

Memorandum

Date: March 14, 2019

To: Brian Bugsch, Chief
Land Management Division

Grace Kato, Assistant Chief
Land Management Division

From: Chaun Wong CW
Associate Property Appraiser
Land Management Division

Subject: Corte Madera Category 2 Benchmark 2019 - Rental rate for non-water dependent use areas extending on and over sovereign land in Corte Madera Creek, Marin County, California

An appraisal is the act or process of developing an opinion of value that must be numerically expressed as a specific amount, as a range of numbers, or as a relationship to a previous value opinion or numerical benchmark. It should be noted that this report does constitute an appraisal as defined by the Uniform Standards of Professional Appraisal Practice (USPAP). It should also be noted that this appraisal has been performed and the report has been prepared in substantial compliance with USPAP as it relates to value of sovereign land. The compiled research, analyses, and conclusions presented in this appraisal represents a correlation of residential land values into a benchmark rental rate for non-water dependent use areas located on Corte Madera Creek. The benchmark is intended to be used by Commission staff in negotiations with lessees. Presented on the following pages are the introduction, the scope of the current research, and discussions of the pertinent findings resulting in the updated benchmark rental rates.

I have conducted research relevant to establishing a benchmark to determine rent for non-water dependent use areas extending onto and over sovereign land in Corte Madera Creek, Marin County, California. These non-water dependent uses consist of portions of homes, decks, and other residential-related improvements that extend onto and over sovereign lands and essentially represent extensions of the usable area of the adjoining residential lots.

Introduction

The subject properties consist of tidelands located along Corte Madera Creek in Marin County. More specifically, these areas are defined as the sovereign land located waterward of Boardwalk One, Greenbrae Boardwalk, and Lucky Drive in Marin County. While these three areas are not physically connected, they do exhibit comparable traits.

These similar characteristics include, but are not limited to, areas containing homes elevated on stilts over marshlands, decks, portions of residences, and other residential-related improvements extending waterward, beyond the Mean High Tide Line.

Located in parts of Greenbrae, Kentfield, and Larkspur; all three areas were originally constructed in the early 1900s with arks (or houseboats). According to the Marin County Assessor's Office, most of these residences were built over marshlands between 1905 and 2004. Subsequently, the uplands and adjoining subject tidelands were subdivided and developed into residential lots of various sizes. Over the years, many of these arks, located landward of the Mean High Tide Line, transitioned from residences on barges into residences on foundations. All encroachments onto sovereign lands are required to come under lease with the State of California. This benchmark report is intended to establish the updated fair market rental rate for non-water dependent use areas.

Methodology

The Commission's authority to lease lands and charge rent comes from the California State Constitution, the Public Resources Code, and the California Code of Regulations.

The Commission's mandate to charge rent comes from the Gift Clause of the California State Constitution, which states in part that:

"The Legislature shall have no power to...make any gift or authorize the making of any gift, of any public money or thing of value to any individual, municipal or other corporation whatever..." Cal. Const. Art. XVI -6.

Section 6503 of the Public Resources Code states that:

"The Commission shall appraise the lands and fix the annual rent or other consideration thereof."

The California Code of Regulations¹ provides the Commission with broad discretion in all aspects of leasing.

"Leases or permits may be issued to qualified applicants and the Commission shall have broad discretion in all aspects of leasing including category of lease or permit and which use, method or amount of rental is most appropriate...based on what it deems to be in the best interest of the State"

The Code of Regulations then goes on to outline the types of leases and the methods of setting rent for each. Of these, the "9% of the appraised value of the leased land"² method is considered the most directly applicable. For purposes of this analysis, the land to be leased is sovereign land located waterward of the ordinary high-water mark.

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

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

Since there is not an active real estate market for sovereign land, the basis for the annual rent is the adjoining upland property. At Corte Madera Creek, the adjoining upland property generally consists of single-family homes on residential lots. The rent to be set is based on the value of the underlying land and does not include the value of any improvements. Thus, for valuation purposes, the value of waterfront residential lots at these three locations along Corte Madera Creek is the basis of the rental rate.

The market value of residential land is typically estimated through use of the Sales Comparison Approach. In this approach, recent sales and current listings of similar properties are compared to the subject on the basis of pertinent factors such as location, size, shape, etc. Waterfront residential lots are typically valued on either a per-lot or on a per-waterfront-foot basis. However, because the lease areas generally do not represent a full residential lot, the unit of comparison used is the price per square foot of land area. An indication of value is then concluded based on a comparative analysis of these factors. Per the California Code of Regulations, rent is then set based on 9% of the concluded value of the leased land.

Market Value of Upland Property

A search was made for recent sales of vacant residential lots (typical in size, ranging from 0.10 acre to 0.50 acre)³ fronting Corte Madera Creek in Marin County, more specifically along Boardwalk One, Greenbrae Boardwalk, and Lucky Drive. However, due to its built-up nature, only one recent sale of a vacant waterfront lot was found. Rather than use comparable sales that do not front the water, which would necessitate adjustments for location, an allocation technique is employed. In this analysis, residential land values are extracted from recent sales of improved residential properties located along Boardwalk One, Greenbrae Boardwalk, and Lucky Drive through use of the improvement percentage assigned by the Marin County Assessor's Office. For instance, if a house sold for \$1,000,000 and had an improvement percentage of 40%, then the allocated value of the land is 60%, or \$600,000. For analysis purposes, the unit of comparison used is the price per square foot of the land area.

Summarized in the table on page 6 are the pertinent details of ten sales of improved residential properties and one vacant residential lot along Boardwalk One, Greenbrae Boardwalk, and Lucky Drive. All of these sales involve waterfront lots along Corte Madera Creek in Marin County. The sales took place between November 2014 and January 2019. The lot sizes range from 5,500 to 17,600 square feet, with a mean of 10,012 square feet and a median of 9,300 square feet. The sale prices for the improved waterfront lots ranged from a low of \$510,000 to a high of \$1,385,000, with a mean of \$893,364, and a median of \$950,000. According to the Assessor's allocations, the value of the land in these transactions accounted for between 45.97% and 100.00% of the

³ The typical residential lot size along Boardwalk One, Greenbrae Boardwalk, and Lucky Drive is judged to be between approximately 0.10 acre and 0.50 acre. Properties below 0.10 acre in size are typically sales of condominiums or townhouses, where the lot size is usually determined by the footprint of the building. These sales are not considered comparable in the appraiser's opinion of land value. Properties above 0.50 acre in size are not considered in the appraiser's land value dataset due to the scarcity of these sales along the waterfront.

total price. Based on these percentages, the value of the unimproved land lies between \$40.96 and \$87.30 per square foot. The mean unit value is \$63.14 per square foot, while the median is \$56.85 per square foot.

Analysis of the sales revealed no recognizable trends relating to typical lot area and land value relationships (i.e., unit prices decreasing as size increase). The lack of a size/price relationship is illustrated in the following table. The presentation of the sales is based on the lot area (SF) of the sales, going from smallest to largest.

Lot Area (SF)	Land Value Per SF
5,500	\$45.97
6,300	\$87.30
7,600	\$82.24
8,640	\$59.03
9,240	\$56.85
9,300	\$85.84
9,500	\$80.25
10,000	\$53.60
12,190	\$51.68
14,260	\$50.84
17,600	\$40.96

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

Water Frontage (LF)	Land Value Per SF
26.48	\$87.30
38.17	\$45.97
40.67	\$53.60
45.06	\$56.85
45.13	\$80.25
55.18	\$51.68
55.43	\$82.24
60.81	\$59.03
61.31	\$85.84
64.37	\$50.84
74.60	\$40.96

Furthermore, lease areas impacted by the Corte Madera Category 2 Benchmark are also of various lot areas, water frontages, locations, shapes, topographies, zonings, etc.

Due to the uniqueness of each lease area and the lack of significant land value trends relating to typical lot area or typical water frontage; no particular sale, including the vacant parcel, is deemed a better indicator in concluding a land value benchmark. Therefore, an analysis of the overall dataset is warranted and deemed appropriate in concluding land value for the Corte Madera Category 2 Benchmark. Consequently, emphasis is placed on the mean and median unit prices (\$63.14 and \$56.85 per square foot, respectively). Therefore, a rounded market value of \$60 per square foot is concluded as reasonable for the upland residential property.

Market Value of the Upland Property: **\$60 per square foot**

Benchmark Rental Rate

Applying the 9% annual rate of return to the previously concluded market value of the upland property results in an annual rental rate of \$5.40 per square foot.⁴

Benchmark Rental Rate **\$5.40 per square foot**

The concluded value is based on the leased land having the same utility as the adjoining upland. If the leased land does not have the same utility, then a lower benchmark rental rate may be warranted. A lower utility is generally expressed as a percentage of the full benchmark rental rate.

⁴ Calculated as $\$60 \times 0.09 = \5.40 .

Corte Madera Category 2 Benchmark

LAND VALUE INDICATIONS

Allocated Assessed Land Values from Recent Sales

Boardwalk One, Greenbrae Boardwalk, and Lucky Drive

No.	APN	Address	City	County	Sale Date	Lot Area (SF)	Sale Price	% Assessed Land Value	Land Value	Land Value Per SF
1	022-131-27	20 Lucky Dr	Greenbrae	Marin	1/11/2019	12,190	\$700,000	90.00%	\$630,000	\$51.68
2	022-250-09	19 Boardwalk One	Larkspur	Marin	12/31/2018	9,500	\$1,385,000	55.05%	\$762,386	\$80.25
3	023-021-27	65 Greenbrae Boardwalk	Greenbrae	Marin	10/5/2018	10,000	\$670,000	80.00%	\$536,001	\$53.60
4	023-013-07	43 Greenbrae Boardwalk	Kentfield	Marin	6/14/2018	5,500	\$550,000	45.97%	\$252,839	\$45.97
5	022-091-15	35 Boardwalk One	Larkspur	Marin	3/19/2018	9,300	\$1,085,000	73.58%	\$798,328	\$85.84
6	022-250-34	15 Boardwalk One	Larkspur	Marin	5/22/2017	7,600	\$960,000	65.10%	\$625,000	\$82.24
7	022-131-26	22 Lucky Dr	Kentfield	Marin	7/21/2016	14,260	\$950,000	76.32%	\$725,000	\$50.84
8	022-091-01	21 Boardwalk One	Larkspur	Marin	3/18/2016	6,300	\$975,000	56.41%	\$550,000	\$87.30
9	022-131-09	36 Lucky Dr	Greenbrae	Marin	12/3/2015	9,240	\$927,000	56.66%	\$525,284	\$56.85
10	022-131-24	28 Lucky Dr	Kentfield	Marin	7/1/2015	17,600	\$1,115,000	64.66%	\$720,982	\$40.96
11	022-240-07	4 Boardwalk One	Larkspur	Marin	11/12/2014	8,640	\$510,000	100.00%	\$510,000	\$59.03
Overall Indications										
		Low				5,500	\$510,000	45.97%	\$252,839	\$40.96
		High				17,600	\$1,385,000	100.00%	\$798,328	\$87.30
		Mean				10,012	\$893,364	69.43%	\$603,256	\$63.14
		Median				9,300	\$950,000	65.10%	\$625,000	\$56.85