

STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
Land Division  
Honolulu, Hawaii 96813

December 8, 2017

Board of Land and Natural Resources  
State of Hawaii  
Honolulu, Hawaii

OAHU

Consent to Assign General Lease No. S-6089, Turtle Bay Resort, LLC, Assignor,  
to BRE Turtle Bay Resort LLC, Assignee, Kahuku, Koolaupoko, Oahu, Tax Map  
Keys: (1) 5-7-006:026, 027 & 032.

APPLICANT:

Turtle Bay Resort, LLC, as Assignor, to BRE Turtle Bay Resort LLC, a Delaware limited  
liability company, as Assignee.

LEGAL REFERENCE:

Section 171-36(a)(5), Hawaii Revised Statutes, as amended.

LOCATION:

Government lands situated at Kahuku, Koolaupoko, Oahu, identified by Tax Map Keys:  
(1) 5-7-006:026, 027 & 032, as shown on the attached map labeled Exhibit A.

AREA:

52.575 acres, more or less.

TRUST LAND STATUS:

Acquired after 1959.

DHHL 30% entitlement lands pursuant to the Hawaii State Constitution: YES \_\_\_\_ NO  
  x  

CHARACTER OF USE:

Pursuant to Section 12 of the Lease, Assignor is allowed to use the premises in substantially the same manner as it had been using the premises immediately preceding the effective date of the Lease. The existing uses include the uses set forth in the Turtle Bay Makai Conservation Lands Baseline Documentation dated September 2015, and the commercial activities and non-commercial activities as described by Subsections 12(a) and 12(b) of the Lease.

TERM OF LEASE:

65 years, commencing on November 1, 2015 and expiring on October 31, 2080.

ANNUAL RENTAL:

\$480.00.

CONSIDERATION:

\$ 239,000.00.

RECOMMENDED PREMIUM:

\$ 119,500.00.

DCCA VERIFICATION:

ASSIGNOR:

Place of business registration confirmed:	YES <u>x</u>	NO <u>  </u>
Registered business name confirmed:	YES <u>x</u>	NO <u>  </u>
Good standing confirmed:	YES <u>x</u>	NO <u>  </u>

ASSIGNEE:

Place of business registration confirmed:	YES <u>x</u>	NO <u>  </u>
Registered business name confirmed:	YES <u>x</u>	NO <u>  </u>
Good standing confirmed:	YES <u>x</u>	NO <u>  </u>

REMARKS:

General Lease No. S-6089 was entered into as an integral part of a larger transaction between the State of Hawai‘i, through the Board of Land and Natural Resources (the “State”) and Assignor, which closed on October 23, 2015 (the “Transaction”). In summary, the Transaction involved the acquisition by the State of (i) a conservation easement over approximately 568 acres of land located on the north shore/windward coast of the island of Oahu, owned by Assignor, and (ii) the fee simple interest in approximately 52.575 acres of adjacent land, also owned by Assignor, located at Kawela Bay (the “Leased Premises”).

As a part of the Transaction, Assignor had requested and the State had agreed to a direct lease back of the Leased Premises being acquired in fee simple by the State. The primary purposes for such lease were to enable Assignor to continue utilizing the Leased Premises in the same way that they were used prior to the closing of the CE Transaction, and to otherwise manage such property.

The Transaction was authorized by the State pursuant to Act 121, Session Laws of Hawaii 2015, which amended Chapter 171 of the Hawaii Revised Statutes (“HRS”). The State’s authority to enter into General Lease No. S-6089 was set forth in Section 171-D, codified as Section 171-174, HRS, which reads as follows:

§171-174 Lease of Turtle Bay lands. Notwithstanding any law to the contrary, the board of land and natural resources may, without public auction, lease lands purchased in fee simple pursuant to section 171-171, to the grantor of the conservation easement or its successor in interest. The purpose of the lease shall be for the protection, preservation, and enhancement of natural resources, while maintaining public access. The lease rental shall be on a nominal basis, shall not exceed a term of sixty-five years, and be upon such other terms and conditions as the board may determine.

The Transaction was documented in that certain Purchase and Sale Agreement between Assignor, the State and The Trust for Public Land. Section 2.4 of that Purchase and Sale Agreement provides as follows:

Lease. The State and [Assignor] shall negotiate in good faith a separate lease agreement (the “Lease”), wherein the State would lease the [Leased Premises] to Seller. The Lease shall be for a term of sixty-five (65) years, for a nominal annual rent, and include such terms and conditions as approved by the Board and as mutually acceptable to the State and [Assignor]. The Lease shall contain terms and conditions substantially similar to the conservation covenants and restrictions contained in the Phase I CE Deed of Conservation Easement.

Accordingly, pursuant to Section 171-174, HRS and Section 2.4 of the subject Purchase and Sale Agreement, the State and Assignor entered into General Lease No. S-6089.

By letter dated October 24, 2017, Assignor requested the Board approve its consent to assign the lease to Assignee. The assignment of the lease is part of a larger sale of the Turtle Bay Resort property from Assignor to Assignee, including the fee simple interest encumbered by the State’s conservation easement. Assignee is a subsidiary of The Blackstone Group L.P., an investment firm with sizeable real estate investments, including various resort properties. Staff considers the Assignee qualified to assume the lease.

On November 20, 2017, staff from the Department and the Attorney General conducted



both aerial and ground site inspections to determine the Assignor's compliance with the terms and conditions of both the lease and conservation easement. Photos of the lease and conservation areas are included as Exhibit B. Assignor is in compliance with both the lease and conservation easement. Assignor is compliant with all lease terms and conditions (rent, insurance, performance bond, conservation plan, inspections, etc.). Assignee has not had a lease, permit, easement or other disposition of State lands terminated within the last five years due to non-compliance with such terms and conditions. Additionally, as required by section 52 of the lease, Assignor provided a Phase I Environmental Site Assessment ("Phase I") for the Leased Premises. The Phase I reported no recognized environmental conditions ("RECs").

In regards to the assignment premium, the lease is subject to the standard Assignment of Lease Evaluation Policy. According to lease purchase agreement between the Assignee and Assignor, the purchase price of the lease is \$239,000.00. Given that there are no improvements in the Leased Premises, staff recommends assessing a premium percentage of 50% (based on the elapsed lease term) of the full purchase price, resulting in an assignment premium of \$119,500.00. Please refer to Schedules C and D of the Assignment of Lease Evaluation Policy attached at Exhibit C.

Assignor provided an analysis of the value of the lease purchase price conducted by CBRE Valuation and Advisory Services, attached as Exhibit D. The analysis concluded that the purchase price is reasonable based on the restrictions on use and development, obligations to maintain and secure, and allowable commercial uses for the Leased Premises. Furthermore, given the unique background of this lease, where the Leased Premises was acquired from and subsequently directly leased back to the Assignor for preservation purposes, staff concurs with the purchase price analysis. The present situation is vastly different from leases where State-owned lands are disposed of via competitive process for the purpose of income generation.

RECOMMENDATION:

That the Board consent to the assignment of General Lease No. S-6089 from Turtle Bay Resort, LLC, as Assignor, to BRE Turtle Bay Resort LLC, as Assignee, subject to the following:

1. The standard terms and conditions of the most current consent to assignment form, as may be amended from time to time;
2. Review and approval by the Department of the Attorney General; and
3. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.



Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ian C. Hirokawa", written over a horizontal line.

Ian C. Hirokawa  
Special Projects Coordinator

APPROVED FOR SUBMITTAL:

A handwritten signature in blue ink, appearing to read "Suzanne D. Case", written over a horizontal line.  
✓ Suzanne D. Case, Chairperson





EXHIBIT "B"





















## ASSIGNMENT OF LEASE EVALUATION POLICY

### 1. Enabling Statute.

Act 104, effective May 24, 1989, amended Chapter 171-36(a) (5) to read in part:

"... provided further that prior to the approval of any assignment of lease, the board shall have the right to review and approve the consideration to be paid by the assignee and may condition its consent to the assignment of the lease on payment by the lessee of a premium based on the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee;" (revision underlined)

### 2. Qualifying Leases.

This policy shall be applicable to the subject lease.

### 3. Prior Approval.

Prior to giving its consent to an assignment, DLNR must receive (i) the name, legal composition and address of any proposed assignee, (ii) a complete copy of the purchase agreement and the proposed assignment agreement, including the total consideration to be paid by the assignee for the assignment whether by cash, credit or otherwise, and (iii) the best available financial statement or balance sheet no older than 1 year prior to date of purchase agreement of the proposed assignee or any other such statement, audited or certified as correct by a financial officer of the proposed assignee.

Assignments of lease shall not be entered into until the Attorney General has reviewed the proposed assignment and the Land Board have given their approval. Such assignments shall be entertained only if they meet the criteria set forth in Section 171-36(a) (5), HRS.

### 4. Qualifications of Assignee.

If qualification was required of a lessee as a pre-condition of the lease, the prospective assignee must also be qualified to assume the lease.

EXHIBIT "C"

Assignment of Lease Evaluation Policy

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EXHIBIT "C"  
EXECUTION COPY

5. Consideration to be Paid.

Prior to review by the Attorney General and approval by the Land Board, the lessee (assignor) must present with written evidence of the consideration to be paid by the assignee and any other cost data that the state may require.

6. Payment of Premium.

The act permits the state to receive from the lessee (assignor) a premium based on the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee. The value of the inventory of merchandise and any other tangible assets in the sale of a business shall be deducted from the consideration paid. The appropriate cost index is then applied to determine the adjusted depreciated cost.

All lessees shall be required to furnish the state with the actual costs of construction of all improvements and renovations within 30 calendar days after its completion as well as the purchase costs of all trade fixtures acquired for the lessee's operation on the premises within 30 calendar days after their purchase. Lessees shall be required to furnish evidence of the actual costs by copy of the construction contract, receipts or otherwise. Lessees shall also be required to furnish an inventory of all personal property placed on the premises. Records of all costs incurred by the lessee for construction of improvements or renovations as well as trade fixtures submitted by the lessee shall be maintained in the lease file and shall include the Construction Cost Index for Apartments, Hotels, Office Buildings (CCI) and the Honolulu Consumer Price Index for All Urban Consumers (CPI) as published by the U.S. Department of Labor, Bureau of Labor Statistics for the year construction is completed.

The replacement cost for improvements or renovations is calculated by using the CCI for the evaluation year divided by the CCI for the year in which the improvements or renovations were completed (base year). The result is then multiplied by the original cost of the improvements or renovations. For trade fixtures, the cost is similarly calculated by using the CPI for the purchase year (base year) and the evaluation year.

Depreciation of improvements and trade fixtures will be determined on a straight line basis. Depreciation of improvements or renovations will be determined in the same

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proportion that the expired term of the improvements or renovations bear to the whole term. The whole term will be from the date the construction of the improvements or renovations are completed until the termination date of the lease. Depreciation of trade fixtures will be determined in the same manner, except that the whole term will be the anticipated life of the trade fixture.

The premium will be a maximum of 50% of the excess. The percentage will decrease by 5% after every 5 years of the term has elapsed in accordance with Schedule C. The sliding scale will encourage long term occupancy and prevent speculation as well as recognize the investment, effort, and risk of the lessee.

In cases where the lessee is unable to furnish the Department of Land and Natural Resources with evidence of the actual cost of construction of improvements because the lessee has performed the work itself, the State may determine the cost or the lessee shall have the option of paying for an appraiser, to be selected by the Department of Land and Natural Resources, to determine what the improvements would have cost if the labor had been performed by a third party rather than the lessee. The lessee shall exercise its option by giving written notice to the lessor within thirty (30) calendar days after completion of construction of the improvements. If the lessee fails to exercise its option within this period, the lessor shall have the right to determine the cost of the improvements.

Schedule D attached provides a typical example of the evaluation calculations using Schedule A to calculate the replacement cost for improvements or renovations and depreciation, Schedule B to calculate the cost and depreciation for trade fixtures, and Schedule C to obtain the premium percentage.

7. Non-qualifying Deductions.

The statute only recognizes tangible items. Intangibles such as "goodwill", business name recognition, etc., are not deductible.

8. Subsequent Assignments.

If the consideration for any subsequent assignment includes the purchase of existing tenant owned improvements, the evaluation will be conducted in a similar manner as the first assignment. An example is shown on Schedule E.

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Using Schedule E, the consideration the assignor paid less included inventory and any premiums will be used to obtain the adjusted depreciated cost of improvements and trade fixtures. Also, the Base Year is redefined to be the date the assignor received the Consent of the Board to occupy the premises. The holding period (redefined Base Year to assignment date), or actual occupancy of the assignor, is used in place of the "expired term" when calculating depreciation. Depreciation will be calculated by dividing the holding period by the whole term of the lease (The whole term will remain unchanged).

The change in the CCI will be reflected by comparing the CCI for the redefined base year to the most current CCI.

The holding period will be the basis for determining the appropriate premium percentage. Subtracting the included inventory and any premiums from the consideration the assignor paid will result in a reassessment of the market value of the improvements. If additional improvements were constructed by the assignor, they will be treated in the same manner as improvements constructed by an original lessee.

The excess of subtracting the adjusted depreciated consideration the assignor paid and the adjusted depreciated cost of additional improvements, if any, from the consideration the assignor received will be used against the appropriate premium percentage to determine the amount payable to the state.

9. Rights of Holders of Security Interest-Agricultural Leases only.

In the event of foreclosure or sale, the premium, if any, shall be assessed only after the encumbrances of record and any other advances made by the holder of a security interest are paid.

10. When state-owned improvements are included in the leased premises, improvement renovation requirements shall be recognized as being tenant-owned improvements for evaluation in the policy.

In other words, the total expenditure of the lessee to fulfill the requirement would be treated as though a new improvement was constructed.

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SCHEDULE A.      Adjusted Depreciated Cost of Improvements or Renovations

1.    Adjusted Cost of Improvements or Renovations.

Multiply the actual cost of the improvements or renovations by the most recent U.S. Construction Cost Index for Apartments, Hotels, Office Buildings (CCI)\* and divide the result by the CCI of the year construction was completed (base year) to get the adjusted cost of improvements or renovations.

2.    Depreciation

Determine the depreciation percentage on a straight-line basis by dividing the expired term of the improvements or renovations by the whole term of the improvements or renovations, the whole term beginning on the date the improvements or renovations are completed to the expiration date of the lease. Multiply the adjusted cost of the improvements or renovations by the depreciation percentage to determine the depreciation.

3.    Depreciated Cost of Improvements or Renovations

Subtract the depreciation from the adjusted cost of improvements or renovations. The balance is the depreciated cost of improvements or renovations.

\*As published by the U.S. Department of Labor, Bureau of Labor Statistics

Example

	Actual cost:	\$500,000
	CCI (most recent):	121.1
	CCI (base year):	102.3
1.    Adjusted Cost of Improvements or Renovations	Expired term:	57 mos.
	Whole term:	408 mos.

$$\frac{\text{Actual Cost} \times \text{CCI (most recent)}}{\text{CCI (base year)}}$$

$$\$500,000 \times \frac{121.1}{102.3} = \$591,887$$

2.    Depreciation

$$\$591,887 \times \frac{57 \text{ mos.}}{408 \text{ mos.}} = \$82,690$$

3.    Adjusted Depreciated Cost of Improvements or Renovations

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$$\$591,887 - \$82,690 = \$509,197$$

SCHEDULE B. Adjusted Depreciated Cost of Trade Fixtures

1. Adjusted Cost of Trade Fixture.

Multiply the actual cost of the trade fixture by the most recent Honolulu Consumer Price Index for All Urban Consumers (CPI)\* and divide the result by the CPI of the year in which the purchase was made (base year).

2. Depreciation.

Determine the depreciation percentage on a straight-line basis by dividing the expired term of the trade fixture by its anticipated life. Multiply the adjusted cost of the trade fixture by the depreciation percentage to determine the depreciation.

3. Depreciated Cost of Trade Fixtures.

Subtract the depreciation from the adjusted cost of the trade fixture. The balance is the depreciated cost of the trade fixture.

\*As published by the U.S. Department of Labor, Bureau of Labor Statistics

Refrigerator

Example

	Actual cost:	\$1,510
	CPI (most recent):	118.1
	CPI (base year):	104.6
1. Adjusted Cost of Trade Fixture	Expired term:	57 mos.
	Whole term:	96 mos.
	(Anticipated life)	

$$\text{Actual Cost} \times \frac{\text{CPI (most recent)}}{\text{CPI (base year)}}$$

$$\$1,510 \times \frac{118.1}{104.6} = \$1,705$$

2. Depreciation

$$\$1,705 \times \frac{57 \text{ mos.}}{96 \text{ mos.}} = \$1,012$$

3. Adjusted Depreciated Cost of Trade Fixture



\$1,705 - \$1,012 = \$ 693

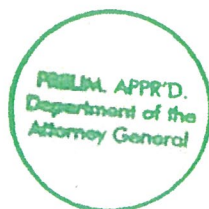
SCHEDULE C. Premium Percentages

1. For the first 5 years, the premium is 50% of the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee. The percentage will decrease by 5% after every 5 years of the total term has elapsed.

<u>Years</u>	<u>Percentage</u>
1 - 5	50%
6 - 10	45%
11 - 15	40%
16 - 20	35%
21 - 25	30%
26 - 30	25%
31 - 35	20%
36 - 40	15%
41 - 45	10%
46 - 50	5%
51 -	0%

As an example, if a 55 year lease was assigned after 57 months, the premium percentage would be 50%. If the assignment occurs after 120 months (10+ years), the percentage would be 40%.

2. The Board of Land and Natural Resources may impose a ten percent (10%) surcharge if the assignor has not performed lease covenants to improve or use the property.





SCHEDULE D. Assignment of Lease Calculations

1. Subtract from the consideration for the assignment that amount, if any, that is attributable to inventory.
2. Calculate the Adjusted Depreciated Cost of Improvements or Renovations (see Schedule A).
3. Calculate the Adjusted Depreciated Cost of Trade Fixtures (see Schedule B).
4. Calculate the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee by subtracting the amounts derived by no. 2 and 3 from the amount in no. 1 above.
5. Determine the appropriate premium percentage (see Schedule C). Multiply by the excess, if any, derived by no. 4.

Example

A lease is being assigned 57 months after completion of the improvements at a consideration of \$600,000.

The initial cost of the improvements was \$500,000 while the current year CCI and base year CCI were 121.1 and 102.3, respectively. The whole term for the improvements is 408 months.

For the trade fixtures, the initial cost was \$1,510 with the current year CPI and base year CPI being 118.1 and 104.6, respectively. The total life expectancy is 96 months.

1.	Net Consideration:		\$600,000
2.	Adj Cost Imp/Ren:	\$591,867	
	Depreciation:	- 82,690	
	Adj Dep Cost Imp/Ren:		-509,197
3.	Adj Cost Trade Fixtures:	1,705	
	Depreciation:	- 1,012	
	Adj Dep Cost Trade Fixtures:		- 693
4.	Excess:		\$ 90,110
5.	Premium:	Percentage: 50%	\$ 45,055

SCHEDULE E. Subsequent Assignment of Lease Calculations

1. Subtract from the consideration the assignor received for the assignment that amount, if any, that is attributable to inventory to derive the net consideration received.
2. Subtract from the consideration the assignor previously paid for the assignment that amount, if any, that was attributable to inventory. Also, subtract from the consideration the assignor previously paid for the assignment that amount, if any, that was attributable to premiums. The net consideration paid is now defined to be the value of improvements as of the date of the occupancy by the assignor.
3. Using the result from no. 2, calculate the Adjusted Depreciated Value of Improvements or Renovations (see Schedule A).
4. Subtract the amount derived by no. 3 from the amount in no. 1 to determine the amount by which the consideration received for the assignment, whether by cash, credit, or otherwise, exceeds the adjusted depreciated value of improvements being transferred to the assignee.
5. Determine the appropriate premium percentage (see Schedule C). Multiply by the excess, if any, derived by no. 4.

Example

An assignor is assigning a lease 107 months after receiving the consent of the Board. Occupancy or the holding period is defined to be 107 months. The consideration received is \$1,000,000.

The consideration paid by the assignor was \$600,000 while the current year CCI and redefined base year CCI were 156.4 and 121.1, respectively. The whole term was 408 months.





No inventory was included in either consideration. However, a premium of \$45,055 was paid to the state by the previous occupant from the \$600,000 consideration.

1. Net Consideration Received: \$1,000,000
2. Consideration Paid: \$600,000  
Premium: - 45,055  
Net Consideration Paid: \$554,945
3. Adj Value Consideration (improvements):  

$$\begin{array}{rcl} 554,945 & \times & \frac{156.4}{121.1} \\ & & = 5716,708 \end{array}$$

Depreciation:  

$$\begin{array}{rcl} 5716,708 & \times & \frac{107 \text{ mos.}}{408 \text{ mos.}} \\ & & = -187,960 \end{array}$$
Adj Dep Value Consideration: - 528,748
4. Excess: \$ 471,252
5. Premium: Percentage: 45% \$ 212,063



November 8, 2017

Scott McCormack  
Vice President Real Estate  
Turtle Bay Resort LLC  
57-091 Kamehameha Highway  
Kahuku, Hawaii 96731  
United States

**Re: State of Hawaii's Assignment of Lease Evaluation Policy  
Proposed Assignment of Leasehold Interest in  
State Leased Property at Turtle Bay Resort**

Dear Mr. McCormack:

This consulting valuation opinion addresses the validity of the purchase price for the assignment of the leasehold interest in the State-leased vacant land identified as First Division TMK (1) 5-7-006, Parcels 26, 27, and 32 ("Subject Property") in connection with a pending sale of the property to BRE Turtle Bay Resort LLC (Blackstone). The 52.575-acre oceanfront Subject Property was conveyed to the State in October 2015 and leased back to Turtle Bay Resort ("TBR" and "Resort") under a long-term lease that imposes significant use limitations on the property, as well as obligations to maintain, secure and insure. The sale and leaseback was part of establishing a comprehensive Conservation Easement ("CE") on the adjacent Turtle Bay Resort land holdings. Per the terms of the Subject Property ground lease ("Lease"), the State ("DLNR") has the responsibility to consider the current pending transaction and sale price of TBR's leasehold interest in the Subject Property.

Our findings and opinions follow in outline format to convey the essential elements supporting our analysis.

**Background**

- In 2015 TBR did not want to sell its fee simple interest in the "Subject Property", but the State and Legislature required its purchase for public benefit and to establish control of this area of shoreline as part of the overall TBR CE transaction.
- The CE agreement called for the State to lease back the Subject Property to TBR for 65 years, encumbered with public access rights and the same use limitations as were placed on the TBR CE lands. Under the lease, TBR may only "use or allow the premises ... to be used substantially in the same manner that Lessee has been using the premises immediately preceding the effective date of this lease" which uses are enumerated in the Lease; no residential uses are allowed; no buildings or other permanent structural improvements are permitted. In essence, the Subject Property must remain as vacant publicly assessable undeveloped land.

**EXHIBIT "D"**



- The State set ground rent at \$480 annually acknowledging the use limitations and prohibitive restrictions and requirements.
- It is noted that the appraised value of the Subject Property and the CE at the time of the initial transaction was \$52.5MM considering its then zoned hotel and resort use. TBR accepted the State's \$45.0MM final offer for the sale of the Subject Property and the Conservation Easement restrictions on approximately 600 acres of other resort lands, believing a premium (i.e., pre-payment) was afforded to the State.

#### Approval of Assignment of Lease

- The current pending transfer of the Lessee's interest in the Subject Property ground Lease from TBR to Blackstone requires prior written approval of the Board who "may condition its consent to the assignment of the lease on payment by the lessee of a premium based on the amount by which the consideration for the assignment...exceeds the straight-line depreciated cost of improvements and trade fixtures being transferred...pursuant to the Assignment of Lease Evaluation Policy" ("Policy") attached to the lease.
- The Policy allows for a potential premium to the State of up to a maximum of 50% of the price paid for the leasehold interest after improvement deductions and considering the length of expended lease term.
- The Policy is specific when a State-owned leasehold property is transferred by assignment for an identified dollar amount.

#### Subject Property Value Considerations

- The Subject Property leasehold interest has neither future development rights or fixed long-term operating gross income.
- The Purchase and Sale Agreement (PSA) identifies the contracted purchase price for the leasehold interest in the Subject Property to be \$239,000, as excerpted below:

4. Purchase Price. The purchase price for the Seller's interest in the Ground Lease payable by Buyer to Seller is \$239,000.00 (as may be adjusted in accordance with this Agreement, the "Purchase Price"), as adjusted and prorated between Buyer and Seller for rent and all other payments and charges due or other payments made or credits made under the Ground Lease as of the Closing Date. On or prior to the Closing Date, Buyer shall deliver the Purchase Price in cash to Escrow Holder, together with Buyer's portion of the closing costs as provided in Section 6.

- TBR reports that the audited financial annual net income attributed to the existing commercial operations utilizing the Subject Property lands over the last three years has ranged annually from \$17,673 to \$33,649, with 2016 (the last full year) being \$27,798. The primary source of revenue has been from small local water recreational groups and the equestrian facility. Both uses/users could operate elsewhere at TBR, but have been using the Subject Property land as it was available. The attributed overhead costs are shared allocations involving other areas of the Resort. Our evaluation assumes these figures reflect the general net income producing ability of the undeveloped Subject Property within the terms of the ground lease,

acknowledging they are not fixed amounts or for services directly attached to the Subject Property.

- Leasehold market value is not the basis of determining any attributed shared purchase price with the State. Given the use restrictions for the property, as a stand-alone site, in our opinion it has little or no independent salable market value when coupled with the obligations to maintain, secure and insure.
- The positive net income is largely a function of the unique economic benefit to the Resort owner who has historically elected to use the convenience of the Subject Property for various recreational and entertainment venues. The adjacency allows for economies of scale, infrastructure support, and contributory benefits that are not available to third parties.

#### Subject Property Purchase Price

- The buyer and seller have contracted at \$239,000 for the purchase of the Lessee's interest in the ground lease. Our independent evaluation is that this is a reasonable price point considering the Subject Property has no development rights; is specifically restricted as to use; carries obligations to maintain, secure and insure; and the income generating historic uses on the premises could be facilitated elsewhere at the Resort.
- We consider this amount not reflective of market value, but rather the beneficial economic opportunity of adjacency and shared use.
- If the past income generation of the property were to be a basis of evaluation, discounted present value analysis using the average annual reported net incomes of the last two and the three years against the contracted assignment price results in an implied unlevered discount rate range (IRR) of 11.0 to 12.8 percent. This IRR is consistent with the upper end of the most recent 2<sup>nd</sup> Quarter RealtyRates.com Investor Survey for leases on land proposed for development – an upside the leasehold interest in the subject does not enjoy.

Based on our evaluation, we believe the investment value of the leasehold subject property to TBR is fairly characterized by the contract purchase price of \$239,000. While this amount likely exceeds the cash price an independent third party could justify for the restricted premises, it reflects the perceived present value of continued operation of the Subject Property by the owner of TBR.

Respectfully submitted,

CBRE, Inc.  
Valuation & Advisory Services

  
James E. Hallstrom, Jr., MAI, CRE, FRICS  
Managing Director for Hawaii  
Valuation and Advisory Services