

FOR ACTION

I. SUBJECT

Consider Authorizing the Executive Director to Extend or Not to Extend the Exclusive Negotiations Agreement and Right of Entry Agreement, Dated March 15, 2021, with HK Management LLC, For an Additional Three (3) Month Period, regarding the Honokea Surf Villages Project, Proposed To Be Located on an approximately 19.4 Acre Parcel Located in the Kalaeloa Community Development District, at Tax Map Key: (1) 9-1-013:068 [no postal address] on Account of the Inability of the Hawaii Community Development Authority and HK Management LLC and its Principals to Agree on the Essential Terms of a Ground Lease.

II. BACKGROUND

On August 26, 2019, HK Management LLC (“HK Management”) submitted a proposal for the Honokea Surf Villages and Resort Project in Kalaeloa (the “Project”). The Project is envisioned as a community resource and gathering place that will celebrate Hawaii’s culture, surfing history, wellness, and arts. Its key feature is a 5-acre surf lagoon that utilizes modern technology to create consistent, customizable waves.

The Project would be developed on a 19.4-acre parcel owned by the Hawaii Community Development Authority (“HCDA”). The parcel is located mauka of the Kalaeloa Heritage Park and is currently vacant.

On January 8, 2020, the HCDA approved an 18-month Exclusive Negotiations Agreement (“ENA 01-21”) and Right of Entry Agreement (“ROE 01-21”) with HK Management to provide the necessary site control to allow HK Management to secure financing and conduct its due diligence. The ENA 01-21 and ROE 01-21 were executed, effective March 15, 2021.

With the onset of the COVID-19 pandemic, HK Management encountered several delays in developing the site plan and completing its Environmental Assessment (“EA”), which are key requirements for a Development Permit.

In a letter dated June 14, 2022, HK Management requested an eighteen (18) month extension of both the ENA and ROE to allow additional time to complete its due diligence.

On August 3, 2022, the HCDA approved an 18-month extension of the ENA 01-21 and ROE 01-21 with HK Management. Both agreements will expire conterminously on March 15, 2024.

It is important to note, the ENA and ROE do not obligate the HCDA or HK Management to move forward with the subject Project. Such a development would still require further review and public hearings as required by the HCDA’s Development Permit process.

The ENA and ROE currently have termination clauses that allow either party to terminate the agreement with at least 30-days written notice. This and all other terms and conditions of the ENA and ROE would remain unchanged with a subsequent extension.

III. DISCUSSION AND/OR ANALYSIS

In order for HK Management to pursue an HCDA Development Permit, the HCDA and HK Management must agree on the general terms for a ground lease.

The HCDA and HK Management have had numerous meetings and discussions over the past year to agree on terms; however, have not yet reached an agreement. Lease rent and the restoration fund remain the outstanding essential lease terms. While there are other lease terms that still need to be agreed upon, the lease rent and restoration fund are deemed by the parties to be the crucial terms upon which agreement must be obtained before further lease terms can be finalized.

Lease Rent

The HCDA obtained a Broker Opinion of Price & Rent Analysis, HCDA Kalaeloa Lands – Coral Sea Mauka, dated June 14, 2023 (“Broker Opinion”). See Exhibit A. HK Management did not obtain a rent valuation study. To summarize, the Broker Opinion establishes an initial annual ground lease rent that commences in year one of the lease term with no allowance for free rent during the construction period, and rent escalated at fixed intervals during the 65-year lease period.

HK Management proposed various lease rent amount and periods; however, HK Management and the HCDA have not yet reached an agreement on the ground lease rent structure.

Restoration Fund

In the event of default, abandonment, or at the end of the lease term, the property must be returned to the HCDA in a satisfactory condition. This would entail removing the improvements and releveling the land for other uses. To ensure that sufficient funds are available, an account for this exact purpose is a requirement of the lease. In the best interest of the HCDA, the funds should be available upon execution of the lease.

HK Management commissioned a demolition cost estimate from Cummin. The report estimates it would cost about \$10 million, in today’s dollars, to remove the above- and below-ground improvements, including the three injection wells and related piping. The HCDA’s latest proposal reflects the most current discussions with HK Management and movement, by the HCDA, from the HCDA’s original restoration fund proposal to the current proposal. See Exhibit B. HK Management accepted the restoration fund

structure; however, a final report detailing the demolition cost estimate is needed, and the restoration fund schedule must be updated to match that amount.

IV. RECOMMENDATION

It is recommended that the Board **NOT** Authorize the Executive Director to Extend the Exclusive Negotiations Agreement and Right of Entry Agreement with HK Management, Dated March 15, 2021, regarding the Honokea Surf Villages project, for an Additional Three (3) Months.

Prepared By: Gareth Sasaki, Chief Financial Officer *Gareth Sasaki*

Reviewed By: Craig Nakamoto, Executive Director *Craig Nakamoto*

Attachments:

Exhibit A – HCDA Kalaeloa Lands – Coral Sea Mauka Broker Opinion, dated June 14, 2023

Exhibit B – Proposed restoration fund schedule

Broker Opinion of Price & Rent Analysis
HCDA Kalaeloa Lands - Coral Sea Mauka
June 14, 2023

Prepared for:
HCDA

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EXECUTIVE SUMMARY

PROPERTY INFO

The subject property is located in Kalaeloa (formerly Barbers Point) adjacent to the airport runway. The site does have some cultural significance. For the purposes of this analysis, we have assumed the entire property is usable and have not made any consideration for any environmental or cultural issues that may affect the property’s use.

PROPERTY INFO

Product Type:	Land
Land Area:	19.36 Acres
Tenure:	Fee Simple
Zoning:	F-1/HCDA
TMK:	1-9-1-13 Parcel 68

SUMMARY OF FINDINGS

Our analysis estimated the market price of the subject land parcel and projected ground rents. The market/sales comparable pricing approach was used for this analysis. This approach compares the subject property to similar properties which have been recently sold. For the ground rent analysis, rents were projected based on a factor of land value as well as compared against recent land lease comparables.

Market Pricing

Based on our analysis, the market price of the property is between \$8.2 million to \$9.2 million with a probable price of **\$8.7 million**.

PRICING METHODS

Market/Sales Comparable

OPINION OF MARKET PRICE*

Per square foot

Conservative	Probable	Optimistic
\$8,281,014	\$8,716,857	\$9,152,700
\$8,281,000	\$8,716,900	\$9,152,700
\$9.8	\$10.3	\$10.9

Ground Lease Rents

Factor (7.0%) of Land Value: Historically, ground lease rents are based on a factor of land value. Under this analysis and using the probable market price above, the initial monthly ground rent is \$50,848 or \$0.06 per square per month.

Land Lease Comps: This analysis also yielded a slightly higher initial ground rent of \$53,145 per month or \$0.063 per square per month.

Summary of Findings and Recommendations

Based on our analysis, we recommend that the traditional 7.0% of market land value is used to project ground rents. The lease comp analysis also reflects the same range of initial rents.

The lease term and projected rents are shown on the following page.

The annual rents are fixed for each of the rent periods (10-year, 10-year, and 5-year) and for each of the following 10-year option periods. Rents increase based on projected land value appreciation of 2.0% annually.

THIS IS NOT AN APPRAISAL: This Real Estate Broker’s Opinion of Price is intended for the sole and exclusive use of the Client and may not be relied upon any person or entity other than the Client for any purpose whatsoever. This Real Estate Broker’s Opinion of Price represents only the opinion of Colliers International as to the market price of the Subject Property, subject to the assumptions and qualifications set forth herein. Colliers International is not licensed to perform real property appraisals. Accordingly, this Real Estate Broker’s Opinion of Price does not constitute an appraisal of the Subject Property and has not been prepared in accordance with the Uniform Standards of Professional Appraisal Practice. The Real Estate Broker’s Opinion of Price set forth herein is specifically qualified by, and based solely upon, the relevant facts, circumstances, and market conditions that exist as of the date of this Real Estate Broker’s Opinion of Price, and we undertake no obligation to update, modify, or supplement this Real Estate Broker’s Opinion of Price to the extent that such facts, circumstances or market conditions subsequently change.

While the rents for each period below are fixed based on our projected land values, future market values could vary from the 2.0% annual appreciation estimates and thus affect the projected rent.

Ground Lease Analysis	
Initial Lease Term:	January 1, 2024 - December 31, 2047
Option Periods:	January 1, 2048 - December 31, 2057 January 1, 2058 - December 31, 2067 January 1, 2068 - December 31, 2087
Land Value Appreciation:	2.0% per year
FMV Land Factor	7.0%

YEAR ENDING December 31,	Year	Annual Lease Rent	Monthly Rent	Monthly Rent psf	Estimated Land Value	Land Value PSF
2024	1	\$ 610,180	\$ 50,848.33	\$ 0.06	\$8,716,857	\$10.3
2034	11	\$ 743,806	\$ 61,983.84	\$ 0.07	\$10,625,800	\$12.6
2043	21	\$ 906,695	\$ 75,557.95	\$ 0.09	\$12,952,791	\$15.4
2048	26	\$ 1,001,065	\$ 83,422.08	\$ 0.10	\$14,300,928	\$17.0
2058	36	\$ 1,220,293	\$ 101,691.05	\$ 0.12	\$17,432,752	\$20.7
2068	46	\$ 1,487,530	\$ 123,960.82	\$ 0.15	\$21,250,427	\$25.2
2078	56	\$ 1,813,291	\$ 151,107.55	\$ 0.18	\$25,904,152	\$30.7

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MARKET - SALES COMPARABLE APPROACH

The sales comp approach compares the subject property to similar properties which have been sold. Adjustments are made for differences in date of sale, age, property condition size, location, land/building ratio, and other physical characteristics and circumstances influencing the sale. The adjusted price of those sales considered most comparable establish a pricing range for the property.

The estimated market price based on this approach is \$8.28 million to \$9.15 million.

SALES COMP APPROACH - HCDA Kalaeloa - Coral Sea Mauka					
Comparable	Subject	1	2	3	4
Property	HCDA Kalaeloa - Coral Sea Mauka	Hoakalei Resort Land	Queen's at Ho'opili	Ho'opili Land Nana Hope St	Ho'opili Land Nana Hope St
SITE DATA					
Tenure	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Zoning		Commercial	Commercial	Commercial	Commercial
Site Area (sf)	843,322	280,614	213,488	492,664	145,882
Site Area (acre)	19.4	6.4	4.9	11.3	3.3
SALES DATA					
Sale Date		Dec-20	Aug-19	Sep-19	Jul-22
Sale Price		\$6,000,000	\$7,350,000	\$14,139,000	\$6,856,475
Sale Price PSF (land)		\$21	\$34	\$29	\$47
ADJUSTMENTS TO PRICE:					
Zoning		-25.0%	-25.0%	-25.0%	-25.0%
Size		-25.0%	-25.0%	-15.0%	-25.0%
Location		-30.0%	-30.0%	-30.0%	-30.0%
Market/Transaction Conditions		15.0%	15.0%	15.0%	5.0%
Total		-65%	-65%	-55%	-75%
Price Indication PSF		\$7	\$12	\$13	\$12
Weight		0.40	0.20	0.20	0.20
Weighted Price PSF		\$3	\$2	\$3	\$2
ESTIMATED MARKET PRICE					
	\$ Amount	\$ PSF			
High	\$9,152,700	\$10.9	Comp 1: Buyer is a bridal company.		
Weighted Average	\$8,716,857	\$10.3	Comp 2: Buyer is Queen's Medical Center.		
Low	\$8,281,014	\$9.8	Comp 3: Apartment development.		
			Comp 4: Hotel development.		

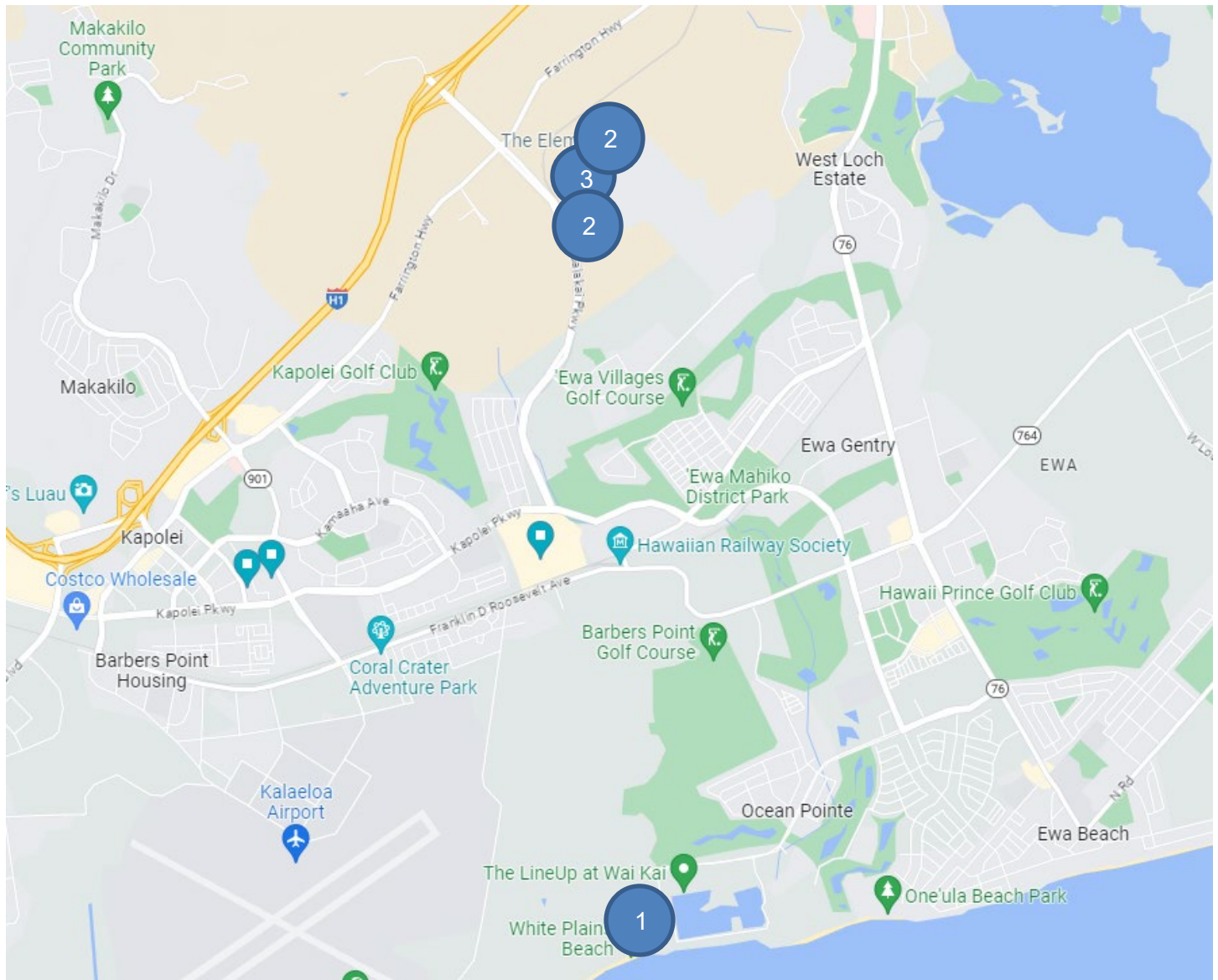
Adjustments:

Zoning	Downward adjustment to account for commercial (BMX) zoning/uses
Size	Downward adjustment as smaller parcels typically sell at a higher price per square foot
Location	Downward adjustment as comps located in master planned communities with density, infrastructure, higher visibility, et
Market/Transaction Conditions	Upward adjustment to account for annual price appreciation

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SALES COMP MAP



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GROUND LEASE ANALYSIS

Colliers was asked to project the ground rents for the subject property with the following lease term:

Initial Lease Term:	January 1, 2024 - December 31, 2047
Option Periods:	January 1, 2048 - December 31, 2057
	January 1, 2058 - December 31, 2067
	January 1, 2068 - December 31, 2087

Ground rent projections were based on 1) a factor of land value and 2) lease comp transactions in the area.

Factor of Land Value

Historically, rents for ground leases were based on a percentage(factor) of the fair market value of land typically between 6.0% and 8.0%. Using the mid-range market price of the property (as shown on the prior page), the initial annual ground rent using a 7.0% FMV land value factor is \$610,180. On a monthly basis this is equal to \$50,848 or \$0.06 per square foot. The annual rents are fixed for each of the rent periods (10-year, 10-year, and 5-year) and for each of the following 10-year option periods. Rents increase based on projected land value appreciation of 2.0% annually.

While the rents for each period below are fixed based on our projected land values, future market values could vary from the 2.0% annual appreciation estimates and thus affect the projected rent.

Ground Lease Analysis	
Land Area (acres):	19.36
Land Area (sf):	843,322
Land Value Appreciation:	2.0% per year
FMV Land Factor	7.0%

YEAR ENDING			Annual Lease	Monthly	Monthly	Estimated Land	Land Value
December 31,	Year		Rent	Rent	Rent psf	Value	PSF
2024	1	▲	\$ 610,180	\$ 50,848.33	\$ 0.06	\$8,716,857	\$10.3
2034	11	▲	\$ 743,806	\$ 61,983.84	\$ 0.07	\$10,625,800	\$12.6
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Land Lease Comparables

Colliers also examined land lease comps in the Kalaeloa area to project ground rents for the subject property. Adjustments were made for location, size, and market conditions. Based on this analysis, the projected weighted average initial rent is \$0.06 per square foot per month which is about the same as the rent based on 7.0% of land value.

KALAELOA LAND LEASE COMPS

Location	Comp Acres	Comp SF	Lease Start	Lease Term (months)	Initial Monthly Base Rent (net)	Initial Base Rent (psf/mo)	Annual Escalations	Comments
Midway Street	23.3	1,015,819	September 2021	28	\$ 45,000	\$0.04	3%	Plus 10% percentage rent. Tenant has leased property since 2014.
Coral Sea Lots	3.3	144,123	December 2019	6	\$ 23,060	\$0.16	n/a	
Lexington Street	1.5	67,000	September 2022	42	\$ 10,050	\$0.15	\$0.17, \$0.18	
Franklin D. Roosevelt	1.2	54,319	July 2022	38	\$ 10,864	\$0.20	5%	

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Location	Comp SF	Initial Base Rent (psf/mo)	Adjustments			Adjusted Rent	Weight	Weighted Average Rent
			Location	Size	Market Conditions			
Midway Street	1,015,819	\$0.04	-10%	0%	3%	\$0.04	50%	\$0.02
Coral Sea Lots	144,123	\$0.16	0%	-50%	9%	\$0.09	30%	\$0.03
Lexington Street	67,000	\$0.15	0%	-60%	6%	\$0.07	10%	\$0.01
Franklin D. Roosevelt	54,319	\$0.20	-10%	-60%	6%	\$0.07	10%	\$0.01

Total \$0.063
Initial Monthly Rent \$53,145.43

Summary of Findings and Recommendations

Based on our analysis, we recommend that the traditional 7.0% of market land value is used to project ground rents. The lease comp analysis also reflects the same range of initial rents. We also recommend rent escalations equal to 2.0% annually when projecting the rents for each rent period.

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Hawaii Community Development Authority

Honokea Restoration Fund

		Restoration Fund for Lease Term			Restoration Fund Counter Offer 2			
		Inflation	3.14%		Interest	4.17%		
Count	Year	Beginning	Inflation	Ending	Beginning	Payment	Interest	Ending
1	2024	10,381,458	325,978	10,707,436	-	-	-	-
2	2025	10,707,436	336,213	11,043,649	-	-	-	-
3	2026	11,043,649	346,771	11,390,420	-	-	-	-
4	2027	11,390,420	357,659	11,748,079	-	-	-	-
5	2028	11,748,079	368,890	12,116,969	-	-	-	-
6	2029	12,116,969	380,473	12,497,442	4,668,696	-	194,685	4,863,381 *
7	2030	12,497,442	392,420	12,889,861	4,863,381	810,000	202,803	5,876,184
8	2031	12,889,861	404,742	13,294,603	5,876,184	810,000	245,037	6,931,221
9	2032	13,294,603	417,451	13,712,053	6,931,221	810,000	289,032	8,030,253
10	2033	13,712,053	430,558	14,142,612	8,030,253	810,000	334,862	9,175,114
11	2034	14,142,612	444,078	14,586,690	9,175,114	810,000	382,602	10,367,717
12	2035	14,586,690	458,022	15,044,712	10,367,717	810,000	432,334	11,610,050
13	2036	15,044,712	472,404	15,517,116	11,610,050	810,000	484,139	12,904,189
14	2037	15,517,116	487,237	16,004,353	12,904,189	810,000	538,105	14,252,294
15	2038	16,004,353	502,537	16,506,890	14,252,294	810,000	594,321	15,656,615
16	2039	16,506,890	518,316	17,025,206	15,656,615	-	652,881	16,309,496
17	2040	17,025,206	534,591	17,559,798	16,309,496	-	680,106	16,989,602
18	2041	17,559,798	551,378	18,111,175	16,989,602	-	708,466	17,698,068
19	2042	18,111,175	568,691	18,679,866	17,698,068	-	738,009	18,436,077
20	2043	18,679,866	586,548	19,266,414	18,436,077	-	768,784	19,204,862 **

* Beginning balance is the \$4,000,000 from 2024 adjusted for inflation.

** REQUIRED: Reevaluate the Cost of Demolition at year 20 and every 10 year lease extension period as a condition to extend. Supplement contributions to the fund as necessary.