. The subject's bluff top land makes up approximately 52% with remainder being terrace escarpment and beach (non-developable portions). In comparison, the bluff top lands for Sale #1 are over 85% of the total; and bluff top land on Sale #2 and #3 equates to over 94% of the land area. The comparables are considered slightly superior relevant to land types and require an adjustment. Please refer to the spreadsheet above entitled "Sales Adjustment Grid".

Martins Beach Property, San Mateo County

Conclusion of Value

The sales, after adjusting for the above six characteristics indicate a range of from \$87,699.04 to a high of \$114,008.96 with a mean value of \$103,597.67 and a median value of \$106,341.34.

Since this report will be used for negotiations, a wider range is arrived at instead of a value based on a single point value.

The value of the subject property as if vacant ranges from:

49.155 acres x \$87,700 per acre = \$4,310,894, rounded to **\$4,300,000**

to

49.155 acres x \$114,000 per acre = \$5,603,670, rounded to **\$5,600,000.**

Martins Beach Property, San Mateo County

The estimated bonus value created by the legally non-conforming cabin improvements is analyzed in the following sections.

Averages or best-guess estimates are used throughout this analysis because of the lack of information available about the subject property including physical characteristics, condition, operating statements, rent rolls and other specific data. This includes the condition of the cabins, the mix of cabin units, the present day ground rent as well as other factors. Also, the analysis uses 2021 as the date all of the leases expire. (41 leases terminate in 2021 and three leases terminate in 2040)

Valuation Section IIB: Cabin Property Value

Introduction

Two different techniques were used to value the cabin property:

- the valuation of the split estate created by the existing ground leases. This required the use of the sales comparison approach to value the leasehold estate and the income approach to value the ground leases.
- The valuation of the cabin improvement as rentals. This approach assumed that the cabins would be converted into rental units after 2021 with the owner receiving the present ground rent for an interim period from the present until 2021. This approach is based on the assumption that all leases terminate in 2021 and the ownership of the cabin improvements revert to the owner of Martins Beach. The cabins are remodeled in 2022 (under San Mateo Counties "50% Rule") and the cabins are fully rented starting in 2023.

Valuation of the Split Estates-Leased Fee and Leasehold Estates

The most obvious question, relative to the value of the cabin property, is what is the value of the cabins and ground leases assuming the existing ground leases continue as they have in the past with the improvements owned by a leaseholder. In this analysis the value of the split estates (leased fee and leasehold) is determined and added together to reflect the bonus value created by the legally non-conforming use.

Following is a brief analysis based on what the leasehold interest improvements have been selling for in the past, and to that value is added the capitalized value of the ground rent under present lease terms.

In this analysis it is assumed:

- The ground leases will be renewed for a reasonable term of 10 to 15 years indefinitely.
- The ground rent increases are based on the formula provided in existing lease as well as past leases.
- The leaseholders continue to maintain the improvements in a reasonable condition.
- The Lessees have the right to sell their leasehold interest as has been the case in the past.
- The Lessees have the same rights as are outlined in the analysis of the "original" and "updated" leases located in an earlier section of this report entitled: "Highest and Best Use of the Property as Improved".

Value of the Leased Fee Estate (Ground Rent)

The following analysis of the leased fee estate is based on the income approach to value.

Income Approach

In the income approach to value the present value of the future benefits of property ownership is measured. The appraisal method converts the estimate of a single year's income expectancy into an indication of value using a capitalization rate derived from market data. The sequence of steps is as follows:

1. The gross potential income is estimated.
2. Vacancy and collection losses are deducted from the gross potential income.
3. Operating expenses and reserves are then deducted arriving at a net operating income.
4. The net operating income is then capitalized into a value.

Gross Income

Gross income is defined as the total income from a property before deducting any expenses. A rent schedule for the ground leases was not provided. It was necessary to base the monthly ground rent on the 2008 rent for Cabin 48 factored for changes in the CPI. The rent is estimated to be \$770 per month. (The 2008 lease was the only lease provided that provided a base rent).

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Vacancy and Collection Loss Allowance.

Vacancy and collection loss allowance is a deduction from potential gross income to reflect income reductions due to vacancies, tenant turnover, and non-payment of rent. It is expressed in this report as a percent of potential gross income. The non-payment of ground rent is estimated to be low because of the substantial value the Lessee would lose if the improvements reverted to the Lessor for nonpayment of ground rent.

Effective Gross Income

Effective gross income is defined as the anticipated income from all operations of the real property after an allowance is made for vacancy and collection losses.

Operating Expense Ratio

Operating expense are the periodic expenditures necessary to maintain the real property and continue production of the effective gross income, assuming prudent and competent management. Operating expense ratio is defined as the ratio of total operating expenses to effective gross income. The ground leases are basically net ground leases, with the only significant expense being management, taxes, road maintenance and insurance.

Overall Capitalization Rate

A capitalization rate measures the ratio of net operating income to the price of a property. It is a market derived rate that is used to convert income into value. Value is determined by dividing the net operating income by the market derived cap rate.

Inputs

Inputs used in the analysis of the Leased Fee Estate (Ground Rent) are as follows:

- Number of Cabins under ground lease: 44
- Estimated 2015 ground rent: \$770 per month
- Collection Loss: 1%
- Operating Expense Ratio: 15%
- Land Capitalization Rate³⁶
 - Apartment: 2.04% low with an average of 6.07%
 - Mobile Home Parks: 2.57% low with an average of 7.13%

A capitalization rate of 4.0% is used in this analysis.

³⁶ Source: RealtyRate Investor Survey, Land Leases for residential uses including apartments, Mobile Home Parks,

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Estimate of Leased Fee Estate Based on Inputs

Gross Rent

44 Cabins x \$770 mo. ground rent x 12 months =	\$406,560
Collection Loss(1% of GI):	- \$4,066
Effective Gross Income:	\$402,494
Expense Ratio (15% of EGI)	-\$ 60,374
Estimated Net Operating Income:	\$342,120

Conclusion as to the Value of the Leased Fee Estate (Lessor's Interest)

The estimated value of the leased fee estate is arrived at by dividing the estimated net operating income by the market derived cap rate of 4.0%.

Calculation:

Capitalized Value Using a 4.0% Cap Rate:

\$342,120 / 4.0% = \$8,553,000

round to **\$8,550,000**

Value of Leasehold Interest (Lessee's interest)

The lessee, under the existing ground lease, can sell their cabin interest as they have in the past with 19 sales occurring since 2007. Therefore, the methodology used in valuing the leasehold interest is the sales comparison approach. This methodology relies on direct market evidence and comparison techniques. The sales comparison approach is based on the concept that an informed buyer would pay no more for a property than the cost of acquiring a similar property with the same utility.

The sales comparison approach is defined as:

“The process of deriving a value indication for the subject property by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making qualitative comparisons with or quantitative adjustment to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison”³⁷.

The sales comparison approach is a method of comparing the subject property to recent sales, listing and offers of similar types of properties located in the subject or competing areas.

An investigation of recent sales activity of cabins located at Martins Beach uncovered 19 sales since 2007. One sold in 2007, five in 2009, five in 2010, three in 2011, two in 2012, one in 2013 and two in 2014.

³⁷ The Dictionary of Real Estate Appraisal, Fifth Edition, 2010, Appraisal Institute, page 175.

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The sales are listed on the following spreadsheet entitled: "Martin Beach Sales of Leasehold Interests 2007 to 2015". The average sale price was \$140,810.68 with a median sale price of \$150,000. The average sale price for the 19 sales was \$204.18 per square foot with a median of \$218.72.

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A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
Martin Beach Sales of Leasehold Interests 2007 to 2015														
1	Cabin #	Sale Date	Sale Price	Square feet	Year Built	Lot	Bed	Bath	Garage	S.P. per S.F.	S&P Case Shiller Value/Date of Sale	S&P Case-Shiller4/15 Value	% Change in Value	Sale Price Factored for Change in Market
2														
3	2	4/30/2014	\$ 90,900.00	600	1930	1500	1	1	No	\$ 151.50	191.2	210.28	9.98%	\$ 166.62
4	4	9/30/2013	\$ 73,700.00	500	1950		1	1	No	\$ 147.40	179.91	210.28	16.88%	\$ 172.28
5	9	2/20/2009	\$ 155,000.00	750	1920	1000	1	1	Yes	\$ 205.67	120.35	210.28	74.72%	\$ 361.10
6	10	9/21/2010	\$ 150,000.00	650	1940	1300	2	1	Yes	\$ 230.77	134.16	210.28	56.74%	\$ 361.70
7	13	1/2/2007	\$ 200,000.00	755					No	\$ 264.90	211.78	210.28	-0.71%	\$ 263.02
8	15	8/20/2010	\$ 150,000.00	1000	1950		2	1	Yes	\$ 150.00	142.83	210.28	47.22%	\$ 220.84
9	21	10/21/2011	\$ 192,500.00	700	1980		1	1	No	\$ 275.00	132.34	210.28	58.89%	\$ 436.96
10	24	8/30/2012	\$ 138,500.00	1000	1941	1500	2	2	No	\$ 138.50	143.15	210.28	46.89%	\$ 203.45
11	25	2/8/2011	\$ 125,000.00	650	1900		2	1	Yes	\$ 192.31	129.56	210.28	61.80%	\$ 311.16
12	29	8/9/2010	\$ 90,000.00	650	1920	1000	2	1	No	\$ 138.46	142.83	210.28	47.22%	\$ 203.85
13	33	3/13/2009	\$ 200,000.00	800			2	1	No	\$ 250.00	117.71	210.28	78.64%	\$ 446.61
14	34	9/5/2014	\$ 130,000.00	525	1980		1	1	No	\$ 247.62	194.67	210.28	8.02%	\$ 287.47
15	37	6/18/2010	\$ 150,000.00	550	1920	1000	1	1	No	\$ 272.73	142.55	210.28	47.51%	\$ 402.31
16	38	7/12/2012	\$ 138,500.00	575	1950	1100	1		No	\$ 240.87	141.71	210.28	48.95%	\$ 357.42
17	41	3/3/2011	\$ 150,000.00						No		129.83	210.28	61.97%	\$ -
18	47	4/12/2010	\$ 175,000.00	1400	1930	1700	3	1	No	\$ 125.00	136.74	210.28	53.76%	\$ 192.23
19	48	7/29/2009	\$ 127,500.00		1930		2	1	No		128.86	210.28	63.18%	\$ -
20	50	11/3/2009	\$ 170,000.00	723	1920	1000	2	1	No	\$ 235.13	136.63	210.28	53.90%	\$ 361.88
21	53	12/15/2009	\$ 68,803.00						No		136.4	210.28	54.16%	\$ -
22														
23		Average Sale Price	\$ 140,810.68				Average Sale Price/S.F.			\$ 204.18			46.80%	\$ 248.89
24		Median Sale Price	\$ 150,000.00				Median Sale Price/S.F.			\$ 218.72			53.78%	\$ 263.02
25														

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The following analysis is based on:

- Each cabin containing 826 square feet. This is the estimated average as reported earlier in this report.
- The number of Cabins: 44
- Average and median price per square foot ranging from \$204.18 to \$218.72 (unadjusted)
- Average and median price per square foot ranging from \$248.89 to \$263.02 (adjusted for changes in market conditions per S&P Case-Shiller Index)

No Adjustments to the Sales for Changes in Market Conditions Over Time

Without any adjustment for changes of market conditions over time, the range of value of the improvements (leasehold interest) based on the unadjusted sale price per foot would be:

Average Value: 44 Cabins x 826 sq. ft. = 36,344 square feet x \$204.18 sq. ft. = **\$7,420,718 or a per cabin value of \$168,652.68**

to

Median Value: 44 Cabins x 826 sq. ft. = 36,344 square feet x \$218.72 sq. ft. = **\$7,949,160 or a per cabin value of \$180,662.73**

Adjustment for Changes in Market Conditions Over Time

The cabin sales were factored for changes in market conditions using the S&P Case-Shiller Index for the San Francisco Metropolitan Area. There has been a significant increase in the value of single family residential real estate in the Bay Area which includes San Mateo County. The S&P/ Case-Shiller Home Price Indices track the price of single-family homes located in 20 metropolitan areas based on repeat sales. Case-Shiller provides both composite indices as well as city indices. These indices are three-month moving averages. The composite and city indices are normalized to have a value of 100 in January 2000.

The closest metropolitan area to the subject that is tracked by Case-Shiller is the San Francisco Metropolitan area. The spreadsheet on the previous page entitled: "Martin Beach Sales of Leasehold Interests 2007-2015" includes the sale price of Cabins at Martins Beach factored for changes in market conditions over time. The S&P Case-Shiller factor for the date of sale was subtracted from the most recent Case-Shiller factor (4/15). The difference was then divided by the date of sale factor to arrive at the change in value from the date of sale to April 2015. The change in value (plus 1) was multiplied by the unadjusted sale price per square foot to arrive at a projected present day square foot value.

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When the sale price is adjusted for changes in market conditions over time, the range of value of the improvements (leasehold interest) based on the average and median sale price per square foot adjusted by Case-Shiller is:

Average Value: 44 Cabins x 826 sq. ft. = 36,344 square feet x \$248.89 sq. ft. = **\$9,045,658 or a per cabin value of \$205,583**

to

Median Value: 44 Cabins x 826 sq. ft. = 36,344 square feet x \$263.02 sq.ft. = **\$9,559,199 or a per cabin value of \$217,254.52**

Conclusion of Value of Leasehold Estate

On average, it is this appraiser's opinion that the cabins would sell for at least \$170,000 based on the assumption they are in average condition, contain 826 square feet and a knowledgeable buyer could reasonably assume, by past actions of the owners, that the ground lease would be renewed for a reasonable period of time (10 to 15 years) and under the same ground rent provisions as now exist. It is this appraiser's opinion that the upper end of the value range is \$215,000 based on the same assumptions.

Range in Value:

44 cabins x \$170,000 = **\$7,480,000**

44 Cabins x \$215,000 = **\$9,460,000**

Combined Value of Split Estates

The value arrived at for the leased fee estate is a reflection of the value of the improvements and not considered part of the value of the land as if vacant as determined earlier in this report. The ground rent bonus value exists only because of the existence of the cabins which are a non-conforming use that would not be allowed under existing land use requirements. So, in the opinion of this appraiser, the combined value of the estates is attributable to the improvements (cabins).

It should also be kept in mind that the combined value as expressed below does not reflect what the cabins would sell for if they were each a separate divisible ownership. That cannot happen because the cabins are a non-conforming use and cannot be subdivided under existing land use laws.

The combined value of the split estate based on the above analysis ranges from:

Leased Fee Estate (Ground Rent):	\$8,550,000	
Leasehold Estate (Ownership of Improvements):	<u>\$7,480,000</u>	
Low End of Value Range:		\$16,030,000
		to
Leased Fee Estate (Ground Rent):	\$8,550,000	
Leasehold Estate (Ownership of Improvements):	<u>\$9,460,000</u>	
High End of Value Range:		\$18,010,000

Martins Beach Property, San Mateo County

This methodology, in the opinion of the appraiser, sets the lower limit of value for the cabin property. The reasons are:

- The ground rent is kept artificially low by the existing ground leases. The subject cabin ground rent leases base annual rent increases using increases in rents at a nearby mobile home park. Mobile home park rents are kept artificially low by San Mateo County's Mobile Home Rent Control Ordinances (Code of Ordinances, Title 1, General Provisions, Chapter 1.30.030)
- The leases are short term limiting the amount the lessee could receive from the sale of their leasehold interest.
- There is no or little expectation of appreciation that can be captured by the Lessee under a ground lease like the subject's.
- Conventional lending is not available for the purchase of the cabins because of the short duration of the leases as well as the fact that the cabins are considered a "non-conforming use". No lender is going to assume such risks presented by these factors. The only way the cabins can be sold is by an "all cash" transaction or with seller financing (with conditions acceptable to the Lessor of the ground lease.
- The present short term land leases do not provide the owner/buyer of the improvements with any meaningful use or enjoyment of the cabins that even remotely comes close to their economic-life. Many of the leases expire in about six years (2021) whereas the economic life of the cabins, with good maintenance could exceed 50 or more years.
- Ground rent payments, unless specifically subordinated, take priority over any mortgage payments associated with leasehold improvements. That is why many lenders refuse to underwrite loans for leasehold improvements unless the ground rent has been prepaid or the amount of the ground rent can be reasonably ascertained throughout the entire term of the ground lease³⁸.
- Leasehold mortgagees are extremely cautious and apply conservative underwriting standards that typically require repayment of self-liquidating mortgage loans at least 10 years prior to the expiration of the existing lease term. Leases whose unexpired terms are less than 20 years are generally not considered suitable for mortgage financing.³⁹
- The predominant factor in the value of a leasehold interest is the length of the lease term, especially in a mortgage-dependent market like residential use.
- Over time, the value of a leasehold position gets progressively less as the lease approaches the expiration date when the existing leasehold improvements revert to the landowner.
- The cabins are a "legal, non-conforming use. This means they do not conform with the current zoning regulations. Zoning nonconformities are addressed in Chapter 4 of San Mateo County Zoning Regulations dated December 2012.

³⁸ "Ground Leases: Rent Reset Valuation Issues", by Tony Sevelka, MAI, The Appraisal Journal, Fall 2011, page 315.

³⁹ Ibid, page 315.

Valuation of the Cabin Improvements as Rentals-Interim Ground Rent to 2021, Then Conversion to Rentals

Introduction

Following is an analysis of the Martins Beach cabins assuming the owner takes possession of the cabins in 2021, remodels the 44 cabins for the purposes of renting the units in 2022 and has them fully leased by the beginning of 2023.

Income Approach To Value and Discounted Cash Value Analysis

Following is an analysis of the value of the cabins as rentals plus the interim value of the ground rent based on a discounted cash flow analysis, which is a recognized technique of the income approach method.

In the income approach to value an appraiser analyzes a property's capacity to generate future benefits and capitalizes the income into an indication of present value.

Definition of the Income Approach:

A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value.⁴⁰

The principle of anticipation is fundamental to the approach. The principle of anticipation recognizes that value is based on market participants' perception of expected benefits that will be received in the future.⁴¹

As stated above, the technique used in this analysis is known as the discounted cash flow (DCF) technique.

A discounted cash flow analysis is defined as:

The procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing and duration of the income streams and the quantity and timing of the reversion, and discounts each to its present value at a specified yield rate.⁴²

There are two income streams that are recognized in this analysis. They are:

- income derived from cabin ground leases from the present to 2021.
- anticipated income stream from the rentals starting in 2023. It is assumed that in 2021 the ground leases terminate and the cabin ground leases will not be renewed which will result in the improvements reverting to the owner of Martins Beach as provided in the lease. The owner will remodel and convert the cabins into rentals in 2022. The income stream from the rentals in 2023 and beyond is converted into a present value using a

⁴⁰ The Dictionary of Real Estate Appraisal, Fifth Edition, Appraisal Institute, page 99.

⁴¹ The Appraisal of Real Estate, Thirteenth Edition, Appraisal Institute, page 35.

⁴² The Dictionary of Real Estate Appraisal, Fifth Edition, Appraisal Institute, page 59.

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market derived discount rate. The present value of the anticipated income stream is then capitalized into a value using a market derived capitalization rate.

Spreadsheet Model

A spreadsheet model was developed to value the cabin property assuming ground rents will continue until 2021. In 2021, the cabin leases will terminate and the improvements (cabins) will revert to the owner of Martins Beach. The owners will then remodel the cabins in 2022 and convert them into rentals.

The model provides inputs that can be changed to reflect different possibilities that fall within the range of market derived information. The inputs to the model will be discussed later. Also the appraiser has provided a sensitivity analysis of the model to see which inputs move the value meter the most or the least.

The DCF model is based on what the appraiser believes are reasonable expectations market participants (buyer/seller) would use in analyzing the value of the cabin property today.

The details of the inputs and the rationale for their use will precede the spreadsheet model.

The Mechanics of the Models

The model includes inputs for valuing the ground rent from 2015 through 2021. These inputs include the starting ground rent in 2015; the estimated annual ground rent increase from 2015 through 2021; anticipated collection loss, and an anticipated operating expense ratio. A market based discount rate was used to determine the present value of the anticipated income stream from ground rent.

The model also includes inputs for the valuation of the cabins when they are converted to rentals. The inputs include anticipated annual increases in rent, vacancy and collection loss, operating expense ratio, reserves for replacement, capitalization rate and discount rate.

The mechanics of the models are as follows:

Present value of ground rent income stream -2015-2021:

- Gross Rent from cabins, less collection loss = effective gross income.
- Effective gross income minus operating expenses = net operating income.
- Net operating income multiplied by present worth discount factor.
- Present value of the income stream from 2015 to 2021 is totaled.

Present value of cabin rentals

- Projected cabin rents in 2015 is based on 2015 market rents and unit mix.
- 2015 cabin rents are increased annually until 2023 by an anticipated annual percentage increase in rents.
- The anticipated 2023 cabin rent for the unit mix is totaled and equals the total gross income projected for 2023. The total gross income for 2023 is included in the DCF and increased annually by a projected annual rent increase through 2031.
- Anticipated annual vacancy and collection loss is deducted from anticipated annual 2023-2031 gross income to equal the annual effective gross income from 2023 thru 2031.
- Anticipated annual operating expenses (based on a percentage of effective gross income) are deducted from the annual effective gross income to equal anticipated 2023 thru 2031 net operating income.

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- Annual reserves for replacement are deducted from net operating income to equal net operating income, less reserves.
- Projected annual net operating income (less reserves) is discounted to a present worth using a market derived discount rate.
- The estimated total remodel cost is deducted in 2022.
- The 2031 projected annual income stream is capitalized into value using a market derived capitalization rate to indicate the reversionary value of the cabins in 2031 and then discounted to a present worth value.
- The present worth of the ground rent is added to the present worth of the cabin rentals plus the present worth of the reversionary value.

Following is information about the multi-residential housing market in the Bay Area and San Mateo County. This is followed by a discussion about rent control in San Mateo County. This information provides a backdrop for the valuation that follows.

Overview of the Multi-Family Housing Market

According to DTZ Research⁴³ in the 1st Quarter 2015, the Bay Area had a low vacancy rate of 3.6%, down from 4.7% a year earlier. Construction activity was at the highest level that DTZ has tracked to date with 6,200 new multi-family units completed in 2014 with an addition 3,800 units completed in the 1st Quarter, 2015. In addition, there are 16,000 units under construction and another 42,000 units in various stages of planning throughout the region.

As of 1st Quarter, 2015 average rents in the region stood at \$2,317 per month which is 13.4% higher than they were at the end of the 1st Quarter, 2014 when they stood at \$2,043 per month. According to DTZ, the reason for the significant increase in rents, even with high levels of construction activity, is a housing shortage and, as they describe it, "*an affordable housing crisis*". The main reason for rent increases is the fact that the regions housing market has not kept pace with population increases. Between 2010 and 2014 the region's population grew by 340,000. However, the housing inventory (multi-family and single family) grew by only 40,000 units which equates to one new housing unit for every 8.5 new residents.

Between 2010 and the end of 2014 rents have increase by 62.3% in the Bay Area region which equates to an average annual rate of 12.46%. DTZ believes that the level of increase in the coming year will fall below double digit levels due to an anticipated slowing rental rate growth in the heavily impacted development market in San Francisco and Santa Clara Counties. DTZ anticipates that trend in the Bay Area region will be short lived and rents will again increase for at least five to six years before the housing market is tempered.

⁴³ DTZ is a worldwide real estate company with more than 260 offices in 50 countries. DTZ provides data analyses on more than 80 metro markets in the United State. Web address: dtz-ugl.com

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Bay Area Region Multi-Family Rental Statistics

(Source: DTZ. 16 units or greater with rental statistics for projects with 50 units or greater. 1st Q, 2015)

Market	Average Vacancy	Average Rent	Studio	1BR/1BA	2BR/1BA	2BR/2BA	3BR/2BA
East Bay	3.3%	\$1,947	\$1,540	\$1,754	\$1,876	\$2,261	\$2,564
S F Co.	4.5%	\$3,458	\$2,720	\$3,310	\$3,536	\$4,466	\$4,176
San Mateo Co.	4.9%	\$2,680	\$1,839	\$2,424	\$2,702	\$3,243	\$3,976
Santa Clara Co.	3.3%	\$2,457	\$1,749	\$2,218	\$2,356	\$2,808	\$3,376
North Bay	3.5%	\$1,692	\$1,213	\$1,516	\$1,549	\$1,908	\$2,597

Bay Area Region Multi-Family Investment Statistics

(Source: DTZ. Property sales of projects with 5 units or more. 1st Q, 2015)

Market	S. P. Price Per Unit	Price/ Sq. Ft.	Capitalization Rate	GRM
East Bay	\$176,328	\$168.59	4.80%	10.00
S F Co.	\$173,270	\$340.73	3.82%	17.87
San Mateo Co.	\$348,408	\$353.20	4.23%	15.16
Santa Clara Co.	\$333,751	\$442.85	4.50%	14.72
North Bay	\$180,138	\$231.51	5.47%	11.95

Multi-Family Market in San Mateo County

According to DTZ, San Mateo County vacancies of multi-family rentals at the close of the 1st Quarter, 2015 was 4.9% which was down from the 6.1% level at the end of the 1st Quarter, 2014. The construction level of new units is not at the levels seen in other areas of the Bay Area region. Only 500 rental units were added in 2013 with an additional 800 units added in 2014. However, development activity is increasing with an additional 500 units brought on line in the

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1st Quarter of 2015 along with 1,900 units in various stages of construction and 2,400 units in the planning stages.

According to DTZ, the current asking rent in San Mateo County is \$2,680 per month. This is an increase of 13.6% over 2014, however, according to DTZ, rents actually fell in the last quarter that they surveyed. DTZ believes that rents are close to plateauing in the County. They believe that double digit rental rate growth is not sustainable forever with rental rate growth far outpacing local income growth which has increased at only about 15% over the past five years. DTZ believes that properties in San Mateo County face competition from both the more vibrant economies of San Francisco and Silicon Valley, while at the same time being challenged by the lower rents of the East Bay. DTZ does not believe any of this will send rents backwards, but they do expect a flattening growth ahead for San Mateo County multi-family rental properties.

Investment wise, San Mateo County shows a average price for sold units as of the 1st Quarter of 2015 at about \$348,000 per unit compared to \$257,000 a year earlier. The average cap rate on deals closed in the 1st quarter was 4.2% down from 5.2% a year earlier.

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San Mateo County and Rent Control

Single and Multi-family Housing

San Mateo does not have a rent control/stabilization ordinance, which would limit annual increases in rents for certain types of units. Landlords with property in the unincorporated areas, like the subject, can increase rents at any time and in any amount within the limits of market forces, i.e. the supply and demand of rental housing and ability of tenant to pay rent. If the San Mateo County Board of Supervisors was to adopt a rent stabilization ordinance it would need to comply with the 1995 Costa-Hawkins Rental Housing Act (Cal. Civ. Co de 1954.50 et.seq.) and at the same time avoid potential constitutional takings issues (5th Amendment). If the Board was to go forward with such an ordinance it would adversely affect the subject property because:

- the cabins were all built before 1995. (Costa-Hawkins exempts any house constructed after 1995); and
- the cabins can never be owned as separate legal units because of zoning and subdivision limitations. (Costa-Hawkins exempts SFR and condo units where title is held separately)

Mobile Home Park Rent Control Ordinance

The subject cabins would not be classified as a mobile home park, but the subject ground rent leases use increases in rents at a mobile home park to determine increases in ground rent. The County does have regulations regarding mobile home parks and rental increases. The County's Mobile Home Rent Control Ordinances (Code of Ordinances, Title 1, General Provisions, Chapter 1.30.030) regulate any proposed mobile home rent increases. The Ordinance was adopted in 2004 and limits rent increases to no more than once in a 12-month period and to a percentage of current Consumer Price Index. The code states specifically, relevant to mobilehome rent increases:

"1.30.030 - Maximum rent increase...The rent payable for use or occupancy of any space in a mobilehome park shall not be increased more than once in any twelve (12) month period. Said rent increase shall not exceed seventy-five percent (75%) of the Percent Change in the Consumer Price Index, or five percent, whichever may be less. The initial twelve month period shall begin on July 1, 2003.

The provisions of this section shall apply regardless of whether there is a change in the mobilehome tenant occupying the space, or a change in ownership of the mobilehome".

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Market Derived Information Used in the Valuation Models

Following is market derived information relevant to the various inputs used to value the cabin property using the valuation models as described earlier.

Ground Rent Estimate

No rent roll for the ground rents were made available. The only evidence of what the ground rent might be is the 2008 lease for Cabin 48 that was furnished by the owners. The owner's representative has stated that all the ground leases ground rents are basically the same. According to the lease, annual rent increases can either be determined by what is being charged at a mobilehome park in Half Moon Bay or by use of a CPI. For this analysis, the rent level in 2008 is used and is factored forward using the CPI as described in the Cabin 48 lease.

2008 Base Rent for Cabin #48: \$665 Month

Annual Percent Increase: percentage change shown in the CPI (All Items, Base 1982-84 = 100) as published by the US Department of Labor, Bureau of Labor Statistics for All Consumer for the San Francisco-Oakland-San Joes Metropolitan area. The following table estimates rent for each year, starting in April 2008. For each following year the previous year's rent is factored by the annual change in the CPI from April to April of each year.

Base 2008	2009	2010	2011	2012	2013	2014	2015
\$665.00	\$670.33	\$681.84	\$701.07	\$715.64	\$732.68	\$753.10	\$771.45
CPI							
222.074	223.074	227.697	234.121	238.985	244.675	251.495	257.622
% Change	0.802%	1.717%	2.821%	2.078%	2.381%	2.787%	2.436%

The above table indicates a ground rent estimate of \$771.45 per month for 2015. The estimate is rounded down to \$770 per month and that is what is used in the following analysis.

Vacancy and Collection Loss

No income or expense records or rent roll were made available to the appraiser, so all income, vacancies and collection losses, expenses and reserves are estimated using secondary market evidence.

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Vacancy and collection loss allowance is a deduction from potential gross income made to reflect income reduction due to vacancies, tenant turnover, and nonpayment of rent. It is expressed in this report as a percent of potential gross income. At this time all but one of the 44 leaseholds are current on their property taxes. From this, it is reasonable to conclude that most of the leaseholders are also current on the land rents. It is this appraiser's opinion that a 1 to 2% vacancy/collection allowance is reasonable for the interim ground rent projections. Vacancies for the multi-residential properties in the Bay Area region ran from a low of 3.3% in Santa Clara County to a high of 4.9% in San Mateo County where the subject property is located. At the end of the 1st Quarter, 2014 vacancies for multi-residential properties were at 6.1% in San Mateo County.

Expense Ratio

If the cabins were managed as rentals they would most likely mirror apartment houses. Therefore, The estimated expense ratio for the cabins as rentals is based on a market survey conducted by Robtr. G. Watts & Co (RGW) under the trade name "RealtyRate.com". This particular market survey tracks sales, income and occupancy, expense data as well as operating rates and ratios for varied property types including apartments. The survey provides data of selected metro markets areas within regions of the United States. The market survey data is gathered from commercial appraiser, lenders, investors, and brokers with representation in the metro area that are included in the survey. The data includes quoted and effective rents, vacancy rates, effective gross income, operating expenses, operating expense ratios, net operating income, sales prices, inferred overall capitalization rates, and gross rent and effective gross income multipliers. The latest available survey data is from the 2nd Quarter, 2015.

An operating expense ratio is a ratio of total operating expenses to effective gross income.

The survey indicates operating expense ratios for apartments for Bay Area metropolitan areas as follows:

San Francisco/San Mateo Metro Area:	45.83%
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San Jose/Silicon Valley Metro Area:	35.35%
-------------------------------------	--------

The survey indicates an operating expense ratio for the Northern California Region of which the two metropolitan areas are a part of as follows:

Northern California Region:	40.97%
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On a national scale, the survey indicates an operating ratio for apartments to be:

Nationwide:	41.63%
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Gross Income Estimate, Unit Mix and Unit Rent

A gross income estimate is based upon a rent survey conducted by DTZ of apartments in the Bay Area that is included in the above section.

Unit Rent

Unit rents used in the following analysis are based on the DTZ research for San Mateo County 1st Quarter, 2015. The estimated 2015 rents for the cabins are as follows:

1bedroom/1bathroom = \$2,424 per month

2bedroom/1bathroom = \$2,702 per month

2bedroom/2bathroom = \$3,243 per month

3bedroom/1bathroom = \$3,976 per month

Rent Increases

According to DTZ research annual rent increases for San Mateo County in the coming years is going to be below 10%. Wage growth in San Mateo County over the past 5 years has averaged approximately 3% annually. The data would indicate that rents could increase at a minimum of 3% per year and as much as 9%.

Expense Ratios

According to RealtyRates, at the end of the 2nd Quarter 2015 expense ratios for apartments in San Francisco/San Mateo Metro Area (area where subject cabins are located) were at 45.83% and at 35.5% for the more expensive/vibrant San Jose/Silicon Valley Metro Area. For the Northern California area of which the subject is a part, the expense ratio was at 40.97% with a national expense ratio of 41.63% for the 2nd quarter 2015.

Reserve Requirements

Realtyrate national investor survey for reserve requirements for apartments varied from \$155 per unit to a high of \$390 per unit with an average of \$362 per unit. The national effective rent was estimated to be \$1,100 per month or \$13,200 per year.

Based on the above, the percentage of effective gross income that the market indicates should be set aside as a reserve are as follows:

Low: $\$155/\$13,200 = 1.2\%$

Average: $\$362/\$13,200 = 2.7\%$

High: $\$390/\$13,200 = 3\%$

Range: 1.2% to 3% of effective gross income

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Unit Condition and Remodeling

The condition of the cabins is unknown at this time. It is assumed in this analysis that by 2021 when the ground leases expire, the cabins will be in fair condition but in need of updating and remodeling. This is based on a reasonable assumption that the present owners of the leasehold interest would have no reason to maintain the cabins to any great extent since the cabins will revert to the owner of Martins Beach in 2021. It is also assumed that in order to achieve average rents for the area, the cabins will need to be updated and remodeled, including the bathrooms and kitchens along with other remodeling and maintenance items such as painting and new flooring. This estimate is also based on the assumption that an investor would only go to the extent necessary to achieve average rents but keep the upgrades and remodeling below San Mateo Counties "50% Rule" as described earlier in this report. If the remodel cost is below the "50% Rule", all that is needed for remodeling is a permit from the Building Department. The cost of the upgrades and remodeling are based on the data below. It is assumed that all cabins will be in need of at least a remodel of the kitchen and each bath, new flooring and painting. A contingencies amount is also added to the estimate.

Kitchen Remodel

Home Advisor:

Low: \$5,000

High: \$45,000

Typical Range: \$11,028 to \$28,402

National Average: \$19,712

ImprovementNet.Com

Typical: \$17,000

Most Likely: \$12,000 to \$19,000

Kiplinger

\$18,000 to \$25,000

Bathroom Remodel

Home Advisor:

Low: \$3,000

High: 20,000

Typical Range: \$5,610 to \$12,849

National Average: \$9,229

Kiplinger

Examples of Actual Bathroom Remodels: \$9,000 to \$13,500

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Cost to Paint a 826 square foot Residence in Zip Code 94109

Homewyse Estimator

Low: \$2,204

High: \$4,869

Cost for flooring for 826 square foot residence in Zip Code 94109

Homewyse Estimator

Low: \$4,367

High: \$5,998

Contingencies

10% to 20% of the estimated cost

Conclusion

Estimated Cost to Remodel and Upgrade Each Cabin:

Kitchen:	\$20,000
Bathroom:	\$10,000
Painting:	\$ 4,500
Flooring:	\$ 4,500
Contingency:	<u>\$ 6,000 (15.4%)</u>
Total	\$45,000

Discount Rate

A discount rate is defined as an annual competitive rate of return on total invested capital necessary to compensate the investor for the risk inherent in a particular investment. A yield rate to convert future payments or receipts into present value.

Following are two surveys of investor discount factors.

RealtyRates Investor Survey

National Survey of All Property Types for Acquisitions:

Minimum:	4.78%
Maximum:	18.17%
Average:	10.26%

National Survey for Apartments regardless of Apartment Type:

Minimum:	4.85%
Maximum:	13.10%
Average:	9.09%

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National Survey for Garden/Suburban , Multi-Residential for Acquisitions:

Minimum:	4.85%
Maximum:	12.02%
Average:	8.42%

Discount Rates of Land Leases

The market indicates that the discount rate for land leases for apartments is generally lower than for improved properties. The RealtyRate Investor Survey dated 2nd Quarter 2015 indicates a low of 4.64% with a high of 10.88% and average of 7.07%.

Capitalization Rates

The DTZ survey above indicates an average cap rate for multi-residential properties in San Mateo County is at 4.23%. According to DTZ, the range for multi residential properties in the Bay Area region runs from a low of 3.82% to a high of 5.47%. RealtyRate Investor Survey as of the 2nd quarter 2015 indicates apartments nationally range, at the low end, from 4.01% to 4.30% with an average range of from 6.86% to 8.61%.

Definitions

Potential Gross Income: Total income attributable to real property at full occupancy before vacancy and operating expenses are deducted.⁴⁴

Vacancy and Collection Loss: Vacancy and collection loss is an allowance for reductions in potential gross income attributable to vacancies, tenant turnover, and nonpayment of rent or other income.⁴⁵

Effective Gross Income: Effective gross income is calculated as the potential gross income minus the vacancy and collection loss allowance.⁴⁶

Operating Expense Ratio: Ratio of total operating expenses to effective gross income. Typically includes management and administration, energy, utilities, solid waste, maintenance, leasing commission, real estate taxes and insurance.⁴⁷

Reserves for Replacement: Provides for a periodic replacement of building components that wear out more rapidly than the building itself and must be replaced during the building's economic life.⁴⁸

⁴⁴ The Dictionary of Real Estate Appraisal, Fifth Edition, Appraisal Institute, page 148.

⁴⁵ The Appraisal of Real Estate, Thirteenth Edition, Appraisal Institute, page 483.

⁴⁶ Ibid, page 484.

⁴⁷ RealtyRate Market Survey, Glossary, 2nd Quarter 2015, page 33.

⁴⁸ The Appraisal of Real Estate, Appraisal Institute, Thirteenth Edition, page 490.

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Discount Rate: An annual competitive rate of return on total invested capital necessary to compensate the investor for the risk inherent in a particular investment. A yield rate used to convert future payments or receipts into present value.⁴⁹ A yield rate used to convert future payments or receipts into present value; usually considered to be a synonym for yield rate.⁵⁰

Cap (Capitalization) Rate also referred to as Overall Capitalization Rate (OAR): Ratio of Net Operating Income to sale price.⁵¹ Any rate used to convert income into value.⁵²

Reversion: Reversion is a lump-sum benefit an investor receives upon termination of an investment or at an intermediate analysis period during the term of an investment. Reversionary benefits are usually estimated as anticipated dollar amount or as relative changes in value over the presumed projection period.⁵³

⁴⁹ RealtyRate Developer Survey, Glossary, 2nd Quarter 2015, page 23.

⁵⁰ The Dictionary of Real Estate Appraisal, Appraisal Institute, Fifth Edition, page 58.

⁵¹ RealtyRate Market Survey, Glossary, 2nd Quarter 2015, page 33.

⁵² The Dictionary of Real Estate Appraisal, Appraisal Institute, Fifth Edition, page 28.

⁵³ The Appraisal of Real Estate, Appraisal Institute, Thirteenth Edition, page 58.

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Introduction to Discounted Cash Flow Model

It is understood that the function of this report is to assist the client in negotiations with the owners of the subject property in an attempt to acquire a vertical and lateral access easements to the beach and an easement for a public parking area.

The model presents, what this appraiser believes to be is a very realistic achievable result using what might be described as a mix of conservative and optimistic inputs. The rationale for the use of the inputs in the DCF model is explained below.

Following the DCF analysis is a sensitivity analysis that tests and demonstrates which inputs have a minimal, moderate and significant affect on the final value estimate.

DCF Inputs

Inputs

Annual Rent Increase (Cabins):	7.0%
Annual Rent Increase (Ground Rent):	2.5%
Vacancy and Collection Loss (Cabins):	4.9%
Vacancy and Collection Loss (Ground Rent):	1.0%
Operating Expense Ratios:	35.0%
Reserves for Replacement:	2%
Reversionary Cap Rate:	5%
Discount Rate:	9%
Cabin Remodel Cost (each)	\$45,000

Rationale for Using Inputs in Mixed Model

The DCF projects annual rental increases of 7%. The projection is based on multi-residential activity in the Bay Area and, more specifically in San Mateo County. DTZ Research has projected rents in the Bay Area will level off from their double digit annual increases to the single digit range (9% <) in 2015 because 2014 construction activity is at the highest level tracked by DTZ with a significant amount of inventory under construction or in the planning stages. Rents in San Mateo actually declined in the 4th quarter of 2014 and DTZ projects rents in San Mateo County were beginning to plateau. DTZ believes that double digit annual increases in San Mateo County are not sustainable with rental rate growth far outpacing local income growth which has increased at only about 3% per year over the past five years. In addition, DTZ is concerned about competition from the more vibrant economies of San Francisco and Silicon Valley while at the same time being challenged by the lower rents of the East Bay.

The annual increase in ground rent is 2.5% which is based on past increases in the CPI index.

The DCF projects vacancy and collection loss of 4.9%. That is the same level it was in the 1st quarter of 2015. A year earlier the vacancy rate was 6.1%. Inventory is increasing with new

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units brought on-line, units in various stages of construction and project now in the planning. This development activity should keep vacancies near the same level as the 1st quarter of 2015.

The DCF projects vacancy and collection loss from the ground rents at 1.0%. This is based on the belief that the owners of the leasehold improvements have substantial value in the ownership of the leasehold improvements and would keep the ground rent current out of concern of losing this valuable asset.

The DCF projects operating expense ratio to be at 35%. A survey of the apartment market by RealtyRate in the first quarter of 2015 indicated a ratio of 35.35% in the San Jose/Silicon Valley Metro Area. This is at the low end of the range but is believed to be realistic since rent levels are so high, many fixed costs that are part of the operating expenses will take up less of the effective gross income on a percentage basis.

The DCF projects reserves for replacement to be 2%. An investor survey of reserve requirements conducted by RealtyRate indicated a range of reserves for apartment properties was 1.2% to 3.0% of effective gross income. This appraiser believes that an investor would want to set aside at least 2% of the effective gross income for a property like the subject considering its age and possible infrastructure issues (44 separate septic systems, road maintenance and water storage and adequacy).

The DCF Model projects a capitalization rate of 5%. This cap rate is historically low but in this hot market it is realistic. The DTZ survey indicates the range in cap rates for multi-residential properties in the Bay Area runs from a low of 3.85% to a high of 5.47% and an average of 4.23% for San Mateo County. RealtyRate Investor Survey as of the 2nd quarter of 2015 showed cap rates nationally for apartments to be from a low of 4.01%-4.30% with an average range of from 6.86% to 8.61%.

The Mixed Model projects a discount rate of 9%. RealtyRate Investor Survey indicate discount rates for acquisitions of all property types to be from a minimum of 4.78% to a high of 18.17% and an average of 10.26%. For apartment houses the range was from 4.85% to a high of 13.10% and an average of 9.09%. For Garden/Suburban style multi-residential properties the discount rate ranged from a low of 4.85% to a high of 12.02% and an average of 8.42%. The projected 9% is near the national average and is believed to be a reasonable, realistic but a somewhat conservative estimate.

The cost of remodeling the cabins is \$45,000 each and is based on the analysis above under the section entitled "Unit Condition and Remodeling".

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DISCOUNTED CASH FLOW ANALYSIS

Contributory Value of Cabin Improvements: Value of Land Rent (2015-2021) + Cabin Rent (2023-2031) + Reversion

	Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
	Inputs	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Gross income	2.50%																	
	Ground rent	\$406,560	\$416,724	\$427,142	\$437,821	\$448,766	\$459,985	\$471,485	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Cabin rent	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,439,508	\$2,610,274	\$2,792,993	\$2,988,502	\$3,197,698	\$3,421,536	\$3,661,044	\$3,917,517	\$4,191,529	\$4,485,129
	Totals	\$406,560	\$416,724	\$427,142	\$437,821	\$448,766	\$459,985	\$471,485	\$2,439,508	\$2,610,274	\$2,792,993	\$2,988,502	\$3,197,698	\$3,421,536	\$3,661,044	\$3,917,517	\$4,191,529	\$4,485,129
Less vacancy & collection loss	1.00%																	
	Ground leases	\$4,066	\$4,167	\$4,271	\$4,378	\$4,488	\$4,599	\$4,715	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Cabins	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$119,536	\$127,803	\$136,857	\$146,637	\$156,987	\$167,955	\$179,591	\$191,949	\$205,185	\$219,365
	Totals	\$4,066	\$4,167	\$4,271	\$4,378	\$4,488	\$4,599	\$4,715	\$119,536	\$127,803	\$136,857	\$146,637	\$156,987	\$167,955	\$179,591	\$191,949	\$205,185	\$219,365
Effective gross income (EGI)																		
		\$402,494	\$412,557	\$422,871	\$433,442	\$444,279	\$455,385	\$466,770	\$0	\$2,319,972	\$2,482,370	\$2,656,136	\$2,842,066	\$3,041,010	\$3,253,881	\$3,481,653	\$3,725,369	\$3,986,144
Less operating expenses	15.00%																	
	Ground leases	\$60,374	\$61,884	\$63,431	\$65,016	\$66,642	\$68,308	\$70,016	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Cabins	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$811,990	\$868,838	\$928,628	\$989,273	\$1,054,354	\$1,124,579	\$1,198,879	\$1,276,179	\$1,355,151	\$1,435,115
	Reserves for replacements	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$46,399	\$49,647	\$53,123	\$56,841	\$60,820	\$65,078	\$69,633	\$74,507	\$79,723	\$85,299
Cabin remodel (each)	\$45,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,980,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Totals		\$60,374	\$61,884	\$63,431	\$65,016	\$66,642	\$68,308	\$70,016	\$1,980,000	\$858,350	\$918,477	\$982,770	\$1,051,564	\$1,125,174	\$1,203,936	\$1,288,212	\$1,378,366	\$1,474,873
Net operating income (NOI)																		
		\$342,120	\$350,673	\$359,440	\$368,426	\$377,637	\$387,078	\$396,755	\$1,980,000	\$1,461,583	\$1,563,893	\$1,673,366	\$1,790,501	\$1,915,837	\$2,049,945	\$2,193,441	\$2,346,982	\$2,511,271
Reversionary value																		\$50,235,419
Total cash flows	5.00%																	\$52,736,699
		\$342,120	\$350,673	\$359,440	\$368,426	\$377,637	\$387,078	\$396,755	\$1,980,000	\$1,461,583	\$1,563,893	\$1,673,366	\$1,790,501	\$1,915,837	\$2,049,945	\$2,193,441	\$2,346,982	\$2,511,271
Present worth of cash flows	9.00%																	
		0.9174	0.8417	0.7722	0.7084	0.6499	0.5963	0.5470	0.5019	0.4604	0.4224	0.3875	0.3555	0.3262	0.2992	0.2745	0.2519	0.2311
Discounted cash flow		\$313,872	\$295,155	\$277,554	\$261,002	\$245,438	\$230,802	\$217,038	\$167,293	\$166,005	\$164,484	\$162,585	\$160,305	\$157,639	\$154,591	\$151,134	\$147,283	\$143,035
NPV Cabins		\$16,242,628																
NPV Ground Rent		\$1,840,861																
Total NPV		\$18,083,489																
Value Per Cabin		\$369,151																
Notes																		
Cabins Remodeled & Start of Lease-up in 2012																		
Total Cabin Sq. Ft.																		
	36,344																	

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Conclusion, DCF Model

the total net present value of the cabins and ground rent is: \$18,083,489

Round to: \$18,000,000

The net present value of the cabins is: \$16,242,628 or \$369,151 per cabin.

According to DTZ Research, the average sale price per unit for multi-residential properties⁵⁴ in San Mateo County in the 1st quarter of 2015 was \$348,408. This is near the unit price for the subject cabins at \$369,151 with the estimated cabin value being 5.953% higher.

\$ 369,151

-\$348,408

\$ 20,743/369,15 = 5.953% higher

Summary of DCF Estimate of Value (Including the Land Value)

Low End of the Value Range:

DCF Model:	\$18,000,000
Plus Land Value:	<u>\$ 4,300,000</u>
Total Land +Improvements:	\$22,300,000

High End of Value Range:

DCF Model:	\$18,000,000
Plus Land Value:	<u>\$ 5,600,000</u>
Total Land +Improvements:	\$23,600,000

⁵⁴ Source: DTZ Property sales of projects with 5 units or more, 1st Quarter 2015.

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Sensitivity Analysis of Model Inputs

The DCF model presented in this report was used in this analysis.

Input	DCF Model	Lowered to	% Change in Value	Raised to	% Change in Value
Annual Increase in Rents	7.0%	6.0%	-12.2%	8.0%	+13.9%
Vacancy & Collection Loss	4.9%	3.9%	+1.0%	5.9%	-1.0%
Operating Expense Ratio	35%	34%	+1.51%	36%	-1.51%
Reserves	2%	1.0%	+1.51%	3.0%	-1.51%
Cap Rate (1/2%)	5.0%	4.5%	+7.13%	5.5%	-5.83%
Discount Rate (1/2%)	9.0%	8.5%	+7.09%	9.5%	-6.6%

Findings

- A 1% change in the annual increase in rents increases or lowers the overall value by over 12%.
- A 1% change in the estimated vacancy and collection loss increases or lowers the value by about 1%
- A 1% change in the estimated operating expense ratio increases and lowers the value by about 1.5%
- A 1% increase in the reserve requirement lowers the value by about 1.5%
- A 1/2 of 1 percent change in the cap rate increases and lowers the value from a +7.131% to a -5.83%.
- A 1/2 of 1 percent change in the discount rate increases or lowers the overall value by about +7.09 to -6.6%.

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Conclusion

The sensitivity of the inputs to slight changes are as follows:

High Sensitivity

Rent Increase (1% change)

Moderate

Cap Rate (0.5% change)

Discount Rate (0.5% change)

Low Sensitivity

Vacancy and Collection Loss (1% change)

Operating Expense Ratio Loss (1% change)

Reserves Loss (1% change)

Valuation Section III: Valuation of the Lateral and Vertical Easements

Appraisal of Easements and Impact on Value

The subject report is an appraisal of a proposed vertical and lateral access easement and a public parking area easement that will encumber agriculturally zoned ocean front land known as Martins Beach. The proposed vertical easement will be located along the northerly boundary and provide access to the lateral easement area. The lateral access easement will front along the shoreline and provide the public with an area for passive recreational uses. The parking area easement, located on the terrace escarpment will front along the vertical access easement and provide the public with vehicle parking from dawn to dusk on 0.21 of an acre for approximately 26 vehicles (9,148 sq. ft./ 350 sq.ft. per space = 26 spaces).

The extent of the public's rights within the easement boundaries have the potential for having a significant impact on the use of the subject property. The value of the easement is determined by use of a market derived percentage of impact on the subject as a result of the easement uses. Since the use and function of this appraisal is for negotiation purposes, only a general range in percentage is provided along with factors the negotiator may consider in arriving at a offer.

The appraiser searched for sales of easements similar to that of the subject but was unable to find any. Since there were no sales uncovered that were similar to the subject that were encumbered with an easement or properties with restrictions similar to those imposed by the easement, studies were used that analyzed the impact easements have on the value of property. The resulting impact from these studies is presented as a percentage of the fee value.

The imposition of the vertical and lateral access easements do not change any potential or likely use of the subject property. What does change is the easements will require the sharing of property rights within designated areas now exclusively enjoyed by the owners and cabin lessees with the general public. However, the parking area easement will change any potential or likely use of the subject property by the owners. The area designated for parking, prior to the imposition of the parking easement, can be used for any legal use allowed under existing zoning that is physically possible. After imposition of the parking easement, the use will be limited to a parking area and the general public will have the exclusive right of use during the most desirable core hours of the day i.e. from dawn to dusk. The owner, for all practical purposes, can only use the area for parking and no other use; and that use will be limited to the least desirable hours of the day i.e. from dusk to dawn.

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Property Rights and the Imposition of the Proposed Lateral and Vertical Easements

Before imposition of the proposed easements, the owner, subject to the ground leases where the cabins are located, retains all property rights unfettered by any public use. In other words, the owner has the right to exclude others (the public) from the use of the subject property.

The proposed lateral and vertical access easements will give the general public rights in the privately owned properties and the owner no longer has the right to exclude the general public as will be defined by the proposed easements. The easements have the potential of negatively impacting the privacy of the Martins Beach property owner and the owners of the cabin improvements (Leasehold estate) located along the shoreline. The owner and his lessees will be sharing the existing access roadway on which the vertical easement is located; and the beach area with the general public from the rock revetment seaward. The general public will have the right to use the lateral easement area for some, as yet undetermined passive recreational uses as will be defined in an easement document. The easement document has not been drafted as of this date.

It is assumed for the purposes of this analysis that:

- The proposed lateral and vertical access easements will give the general public rights in the privately owned properties and the owner no longer has the right to exclude the general public as will be defined by the proposed easements.
- The general public will have the legal right to use the existing roadway along the northerly property line for access; and use the private property along the shoreline up to the existing rock revetment in addition to the right to park vehicles at the proposed parking area located along the vertical accessway.
- Allowed uses will be limited to as yet undefined "passive recreational uses" along the shoreline. It is assumed that "passive recreational uses along the shoreline" may include "non-consumptive" uses which would include fishing, walking, jogging, picnicking, sunbathing, surfing, swimming, tide pooling, dog walking, beachcombing and running for exercise and enjoyment.⁵⁵
- The proposed lateral and vertical easements will most likely impose legal responsibilities in perpetuity on both the property owner and the extent of the public uses allowed. They will require the passive acquiescence by the owner for public access and passive recreational uses by the general public as defined above.

⁵⁵ "Analysis of Impacts to Public Trust Resources and Values for the Broad Beach Restoration Project", prepared for the CSLC by AMEC Environment And Infrastructure, Inc., dated October 2012, Appendix E.

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- The proposed easement will clearly describe the physical limits of the easement. For the purposes of this appraisal, an aerial of a potential subject easement has been developed by the California State Lands Commission staff and is included in this report. The draft aerial can be found at the end of the Introduction section of this report. The size and location of the proposed easement as depicted on the aerial is what is used in this report. The map shows a 20 foot wide vertical easement containing 0.87 acre; a lateral recreational access and use easement of approximately 5.31 acre and a parking area easement containing approximately 0.21 of an acre.
- It is assumed the proposed easements will contain written language relevant to monitoring and enforcing the terms of the easements including the right of the easement holder to take current and future property owners to court to obtain injunctions to stop violations by the property owner who interfere with the legally granted public rights allowed by the easements; or how the general public's potential "overreach" (going beyond the bounds of what is legally allowed) relevant to the easement will be handled either by private security, local law enforcement or agencies/conservation organizations responsible for the management of the easements. Also, the easements will need to address how trash is disposed of.
- These rights have the potential of negatively impacting the privacy of the property owner.
- The proposed lateral, vertical and parking area easements will be legal documents recorded with the title and impose legal responsibilities in perpetuity on both the property owner and the extent of the public uses allowed.

Lateral Access Easement and State-Owned Tidelands Boundary

The lateral easement will share a seaward boundary with state-owned tidelands under the jurisdiction of the California State Lands Commission. The State-owned tidelands are lands that are covered and uncovered with water by the daily rise and fall of the tide. Tidelands are more specifically described as land lying between the intersections of the plains of mean high water and mean low water. The landward boundary of tidelands and the State's sovereign ownership is the ambulatory ordinary high water mark (OHWM). The OHWM is measured by the mean high tide line (MHTL) (with some exceptions i.e. boundary line agreement or court decision). The proposed subject lateral easement may be considered an extension of this sovereign ownership, however limited to uses that are consistent with the lateral easements permitted uses as will be described in the as yet unwritten easement document for "access" and "passive recreational use". The underlying fee ownership of the lateral and vertical easement, as well as the parking area easement, is retained by private property owner.

Valuation of Subject Lateral and Vertical Easements

Introduction

The analysis and valuation of unique easements like the subject lateral and vertical easements and the parking area easement involve special issues, problems, and methods not found in the typical appraisal assignment.

There is no standard or typical value or percentage impact on value from an easement in general. In other words, there is no standard or generally accepted percentage relationship between an easement value and the underlying property value. Each easement is unique with specific circumstances of each easement, property, market place, and highest and best use situation.

This section of the report is an attempt at providing a general, well-reasoned and logical analysis relevant to an appropriate market based percentage that may be applied to the fee value to arrive at a an offering price for the easements. In other words, it is an attempt at providing flexibility in pricing for negotiations and at the same time providing information that is market based.

The reader should keep in mind that there are no sales of lateral and vertical easements or parking lot easements, so direct market evidence normally available to the appraiser is not available in the performance of this assignment. The appraiser has had to rely on studies and other secondary evidence as well as an attempt at reasoned and logical analysis of the impacts of the easements on value. This analysis includes the Broad Beach study which was prepared by the author of this report and is entitled the: "Broad Beach Study". The Broad Beach study involves the study of the impact of public lateral access easements have on ocean front residences located along Broad Beach near Malibu.

Other secondary market evidence provided in this section of the report are studies prepared by others on the impact of uses on residential property. In addition, a study on the impact that easements have on value that was published by the International Right of Way Association is also included.

The use of studies and other secondary market evidence, like the subject report, requires a higher degree of subjective analysis then is typically found in the appraisal of real property where it is based on the sale of similar properties.

Property Rights and the Subject Easements

The fundamental rights associated with real property ownership are the rights to possession, control, enjoyment and disposition (or transfer). The right of possession refers to the right to exclusive occupancy. The right of control concerns the right to alter the property physically. The right of enjoyment protects the property owner from interference from others. The right of disposition refers to the right to transfer, or convey the rights in the property, in whole or in part.

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The subject property on which the proposed lateral, vertical and parking area easement will be impressed with will have an effect on these fundamental rights. The subject lateral and vertical easements as well as the parking area easement will not physically encumber the entire subject property but will be limited to what is physically described in each easement document.

The vertical access easement will affect:

- the right of possession. The owner will no longer have the right to exclusive occupancy of the easement area; keeping in mind that the vertical access is already shared with 44 lessees which minimizes the impact. Also, the owner will always need an accessway to the cabins and the beach even if there was no vertical easement granted to the general public.
- the right of control. The owner will give up rights to alter this portion of the property physically. It must remain an access road. The owner cannot farm this area or place a fence or other agricultural structures upon the easement as is now permitted under land use laws and regulations.
- The right of quiet enjoyment. The owner must share the vertical easement area with the public as will be described in the easement document (not available at this time). Since the right is already shared with 44 cabins (leasehold interests); is not located near any improvements or development located on the subject property; and adjoining uses that are agricultural, it is not likely the right of quiet enjoyment of the area around the vertical easement will be affected.
- The right of disposition. The vertical easement will be in perpetuity and go with the land if it is sold or transferred by some other means. The owner can no longer close off or change the location of the easement but must keep it available for use by the general public as an accessway to the beach as must any future owner of the subject property.

The lateral access easement will affect:

- the right of possession. The owner/lessees will no longer have the same level of occupancy of the easement area. They will be required to share the beach area with the general public.
- the right of control. The owner will give up rights to alter this portion of the property physically. It must be kept in mind, this right is already minimized by laws, regulations and zoning which prohibit any physical development along the beach area where the lateral easement will be located.

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- The right of quiet enjoyment. A portion of the lateral access easement will front along the ocean. The lateral access easement will negatively affect the right of quiet enjoyment of the owner. The owner must share the easement area with the public. It must be kept in mind that the beach is already shared with 44 cabin owners which minimizes the impact on the right of quiet enjoyment of the property.
- The right of disposition. The lateral easement will be in perpetuity and go with the land if it is sold or transferred by some other means.

The parking area easement will affect:

- the right of possession. The owner will no longer have the right to exclusive occupancy of the easement area. The parking area easement will be significant in that it will exclude the owner of use and potential development of this area of the property. The parking area easement will change any potential or likely use of the subject property by the owners. The area designated for parking, prior to the imposition of the parking easement, can be used for any legal use allowed under existing zoning that is physically possible. After imposition of the parking easement, the use will be limited to a parking vehicles and the general public will have the exclusive right of use during the most desirable core hours of the day i.e. from dawn to dusk. The owner, for all practical purposes, can only use the area for parking and no other use; and that use will be limited to the least desirable hours of the day i.e. from dusk to dawn.
- the right of control. The owner will give up rights to alter this portion of the property physically. It must remain a parking area for vehicles and the owner cannot change or alter that use. It is a parking lot designed for the general public's use and no other use and remains as such in perpetuity.
- The right of quiet enjoyment. The owner must share the parking area easement with the public as will be described in the easement document (not available at this time). The owner cannot interfere with the public's use of this portion of the subject property and will be excluded from personal use of the easement area during core hours of the day.
- The right of disposition. The parking area easement will be in perpetuity and go with the land if it is sold or transferred by some other means. Any future owner will be obligated to allow the general public to exclusively use this portion of the subject property during the most desirable hours of the day.

In summary, the landowner of the property impressed with the proposed easements will no longer have the right to exclusive occupancy and use of the property but must share a portion of

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the subject property, in varying degrees, with the general public. The owner no longer can legally exclude the general public. In other words, the owner has transferred some of the elements of the bundle of rights to the general public that otherwise would be part of his/her fee ownership of the real property. This limits the owner from legally interfering with uses defined in the easements for the general public's use.

Percentage of Impact on Fee Value

Introduction

There are no known sales of vertical and lateral access easements or parking area easements that can be used to value the subject easements. However, there are sales in the Half Moon Bay area that are similar enough to the subject that have sold in the recent past that can be used to value the fee ownership of the subject as if vacant; and there are studies and reports on the impact easements have on fee value (stated as a percentage of the fee value) that can be applied to estimate the value of an easement.

Three sources are used in this section of the report to determine an appropriate range of percentages to apply to the fee value of the subject property in determining the value of the subject easements. They are the Broad Beach Study, an easement study published by the International Right of Way Association and various other published studies on the impact public uses may have on value. The three source as discussed below with a summary of findings.

Broad Beach Study

In the Broad Beach Study sales were found in the city of Malibu located along a ribbon of beach known as Broad Beach. This is a high-end residential area in which ocean front properties are located. Some of the residential properties along Broad Beach are encumbered with lateral access easements similar to what is proposed for the subject property and some are not. The sales in this area were analyzed to replicate the affect of easements similar to the subject on value. Two sets of sales were used; one set of sales unencumbered by an easements ("before" condition) and the other set of sales encumbered with easements similar to what is proposed for the subject property ("after" condition). The study is included in the addenda of this report. The findings and conclusion of the report may be used to estimate the value of the subject easements by applying an appropriate percentage to the fee value as indicated in the Broad Beach study to the fee value of the subject property.

Broad Beach "Before and After" Analysis Findings

The Broad Beach Study, which is included in the Addenda of this report, used the "before and after" method to estimate the value of lateral access easements (LAEs). The "before and after" method was used. In the "before and after" method, the market value of the property encumbered by the easement is appraised twice. The market value is first determined "before" considering the easement. Then the market value is determined again, but this time "after" considering the easement. This method requires two sets of sales. The first set, in this case, involved properties along Broad Beach that were unencumbered by the easements. The second set involved properties that were encumbered by the LAEs. The difference between the two groups of sales should indicate the value of LAEs. Twenty sales were used in the analysis and the results of the differences in the before and after values were analyzed using measures of

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central tendency under the three difference scenarios. The three scenarios combined indicated a wide range in value from a minus - 8.3% to a high of 15.7%.

The range in value of the three scenarios is as follows:

Scenario #1 (using all sales):

- Mean Value: 15.70%
- Median Value: 1.91%

Scenario #2 (eliminating outlier sales)

- Mean Value: 1.22%
- Median Value : -8.30%

Scenario #3 (using vacant land sales or sales with low valued improvements)

- Mean Value: 3.51%
- Median Value: 12.90%

In the opinion of this appraiser, the results of the above analysis are inconclusive but do provide some evidence of a range in value for the Broad Beach LAEs. The affect of the LAEs on value does not stand out. The analysis, in the opinion of the appraiser demonstrates:

- the value of the easements in the minds of buyers and sellers are not readily distinguishable. If anything, the information shows that the LAEs affect on the value of properties is not great enough to stand out as a characteristic that is obvious;
- in general, the data used shows the imperfections and inefficiency of the real estate market with few buyers and sellers at any given time; and
- that overall, the LAEs appear to have some impact on value.

The three methods used to calculate the value of the LAEs in the above analysis ranges from a minus 8.3% to a high of 15.7%, with most of the indicators at the low end of the range from 1.22% to 3.51% and at the high end from 12.90% to 15.7%.

There are factors that may have kept the percentages lower and not readily distinguishable in the Broad Beach Study. Some of the factors include:

- The Lateral Access Easement along Broad Beach is not one long contiguous easement but has numerous gaps created by residential lots that are not encumbered by LAEs scattered amongst lots that are encumbered with LAEs. This has created a checker board pattern which makes it difficult for the general public to distinguish where the lateral access easements are located. It also makes it difficult to enforce the easements and thus possibly minimizing the impact on value.

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- The lateral easement along Broad Beach share a seaward boundary with state-owned tidelands under the jurisdiction of the California State Lands Commission. The State-owned tidelands are lands that are covered and uncovered with water by the daily rise and fall of the tide. Tidelands are more specifically described as land lying between the intersections of the plains of mean high water and mean low water. The landward boundary of tidelands and the State's sovereign ownership is the ambulatory ordinary high water mark (OHWM). The OHWM is measured by the mean high tide line (MHTL) (with some exceptions i.e. boundary line agreement or court decision). Neither the property owner, the public or any enforcement individuals can accurately determine the boundary at any given time which may diminish the impact the lateral access easement may have on properties at Broad Beach.

International Right of Way (IRWA) Published Study

The following information on the impact of easements on value was taken from an article entitled: "Easement Valuation"-Easement Valuation Matrix" authored by Donald Sherwood, SR/WA. The article was published in the IRWA Right of Way magazine dated May/June 2006. The easement valuation matrix presented in the article indicates a range of from 0% to 100% of the fee depending on use and its impact on the utility of a property.

The author of the article makes it clear to the reader that the way to value an easement is to find sales of properties unencumbered ("before" condition") and compare it to the sale of similar properties encumbered ("after" condition) and that the matrix he presents in the article is to be viewed only as a general guide in looking at the effect an easement may have on the total bundle of rights. Following are relevant quotations from the article:

"Damages or the percentage of rights acquired are often difficult to measure due to the imperfections in the real estate market..."

"The Easement Valuation Matrix is used as a general guide in looking at the effect an easement may have on the total bundle of rights. This chart should not be considered an exclusive list as to the type of easements and their effect on the total bundle of rights but should be used only as a guide to general effects on the total fee ownership"

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Easement Value Matrix	
Percentage of Fee	Comments
90% - 100%	Severe impact on surface use. Conveyance of future uses
75% - 89%	Major impact on surface use. Conveyance of future uses
51% - 74%	Some impact on surface use. Conveyance of ingress/egress rights
50%	Balanced use by both owner and easement holder
26% - 49%	Location along a property line location across non-usable land area
11% - 25%	Uses that have minimal effect on use and utility. Location with a setback
0% to 10%	Nominal effect on use and utility

Published Studies

To better understand the impact public uses may have on value, I have included the following information from published studies that deal with the loss in value to residential properties as a result of various uses near the properties (detrimental conditions). These published studies give a sense of the magnitude that uses may have on properties and provide some guidance as to the impact various uses have on residential properties. Following are summaries of the published studies.

"Adjusting House Prices for Intra-neighborhood Tariff Differences" by William T. Hughes, Jr., PhD and C. B. Sirmans, SRPA, PhD. (October 1993)

- The study is about the impact of local neighborhood traffic on residential property values. The study undertaken by the authors attempted to measure excessive traffic and the odors, smoke and noise associated with excess traffic had on residential property value. The study included 288 sales of single family residences covering the period from January 1985 to December 1989. The study attempted to draw a distinction between high and low traffic volumes. The conclusion of the study was that high volume traffic indicated a diminution of value at 11.49% vs. low traffic volume to residential property values.

"Power Lines and Land Value" by Peter Colwell, Journal of Real Estate Research (Spring 1990) and "A Primer on Proximity Impact Research: Residential Property Values Near High Voltage Overhead Transmission Lines" by Kinnard and Dickey, Real Estate Issues (1996)

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- The results of these two studies were that high-voltage overhead electrical transmission lines (HVOTL) located within a few hundred feet of residential properties reduced their value by 5 to 8%.

"The Effect of Freight Railroad Tracks and Train Activity on Residential Property Values" by Robert A. Simons, PhD and Abdellaziz El Jaouhari, PhD.

- The study attempted to measure the negative effect on property value due to railroad activity. The study was of railroad freight activity in Cuyahoga County, Ohio from 1996 and 1999. The study indicated a loss in residential property value of 5% to 7% for a house under 1,250 square feet and located within 750 feet from a railroad track.
- This report also cited a study conducted by David E. Clark in which Clark studied the diminution in value relevant to noise and associated impacts of rail traffic in Middletown and Niles Ohio on residential properties. The study indicated residential property values decreased by 2.1% in Middletown and 2.8% in Niles for "every additional rail line within a buffer of 1/4 of a mile".

"The Relationship Between Property Values and Railroad Proximity: A Study Based on Hedonic Prices and Real Estate Brokers' Appraisals" by Jon Strand and Mette Vagnes (2001)

- This study was done in Oslo Norway and looked at the relationship between tracks and residential sale price based on pure proximity. According to the study residential sale prices decreased by up to 7-10% if located within 330 feet of a railroad track.

"Aircraft Noise and Residential Property Values : An artificial Neural Network Approach" by Alan Collins and Alec Evans as published in the Journal of Transportation Economic and Policy (May 1994)

- The study indicates that a high level of noise and the number of flights result in a diminution in value to residential properties ranging from approximately 7% to 13%

"The Effect of Airport Noise on Housing Values: A summary report" by Booz-Allen & Hamilton Inc. and prepared for the Federal Aviation Administration (September 15, 1994)

- This study included three airports using a regression analysis. The airports included in the study were Baltimore/Washington International Airport (BWI), Los Angeles International Airport (LAX) and John F. Kennedy Airport (JFK). The study indicated that losses in total home values ranged from -0.8% for low priced homes to -15.7% to -19% for moderately priced homes.

"Aircraft Noise and Residential Property Values: Results of a Survey Study" by Marvin Frankel, The Appraisal Journal (January 1991)

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- The study indicated the loss of market value for low-impacted residential properties was 1.2% and 21.5% for severely impacted properties.

Conclusion, Published Studies

The studies cited above show a wide range in loss in value.

- The FAA study by Boos-Allen indicated a loss in residential value of only 0.8% for low priced homes; but a high range for moderately priced homes of 15.7% to 19%.
- The studies of the diminution of value from railroad proximity showed a range of 2.1% in the David E. Clark study with a high of 7% as indicated by the Robert A. Simons, PhD and Abdellaziz El Jaouhari, PhD study.
- The Hughes-Sirman study indicated a diminution of value at 11.49% for residential properties located in near high highway traffic volumes.
- The Kinnard-Dicky study indicated that high-voltage overhead electrical transmission lines (HVOTL) located within a few hundred feet of residential properties reduced values by 5 to 8%.

If anything, the above studies demonstrate there is no "generally recognized" percentage in diminution of value for various impacts. It also demonstrates that within categories, the percentage can vary considerably with a low of 0.8% and a high of 21.5% .

Conclusion and Reconciliation

The analysis and valuation of unique easements like the proposed subject lateral access easement involve special issues, problems, and methods not found in the typical appraisal assignment.

There is no standard value or percentage impact on value from an easement. In other words, there is no standard percentage relationship between an easement value and the underlying property value. Each easement is unique with specific circumstances of each easement, property, market place, and highest and best use situation.

Because easements like the ones proposed for the subject are so unique, there is no market for them and thus no direct sales. Determining the value of such easements require a higher degree of subjective analysis then is typically found in the appraisal of real property.

The appraiser has had to rely on secondary evidence as well as an attempt at reasoned and logical analysis of the impacts of the easements on value.

The fundamental rights associated with real property ownership are the rights to possession, control, enjoyment and disposition (or transfer). The right of possession refers to the right to exclusive occupancy. The right of control concerns the right to alter the property physically. The right of enjoyment protects the property owner from interference from others. The right of disposition refers to the right to transfer, or convey the rights in the property, in whole or in part.

A property, like the subject on which easements have been impressed have an effect on these fundamental rights. The proposed subject easements will not physically encumber the entire subject property but are limited to what is physically described in the as yet unwritten access easement document.

The landowner of a property impressed with a easement no longer has the right to exclusive occupancy but must share a portion of his/her property, in varying degrees, with the general public. In other words, the owner has transferred some of the elements of the bundle of rights to the general public that otherwise would be part of fee ownership of the real property. This limits the owner from legally interfering with uses defined in the easement by the general public. Legally, the owner cannot alter the property in a manner that would exclude the general public from the area imposed with the easement. The quite enjoyment of the property by the owner is negatively impacted by an easement such as the ones proposed for the subject property.

Use creates value and value is measured in terms of use. Any use that negatively impacts a property (i.e., infringes upon the use of the property) will usually cause a loss in the value. Some potential impacts resulting from the subject easement are:

- Loss of quiet enjoyment;
- loss of privacy;

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- noise and other irritants associated with allowed public uses;
- loss of use. (The use of the easement area must be shared with the public and the public has unfettered right relevant to access as described in the easement document); and
- loss of control over activities located on private property.

The language that will be used in the easement document needs to be clear on a number of factors that may have a negative impact on the value of a property. The amount of diminution of value will depend on the language contained within the easement document.

They include:

- A clear definition on what "access" and "allowable uses" mean.
- A document that clearly states how the uses will be monitored and enforced. For example, the property owner may try to exclude allowed uses; the general public may "overreach" relevant to the activity engaged in. These issues need to be addressed in an unambiguous manner in the easement document.
- The document needs to provide guidance on how to handle such likely occurrences as the dumping of trash, parking in undesignated areas and other nuisances created by the general public.

Potential Impacts

There is, however, the potential for significant negative impacts to the value of a property encumbered with easements as proposed for the subject property. These potential negative impacts would be in the minds of knowledgeable buyers and sellers and part of the decision making of buying or selling a similarly encumbered property. Some potential impacts are as follows:

- Properties with easements, as proposed for the subject property, are always subject to the "overreach" by the general public in using the easements for uses not contemplated by the parties to the agreements that created the easements.
- If defined uses go beyond what may be described as "passive recreational use" such as loud parties and the noise, traffic, and other activities associated with such a use, the impact becomes more significant.
- The owner may be saddled with the expense and trouble associated with the policing the easement encumbered area. If the property was free of the easement, these problems would go away or be significantly reduced.

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Lower Limit of Value

Broad Beach Study

One of the data points in the "before and after" valuation indicates there is no impact (actually a minus impact) to the value of properties from the LAEs along Broad Beach Study. That, in the opinion of the appraiser, is not logical.

The definition of market value includes the following conditions:

1. Consummation of a sale occurs as of a specified date.
2. The buyer and seller are each acting prudently and knowledgeably.
3. The buyer and seller are typically motivated.
4. Both parties are acting in what they consider their best interest.

When considering the potential loss in use (and value) along with the terms that define market value (i.e. a knowledgeable buyer who was acting in his/her own best interest) a buyer would pay less for an easement encumbered property than one not encumbered by an easement. Likewise a knowledgeable seller would not sell his/her unencumbered property for an equal or lower value than what easement encumbered properties are selling for. The lower limit may be difficult to quantify but, there is no doubt, in this appraiser's judgment, that there is a loss in value. Also the imperfections and the inefficiencies of the real estate market (few sales at any given point in time) make it difficult to pinpoint a specific number with so few market transactions.

The Broad Beach Study indicates the lower limit of value falls within a fairly tight range⁵⁶:

Scenario #1 (Median Value, all sales included):	1.91%
Scenario #2 (Mean Value, eliminating outlier sales) :	1.22%
Scenario #3 (Mean Value, no imps or low valued imps.):	3.51%

Published Studies

The lower limit of loss in value according to the studies of various impacts to residential property cited in this report ranges from 0.8% to 2.1%.

IRWA Study

The IRWA article indicates 0% - 10% value for easements that have a nominal effect on a property.

⁵⁶ The minus median value under Scenario #2 of the Broad Beach Study is not included because , in the opinion of this appraiser a negative value is not reasonable. The negative value would indicate an easement encumbered property would sell for more. That defies logic.

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It is this appraiser's opinion that the lower limit of value for the subject easements considering the values arrived at in the Broad Beach study, IRWA article and "other" studies as follows:

Conclusion as to Lower Limit of Value

Lower Limit: 0.8% to 10%

The upper limit of value

Broad Beach Study

The upper limit indicated by the "before and after" analysis in the Broad Beach Study ranges from:

Scenario #1 (Mean Value, all sales included): 15.70%

Scenario #3 (Median Value, no imps. or low valued imps): 12.90 %

Published Studies

The upper limit of loss in value according to the studies of various impacts to residential property cited in this report ranges from 7.0% to 21.5%.

IRWA Study

The IRWA article indicates a upper range in value from:

50% when there is a balance of use by both the owner and the easement holder
to
90%-100% where there is severe impact on surface uses.

Conclusion as to Upper Limit of Value

Upper Limit: 7.0% to 100%

The amount of impact caused by the proposed easements will be determined by how the actual easement document is written. The tighter the easement language relevant to time of use, type of use, area impacted, location of and amount of parking, physical barriers to contain use, type of enforcement and management provided and other factors addressed in the as yet unwritten easement document will determine the impact on value.

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Suggested Percentages to Use in Negotiations

Vertical Access Easement

The vertical easement will be used by the general public for access to the beach area. The road on which the vertical easement will be applied is already in existence and is presently used by the owner and the 44 cabin owners as a means of access from Highway One to the cabins and beach area.

It is estimated the parking area easement (0.21 of an acre) will accommodate approximately 26 parking spaces for the general public. Assuming each cabin has one vehicle that regularly uses the road, the vehicle traffic load will increase by approximately 38% (44 cabin vehicles + 26 general public vehicles = 70 total vehicles. $26/70 = 37.7\%$). It is this appraiser's opinion, the IRWA study best fits the proposed vertical access easement. The IRWA estimates a percentage of fee of 50% when there is a balanced use by both the owner and the easement holder and 26% to 49% when the easement is located along a property line on a non-usable land area. Since the vertical easement will be located along a property line on land that is already devoted to a access road, the impact on value of the easement would, most likely, be between 26% and 50%. It is recommended that negotiations for the vertical assessment easement stay within the bounds of this range and, if possible, center around 38%, which, in the opinion of this appraiser is a fair and reasonable percentage for such a use.

Lateral Access Easement

The subject lateral access easement best fits the Broad Beach Study with a lower limit range in value of from 1.91% to 3.51% and an upper limit range of from 12.90% to 15.7%. However, since the Broad Beach easements that were part of the Broad Beach study have limitations the subject lateral easement does not. The subject lateral easement is well defined with a fixed landward boundary easily identifiable by the general public, the owner and individuals enforcing the easement. The public can easily identify the easement property and can take full use of the lateral easement. It is this appraisers opinion that for these reasons it is acceptable to step outside the upper limit of the range indicated by the Broad Beach Study in negotiating the lateral easement. The IRWA study indicates a percentage range of from 11% - 25% for a use that has minimal effect on the use and utility of a property and 26% to 50% for easements across non usable land or where the use is balanced between both the owner and easement holder. The beach area where the lateral easement will be impressed cannot be developed because of land use laws and regulations. The beach is already used by the owners as well as the 44 cabin owners and their families. The amount of public use will, most likely be limited by the size of the public parking area which is estimated to contain approximately 26 spaces. If all the owners of the cabins were on the beach at one time, assuming two + family members per cabin, there would be over 88 cabin users. If there are two members of the general public per car using the beach, the total public use would be 52 persons. The estimated total of these two groups would

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be approximately 130 people. This estimate is lower than, but close to, the estimated heavy use of Martins Beach as reported in a study included in the San Mateo County LCP. (Please see Table 10.1 entitled "Assessment of Access Trails and Shoreline Destinations" which identifies Martins Beach as "many people using trail and shoreline destination on weekdays and evidence of heavy use [more than 200 people at shoreline destination]"). The table can be found at the end of the Land Use and Regulations Section of this report.

It is this appraiser's opinion that a fair and reasonable percentage of the fee value of the lateral easement would fall between the 12.90% and 15.7% as indicated by the Broad Beach Study and the 11% to 50% as indicated by the IRWA study which gives an overall range of from 12.90% to 50%. The appraiser recommends that negotiations should center around 40% (52 general public/130 estimated total users= 40%)

Parking Area Easement

It is the appraiser's opinion that the IRWA study best fits the proposed parking area easement. The IRWA easement valuation study estimated 90% to 100% of the fee is appropriate when there is a severe impact to surface uses and the parking area easements fits that description. The parking area easement will exclude the owner of use and potential development of the easement area. The general public will have exclusive right of use during the most desirable core hours of the day i.e. dawn to dusk. The owner, for all practical purposes, can only use the area for parking and no other use and that use is limited to the least desirable hours of the day i.e. dusk to dawn. The parking area will be designed for the general public's use and no other use and remains as such in perpetuity. The parking area easement will go with the land if it is sold or transferred by some other means. Any future owner will be obligated to allow the general public to exclusively use this portion of the subject property during the most desirable hours of the day. The appraiser recommends that negotiations for the parking area easement should be within the range of 90% to 100% of the fee value.

Conclusion: Easement Value--Market Based Percentage to Apply to Fee Value

Following is a recommended range of percentages that can be applied to the fee value of the land on which the proposed easements will be applied when negotiating the purchase of the easements:

Vertical Easement: 26% to 50%.

It is recommended that negotiations for the vertical assessment easement stay within the bounds of this range and, if possible, center around 38%, which, in the opinion of this appraiser, is a fair and reasonable percentage for such a use.

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Lateral Easement: 12.90% to 50%

It is this appraiser's opinion that a fair and reasonable percentage of the fee value of the lateral easement would fall between 12.90% and 50% The appraiser recommends that negotiations should center around 40% .

Parking Area Easement: 90% to 100%

It is the appraiser's opinion that a fair and reasonable percentage of fee value for the parking area easement would be between 90% and 100% of fee value.

Addenda

- **Broad Beach Study**
- **August 12, 2015 Letter from Hopkins & Carley with Attachments**
- **Sale Summary Sheets (Sales used in the value of the subject as if vacant)**

"Broad Beach Study Using 'Before and After' Sales Along Broad Beach", Dated May 2014, by Hap Anderson, MAI

History of Area

Broad Beach is located along the Pacific Ocean in the city of Malibu in northwestern Los Angeles County. It is developed with high-end ocean front residential properties.



Malibu/ Broad Beach Area

Malibu and Los Angeles Home Values

Malibu home prices and values are high. According to Zillow Research, the median home value in Malibu is \$2,244,100 with home values rising 9.5% over the past year. Zillow predicts they will rise 2.7% within the next year. The median list price per square foot in Malibu is \$1,008 which is three times higher than the Los Angeles Metropolitan area at \$328.

According to Standard and Poor's Case-Shiller, home values in the Los Angeles area in 2013 rose a dramatic 18.9%.

Broad Beach Road Home Values.

The value of homes along Broad Beach are significantly higher than overall values in Malibu. According to Trulia the median sale price in the Broad Beach Road (block) area is \$4,542,531 with a median listing price of \$5,397,000.

Another example of the high values for properties along Broad Beach is the listing of an 11,413 square foot residence at 31250 Broad Beach Road at \$57,500,000.

However, there is market evidence to suggest that ocean front residential properties along Broad Beach Road are flat at best. Following are some examples:

- 30804 Broad Beach Road sold on 7/10/13 for \$9,500,000. The property was listed on 10/26/2011 for \$14,749,000. The price was reduced to \$9,950,000 and sold one month later for \$9,500,000.
- 31406 Broad Beach Road sold in July 2004 for \$5,750,000 and was remodeled. During 2011 and the first part of 2012, the property was listed for sale between \$8.95 million and \$14.85 million. The price received for the property was near the sale price in 2004 with the remodeling occurring after the 2004 sale.
- 31122 Broad Beach Road sold on 12/4/13 for \$12,500,000. This is slightly higher than when it sold in April 2010 at \$11,750,000.

The flattening of values along Broad Beach Road relative to value increases in Malibu and Los Angeles County may be a result of the detrimental condition⁵⁷ and stigma⁵⁸ attached to the beach erosion that is occurring at this location. It is anticipated that cost of protecting the residences that border Broad Beach will be in excess of \$20 million. It is anticipated that the cost of the planned shoreline protection is to be privately funded and borne by the adjacent property owners.

⁵⁷ Detrimental Condition defined as: "Any issue or condition that may cause a diminution in value to real estate". Source: Real Estate Damages by Randall Bell, MAI page 338.

⁵⁸ Stigma (market resistance) is defined as "The risk, if any, associated with the ongoing stage of a detrimental condition...includes the reluctance on the part of the real estate market to buy a property that has been historically been damaged or tainted". Source: Real Estate Damages by Randall Bell, MAI, page 343.

Description of the Subject Property

The location of the boundary between private properties along the California coast and the sovereign land of the state of California is the ambulatory Ordinary High Water Mark (OHWM), which is generally measured by the Mean High Tide Line (MHTL), (with some exceptions). MHTL surveys do not create a permanent boundary line, but serve as evidence of a MHTL location at that single point in time. In the absence of a boundary line agreement with the CSLC or an adjudicated boundary line, the boundary between sovereign land and privately held uplands remains ambulatory and undetermined.

A search of sales was undertaken to find sales of properties along Broad Beach with and without Lateral Access Easements (LAEs). The ideal situation would be to find recent sales of vacant lots with and without LAEs that were at or near the same size and near in location. Subtracting the sales without the LAEs from the sales with the LAEs would give a value indication of the subject easements. That did not happen.

The research uncovered 20 sales that have occurred over the past 10 years. Twelve of the twenty sales had LAEs and 8 did not. Only one sale was of a vacant lot ("With" Sale 12). However six of the sales with LAEs had no improvements or low improvement ratio of 20% or less ("With" Sales 3, 4, 5, 8, 9, and 12) and all eight sales without LAEs had low improvement ratios of 20% or less. A total of four sales were considered "outliers" with significantly higher or lower prices than the average of their group. They are "With" Sales 4, 7, and 9 and "Without" Sale 1. Only five of the twenty sales were current (2013 or later) with the remaining sales dating back as far as March of 2004. The following spreadsheet entitled "Broad Beach Road Sales With and Without Later Access Easements (LAEs)" shows the various calculations of mean and median (measures of central tendency) under various scenarios.

The first calculation as shown on the following spreadsheet is the mean and median values for all the sales within each group of sales ("without" and "with" group). The "Without" mean and median values are then subtracted from the "With" LAE mean and median values. The difference expressed as a percentage is +15.70% for the mean and +1.91% for the median. This indicates that sales without LAEs, on average, sell for 15.70% more than sales with LAEs; and, when each group of sales is arranged from lowest to highest in value, the center value of the array for each group indicates that sales without LAEs sell for slightly more than sales with LAEs at a +1.91%.

The second calculation on the spreadsheet is of the mean and median values after eliminating sales in either group that are significantly higher or lower than the average prices within that group. The sales that were considered either significantly higher or lower are "With" Sales 4,7 and 9 and "Without" Sale 1. This was an attempt at eliminating any bias that may be caused by extreme higher or lower values within the group. The results were a mean value for the remaining sales "Without" LAEs selling for a small percentage more at +1.22% than "With"

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LAEs. However, the difference in the median values in this second calculation results in a significantly different direction in value. It indicates that sales without the LAEs sell for -8.30% less than sales with the LAEs. In other words, if the property is encumbered with an LAE, it sells for more. That is not logical.

The third calculation on the spreadsheet is an attempt at minimizing the affect of any miscalculation of improvement values when arriving at land value. The land values used in this analysis were taken from assessor records. The assessor is required by law to allocate values between land and improvements. Furthermore, the assessor is required to estimate the value of a property when the property is sold (Proposition 13). Assessor appraisal staff in California, in particularly Los Angeles County, are required to undergo extensive training and education relevant to the appraisal of real property and because of the training and education possess the skill sets needed to make a determination of land and improvement values by various appraisal methods. However, it is difficult to determine the contributory value of improvements to total property value, in particular for older, high quality residences. There are many variables that make this task difficult for trained appraisers including the estimated cost new, the amount of physical deterioration over time, and the degree and amount of functional obsolescence. Any errors in the estimate of improvement value to total property value are minimized if the improvements contribute little or no value to the property. Therefore, sales that have an estimated improvement value of 20% or less (80% land value) in addition to the one vacant land sale are used in the third calculation on the spreadsheet. The "With" LAE sales that have an improvement value of 20% or less include Sales 3, 4, 5, 8, 9 and 12. All of the "Without" sales were used because the improvement ratios varied from 2.88% to 20%. The average value of sales without LAEs was 3.51% more than sales with LAEs. The median value of the sales without LAEs when compared to sales with LAEs was significantly higher at 12.90%.

Conclusion

In the opinion of this appraiser, the results of the above analysis are inconclusive but do provide some evidence of a range in value for the subject LAEs. The affect of the LAEs on value does not stand out. The analysis, in the opinion of the appraiser demonstrates:

- the value of the easements in the minds of buyers and sellers are not readily distinguishable. If anything, the information shows that the LAEs affect on the value of properties is not great enough to stand out as a characteristic that it is obvious;
- in general, the data used shows the imperfections and inefficiency of the real estate market with few buyers and sellers at any given time; and
- that overall, the LAEs appear to have some impact on value.

The three methods used to calculate the value of the LAEs in the above analysis ranges from a minus 8.3% to a high of 15.7%, with most of the indicators at the low end of the range from 1.22% to 3.51% and at the high end from 12.90% to 15.7%.

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There are few sales and the analysis of the sales do not lead to any strong indication about the effect of the LAEs on value. The data does appear, overall, to indicate that the LAEs do have some negative impact on value with a range from as high as 15.7% to as low as a minus 8.30%.

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Explanation of Broad Beach "With" and "Without" Sales Spreadsheet Headings

Following is a brief explanation of columns in the following spreadsheet entitled "Broad Beach Road Sales With and Without Lateral Access Easements (LAEs)".

Sale No.: Sale number assigned to the 20 sales used in the analysis.

Address: The address of the property

APN #: The Los Angeles County assessor parcel number of the sale.

Sale Date: This is the date the deed for the sale was recorded.

Lot area: The square footage of the subject lot as determined by the assessor's office.

Sale Price: The price the property sold for. The data was obtained from Parcel Quest comparable service.

2013 Total Assessed Value: The assessed value in 2013; not the assessed value at the time of sale.

2013 Assessed Land Value: The assessed value of the land in 2013; not the assessed value at the time of sale.

Est. Assessed Land Value at time of sale: Proposition 13, the initiative to limit property taxes was enacted in 1978 by means of the initiative process. It amended the Constitution of California and among other thing restricted annual increase of assessed value of real property to an inflation factor, not to exceed 2% per year. Any increase is limited to 2% per year. The assessor offices use the California Consumer Price Index, as prepared by the California Department of Industrial Relations, to determine if the annual increase will be the full 2% or an amount less than 2%. For the first time since the passage of Proposition 13 the inflation factor was negative for 2010 and less than 2% for 2011 at 1.25%. All the other years that sales occurred (2004 to 2013) have been at 2% per year. The assessed value for the land in 2013 and the above inflation factors were used to "walk back" the 2013 assessed value of the land to the year of sale. This column is an estimate of the assessed land value as of the date of sale (rounded).

LAE: The column indicates if the sold property does or does not have a Lateral Access Easement.

Case-Shiller Interactive Chart from Date of Sale to 7/13: A market derived and closely followed index used in the analysis of residential real estate is the S&P/ Case-Shiller Home Price Indices. The indices track the price of residential homes located in 20 metropolitan areas based

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on repeat sales. The sales used in this analysis occurred in a time frame in which values have fluctuated with significant increases in 2004 and the later part of 2012 and all of 2013. These changes in market conditions were measured by the use of the Case-Shiller Index for the Los Angeles Metropolitan Area and use of an interactive chart⁵⁹ that is based on the Case-Shiller Index and developed by Shan Carter and Kevin Quealy of the New York Times. The interactive chart ends with July 1, 2013. The interactive chart allows the user to pick a point in time (month and year of the sale, in this case) going back to February 2000 and determine the percent of increase or decrease in value between that date and July 1, 2013 .

add for 7/13 to 1/1/14 at 1.8% per mo.: The column picks up the changes in the Case-Shiller index for the remainder of 2013 (July 1- December 31, 2013) the monthly change in the Case Shiller Index for all of 2013 for the Los Angeles Metropolitan area is (21.6% for 2013 which equates to 1.8% per month). For this analysis, residential values for the first four months of 2014 are considered to be flat.

Total: The total of the preceding two columns indicating the estimated changes in the market from the date of sale to the present.

LV factored for changes in market cond. over time: The values in the column entitled "Est. Assessed Land Value Per SF" is multiplied by the changes in market conditions factor in the column entitle "Total" to arrive at an adjusted land value (LV).

⁵⁹ nytimes.com/interactive; Article entitled "Housing Rise and Fall in 20 Cities", dated July 30, 2013.

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Broad Beach Road Sales With and Without Lateral Access Easements (LAEs)																
Sales With Lateral Access Easements ("After" Sales)																
Sale No.	Address	APN #	Sale Date	Lot Area	Sale Price	2013 Total Assessed Value	2013 Assessed Land Value	Est Assessed Land Value at time of Sale	Land Value as % of Total Value	Est. Assessed Land Value Per SF	LAE	Case-Shiller Interactive Chart from date of sale to 7/13	add for 7/13 to 1/1/14 at 1.8% mo	LV factored for changes in market cond. Over time		
1	30712 Pacific Coast Highway	4469-026-008	7/22/2004	18,726	8,300,000	9,395,208	7,357,695	6,500,000	78.31%	\$ 347.11	yes	-2.00%	10.80%	8.80%	\$ 377.66	
2	31122 Broad Beach Road	4470-015-007	3/23/2004	16891	8,500,000	12,316,750	9,434,107	7,900,000	76.60%	\$ 467.70	yes	11.00%	10.80%	21.80%	\$ 569.66	
3	31316 Broad Beach Road	4470-016-031	3/24/2004	27427	10,750,000	12,411,863	10,968,626	9,600,000	88.37%	\$ 350.02	yes	11.00%	10.80%	21.80%	\$ 426.32	
4	31406 Broad Beach Road	4470-016-026	7/22/2004	24739	5,750,000	6,120,000	4,896,000	4,300,000	80.00%	\$ 173.81	yes	-2.00%	10.80%	8.80%	\$ 189.11	
5	31240 Broad Beach Road	4470-015-021	10/13/2004	16086	9,300,000	10,527,160	9,961,186	8,800,000	94.62%	\$ 547.06	yes	-4.00%	10.80%	6.80%	\$ 584.26	
6	31038 Broad Beach Road	4470-014-017	10/27/2004	17186	8,303,000	14,215,169	8,716,037	7,600,000	61.32%	\$ 442.22	yes	-4.00%	10.80%	6.80%	\$ 472.29	
7	31122 Broad Beach Road	4470-015-007	4/16/2010	16891	11,750,000	12,316,750	9,434,107	9,160,000	76.60%	\$ 542.30	yes	20.00%	10.80%	30.80%	\$ 709.33	
8	30952 Broad Beach Road	4470-013-027	12/1/2011	18362	9,238,500	9,422,964	7,538,412	7,300,000	80.00%	\$ 397.56	yes	27.00%	10.80%	37.80%	\$ 547.84	
9	31406 Broad Beach Road	4470-016-026	4/4/2012	24739	6,000,000	6,120,000	4,896,000	4,800,000	80.00%	\$ 194.03	yes	27.00%	10.80%	37.80%	\$ 267.37	
10	31038 Broad Beach Road	4470-014-017	1/23/2013	17186	8,303,000	14,215,169	8,716,037	8,700,000	61.32%	\$ 506.23	yes	14.00%	10.80%	24.80%	\$ 631.77	
11	31122 Broad Beach Road	4470-015-007	12/4/2013	16891	12,500,000	12,316,750	9,434,107	9,400,000	76.60%	\$ 556.51	yes	0	10.80%	10.80%	\$ 616.61	
12	31438 Broad Beach Road	4470-017-065	11/13/2013	11551	5,600,000	5,600,000	5,600,000	5,600,000	100.00%	\$ 484.81	yes	0	10.80%	10.80%	\$ 537.17	
Sales Without Lateral Access Easements ("Before" Sales)																
1	31368 Broad Beach Road	4470-016-017	5/19/2009	13355	11,000,000	11,503,246	9,202,598	8,900,000	80.00%	\$ 666.42	no	30.00%	10.80%	40.80%	\$ 938.32	
2	31260 Broad Beach Road	4470-015-025	9/17/2010	17823	7,200,000	7,490,880	7,282,800	7,000,000	97.22%	\$ 392.75	no	18.00%	10.80%	28.80%	\$ 505.86	
3	30948 Broad Beach Road	4470-013-026	8/11/2010	19010	11,000,000	11,444,400	9,155,520	8,860,000	80.00%	\$ 466.07	no	18.00%	10.80%	28.80%	\$ 600.30	
4	31372 Broad Beach Road	4470-016-018	3/10/2011	13714	6,200,000	6,284,016	5,202,000	5,000,000	82.78%	\$ 364.59	no	23.00%	10.80%	33.80%	\$ 487.82	
5	31302 Broad Beach Road	4470-016-037	6/7/2011	21340	10,955,000	11,397,582	10,924,200	10,600,000	95.85%	\$ 496.72	no	22.00%	10.80%	32.80%	\$ 659.64	
6	31224 Broad Beach Road	4470-015-037	2/21/2012	16558	6,300,000	6,426,000	5,140,800	5,040,000	80.00%	\$ 304.38	no	29.00%	10.80%	39.80%	\$ 425.53	
7	31038 Broad Beach Road	4470-014-017	1/23/2013	17186	12,500,000	14,215,169	8,716,037	8,716,037	61.32%	\$ 507.16	no	14.00%	10.80%	24.80%	\$ 632.93	
8	31012 Broad Beach Road	4470-014-010	11/12/2013	18567	8,000,000	8,499,353	7,999,396	7,999,396	94.12%	\$ 430.84	no	0.00%	1.80%	1.80%	\$ 438.59	
Mean (All Sales)																
Without LAE (Before Value)			With LAE (After Value)		Difference		% Difference		Mean (Sales with no improvements or low improvement ratios [20% or less])							
\$ 586.13			\$ 494.12		\$ 92.01		15.70%		Without LAE (Before Value)		less		with LAE (After Value)		Diff	% Diff
#1									\$ 534.70				\$ 515.92		\$ 18.78	3.51%
Median (All Sales)			With LAE (After Value)						Median (Sales with no improvements or low improvement ratios [20% or less])							
Without LAE (Before Value)			With LAE (After Value)						Without LAE (Before Value)		less		with LAE (After Value)		Diff	% Diff
\$ 553.08			\$ 542.50		\$ 10.58		1.91%		\$ 553.08				\$ 481.75		\$ 71.34	12.90%
#2																
Mean (Eliminating "With" Sales 4, 7 & 9 and "Without" Sale 1)			With LAE (After Value)													
Without LAE (Before Value)			With LAE (After Value)													
\$ 535.81			\$ 529.29		\$ 6.53		1.22%									
Median (Eliminating "With" Sales 4, 7 & 9 and "Without" Sale 1)			With LAE (After Value)													
Without LAE (Before Value)			With LAE (After Value)													
\$ 505.86			\$ 547.84		\$ (41.97)		-8.30%									

Martins Beach Property, San Mateo County

Sale #1

(In Escrow as of 8/3/15. To close within 30 days)

Seller: Estate of Muriel M. Vint, Attn Jack Parker

Buyer: Would Not Disclosed

Sale Price: Less than the \$3,900,000 listing price but more than \$3,000,000. The property is in escrow as of 8/3/15. Listing broker stated the selling price was above \$84,326 per acre (\$3,000,000/35.576 acres) but less than \$109,624 per acre (\$3,900,000 listing price/35.576 acres)

Date of Sale: Close of Escrow is anticipated to be within 30 days (on or about 9/3/15)

Listing Broker:

Snyder Commercial Real Estate
Rancho Murieta, CA 95683
Exclusive Agent: Jon Snyder
(916) 204 4442

Acreage:

APN 066-081-060:	28.576 acres
APN 066-081-180:	<u>7.00 acres</u> +/-
	35.576 acres

Zoning: PAD/CD

Improvements: There is a small (approximately 800 square foot) single family residence on the property that was built near the turn of the century and has no value.

Motivation of Buyer: Plans on developing the property with a large single family residence. It was the understanding of the listing broker that the home would be in the range of 3,200 square feet.

Terms of the Sale: The sellers were willing to pay all cash, but for unknown reasons the purchase was financed with a \$1,300,000 note.

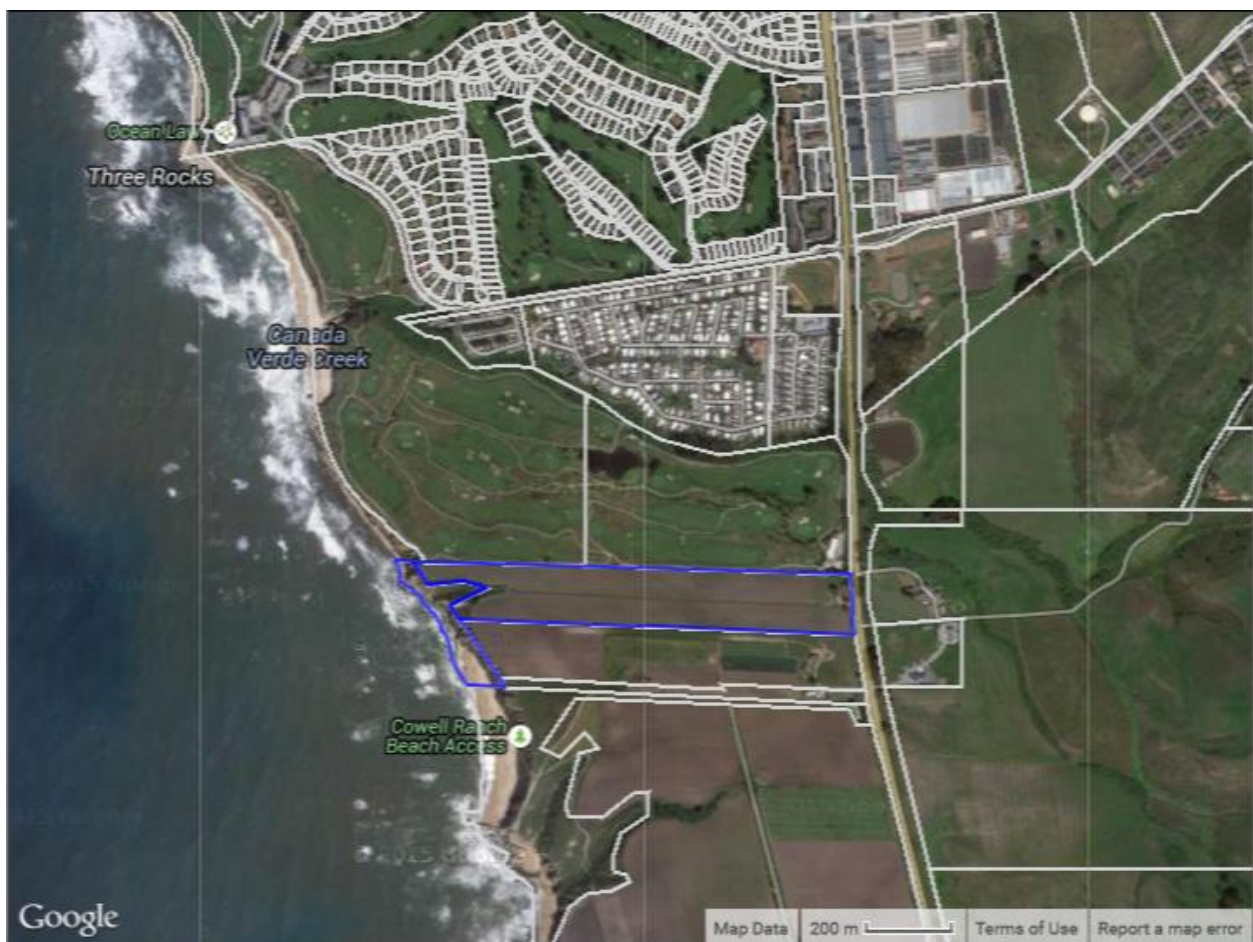
Arms Length Transaction: The listing broker stated the transaction was arm-length with neither the seller or buyer under any kind of duress.

Marketing Time: Approximately 2.5+ years. Listing broker felt that 2 +years is a typical marketing time for large acreage in this area, in particular acreage that is located along the ocean, because of the government restrictions and development requirements.

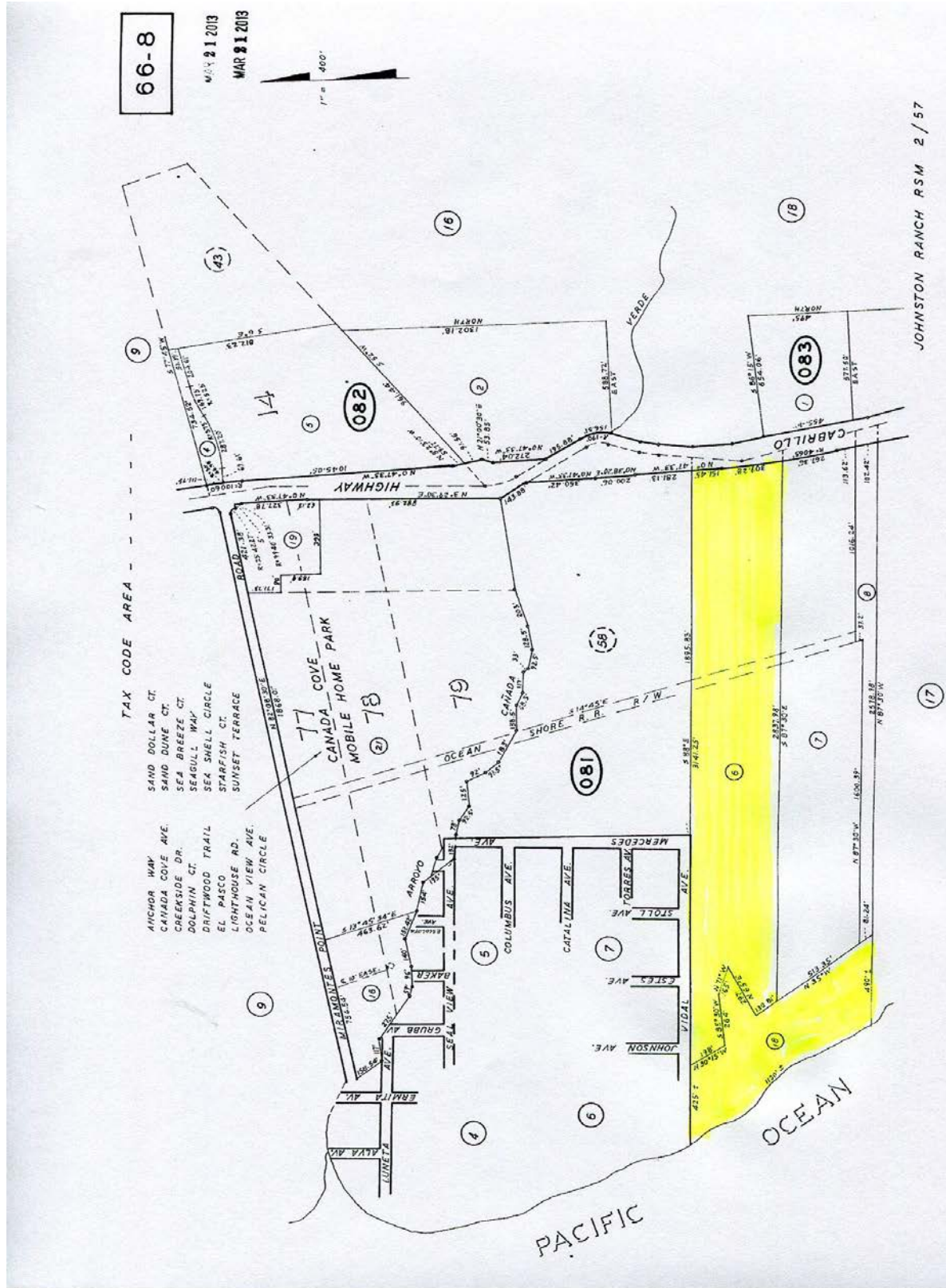
Martins Beach Property, San Mateo County

Comments: A title issue with APN 066-081-180 has been holding up the closing date. The title issue is in the hands of a title officer who should have the title issues resolved on or about 8/4/15 with the closing date to take place 30 days from that date. According to the Listing Broker, the title to APN 066-081-180 was held in the name of four individuals dating back to the 1940s. The title was never transferred properly at that time to the present owner (seller). The seller has paid taxes on the property since that time but the record of title has remained in the names of the four individuals. APN 066-081-180 is basically what amounts to a paper lot and the property lines of APN 066-081-060 and 070 (adjoining owner) extend to the Pacific Ocean.

Confirmation with: Jon Snyder on 8/2/15



Martins Beach Property, San Mateo County



Martins Beach Property, San Mateo County



Soil Map Unit Legend (Approximate Acreage and Percentage of Soil Type)

Ta (Terrace Escarpments):	10.2%; 3.4+/- acres
WmB2 (Watsonville loam, gently sloping, eroded):	59.1%; 19.5 acres
WmC2 (Watsonville loam, sloping, eroded):	25.5%; 8.4 acres
WmD2 (Watsonville loam, moderately steep, eroded):	2.0%; .07 acres

Land Use Regulations, Community Influences, Community Services and Physical Factors--Sale #1 APN 066-081-060

Land Use Regulations

Sale #1 is under the same land use regulations as the subject property. Please see the section entitled "Legally Permissible" that can be found in the Highest and Best Use Section of this report. All of the information relevant to the Coastal Zone, California Coastal Act, Local Coastal Program, Density Credits, Bonus Density Credits, CD and PAD zoning designations is applicable to Sale #1.

From San Mateo County GIS Website

Urban Rural Boundary: Property located within in designated Rural Area but the north property line borders the Urban Coastal Boundary.

California Coastal Commission Appeals Jurisdiction: Located within the CCC appeals jurisdiction

California Coastal Commission Permit Jurisdiction: Not within the CCC permit jurisdiction.

Within Coastal Zone: Yes

Topography: the entire bluff top is almost level at 100 feet elevation

Flood Zone: Not located within a flood zone.

Within Scenic Corridor: Yes

Fire District: Coastside Fire Protection District

Prime Agricultural Lands Designation: No

General Plan Land Use Designation: Agriculture/Rural

Sphere of Influence: County mapping indicated the property is not within the sphere of influence of Half Moon Bay.

Fire Hazard Area: Outside of all designated fire hazard area.

Supervisory District: District #3.

Unincorporated Community: Rural Midcoast.

Water District: None, but borders to the north the Coastside County Water District.

Martins Beach Property, San Mateo County

Agricultural Preserve Contract: No. Not under a contract.

Zoning: PAD/CD

Severe Flood Hazard Area: Not within designated flood hazard area.

Martins Beach Property, San Mateo County

From ABAG GIS Hazards Data (Information below describes both APN 066-081-060 and 180)

The Association of Bay Area Governments has identified a number of hazards on their GIS AGAB website (www.gis.abag.ca.gov/website/hazards) for areas within the Bay Area including San Mateo County. Following are a number of the hazards and the level of the hazard for Sale #1 as identified on the website.

Tsunami Hazard Area: The area along the beach is located in a tsunami evacuation area.

Shaking from Earthquakes Along Fault Lines (MMI defined below⁶⁰)

San Gregorio Fault Line: Violent MMI 9 (Same as subject)

Northern San Andreas Fault Line: Very Strong MMI 8 (Same as the subject)

Southern Hayward Fault Line: Moderate MMI 6 (Same as the subject)

Southern + Central + Northern Calaveras Fault Line: Moderate MMI 6 (Same as subject)

Landslides: Few landslides along beach/bluff area.

Wildfire Threat: Most of the area is classified as "little or no threat". (Same as subject)

Liquefaction Susceptibility: Low (Same as the subject)

Land Use Regulations, Community Influences, Community Services and Physical Factors--Sale #1 A Portion of APN 066-081-180

Urban Rural Boundary: Property located within in designated Rural Area but the north property line borders the Urban Coastal Boundary.

California Coastal Commission Appeals Jurisdiction: Located within the CCC appeals jurisdiction.

California Coastal Commission Permit Jurisdiction: A portion of the property is located within the CCC permit jurisdiction.

Within Coastal Zone: Yes.

Topography: Steep topography 100 feet elevation at bluff top to 0 elevation at bottom of bluff.

⁶⁰ MMI: The Modified Mercalli Intensity (MMI) estimates the intensity of shaking from an earthquake at a specific location or over a specific area by considering its effects on people, objects and buildings. For example, a MMI equal to or greater than MMI 6 would damage buildings.

Martins Beach Property, San Mateo County

Flood Zone: Partially within FEMA flood zone. FEMA FIRM 2012 Paned #06081C0270E. Southwest portion is within Flood Zone X = 0.2% annual chance of flood hazard.

Within Scenic Corridor: Yes

Fire District: Coastside Fire Protection District.

Prime Agricultural Lands Designation: No.

General Plan Land Use Designation: Agriculture/Rural.

Sphere of Influence: County mapping indicated the property is not within the sphere of influence of Half Moon Bay.

Fire Hazard Area: Outside of all designated fire hazard area.

Supervisory District: District #3.

Unincorporated Community: Rural Midcoast.

Water District: None, but northern boundary borders the Coastside County Water District.

Agricultural Preserve Contract: No. Not under a contract.

Zoning: PAD/CD

Severe Flood Hazard Area: South west portion is within a designated severe flood hazard area.

Martins Beach Property, San Mateo County

Sale #2- April 10, 2015

17400 Cabrillo Highway, Half Moon Bay

Seller: 17400 Cabrillo LLC

Buyer: F6 LLC

Sale Price: \$3,000,000 Net to Seller per selling broker⁶¹. Transfer Tax indicates: \$2,950,000

Date of Sale: April 10, 2015

Gross Sale Price Per Acre: \$121,664 (includes improvements)

Net Sale Price Per Acre: \$101,387 (land value)

Recording Document: 2015035499 (4/10/2015)

Listing Broker:

Property was listed on February 15, 2013 for \$3,995,000 by the following brokers:

Victor Aenlle, CCIM
& Leah Noher
Coldwell Banker

Kerwin & Associates
Terri Kerwin (Owner/Broker)
(650) 473-1500

Listing price was lowered on 12/4/14 to \$3,450,000 after being listed for approximately 1 year, 10 months at \$3,995,000. Listing was removed on 3/8/15 with a sale occurring 32 days later on 4/10/15 at \$2,950,000 (per transfer stamps).

Acreage:

APN 066-081-070: 24.658 Acres

Zoning: PAD/CD

Improvements: According to listing information, improvements include a two-story, three bedroom two and one-half bath single family residence built in 1940, barn, in-law apartment,

⁶¹ According to the selling broker, there was concessions made in the sales transaction that ended up producing a net sale price to the seller of \$3,000,000

Martins Beach Property, San Mateo County

studio, small guest house + hanger/garage. According to the listing broker, the main residence is in need of a complete remodel and the other structures are not habitable. The selling broker put a value of \$500,000 on the improvements. According to the selling broker, there is a lot of value in old structures located on properties along the coast because the existence of the old structure and structure footprint shorten the process considerable in building a new residence. The process to build a new home without the benefit of an existing structure, on the coast in this area with permitting and other legal requirements can take as long as eight to ten years.

The San Mateo County Assessor's office allocated a value of \$190,000 to the improvements after a transfer of the property in 2011 which triggered a reassessment of the property per Proposition. 13.

Use: The property is reported (unconfirmed) to have been owned by the DuPont family at one time and used as an airstrip. According to the selling broker a more recent owner used the airstrip and the hanger to store his private plane. The airstrip is located along the northerly boundary with the airstrip still visible on recent aerals. The property sold 3 years, 3 months earlier for \$3,800,000. At that time, the San Mateo County Assessor allocated 5% of the sale price to the improvements or \$190,000 +/-.

Boundaries: The property is ocean front property. According to the listing broker the property lines go to the Pacific Ocean (State's sovereign boundary per a survey). The intervening APN 066-081-180 is the equivalent of a paper lot.

Water Source: The property has city water. It is outside the water district boundaries. However, in the past, owners along Highway 92 were offered the opportunity to hook up to city water. Some owners accepted the offer and paid the hook-up fee. Others elected not to.

Motivation of Buyer: The buyer intends to use the property for farming.

Terms of Sale: All Cash

Arms Length Transaction: The property was actively marketed for almost two years. That exposure time to the market would indicate that owners were not forced into a quick sale. The selling broker confirmed that the transaction met the requirements of an arms-length transaction.

Marketing Time: Approximately 2 years, 2 months.

Comments: The property was sold at a foreclosure auction on November 26, 2011 for a reported \$425,000. It re-sold seven (7) months later on 2/15/2011 for a reported \$3,800,000.

Confirmation Source: Victor Aenlle, CCIM, Coldwell Banker (listing & selling broker) on August 5, 2015
(650) 558-6891

Martins Beach Property, San Mateo County

Sale #3- September 6, 2011

17400 Cabrillo Highway, Half Moon Bay

Seller:

Buyer:

Sale Price: \$3,800,000

Date of Sale: September 6, 2011

Gross Sale Price Per Acre (includes improvements): \$154,108/acre

Net Sale Price (Net of Improvements): \$146,403/acre⁶²

Listing Broker: Victor Aenille, CCIM, Coldwell Banker (650) 558-6894

Recording Document: 2011101114 (9/6/2011)
2011013952 (2/02/2011)-Foreclosure Sale at \$425,000

It is reported the property was purchased on February 2, 2011 at a foreclosure auction for \$425,000 and immediately listed for sale at \$4,900,000. Approximately seven (7) months later the property sold for a reported \$3,800,000.

Acreage:

APN 066-081-070: 24.658 Acres

Zoning: PAD/CD

Improvements: According to listing information, improvements include a two-story, three bedroom two and one-half bath single family residence built in 1940, barn, in-law apartment, studio, small guest house + hanger/garage. According to the listing broker, the main residence is in need of a complete remodel and the other structures are not habitable. The selling broker put a value of \$500,000 on the improvements for the 2015 (Sale #2). According to the selling broker, there is a lot of value in old structures located on properties along the coast because the existence of the old structure and structure footprint shorten the process considerable in building a new residence. The process to build a new home without the benefit of an existing structure, on the coast in this area with permitting and other legal requirements can take as long as eight to ten years.

⁶² Allocated \$190,000 to the improvements per assessor allocation. The 2015 allocation of \$500,000 would have been lower in 2011.

Martins Beach Property, San Mateo County

The San Mateo County Assessor's office allocated a value of \$190,000 to the improvements after a transfer of the property in 2011 which triggered a reassessment of the property per Proposition. 13.

Use: The property is reported (unconfirmed) to have been owned by the DuPont family at one time and used as an airstrip. According to the selling broker a more recent owner used the airstrip and the hanger to store his private plane. The airstrip is located along the northerly boundary with the airstrip still visible on recent aerials.

Boundaries: The property is ocean front property. According to the listing broker the property lines go to the Pacific Ocean (State's sovereign boundary per a survey). The intervening APN 066-081-180 is the equivalent of a paper lot.

Water Source: The property has city water. It is outside the water district boundaries. However, in the past, owners along Highway 92 were offered the opportunity to hook up to city water. Some owners accepted the offer and paid the hook-up fee. Others elected not to.

Motivation of Buyer: Buyer planned to develop the property to a multi-residential use.

Terms of Sale: All Cash.

Arms Length Transaction: The property was marketed for only 7 months and sold for eight times what was paid for the property in February 2, 2011.

Marketing Time: Approximately 7 months.

Comments: The property was sold at a foreclosure auction on February 2, 2011 for a reported \$425,000 and this sale (9/6/11) was for \$3,800,000. It resold again on 4/10/15 for \$3,000,000 (Please refer to Sale #2 above)

Confirmation Source: Victor Aenlle, CCIM, Coldwell Banker (listing & selling broker) on August 5, 2015
(650) 558-6891

Martins Beach Property, San Mateo County

Land Use Regulations, Community Influences, Community Services and Physical Factors--Sale #2 & Sale #3

The following information applies to both Sale #2 and #3 since Sale #2 is a re-sale of Sale #3.

APN 066-081-070

Land Use Regulations

Sale 2/3 are under the same land use regulations as the subject property. Please see the section entitled "Legally Permissible" that can be found in the Highest and Best Use Section of this report. All of the information relevant to the Coastal Zone, California Coastal Act, Local Coastal Program, Density Credits, Bonus Density Credits, CD and PAD zoning designations is applicable to Sale #2/3.

Information Taken From San Mateo County GIS Website

Urban Rural Boundary: Property located within in designated Rural Area.

California Coastal Commission Appeals Jurisdiction: Located within the CCC appeals jurisdiction

California Coastal Commission Permit Jurisdiction: Not within the CCC permit jurisdiction.

Within Coastal Zone: Yes

Topography: the entire bluff top is almost level at 100 feet elevation

Flood Zone: Not located within a flood zone.

Within Scenic Corridor: Yes

Fire District: Coastside Fire Protection District

Prime Agricultural Lands Designation: No

General Plan Land Use Designation: Agriculture/Rural

Sphere of Influence: County mapping indicated the property is not within the sphere of influence of Half Moon Bay.

Fire Hazard Area: Outside of all designated fire hazard area.

Supervisory District: District #3.

Unincorporated Community: Rural Midcoast.

Water District: None, but borders to the north the Coastside County Water District.

Agricultural Preserve Contract: No. Not under a contract.

Martins Beach Property, San Mateo County

Zoning: PAD/CD

Severe Flood Hazard Area: Not within designated flood hazard area.

Martins Beach Property, San Mateo County

From ABAG GIS Hazards Data (Information below describes both APN 066-081-060 and 180)

The Association of Bay Area Governments has identified a number of hazards on their GIS AGAB website (www.gis.abag.ca.gov/website/hazards) for areas within the Bay Area including San Mateo County. Following are a number of the hazards and the level of the hazard for Sale #1 as identified on the website.

Tsunami Hazard Area: The area along the beach is located in a tsunami evacuation area.

Shaking from Earthquakes Along Fault Lines (MMI defined below⁶³)

San Gregorio Fault Line: Violent MMI 9 (Same as subject)

Northern San Andreas Fault Line: Very Strong MMI 8 (Same as the subject)

Southern Hayward Fault Line: Moderate MMI 6 (Same as the subject)

Southern + Central + Northern Calaveras Fault Line: Moderate MMI 6 (Same as subject)

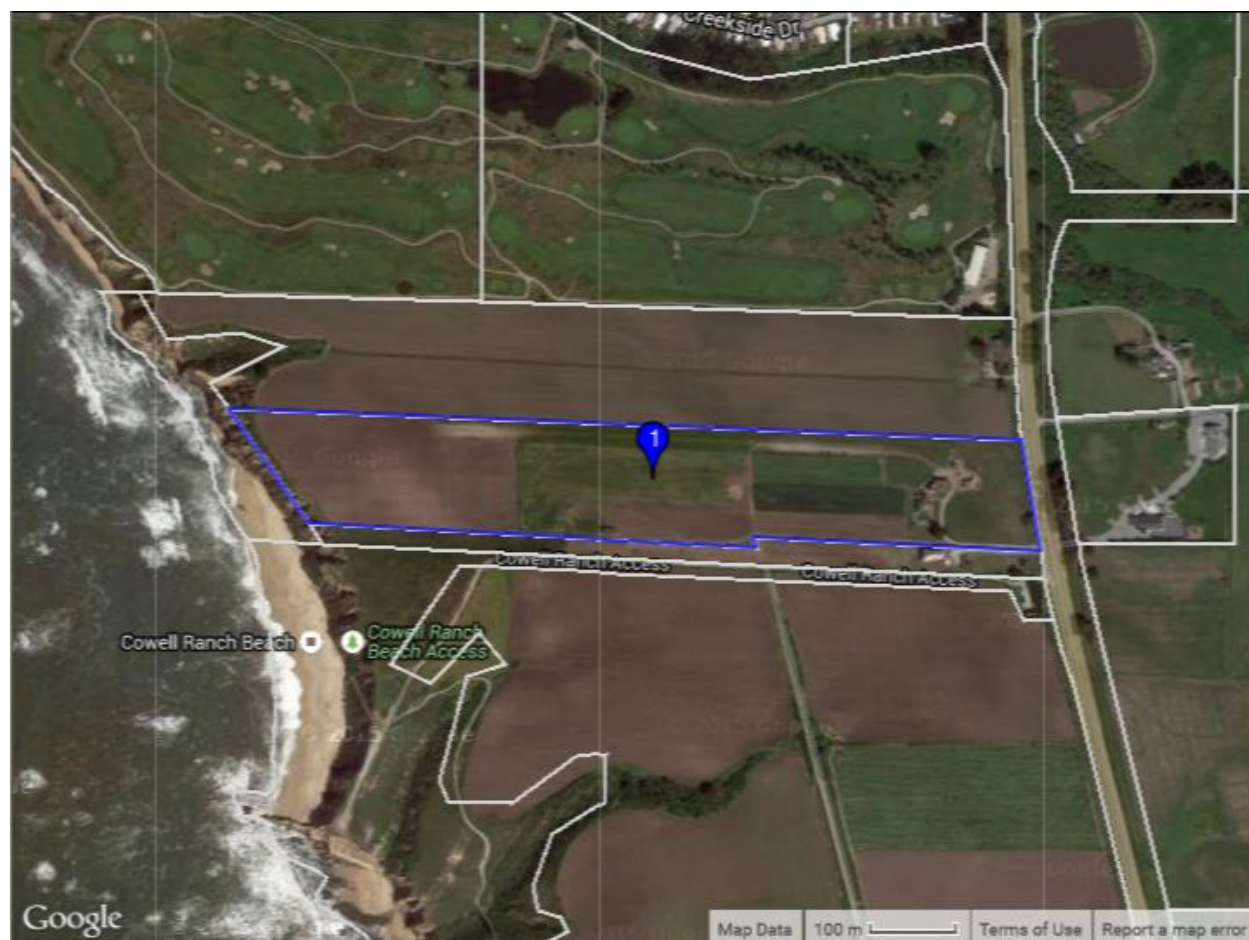
Landslides: Few landslides along beach/bluff area.

Wildfire Threat: Most of the area is classified as "little or no threat". (Same as subject)

Liquefaction Susceptibility: Low (Same as the subject)

⁶³ MMI: The Modified Mercalli Intensity (MMI) estimates the intensity of shaking from an earthquake at a specific location or over a specific area by considering its effects on people, objects and buildings. For example, a MMI equal to or greater than MMI 6 would damage buildings.

Martins Beach Property, San Mateo County



TAX CODE AREA

- SAND DOLLAR CT.
- CANADA COVE AVE.
- CREEKSIDE DR.
- DOLPHIN CT.
- DRIFTWOOD TRAIL
- EL PASCO
- LIGHTHOUSE RD.
- OCEAN VIEW AVE.
- PELICAN CIRCLE
- SUNSET TERRACE
- STARFISH CT.
- SEA SHELL CIRCLE
- SEAGULL WAY
- SEA BREEZE CT.
- SAND DUNE CT.
- ANCHOR WAY

ROADS: HIGHWAY 16, HIGHWAY 18, CABRILLO, OCEAN SHORE, CANADIA SP, VERDE, MERCEDS AVE, STOLL AVE, TORRES AVE, VIDAL AVE, JOHNSON AVE, CATALINA AVE, COLUMBUS AVE, SEAVIEW AVE, ARADO AVE, EMILITA AVE, ALVA AVE, TUNETA AVE.

PACIFIC OCEAN

Other Labels: 77 COVE, CANADA HOME PARK MOBILE HOME PARK, 082, 083, 081, 080, 079, 078, 077, 076, 075, 074, 073, 072, 071, 070, 069, 068, 067, 066, 065, 064, 063, 062, 061, 060, 059, 058, 057, 056, 055, 054, 053, 052, 051, 050, 049, 048, 047, 046, 045, 044, 043, 042, 041, 040, 039, 038, 037, 036, 035, 034, 033, 032, 031, 030, 029, 028, 027, 026, 025, 024, 023, 022, 021, 020, 019, 018, 017, 016, 015, 014, 013, 012, 011, 010, 009, 008, 007, 006, 005, 004, 003, 002, 001.

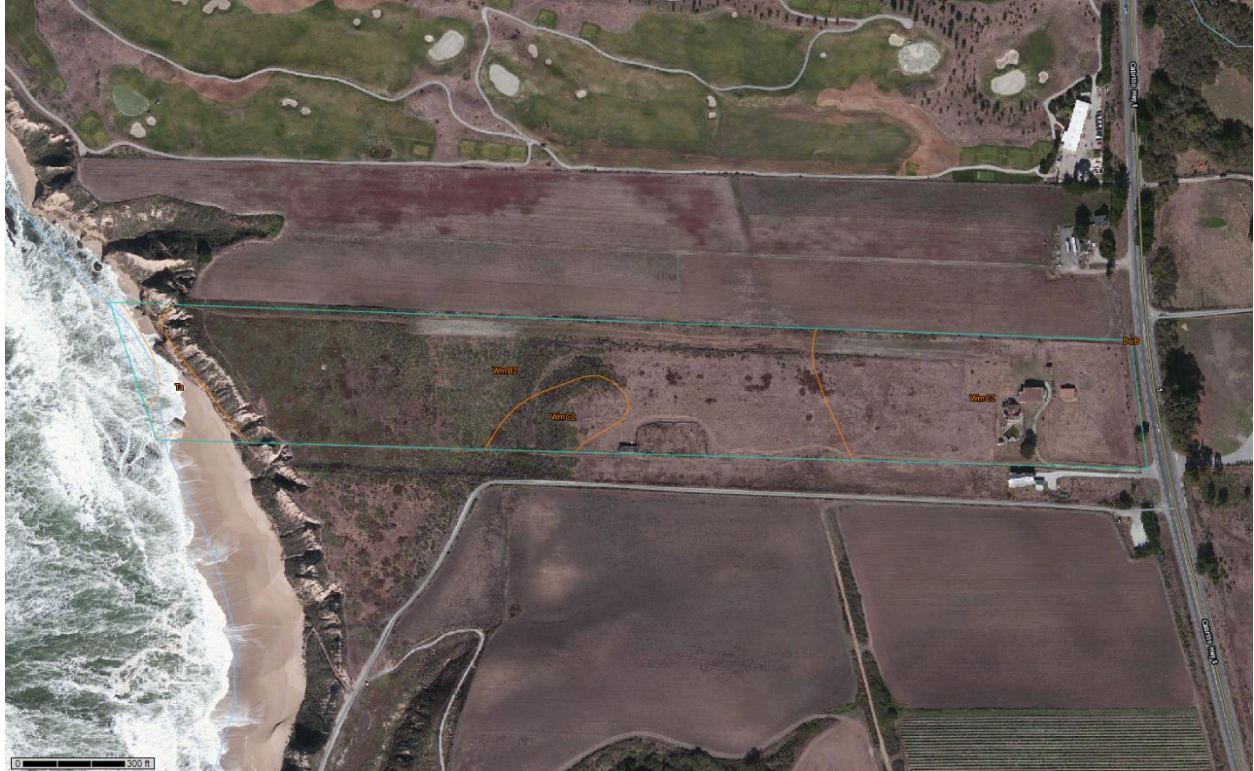
Scale: 1" = 400'

North Arrow: NORTH

Johnston Ranch RSM 2/57

CADDIS IN ILLICIT SPINAL DISTRICT

Martins Beach Property, San Mateo County



Soil Map Unit Legend (Approximate Acreage and Percentage of Soil Type)

Ta (Terrace Escarpments):	4.9%; 1.3+/- acres
WmB2 (Watsonville loam, gently sloping, eroded):	57.8%; 15.2 acres
WmC2 (Watsonville loam, sloping, eroded):	35.7%; 9.4 acres