Integra Realty Resources
Los Angeles

Appraisal Review

Willowick Golf Course Property
3017 W. 5th Street
Santa Ana, California

Prepared For:
The Trust For Public Land

Effective Date of the Appraisal Review:
June 15, 2021

IRR - Los Angeles
File Number: 121-2020-0097

Integra Comments and Conclusions

Overall, I do not recommend accepting the value conclusion in this report as an indication of value for the subject property. The following summarizes my concerns:

1. The appraisal makes note of the fact, that "typical land use entitlement requirements for properties similar to the subject, both in terms of size and of zoning, include approval of a Specific Plan, a General Plan Amendment, re-zoning, a Vesting Tentative Map, a development agreement and many other submissions, reviews and approvals." They further go on to say that "based on analysis of market evidence of entitlement experiences at comparable properties and discussions with private and public participants with wide experience in the entitlement process, such an undertaking would likely be an extended, costly and potentially politically fraught for the subject property. Further there is no certain empirical basis for judging what the ultimate outcome of the process would be. There are many community interest groups with competing agendas that would, based on experience at similar properties, try to use both political and legal resources to influence the character of the ultimate land use plan for the subject 101.5 acres site. " In another place in the report they state that "any well-informed investor in the subject property would recognize that a lengthy, potentially costly and uncertain entitlement process would be required prior to any development of the property to higher uses than open space use".

   I concur with these statements and agree that obtaining entitlements for the subject will be a very time consuming, expensive process, with no guaranteed income. As such, I find it interesting that the appraisal report does not 1) appear to adequately account for risk; 2) adequately account for the time associated with obtaining entitlements or 3) adequately account for the cost of obtaining entitlements. In my opinion, this results in an over-valuation of the subject property. That is, a value opinion that is too high.

   The report is written in a summary format with much of the analysis retained in their work-file. As such, I am unable to follow the math associated with the adjustments that they make to the sales and it negatively impacts my ability to follow their analysis. For example, the appraisal indicates that the price for Sale 2 was set in late 2016. The price was $18.74 per square foot. The appraisal states that land values have appreciated at 6% per year (but gives no support for this). Assuming 5 years of appreciation at the 6% rate indicated, the time adjusted price per square foot associated with the comparable is $25.07 per square foot. The appraisal indicates that a downward adjustment of 15% is appropriate for location. The resulting adjusted price (adjusted for only time and location) by my calculations is $21.32 per square foot.

The appraisal indicates that the comparable requires additional downward adjustments for the risk of obtaining entitlements, the time associated with achieving entitlements, as well as for fact that a lower percentage of low-income units will be required. The adjusted unit price of this comparable as shown in the appraisal is $20.50 to $22.50 per square foot (page 53 of the report). This compares to my calculated adjusted price of $21.32 per square foot before consideration of adjustments for entitlements, time associated with achieving entitlements and percentage of low income units. Overall, it does not appear that this comparable was adjusted enough to account for these factors. I found similar issues with the adjustments to all of the comparables.

In my experience, obtaining entitlements adds significant value to a property which can easily be 50% or more when taking a raw site, getting the zoning and general plan changed and obtaining entitlements to build. Overall, when looking at the individual sales, the adjusted prices do not appear to adequately account for these factors.

a. The appraisal does not appear adequately account for the risk associated with obtaining entitlements. The appraisal relies on five comparables all of which had various levels of entitlements in place at the time the sales closed. As evidenced by the data, it took approximately 3 to 7 years to obtain entitlements on the data utilized.

    i. It is important to recognize that these sales sold basically entitled. As such, they did not close until entitlements were in place or close to being finalized so that the risk of entitlement was removed. Generally, the property went under contract at an entitled price or in some cases the entitled price was set closer to the close of escrow. The sellers are generally successful in obtaining an entitle price for their land, with the buyer paying for the costs associated with obtaining entitlements. Both parties share in risk because if the buyer is unable to obtain entitlements, they can walk away from the transaction and the seller had held the property for a number of years, with no sale.

    ii. Generally speaking, the seller gets an entitled price for the property, based on what that value is at the date the property goes under contract. They then have to hold the property for 3-7 years while the buyer attempts to gain entitlements. If the buyer does not obtain entitlements, there is no sale. The sale price achieved by the buyer is generally a historic price at the time the sale closes.

    iii. By relying only on sales that ultimately closed entitled, no consideration is given to the risk associated with the subject becoming entitled as described in the appraisal report. The appraisal states that the comparables require downward adjustments for entitlements, but based on the limited data in the report relative to adjustments, the adjustments do not appear adequate.

b. The appraisal does not adequately consider the time associated with entitling the property. The value conclusion is not adequately discounted for the time the property will be tied up under contract while entitlements are pursued. The appraisal indicates that the comparables are adjusted for the length of time associated with obtaining entitlements, but based on my calculations the adjustments do not appear adequate.

   Keep in mind that if TPL makes an offer, they will likely close within a one-year period. If the City of Garden Grove sells to a developer, they will likely have the property tied up for a 3-7 year period (likely 5-7) years before they can close as a developer will not close until entitlements are very close to being finalized, if not completely finalized. This has a big impact on the purchase price when considering the time value of money.

c. The appraisal does not adequately consider the cost of obtaining entitlements. The cost of obtaining entitlements is not directly accounted for. Generally when one does not rely on unentitled land comparables, the appropriate methodology would be to value the subject as entitled, which is basically what the GHJ appraisal did and then deduct the cost of obtaining entitlements, as well as the time associated with obtaining entitlements and the risk associated with obtaining entitlements.

2. The subject property is somewhat unique in that it is owned by the City of Garden Grove, but falls within the boundaries of the City of Santa Ana. As such, it is subject to the zoning laws and ordinances of the City of Santa Ana. There is no discussion in the appraisal report as to what steps were taken to find out what type of development the City of Santa Ana would be supportive of. I would have expected an extensive section citing the steps that were taken and the individuals interviewed to ascertain if the City would be supportive of a mixed-use development as proposed in the appraisal.

   The appraisal assumes a mixed-use development will be approved where 60% of the site is developed with residential housing, of which 15% is affordable. It is possible that they make this assumption as they may be interpreting the Surplus Land Act and Government Code 54233 to require that the site be developed with a residential land use. As such, while the appraisal recognizes that 10% of the site could be developed with a commercial use, and 15% with an open space use, no value is given to these components. The remaining 15% of the site is assumed to be required for roads and infrastructure.

   I recommend that you retain the services of an attorney familiar with the Surplus Land Act for a complete and accurate interpretation of the Act. I understand that the Surplus Land Act requires that properties that are declared as surplus, must be offered to local public entities and housing sponsors. This does not mean that a housing developer will necessarily purchase the property. Given that the City of Garden Grove (seller) has no jurisdiction over the ultimate development of the subject because it is not located within their jurisdiction, they cannot pave the way for a developer to receive entitlements.

3. The appraisal values the property based on the value associated with market rate housing and makes a deduction of $19,944,267 to account for the negative impact of the required low-income housing component. The analysis to arrive at the $10,944,267 figure is presented in a very summary format and relies on a number of assumptions that are not supported in the report. The appraiser may have data in their work-file to support the adjustments, but I am unable to determine if I concur with the dollar amount of the deduction. It would have been helpful to have found sales of land sold to low income housing developers for low income housing projects. The low-income housing component of the subject could have been directly valued or it could have provided secondary support for the adjustment made.

14. As of the date of this report, Beth B. Finestone, MAI, AI-GRS, FRICS, CRE has completed the continuing education program for Designated Members of the Appraisal Institute.

June 15, 2021

Beth B. Finestone, MAI, AI-GRS, FRICS, CRE
Certified General Real Estate Appraiser
CaliforniaCertificate # AG004030

Date