

**Appraisal Report**  
**Prospective Annual Rents**  
**DLNR LEASES FOR**  
**RECREATION-RESIDENCE USE**

**Located at**  
**Waimea Canyon and Kokee State Parks,**  
**Island of Kauai, State of Hawaii**  
**As of January 1, 2020**

### C. Methodology

In this appraisal, our assignment is to estimate separate market rents for: (1) land only, with respect to each subject property, and (2) land and improvements, with respect to each subject property with significant dwelling improvements. At the time of our property inspections, the overwhelming majority of subject properties were improved with residential dwellings.

We have utilized one method to estimate market rents for land only. The methodology utilized to estimate market rents for land only is a rate of return analysis. Under a rate of return analysis, market rent is estimated as a stipulated percentage of a given property's fee simple land value. In other words, a subject property's estimated fee simple land value (as if vacant and unimproved) is multiplied by an annual market rate of return on land (expressed as a percentage factor) in order to provide an indication of market rent for that property.

The methodology utilized to estimate market rents for land and improvements (i.e., the subject properties, as improved) is a modified income approach. In this case, market rent is estimated as a stipulated percentage, or portion, of the potential gross income applicable to a given subject property. Potential gross income is forecast based on the sales comparison approach, and selection of the stipulated percentage rate, or portion, of potential gross income assignable to rent is based on appropriate market factors or reasonable market considerations.

Our methodology in estimating market rents for land and improvements did not utilize either a direct sales comparison approach or a rate of return analysis. A direct sales comparison approach was considered unavailable and, therefore, omitted from this appraisal due to the unique nature and character of the improved, leasehold subject properties. A rate of return analysis is omitted from this appraisal based on a lack of confidence and high degree of subjectivity associated with the estimation of fee simple values for the subject properties, as improved.

### D. Market Rent Analysis of Land Only

Again, the methodology utilized to estimate the subject properties' market rents for land only is a rate of return analysis.

**Rate of Return Analysis** -- Market rent under a rate of return analysis is estimated as the mathematical product of fee simple land value multiplied by an annual rate of return on fee simple land value. In the appraisal, fee simple land values associated with the subject properties are estimated based on the appropriate annual rate of return on land value is three percent.

**Fee Simple Unit Land Values** -- With respect to fee simple land values, the selection of market data comparables for the subject properties presents the greatest difficulty. We focused our research for potential market comparables on the Island

of Kauai and the State of Hawaii. However, on the Island of Kauai and within the State of Hawaii, the subject properties, by their very nature, are considered quite unique. In effect, each of the subject properties is a single-family residence limited to part-time use, with its own TMK identification, located on Conservation District land within an established State park. These particular subject property characteristics are not presently duplicated in the local real estate marketplace.

In the absence of directly comparable market data, we elected to utilize available fee simple sales involving unimproved agricultural properties located within the subject properties' general Waimea environs. The available sales data disclosed by our market research are summarized in the following schedule. All of the sales involve properties located along Menehune Road near the mouth of Waimea Valley

<b>Fourth Division</b>	<b>Land Area</b>		<b>Date of</b>	<b>Sales</b>	<b>Unit Price</b>
<b><u>Tax Map Key</u></b>	<b><u>in Sq. Ft.</u></b>	<b><u>Zoning</u></b>	<b><u>Recordation</u></b>	<b><u>Price</u></b>	<b><u>per Sq. Ft.</u></b>
1-5-02-10	55,321	Open	11/23/2016	\$260,000	\$4.70
1-5-02-28	67,518	Ag.	11/10/2016	\$171,500	\$2.54
1-5-02-60	27,748	Ag.	11/28/2014	\$120,000	\$4.32
1-5-02-30	50,965	Ag.	7/29/2014	\$75,000	\$1.47
1-5-02-34	31,450	Ag.	7/29/2014	\$65,000	\$2.07
1-5-02-14	21,736	Ag.	4/26/2013	\$125,000	\$5.75

The properties along Menehune Road in Waimea are considered similar to the subject properties in terms of their general island location and relative distance, or isolation, from concentrated urban areas. Also, improved properties located along Menehune Road are typically characterized as single-family residences. On the other hand, the Menehune Road properties are situated within the narrow alluvial plain of Waimea River near its lower, coastal elevation. Therefore, the physical setting of these lowland properties is recognized as being highly dissimilar to the subject properties pronounced, upland environs.

The average unit land values associated with the Menehune Road fee simple sales range from \$1.47 to \$5.75 per square foot for parcels ranging in approximate size from 21,736 to 67,518 square feet each. The mean (average) sales price indicated was \$3.48 per square foot and the median sales price indicated was \$3.43 per square foot. In our opinion, these sales data support a general market land value indication of \$3.00 to \$4.00 per square foot for unimproved agricultural properties of one-half-acre to one-acre in size located in the greater Waimea area.

Based on these market data value indications relative to our qualitative assessment of the subject properties as single family residential sites, it is our opinion that the estimated ranges of fee simple unit land values associated with the subject properties, as categorized according to our independent subject property rating system, are concluded as follows.

<u>Subject Property Classification</u>	<u>Rating Designation</u>	<u>Estimated Fee Simple Unit Land Values</u>
Rating 4	Superior Quality	\$3.80 to \$4.00 per sq. ft.
Rating 3	Good Quality	\$3.55 to \$3.75 per sq. ft.
Rating 2	Moderate Quality	\$3.30 to \$3.50 per sq. ft.
Rating 1	Lower Quality	\$3.00 to \$3.25 per sq. ft.

**Selected Rate of Return and Indicated Annual Rents** -- As mentioned previously, appropriate annual rate of return on fee simple land value utilized in this appraisal of the subject properties is three percent. In the local marketplace, the typical annual rate of return on land associated with permanent, or full-time, single family residential use is four percent. For this appraisal, a comparatively lower annual rate of return of three percent is utilized in recognition of the subject properties' stipulated restriction that recreation-residence use of each property will be limited to temporary, or part-time, use not to exceed 180 total days per year.

Multiplying the subject properties' fee simple unit land value estimates by a three percent annual rate of return on land provides an indication of annual rents for the subject properties, as expressed on an average unit basis (i.e., the amount of rent as expressed in average dollars/cents per square foot of land area per year).

<u>Subject Rating</u>	<u>Estimated Fee Simple Unit Land Values</u>	<u>Annual Rate/Return</u>	<u>Indicated Annual Rent (\$ Per Sq. Ft.)</u>
Rating 4	\$3.80 to \$4.00 per sq. ft.	3%	\$0.114 to \$0.120
Rating 3	\$3.55 to \$3.75 per sq. ft.	3%	\$0.107 to \$0.113
Rating 2	\$3.30 to \$3.50 per sq. ft.	3%	\$0.099 to \$0.106
Rating 1	\$3.00 to \$3.25 per sq. ft.	3%	\$0.090 to \$0.098

The indicated subject rental range is \$0.09 to \$0.12 per square foot per year. For a 30,000 square-foot parcel of land, this would equate to an indicated annual rent range of \$2,700 to \$3,600 per year. For a 40,000 square-foot parcel, the indicated annual rent range would be \$3,600 to \$4,800 per year, etc.

**Estimated Rents (Land Only) By Subject Rating System** -- Based on the annual land rent indications yielded by our rate of return analysis of the subject properties, it is our opinion that the prospective, "land only" rents applicable to the subject properties, estimated as of January 1, 2020, are as follows.

<u>Subject Property Classification</u>	<u>Rating Designation</u>	<u>Prospective Annual Rent as of Jan. 1, 2020</u>
Rating 4	Superior Quality	\$5,000 to \$5,900
Rating 3	Good Quality	\$4,700 to \$4,900
Rating 2	Moderate Quality	\$4,300 to \$4,600

<b>Rating 1</b>	<b>Lower Quality</b>	<b>\$3,900 to \$4,200</b>
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The prospective rent conclusions for “land only” corresponding to the Rating 4 subject properties are based on an estimated average monthly rent range of approximately \$420 to \$430 per month, multiplied by twelve months. Similarly, the prospective rent conclusions for “land only” corresponding to the Rating 3 subject properties are based on an estimated average monthly rent range of approximately \$390 to \$410 per month; for the Rating 2 subject properties based on an estimated average monthly rent range of approximately \$360 to \$380 per month; and for the Rating 1 subject properties based on an estimated average monthly rent range of approximately \$330 to \$350 per month, each multiplied by twelve months.

**E. Market Rent Analysis of Land and Improvements**

The methodology utilized to estimate market rents for land and improvements is a modified income approach. Annual market rent for a given subject property is estimated as a stipulated percentage, or portion, of the potential, annual gross income applicable to that subject property. Potential gross income is forecast based on the sales comparison approach, and selection of the stipulated percentage rate, or portion, of potential gross income assignable to rent is based on appropriate market factors or reasonable market considerations.

It must be noted that commercial use of the subject properties will be prohibited under terms of the proposed leases. Therefore, our modified income approach does not reflect a practical application or use of the subject properties. Nevertheless, in our opinion, this analysis is deemed appropriate for this appraisal of the subject properties because it does represent a method of measuring, or quantifying, the potential income/value associated with each subject property for part-time, or transient, recreational use. In other words, from a lessee’s perspective, this income analysis measures, in part, the potential opportunity cost or value-in-use associated with each lessee’s right to rent a given subject property for part-time, recreation-residence purposes, and the first part of this analysis involves a potential annual gross income forecast for each subject property.

**Potential Annual Gross Income Forecasts** -- Our potential gross income forecasts are based on the sales comparison approach. A key component of this potential income analysis is an emphasis on the part-time, recreational-use character of the subject properties. This emphasis on occasional recreational use (as opposed to full-time residential use) is consistent with our highest and best use conclusion for the subject properties and provides the relevant basis for our market research, which focuses on rental rates and/or permit fees associated with various forms of transient recreational accommodations available on the Island of Kauai and throughout the State of Hawaii.

The results of our market research regarding rental rates and/or permit fees associated with transient recreational accommodations within the State of Hawaii are

presented in Table 2. The type of accommodations covered by our research ranged anywhere from open campgrounds to rustic cabins and bunkhouses to a single-family residential dwelling. The locations of these recreational properties included both public areas, within designated State and National Parks, and privately-owned lands. The character of the properties varied from coastal, beach settings to upland, forest reserves.

Of the data presented in Table 2, the rental rate/permit fee information pertaining to recreational accommodations located on the Kauai is considered most relevant in comparison to the subject properties. The location aspect of the Kauai data on cabin rentals is particularly applicable in relation to the subject cabins. Three of the cited Kauai accommodations properties are located within the subject's immediate Kokee area. These are The Lodge at Kokee, YMCA's Camp Sloggett, and Camp Hale Koa at Kokee. These properties are considered a significant market indicator of the prevailing pricing structure for recreational cabin rentals located on the Island of Kauai.

At the Lodge at Kokee, the prevailing rental rates for a housekeeping cabin range from \$79 per night for a one-bedroom duplex cabin to \$129 per night for a two-bedroom cabin all for a maximum five-day length of stay. The cabin facilities at The Lodge are modest in terms of size and amenities but well-maintained in terms of construction and appearance.

The YWCA's Camp Sloggett is a relatively flat, open camp site capable of accommodating smaller-sized parties within modest cabin/lodge improvements or larger groups within a hostel-style, bunkhouse facility. The smaller, more private cabin accommodations at Camp Sloggett rent at \$120 to \$150 per night for a minimum two-night stay, while the lodge and bunkhouse facilities are rented at \$160 to \$200 per night.

At the Camp Hale Koa, housekeeping cabins are available for rent at \$12 per person per night with a minimum of \$360 per night based on 30 persons. The Camp Hale Koa cabins are comparatively larger and relatively superior to the cabins at The Lodge and generally in better condition and appearance than the facilities at Camp Sloggett.

The recreational accommodations at The Lodge at Kokee, the YWCA's Camp Sloggett and the Camp Hale Koa at Kokee are considered generally inferior to the majority of improved subject properties. Although the recreation-residence improvements associated with the subject properties encompass a broad range in terms of dwelling size (i.e., living area), architectural design and construction, levels of overall maintenance, complementary landscaping, etc., it is the underlying nature of the each subject property as its own, demised TMK parcel that, perhaps, best separates the subject properties from the other recreational accommodations located at Kokee.

**Table 2 (Page 1 of 3)**

**SUMMARY OF DAILY RATES AND PERMIT FEES  
FOR SELECTED RECREATIONAL ACCOMMODATIONS  
Islands of Kauai, Oahu, Maui and Hawaii, State of Hawaii**

<b>Location/Property Identification</b>	<b>Type of Accommodations</b>	<b>Size of Party</b>	<b>Daily Rate/Permit Fee</b>	<b>Comments</b>
<b><u>Island of Kauai</u></b>				
The Lodge at Kokee (Kokee State Park)	Housekeeping Cabins	3-7 people	\$79-\$129 per Cabin	Smaller cabins sleep three people, and larger cabins sleep 7 people. Maximum length of stay is 5 days.
YWCA Camp Sloggett (Kokee State Park)	Sloggett Cottage	Up to 4 people	\$120 M-Th; \$135-\$150 Fri-Sun	Minimum stay of 2 nights.
	Sloggett Lodge	Up to 15 people	\$200 M-Th; \$200-\$225 Fri-Sun	Minimum party sizes of 5 people on weekdays and 8-10 on weekends.
Camp Hale Koa (Kokee State Park)	Weinberg Bunkhouse	Up to 30 people	\$160 M-Th; \$180-\$200 Fri-Sun *	Bunk and single beds for large groups. Camper provides tent and equipment. * per wing.
	Campground	Not specified	\$15 per Person	
State Park (Public) Facilities @ Kokee & Polihale Parks Na Pali Coast Park	Housekeeping Cabins	Up to 10 people per cabin	\$12 per Person	Total of 8 cabins. \$360 night min. for 30 campers or less. Additional campers at \$12 per night.
	Campgrounds	Not specified	\$5 per Campsite	Camper provides tent and equipment.
	Campgrounds	Not specified	\$10 per Person	5-night maximum stay at Na Pali Coast.
Source: Hastings, Conboy & Associates, Ltd., July 2019.				/8400.Rates 1

**Table 2 (Page 2 of 3)**

**SUMMARY OF DAILY RATES AND PERMIT FEES  
FOR SELECTED RECREATIONAL ACCOMMODATIONS  
Islands of Kauai, Oahu, Maui and Hawaii, State of Hawaii**

<b>Location/Property Identification</b>	<b>Type of Accommodations</b>	<b>Size of Party</b>	<b>Daily Rate/Permit Fee</b>	<b>Comments</b>
<b><u>Island of Oahu</u></b>				
Camp Palehua (formerly Timberline) (Makakilo/Palehua)	Studio Unit	Up to 8 people	\$200 per Unit	Hale Makalii unit.
	Studio Unit	Up to 4 people	\$150 per Unit	Hale Kilo unit.
	One-Bedroom Unit	Up to 5-7 people	\$350 per Unit	Hale Mahaholokai unit.
	Two-Bedroom Unit	Up to 5 people	\$250 per Unit	Hale Kokua unit.
	Four-Bedroom House	Up to 11 people	\$300 per House	Hale Ohana house.
YMCA Camp H. R. Erdman (Mokuleia)	Mountain Cabins	Up to 16 people	\$145 per Person	Popular camp for youth groups. Cabins reserved as much as a year in advance.
	Beach Cabins	Up to 8 people	\$1,240 per Cabin	
<b><u>Island of Maui</u></b>				
Haleakala National Park	Cabins	Up to 12 people	\$75 per Cabin	Each cabin has wood-burning stove, pit toilets and 12 bunk beds. No electricity.
	Housekeeping Cabins	1-4 people (Up to 6 max.)	\$60-\$90 per Cabin	Ocean view cabins located near Hana; Higher rate is for non-residents.
State Park (Public) Facilities @ Waianapanapa Park	Housekeeping Cabins	1-4 people (Up to 10 max.)	\$60-\$90 per Cabin	Single cabin at 6,200-foot elevation, no electricity. Higher rate is for non-residents.
	Housekeeping Cabins	1-4 people (Up to 10 max.)	\$30 per Person \$60 per Family	Rustic dorm accommodations located roughly half-way to Hana.

Source: Hastings, Conboy & Associates, Ltd., July 2019.

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Table 2 (Page 3 of 3)

**SUMMARY OF DAILY RATES AND PERMIT FEES  
FOR SELECTED RECREATIONAL ACCOMMODATIONS  
Islands of Kauai, Oahu, Maui and Hawaii, State of Hawaii**

<b>Location/Property Identification</b>	<b>Type of Accommodations</b>	<b>Size of Party</b>	<b>Daily Rate/Permit Fee</b>	<b>Comments</b>
<b><u>Island of Hawaii</u></b>				
Kilauea Military Camp (Hawaii Volcanoes National Park)	1 BR Cottages/Apts.	1-2 people	\$72-\$145 per Unit \$160-\$190 per Unit	Military and Defense Employee rate. Sponsored Civilian rate.
	2 BR Cottages/Apts.	2-4 people	\$107-\$188 per Unit \$210-\$250 per Unit	Military and Defense Employee rate. Sponsored Civilian rate.
	3 BR Cottages/Apts.	3-6 people	\$130-\$220 per Unit \$250-\$295 per Unit	Military and Defense Employee rate. Sponsored Civilian rate.
Namakani Paio (Hawaii Volcanoes National Park)	Cabins	Up to 4 people	\$80 per Cabin	10 cabins available; reservations must be placed at least one month in advance.
State Park (Public) Facilities @ Kalopa Park	Housekeeping Cabins	Up to 8 people	\$60-\$90 per Cabin	Upland location along Hamakua Coast near Ahualoa Homesteads. Higher end of the range is for non-residents.
Hapuna Beach Park	A-Frame Shelters	Up to 4 people	\$30-\$50 per Shelter	Single, screened room with wooden sleeping platforms and picnic table. Higher end of the price range is for non-residents.

Source: Hastings, Conboy & Associates, Ltd., July 2019.

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Based on a qualitative assessment of these available market data in relation to the subject properties, we have estimated potential annual gross income forecasts for the improved subject properties as presented in the following schedule. These forecasts are based on a maximum allowable occupancy of 180 days per year for each subject property.

<u>Subject Property Classification</u>	<u>Avg. Daily Rate</u>	<u>Potential Annual Gross Income (@ 180 days/year)</u>
Rating 4	\$175 to \$200/day	\$31,500 to \$36,000
Rating 3	\$125 to \$150/day	\$22,500 to \$27,000
Rating 2	\$100 to \$120/day	\$18,000 to \$21,000
Rating 1	\$80 to \$95/day	\$14,400 to \$17,100

As shown above, with the relatively highest-quality, Rating 4 subject properties are assigned an estimated average rental rate of \$175 to \$200 per day; the Rating 3 properties are assigned an average rental rate of \$125 to \$150 per day; the Rating 2 properties are assigned an average rental rate of \$100 to \$120 per day; and the relatively lowest-quality, Rating 1 subject properties are assigned an average rental rate of \$80 to \$95 per day. Based on these estimated daily rates, the levels of potential annual gross income associated with the subject properties range from as high as \$31,500 to \$36,000 among the Rating 4 properties to a low as \$14,400 to \$17,100 among the Rating 1 properties.

**Percentage of Annual Gross Income Allocated to Lease Rent** -- In determining what is the reasonable and appropriate portion of potential gross income allocated or assigned to lease rent, we need to consider a number of factors such as allowances for vacancy rates, real property taxes, insurance, building maintenance and repairs, housekeeping and landscaping costs, reserves for replacement, and general overhead and profit. All of these factors, and potentially more, will have a downward effect on the resulting level of available net income capable of covering, or satisfying, the basic lease rent payment.

Based on our assessment of the subject properties within the context of market vacancy rates and estimated fixed costs and variable expenses associated with the ownership and maintenance of the properties, it is our opinion that potential annual lease rent payments equal to between 25 and 33 percent of our annual gross income forecasts represent a reasonable market value conclusion for the various subject properties. A lease rent allocation in the range of one-fourth to one-third of potential annual gross income is considered appropriate given the part-time, recreational-use character of the subject properties and the age and condition of their existing property improvements.

For this market rent appraisal, we estimate annual lease rents for the improved subject properties at levels equal to 30 percent of their corresponding potential gross income forecasts. This concluded 30 percent allocation of potential gross income to

lease rent is within the range of one-fourth to one-third of our potential gross income forecasts associated with the subject properties.

**Estimated Rents (Land and Improvements) By Subject Rating System** -- Based on the potential gross income forecasts associated with the four rating levels of improved subject properties in conjunction with the estimated allocation of 30 percent of potential gross income to lease rent, it is our concluded opinion that the prospective annual lease rents associated with the improved subject properties, estimated as of January 1, 2007, are as follows.

<b><u>Subject Rating</u></b>	<b><u>Potential Annual Gross Income</u></b>	<b><u>Portion Allocated To Lease Rent</u></b>	<b><u>Estimated Annual Rent Range</u></b>
<b>Rating 4</b>	<b>\$31,500 to \$36,000</b>	<b>30%</b>	<b>\$9,450 to \$10,800</b>
<b>Rating 3</b>	<b>\$22,500 to \$27,000</b>	<b>30%</b>	<b>\$6,750 to \$8,100</b>
<b>Rating 2</b>	<b>\$18,000 to \$21,600</b>	<b>30%</b>	<b>\$5,400 to \$6,480</b>
<b>Rating 1</b>	<b>\$14,400 to \$17,100</b>	<b>30%</b>	<b>\$4,320 to \$5,130</b>

Our prospective fair market rental value conclusions (i.e., estimated annual rents) for each of the 93 subject properties are presented individually within Chapter V of this report.