



July 8, 2015

Mr. Janna Aldrete
City of Monterey
Housing and Property Management
580 Pacific Street
Monterey, California 93940

Re: Letter Addendum – Percentage Rent Overview
“Old Fisherman’s Wharf No. 1” - City of Monterey
Monterey County, California, 93940

Original File: TDG 2012 021 and 2014 019

Dear Ms. Aldrete:

Per your request, we are providing this letter addendum which summarizes previous conclusions in our submitted appraisals (2012 and 2014). Please note this addendum is subject to the assumptions and limiting conditions found in our original reports. Our date of value was July 27, 2012 and May 15, 2014.

We had previously provided a fair market rent on the subject property known as “Old Fisherman’s Wharf No. 1” – Concessions 7, 18, and 35 for ground leases.

Within this letter addendum we were asked to clarify percentage rents to assist the City in making leasing decisions related to 10-20 year lease and due diligence.

More specifically, the subject is a portion of a waterfront wharf, located in the City of Monterey, Monterey County, California 93940. There are extensive improvements in the form of retail shops, restaurants, fish markets, and charter boat operations serving tourists and locals. The improvements (buildings) are tenant-owned, but they are located on a pier and foundation system which is city-owned. A brief summary of our analysis is restated herein.

GENERAL

Subject:	“Old Fisherman’s Wharf No. 1” The subject is a waterfront wharf, located in the City of Monterey, Monterey County, California 93940.
Owner:	City of Monterey
Assessor Parcel Number (APN):	Not Available – Municipal ownership
Date of Fair Market Rent:	2012 and 2014
Date of Report:	July 8, 2015
Intended Use:	The intended use is to assist the City in making leasing decisions related to 10-20 year leases and due diligence.
Intended User(s):	The City of Monterey, or its representatives.
Assessed Value/Taxes:	Not applicable – Municipal ownership
Sale History:	The subject has not sold in the last three years, according to public records.
Current Listing/Contract(s):	The subject is not currently listed for sale, or under contract. The subject is up for lease renewal at rates to be negotiated.

SCOPE OF WORK REQUIREMENTS

Report Type:	This is a letter addendum which clarifies previous analyses.
Property Identification:	The property is known as “Old Fisherman’s Wharf No. 1”
Market Area and Analysis of Market Conditions:	A complete analysis of market conditions has been made. The appraiser maintains and has access to comprehensive databases for this market area and has reviewed the market for rental rates.
Hypothetical Conditions:	There are no hypothetical conditions for this appraisal.
Extraordinary Assumptions:	There are no Extraordinary Assumptions for this appraisal.

OVERALL PROPERTY ANALYSIS

Design & Functional Utility: Typical commercial/retail wharf uses catering to locals and tourists.

Deferred Maintenance: Typical for age of improvements

Parking: Common area parking lot adjacent (metered spots)

Comments: None.

FAIR MARKET RENT ANALYSIS

This report analyzed and estimated fair market rents for three concessions on Old Fisherman's Wharf No. 1.

FOOD AND BEVERAGE – PERCENTAGE RENT

The following table summarizes our findings for food and beverage services, which includes full-service restaurants only.

Percentage Rent Comparables – Food & Beverage (Restaurants)

Location	Percentage Rent
Morro Bay	3% to 5%
Moss Landing	3%
Port of San Diego	4.5% to 7.5%
Port of San Francisco	6% to 10%
Port of San Luis	4.5% to 8%
Santa Barbara Harbor	6% to 10%
Santa Cruz Harbor	5% to 8%
Ventura	3% to 5%

Overall, percentage rents for food and beverage show a consistent percentage rental rate of 3% to 8%. The food only venues are closer to 3% to 4% and the beverage (bar) only venues are between 5% and 10%. A combined percentage rate for a typical restaurant is therefore near 4% to 6%. It would be reasonable to conclude that the food and beverage space would be at the middle to higher end of the range based on the entry location (exposure on Wharf No. 1) or **6% to 7%** of gross sales.

FISH MARKETS – PERCENTAGE RENT

The table shows that percentage rents for fish markets range from 0% to 8.5%. Santa Barbara Harbor shows a 0%, as they do not charge their fish market tenant any percentage rent.

Percentage Rent Comparables – Fish Markets

Location	Percentage Rent
Morro Bay	3% to 5%
Moss Landing	2%
Port of San Francisco	8.5%
Port of San Luis	4.5% to 5%
Ventura Harbor	1%

Overall, a rate of **4.00% to 5.00%** is reconciled which is slightly above Moss Landing and near Morro Bay. This rate is also above the less active ports of Moss Landing and Ventura. San Francisco is superior and Port of San Luis is similar. Overall, there is some overlap with the retail and restaurant rates, but the fish processing would be less than retail and restaurant rates.

SPECIALTY STORES (RETAIL) – PERCENTAGE RENT

The following table summarizes our findings for specialty stores (retail). Santa Cruz Harbor is showing a 0%, as they calculate rent on a price per square foot basis only.

Percentage Rent Comparables – Retail

Location	Percentage Rent
Morro Bay	3% to 5%
Moss Landing	5%
Port of San Diego	15%
Port of San Luis	10%
Santa Barbara Harbor	10%
Santa Cruz Harbor	0%
Ventura	3%

Overall, percentage rents for retail show a bifurcated rate with a low of 3% to 5% and then 10% to 15%. The higher rates are more typical of traditional tourist locations (San Diego, San Luis and Santa Barbara). The lower rates are more typical of less visited or known destinations such as Morro Bay, Moss Landing and Ventura. Considering the subject's location in Monterey (high name visibility for tourism), and wharf location, a rate of **10% to 12%** is reconciled which is most reflective of the Port of San Diego, Port of San Luis and Santa Barbara.

CHARTER BOATS – PERCENTAGE RENT

The following table summarizes our findings for charter boats. Moss Landing Harbor and Santa Cruz Harbor show 0%, as these harbors charge slip and license fees only (no actual rent or percentage rent).

Percentage Rent Comparables – Charter Boats

Location	Percentage Rent
Morro Bay	3% to 5%
Moss Landing	0%
Port of San Diego	5%
Port of San Luis	8%
Santa Barbara Harbor	15%
Santa Cruz Harbor	0%
Ventura	3% to 5%

Overall, percentage rents for Charter Boats has a wide range from 3% to 15%. Moss Landing and Santa Cruz do not charge on a percentage basis, but rather a per use basis, or per square foot. Santa Barbara is slightly skewed because the indicated percentage rent is based on an overage rent (above a base). Therefore, a higher percentage is associated with only the excess rent. The remaining comparables show a more reasonable range from 3% to 8%. Overall, it is reasonable to reconcile a percentage rent from **5% to 6%** which strongly correlates with Morro Bay, Port of San Diego, Port of San Luis and Ventura.

Thank you for the opportunity of submitting this letter addendum. If we can be of further service, please do not hesitate to call.

Respectfully submitted,
The Doré Group



Lance W. Doré, MAI, FRICS
President / CEO
CA-AG002464
lwdore@thedoregroup.com