

KEAUHOU LANE, LP
1100 Alakea Street, Suite 2700
Honolulu, HI 96813

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HAWAII COMMUNITY
DEVELOPMENT
AUTHORITY

4 February 2014

HAND DELIVERED AND VIA REGISTERED MAIL – RETURN RECEIPT REQUESTED

Mr. Anthony Ching, Executive Director
Hawaii Community Development Authority
461 Cooke Street
Honolulu, HI 96813

Subject: Proposal for Fulfilling Condition No. 4 of the Decision and Order for the Kaiaulu O Kakaako Master Plan Permit No. PL MASP 13.2.8

On 16 December 2013, Keauhou Lane, LP (“KLLP”) submitted a petition for declaratory relief with respect to its Master Plan permit, seeking a declaratory order that, given the Authority’s adoption of a new Mauka Area Plan, the Plan Amendments to the original Mauka Area Plan contemplated by the Master Plan permit cannot be pursued. KLLP has an agreement with KS, the master plan permit holder for development of a portion of land block identified as Land Block A in the master plan permit. KLLP submitted a letter from KS authorizing it to submit a petition to the Authority for a declaratory relief regarding the P/PG designation on Land Block A. KLLP has represented on behalf of itself and KS that if a declaratory order is issued confirming that the Plan Amendments described above cannot be obtained, KLLP would proceed with fulfilling the requirement of the P/PG designation in the following manner:

- Approximately 20,585 square feet of the requirement will be satisfied by making Lot A-1-3 available to the Honolulu Area Rapid Transit Authority for the location of its Civic Center transit station (the HART transit parcel);
- Approximately 15,130 square feet of the requirement will be satisfied by providing public use plazas and pedestrian passages over Lot A-1-2 (the Keauhou Lane mixed-use parcel);
- Approximately 12,961 square feet of the requirement will be satisfied by providing public use plazas and increased building setback from public roadways over Lot A-1-1 (the Keauhou Place tower parcel); and
- The remainder of the requirement, approximately 47,324 square feet, will be satisfied by providing any combination of (a) Public Facilities Dedication Credits, or (b) a cash payment in lieu. The cash in lieu payment shall be calculated using the underlying square foot land value divided by 3.5 (the underlying FAR) times the number of square feet remaining to be satisfied.

Board action on 8 January 2014 approved the petition in but requested that the KLLP and HCDA staff provide a discussion of the cash-in-lieu portion of the proposed settlement. KS provided KLLP with a valuation analysis completed by the Altus Group of comparable land transactions that occurred between June 2010 and August 2012. The valuation analysis included seven properties within or adjacent to the Kaka’ako Makai planning area and included transaction information on Land Block A. The indicated

value per square foot for the 93,002 sf A-1-1 portion of Land Block A (being purchased by KLLP) was \$149.63. The indicated value per square foot for the entire 181,504 sf of Land Block A was \$142.56 after adjustments for location and parcel size. HCDA staff indicated that these two numbers were consistent with the land value being discussed by the State of Hawaii for the 690 Pohukaina site which is adjacent to Land Block A. A copy of the Altus Group valuation is attached for reference.

Based on the above valuation discussion, it is suggested that the cash-in-lieu portion of the petition be revised to read as follows:

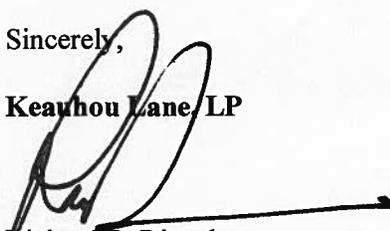
- The remainder of the requirement, approximately 47,324 square feet, will be satisfied by providing a cash-in-lieu payment. The cash-in-lieu payment shall be calculated using the underlying land value of \$149.63 per square foot divided by 3.5 (the underlying FAR) times the number of square feet remaining to be satisfied (47,324) and shall total approximately Two Million, Twenty-Three Thousand, One Hundred and Seventy Dollars (\$2,023,170).

KLLP is also able to represent that KS has committed to making a cash-in-lieu payment to satisfy its portion of the shortfall and that no existing Public Facility Dedication Credits will be utilized in satisfaction of the requirement.

KLLP hereby requests that the Authority issue a declaratory order which confirms: that (1) the Park/Parking Garage designation on land parcel identified as Land Block A in the Master Plan is no longer applicable given the adoption of a new Mauka Area Plan in November 2011; (2) that the alternative proposal presented by KLLP to replace the P/PG area is acceptable to the Authority; (3) that, a perpetual public access easement on the substitute land area proposed for satisfying the P/PG requirement on Lot A-1-1 and Lot A-1-2 as identified in KLLP's petition shall be created and recorded with the Bureau of Conveyances; and 4) that, with the exception of the removal of P/PG designation on land parcel identified as Land Block A in the Master Plan, all other terms and conditions of the Master Plan permit remain in full force and effect.

If you have any questions or require further information or documentation in support of this letter, please do not hesitate to contact Stanford Carr or me at 537-5220.

Sincerely,


Keaunohu Lane LP

Richard B. Riegels
Project Manager

Attachment: Altus Group Valuation Analysis, pp. 176-183

KAKAAKO

Comparable Sales

Presented on the following table is a summary of comparable transactions for each of the subject assets.

For the subject's commercial assets, seven sale transactions and two pending transactions under contract were researched. The actual sales transacted between June 2010 and August 2012 and reflect unadjusted land values of \$148.62 to \$496.21 per square foot of land area. The pending sales transactions reflect unadjusted land values of \$139.08 to \$207.53 per square foot of land area. The disparity in value is generally a function of size, functionality and location.

VI. VALUATION ANALYSIS

SUMMARY CHART OF LAND SALES HONOLULU, HAWAII									
	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5	Sale 6	Sale 7		
Category	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5	Sale 6	Sale 7		
Name	YMCA Site	Kalaheua Site	Honohiki Advertiser Site	[REDACTED]	[REDACTED]	One Ala Moana	Waltonua		
Location	401 Atkinson Dr.	1812 Kalaheua Ave.	605 Kapiolani Blvd.	[REDACTED]	[REDACTED]	1555 Kapiolani Blvd.	1189 Waimanu St.		
Tax Map Key	1-2-3-36-5	1-2-3-34-27	1-2-1-47-3 / 4	[REDACTED]	[REDACTED]	1-2-3-40-22	1-2-3-6-17, 1-2-3-7-26 / 49		
City	Kalaheua	Kalaheua	Kalaheua	Kalaheua	Kalaheua	Kalaheua	Kalaheua		
Sale Date	Under Contract	Under Contract	Aug-12	May-12	Mar-11	Nov-10	Jun-10		
Property Rights Conveyed	Fee Simple	Fee Simple	Fee Simple	Leasehold	Leasehold	Fee Simple	Fee Simple		
Physical Data									
Site Size	77,098	28,761	160,641	93,002	144,632	95,725	105,850		
SF	1,77	0.66	3.69	2.14	3.32	2.20	2.43		
Acres	Irregular	Irregular	Irregular	Rectangular	Irregular	Rectangular	Irregular		
Shape	A-2/BMX-3	8-2	KAK	KAK	KAK	BMX-3	KAK		
Zoning	Development	Senior Housing/Condo	Development	Development	Development	Development	Development		
Intended Land Use									
Sale Price									
Actual Sale Price	\$14,000,000	\$3,999,999	\$23,000,000	\$13,950,300	\$23,000,000	\$47,500,000	\$16,000,000		
Adjusted Sale Price	\$16,000,000	\$3,999,999	\$23,875,000	\$13,950,300	\$23,462,500	\$47,500,000	\$16,000,000		
\$/SF	\$207.53	\$139.08	\$148.62	\$150.00	\$162.22	\$496.21	\$151.16		

Source: Appraiser's Files, HIS Comps, Data compiled by Altus Group

Adjustments

The following is a discussion about the factors considered in making the adjustments and their approximate percentage adjustments.

Property rights conveyed

The actual sales were a fee simple transaction with no special conditions. Therefore, no adjustment was applied to those sales. However, Sales 4 and 5 were structured as options and therefore a leasehold interest is temporarily provided to the seller. Given the benefit to the buyer in this situation, with the ability to exit the deal prior to major development, a 5% downward adjustment has been applied to each of these comparable transactions.

Financing terms

Based on our research, no adjustments are necessary for financing terms.

Conditions of sale or negotiation

Our research indicates that all transactions were arm's length. Therefore, no adjustments were necessary in this category.

Location

This adjustment considers factors such as the quality of the immediate neighborhood, proximity to commercial and recreational amenities, as well as the availability and quality of the surrounding infrastructure such as highways and county roadways. In addition, commute time relative to downtown, property views/proximity to the ocean, as well as local neighborhood characteristics are major factors in buyer demand and, therefore land values across the various submarkets.

Location adjustments were based on a comparison of the above factors in relation to the comparables as well as due to local demand characteristics. Taking further neighborhood attributes into consideration, we have ranked areas around Kaka'ako in relation to one another while still considering specific locational attributes of the sites noted above, as follows:

1. Across from Ala Moana Center
2. Near Ala Moana Center
3. Kaka'ako with frontage to Ala Moana Blvd
4. Kaka'ako without frontage to Ala Moana Blvd

Based on our analysis and discussion with market participants, we have incorporated the following adjustments:

- | | |
|--|--------------|
| 1. Across from Ala Moana Center | -30% to -20% |
| 2. Near Ala Moana Center | -15% to -10% |
| 3. Kaka'ako with frontage to Ala Moana Blvd | 0% |
| 4. Kaka'ako without frontage to Ala Moana Blvd | 5% |

Size

Assuming two parcels have the same location and functionalities, the value of the larger parcel will be lower on a per square foot basis than the smaller parcel. Though size adjustments are subjective, sale

data in other markets gives some local support to our understanding of demand and utility characteristics of the various property sizes.

Shape/frontage

We have incorporated shape/frontage adjustments for properties to distinguish parcels with corner location, greater frontage, and rectangular (vs. irregular) shaped parcels. In general, we have incorporated varying degrees of upward or downward shape/frontage adjustments to account for the specific characteristics of the benchmark subject properties in comparison to the sale comparables.

Zoning/entitlements

The zoning regulations for the Kakaako subject properties are controlled by the Hawaii Community Development Authority ("HCDA"). Both of the subject properties fall under the Mauka Area Plan and its land use regulations. The mixed use zone is designed to provide a mixed-use subarea, whereby residential, commercial, industrial and public uses may coexist compatibly within the same area.

Based on the comparables, we have found variances related to zoning, as the allowable FARs and height limits can have an impact on the development of a site. On a general basis, when comparing A-2/BMX-3 vs. KAK zoned parcels, we have not incorporated any adjustment given the similarities in FARs and higher height limits. However, when comparing B-2 vs. KAK zoned parcels, we have incorporated a 30% adjustment upwards for B-2 given the differing degrees of allowable FARs and potential uses.

Utilities

All comparables and subject properties are served by all public utilities. Therefore, no adjustments were applied for this category.

Demolition Costs

Our discussions with market participants indicate a varying range for demolition costs in and around different locales of Hawaii. Given the large amount of variables inherent in a potential demolition, it is difficult to determine a concrete estimate on a dollar per square foot basis for comparison versus various sales comparables and the subject parcels. A review of Marshall & Swift indicates a typical range for demolition costs of \$2/SF to \$6/SF. The following examples were also considered in our analysis:

- Example 1
 - o 7,500 SF restaurant building in Waikiki
 - o Demo Costs: ~\$21/SF
- Example 2
 - o 67,500 SF YMCA in Kaka'ako (Sale 1)
 - o Demo Costs: ~\$30/SF

Furthermore, a discussion with demolition and disposal companies in Hawaii indicated a range of \$150,000 to \$200,000 for a 20,000 SF commercial building which equates to roughly \$7.50/SF to \$10/SF. Discussions with PVT Land Company, a landfill operator located on the Leeward side of Oahu, provided standard dumping fees for demolition/construction materials of \$39/ton for typical waste and \$90/ton for waste that may be contaminated with asbestos and/or other hazardous materials. This equates to an additional \$1-\$2/SF for dumping fees (typical demolition is estimated at 50lbs/SF of

building area). Given the structures on the subject sites, which are commercial/industrial buildings built primarily in the 1950s and 1960s, all parties interviewed indicated the high likelihood of asbestos and lead paint to be discovered in buildings constructed within that time frame. Therefore, we estimate that a reasonable demolition cost, on a per square foot basis, would be \$12.50/SF. This adjustment has been incorporated to any comparable sale with existing improvements. A specific \$2MM demolition cost was provided for Sale 1 as indicated in the example above.

Other Adjustments

Given the unique nature of Sale 6 (One Ala Moana) as an air rights development, an adjustment is required to the sale price based on the additional cost associated with parking. The sale included the cost of 466 parking stalls/spaces that will be allocated to the planned development. Based on Marshall & Swift, we have an estimated a cost of \$20,000 per garage space, leading to a deduction of \$9,320,000.

VI. VALUATION ANALYSIS

LAND SALES ADJUSTMENT GRID									
KAKOIE, PFLUEGER									
Comparable Number	Subject	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5	Sale 6	Sale 7	
Name	YMCA Site	Kalaheo Site	Honolulu Advertiser Site	Kalaheo Site	One Ala Moana	Waikemua			
Location	Kalaheo	Kalaheo	Kalaheo	Kalaheo	Kalaheo	Kalaheo	Kalaheo	Kalaheo	
T/MK	1-2-1-99-4/20/ /19/6/5	1-2-3-36-5	1-2-3-36-27	1-2-1-47-3/4	1-2-3-40-22	1-2-3-6-171-2-3-7-26/49			
Zoning	A-2/BMX-3	B-2	Under Contract	KAK	KAK	KAK	BMX-3	KAK	
Transaction Date	Under Contract	Under Contract	Senior Housing/Condo	August-12	May-12	March-11	November-10	June-10	
Proposed Use	Development	Development	Development	Development	Development	Development	Development	Development	
Site Area (SF)	77,098	28,761	160,641	93,002	144,632	95,725	105,850	105,850	
Actual Sale Price	\$14,000,000	\$3,999,999	\$23,000,000	\$13,950,300	\$23,000,000	\$47,500,000	\$16,000,000	\$16,000,000	
Demo Cost Adjustment	\$2,000,000	\$0	\$875,000	\$0	\$462,500	\$0	\$0	\$0	
Other Adjustment	\$0	\$0	\$0	\$0	\$0	\$0	(\$9,320,000)	\$0	
Adjusted Sale Price ¹	\$16,000,000	Less than \$3,999,999	\$23,875,000	\$13,950,300	\$23,462,500	\$38,180,000	\$16,000,000	\$16,000,000	
Price Per SF	\$207.53	\$139.08	\$148.62	\$150.00	\$162.22	\$398.85	\$151.16	\$151.16	
Property Rights Conveyed	0.0%	0.0%	0.0%	-5.0%	0.0%	0.0%	0.0%	0.0%	
Financing Terms ¹	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Conditions of Sale	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Market Conditions	0.0%	0.0%	0.0%	0.0%	5.0%	10.0%	10.0%	10.0%	
Adjusted \$/SF	\$207.53	Less than \$139.08	\$148.62	\$142.50	\$162.22	\$436.74	\$166.27	\$166.27	
Location	-20.0%	-10.0%	5.0%	5.0%	0.0%	-30.0%	-15.0%	-15.0%	
Size	0.0%	-10.0%	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Shape/Frontage	5.0%	0.0%	0.0%	0.0%	0.0%	-20.0%	5.0%	5.0%	
Zoning/Entitlements	0.0%	30.0%	0.0%	0.0%	0.0%	-10.0%	0.0%	0.0%	
Utilities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Total Other Adjustments	-15.0%	10.0%	10.0%	5.0%	5.0%	-60.0%	-10.0%	-10.0%	
Indicated Value Per SF	\$176.40	Less than \$139.08	\$163.49	\$149.63	\$170.33	\$175.49	\$169.65	\$169.65	
¹ Transaction amount adjusted for cash equivalency and/or development costs (where applicable)									
Source: Data compiled by Altus Group									

VI. VALUATION ANALYSIS

Base Comparison Grid – Commercial Assets

Asset	Entity ID	Asset ID	Zoning	Land Area		Benchmark Value	Adjustments			Adjusted Value/SF	Concluded Value/SF	Concluded Res Simple Value
				Acre	Sq Ft		Frontage	Size	Zoning/Density			
Kikako Block 2 - Parking	15002	KA-K002	MUZ-R	4.21	183,504	\$162.00	-5%	-7%	0%	\$142.56	\$143.00	26,240,000

VI. VALUATION ANALYSIS

Conclusions

Based on the preceding analysis, we have estimated the land values of the subject properties, as summarized in the following table.

KAKAAKO ASSETS								
LAND VALUATION (FEE SIMPLE INTERESTS)								
Asset ID	Entity ID	Common Name	Land Area		Land Values			
			SF	Acres	\$/SF	Value	Rounded	
KAK002	15002	Kakaako Block 2 - Parking	183,504	4.21	\$ 143.00	\$ 26,241,072	\$ 26,240,000	

Estimated Demolition Cost Analysis

KS Block	Asset ID	EntityID	TMK	Common Name	Building SF*	Estimated Demolition Cost
A	KAK002	15002	1-2-1-030-001, 43	Kakaako Block 2 - Parking	0	\$ -
B	KAK024	15024	1-2-1-054-025, 27	Keawe Commercial	91,623	\$ 1,145,288
E	KAK003	15003	1-2-1-055-004,9,17	Block E	37,070	\$ 463,375
G	KAK006	15006	1-2-1-055-002, 18	Kakaako Block 6 A/6B	24,576	\$ 307,200
C	KAK026	15026	1-2-1-055-001, 32 to 35	Kakaako Block 6B	27,635	\$ 345,438

*Building sizes as provided by HIS