

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

August 9, 2024

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

OAHU

Consent to Assign General Lease No. S-6089, BRE Turtle Bay Resort, LLC, a Delaware limited liability company, Assignor, to North Shore Bay Owner LLC, a Delaware limited liability company, Assignee, Kahuku, Koolaupoko, Oahu, Tax Map Keys: (1) 5-7-006:026, 027 & 032;

Consent to Sublease General Lease No. S-6089, from North Shore Bay Owner LLC, a Delaware limited liability company, Sublessor, to North Shore Bay TRS LLC, a Delaware limited liability company, Sublessee, Kahuku, Koolaupoko, Oahu, Tax Map Keys: (1) 5-7-006:026, 027 & 032; and

Authorize the Chairperson to Execute an Estoppel for General Lease S-6089, Kahuku, Koolaupoko, Oahu, Tax Map Keys: (1) 5-7-006:026, 027 & 032.

APPLICANT:

- BRE Turtle Bay Resort, LLC, a Delaware limited liability company, Assignor;
- North Shore Bay Owner LLC, a Delaware limited liability company, Assignee and Sublessor; and
- North Shore Bay TRS LLC, a Delaware limited liability company, Sublessee.

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: NO

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.

SUBLEASE CHARACTER OF USE:

Pursuant to Section 12 of the Lease, Sublessee 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.

TERM OF SUBLEASE:

56 years, commencing on the date of assignment and expiring on 11:59 P.M., October 30, 2080.

ANNUAL RENTAL:

\$480.00.

ANNUAL SUBLEASE RENTAL:

\$480.00.

RECOMMENDED ADJUSTMENT TO LEASE RENTAL:

\$0.00¹

ASSIGNMENT CONSIDERATION:

\$ 250,000.00.

RECOMMENDED ASSIGNMENT PREMIUM:

\$ 112,500.00. or 45% of the fair market value of the lease, whichever is greater.²

DCCA VERIFICATION:

ASSIGNOR:

Place of business registration confirmed:	YES
Registered business name confirmed:	YES
Good standing confirmed:	YES

ASSIGNEE & SUBLESSOR:

Place of business registration confirmed:	YES
Registered business name confirmed:	YES
Good standing confirmed:	YES

SUBLESSEE:

Place of business registration confirmed:	YES
Registered business name confirmed:	YES
Good standing confirmed:	YES

APPLICANT REQUIREMENTS

Applicant shall be required to:

1. Pay for an independent appraisal to be procured by the State to determine the fair market value of the subject lease, i.e., the amount a willing buyer would pay to a willing seller to acquire the lease.
2. Deposit \$112,500.00 in an escrow account to be applied toward a lease assignment premium. If the premium comes out higher than \$112,500.00, Applicant will need to make up the difference within 30 days of the Board action assessing the premium. If the difference is not paid to the State within the time allowed, any approvals granted pursuant to this action will be subject to rescission by the Board.

1 The sublease rent will not exceed the lease rent charged to the Lessee.

2 Land Division will contract for an appraiser to independently determine the fair market value of the lease.

CHAPTER 343 - ENVIRONMENTAL ASSESSMENT:

In accordance with Hawaii Administrative Rules (HAR) § 11-200.1-15 and the Exemption List for the Department of Land and Natural Resources reviewed and concurred on by the Environmental Council on November 10, 2020, the subject request is exempt from the preparation of an environmental assessment pursuant to [insert appropriate Exemption Class and Item number from list, e.g., Exemption Class No. 1 that states, “Operations, repairs or maintenance of existing structures, facilities, equipment, or topographical features, involving minor expansion or minor change of use beyond that previously existing,” and Type 1, Item 40 that states, “Leases of state land involving negligible or no expansion or change of use beyond that previously existing.”

The subject request is a de minimis action that will probably have minimal or no significant effect on the environmental and should be declared exempt from the preparation of an environmental assessment and the requirements of § 11-200.1-17, HAR, as a de minimis action.

BACKGROUND:

General Lease No. (“GL”) S-6089 was entered into as an integral part of a larger transaction between the State of Hawaii, through the Board of Land and Natural Resources (the “State”) and Turtle Bay Resort, LLC, (“TBR”) 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, TBR requested, and the State 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 TBR 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 TBR entered into GL S-6089.

At its meeting on December 8, 2017, under agenda item D-12, the Board consented to the assignment of GL S-6089 from TBR to BRE Turtle Resort LLC, (the "Assignor" in this transaction) as part of the sale of the entire resort property from TBR to that entity. The sale also included the privately owned land encumbered by the conservation easement. As part of that approval, the Board approved the payment of an assignment premium in the amount of \$119,500.00. This amount was based on the purchase price of the lease, which was determined to be \$239,000.00 based on an evaluation conducted by an appraiser contracted for by TBR. Based on the lack of improvements on the leased premises, staff recommended assessing a premium percentage of 50% (based on the elapsed lease term) of the full purchase price.

REMARKS:

ASSIGNMENT

By letter dated June 10, 2024, 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 wholly owned subsidiary of Host Hotels, L.P., an S&P 500 company and the largest lodging real estate investment trust, and one of the largest owners, of luxury and upper-upscale hotels, which currently owns 74 properties in the United States and five properties internationally totaling approximately 42,700 rooms. Staff considers the Assignee qualified to assume the lease.

On December 14, 2023, staff from Land Division and the Division of Forestry and Wildlife conducted a site inspection to determine the Assignor's compliance with the terms and conditions of both the lease and conservation easement. Assignor is compliant with both

the lease and conservation easement. Assignor is also 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”).

Regarding 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 \$250,000.00. Given that there are no improvements in the Leased Premises, staff recommends assessing a premium percentage of 45% (based on the elapsed lease term) of the fair market value of the lease. Using the purchase price of the lease would result in an assignment premium of \$112,500.00. Please refer to Schedules C and D of the Assignment of Lease Evaluation Policy attached as **Exhibit B**. However, due to the unique nature of this lease, staff believes that it is in the State’s best interest to conduct an independent appraisal to determine the fair market value of the lease and base the assignment premium on that value rather the solely relying on the purchase price.

According to media reports, the sale price for the entire resort property is \$725,000,000.00. The lease purchase agreement and balance sheet provided by the Assignor lists the value and purchase price of the lease at only \$250,000.00. Staff believes that given the large disparity in the purchase price of the lease in relation to the overall purchase price of the entire resort property, an independent appraisal of the lease should be conducted to ensure that the State is receiving fair compensation for the consent to assignment. Staff further notes that when the lease was initially set at \$239,000.00 by the prior lessee for the previous sale³, the entire resort property sold for approximately \$332,000,000.00 in that transaction. Staff believes that there may be value in the lease which keeps the shoreline property at Kawela Bay undeveloped preserving the exclusivity and seclusion for the resort property instead of fully developed with homes.⁴ Furthermore, for the State’s conservation acquisition, the State paid \$37,500,000.00 for the fee simple title of the land leased under GL S-6089 and the conservation easement over the privately owned resort land.⁵ The State’s appraisals for the conservation easement and fee simple land including the leased fee value (excluding exhibits due to file size), and the valuation of the lease provided by TBR for the 2017 assignment are attached as **Exhibits, C, D and E**, respectively.

3 The lessee submitted a letter from appraiser James Hallstrom indicating the value was supportable based on the restrictive nature of the lease, and the income generated by the lessee from beach type concessions that are allowable uses under the lease, however, Hallstrom’s analysis was not a fair market valuation. The state’s appraiser valued the leasehold or lessee’s interest in the leased lands at \$44,370,000 as noted in footnote 5.

4 As of the writing of this submittal, an appraiser has been selected and is in the contracting stage.

5 The State’s appraisal valued the fee simple interest at \$47,320,000.00 and the leased fee interest at \$2,950,000.00 for a difference of \$44,370,000.00 which is the leasehold or lessee’s interest in the leased lands.

Staff normally prepares a complete lease assignment premium analysis for presentation to the Board prior to recommending consent to assignment. In this case, however, the parties have indicated they wish to close this transaction prior to an appraisal being completed. Accordingly, staff is willing to make a recommendation for consent at this time provided that the Assignor satisfy the appraisal requirement as noted above and additionally agree to deposit \$112,500.00 in escrow to be applied toward a lease assignment premium. In the event the fair market value exceeds the \$250,000.00 purchase price resulting in a higher premium, the Assignor shall be responsible for paying the difference in excess of \$112,500.00 within 30 days of the Board action assessing the premium. If the difference is not paid to the State within the time allowed, any approvals granted pursuant to this action will subject to rescission by the Board.

SUBLEASE

In addition to the consent to assignment, the Board is also requested to approve a consent to sublease between the Assignee, North Shore Bay Owner LLC, as Sublessor, to its affiliate, North Shore Bay TRS LLC, as Sublessee. The Applicants have noted that since the Assignee's parent entity is a real estate investment trust, the Assignee will lease the entire resort premises, including the GL S-6089 property, to the Sublessee which is an affiliate entity. The Applicants have stated that the sublease shall be in effect only so long as the Sublessee leases the resort property from the Assignee, who shall remain the primary Lessee and the party liable to the Board, and the rent charged to the Sublessee for the lease premises will not exceed the rent charged to Assignee under GL S-6089.

The Sublessee shall manage the lease in a manner consistent with past management activities and there will no change in character of use. As the sublease rent is equivalent to the annual rent for the entire 65-year lease term at \$480.00, staff is not recommending any change to the lease rent as part of the consent to the sublease. Furthermore, as the proposed sublease appears to be administrative in nature to facilitate the operation of the resort property rather than generating additional revenue for the Assignee, staff is recommending the Board consent to sublease without an adjustment in the annual rent.

ESTOPPEL

Finally, staff recommends that the Board authorize the Chairperson to execute an estoppel in order for the Assignee to obtain title insurance for the GL S-6089 premises. The estoppel would confirm that the lease is in full force and effect, that is has not been assigned supplemented, modified or amended except as to those actions previously approved by the Board, and the Lessee is in compliance with no outstanding defaults. Staff will work with the Attorney General on an appropriate document which serves the best interests of the State for the Chairperson to execute.

RECOMMENDATION: That the Board:

1. Declare that, after considering the potential effects of the proposed disposition as provided by Chapter 343, HRS, and Chapter 11-200.1-15, 11-200.1-16, HAR, this project will probably have minimal or no significant effect on the environment and is therefore exempt from the preparation of an environmental assessment as a de minimis action.
2. Consent to the assignment of General Lease No. S-6089 from BRE Turtle Bay Resort, LLC, as Assignor, to North Shore Bay Owner LLC, as Assignee, subject to the following:
 - a. The standard terms and conditions of the most current consent to assignment form, as may be amended from time to time; provided that the consent shall additionally require BRE Turtle Bay Resort, LLC to:
 - a. Pay for an independent appraisal to be procured by the State to determine the fair market value of the subject lease, i.e., the amount a willing buyer would pay to a willing seller to acquire the lease; and
 - b. Deposit \$112,500.00 in escrow to be applied toward a lease assignment premium if one is determined to be due to the State as part of the assignment. If the premium is determined to be higher than \$112,500.00, BRE Turtle Bay Resort, LLC shall make up the difference within 30 days of the Board action assessing the premium. If the difference is not paid to the State within the time allowed, any approvals granted pursuant to this action shall be subject to rescission by the Board.
 - b. Review and approval by the Department of the Attorney General; and
 - c. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.
3. Consent to the sublease under General Lease No. S-6089 between North Shore Bay Owner LLC, as Sublessor, and North Shore Bay TRS LLC, as Sublessee, subject to any applicable conditions cited above which are by this reference incorporated herein and further subject to the following terms and conditions:
 - a. The standard terms and conditions of the most current consent to sublease form, as may be amended from time to time;
 - b. Review and approval by the Department of the Attorney General; and
 - c. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.
4. Authorize the Chairperson to execute an estoppel for General Lease S-6089, subject to the following:

- a. The terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State; and
- b. Review and approval by the Department of the Attorney General.

Respectfully Submitted,



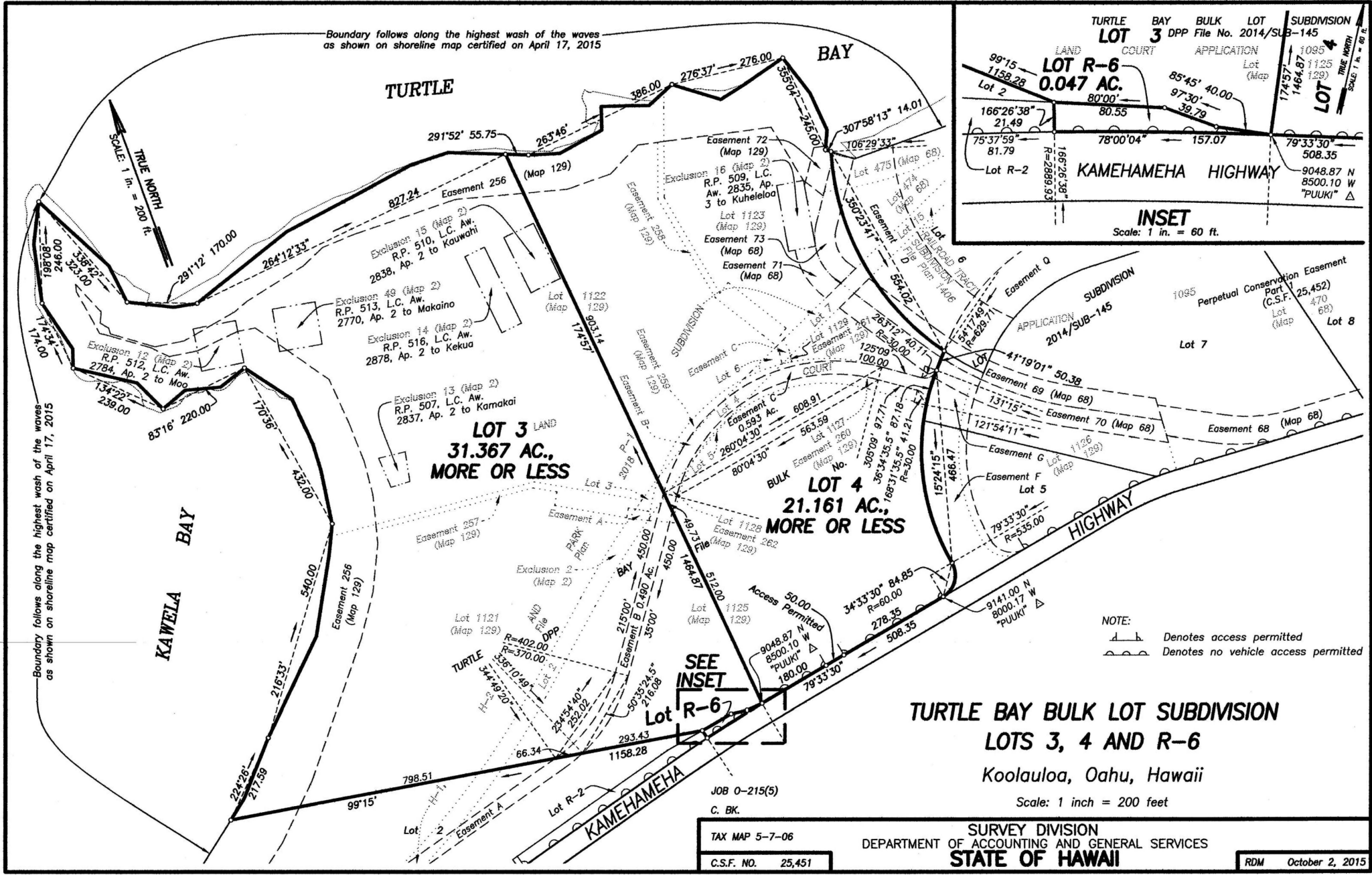
Ian Hirokawa
Special Projects Coordinator

APPROVED FOR SUBMITTAL:



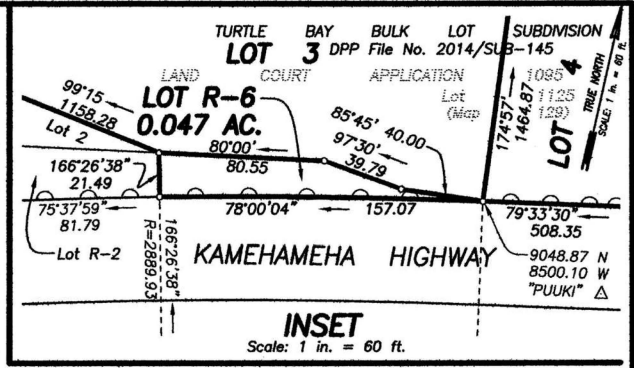
Dawn N.S. Chang, Chairperson

RT



Boundary follows along the highest wash of the waves as shown on shoreline map certified on April 17, 2015

Boundary follows along the highest wash of the waves as shown on shoreline map certified on April 17, 2015



INSET
Scale: 1 in. = 60 ft.

NOTE:
 Denotes access permitted
 Denotes no vehicle access permitted

TURTLE BAY BULK LOT SUBDIVISION
LOTS 3, 4 AND R-6
 Koolauloa, Oahu, Hawaii
 Scale: 1 inch = 200 feet

TAX MAP 5-7-06
 C.S.F. NO. 25,451
 SURVEY DIVISION
 DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE OF HAWAII
 RDM October 2, 2015

EXHIBIT A

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"

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 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.

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.

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

<u>Example</u>	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.

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

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

2. Depreciation

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

3. Adjusted Depreciated Cost of Improvements or Renovations
 $\$591,887 - \$82,690 = \underline{\$509,197}$

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)	

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

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

2. Depreciation

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

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.

Years

Percentage

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 130 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:	\$591,887	
	Depreciation:	<u>- 82,690</u>	
	Adj Dep Cost Imp/Ren:		-509,197
3.	Adj Cost Trade Fixtures:	1,705	
	Depreciation:	<u>- 1,012</u>	
	Adj Dep Cost Trade Fixtures:		- <u>693</u>
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 <u>Received</u> :			\$1,000,000	
2.	Consideration <u>Paid</u> :	\$600,000			
	Premium:	<u>- 45,055</u>			
	Net Consideration <u>Paid</u> :		\$554,945		
3.	Adj Value Consideration (improvements):				
	\$554,945	X	<u>156.4</u>	=	\$716,708
			121.1		
	Depreciation:				
	\$716,708	X	<u>107 mos.</u>	=	<u>-187,960</u>
			408 mos.		
	Adj Dep Value Consideration:			-	<u>528,748</u>
4.	Excess:			\$	471,252
5.	Premium:	Percentage:	45%	\$	<u>212,063</u>

Restricted Use Appraisal Report to
State of Hawaii
Department of Land & Natural Resources

Covering the

**PROPOSED CONSERVATION
EASEMENT AND SALE/LEASEBACK
INVOLVING PORTIONS OF THE
TURTLE BAY RESORT**

Kawela and Kahuku, Koolau Loa, Oahu, Hawaii

As of October 1, 2015



EXHIBIT C



October 19, 2015

Karen Char, MAI, CRE
Paul D. Cool, MAI, CRE
Shelly H. Tanaka, MAI, AI-GRS
Elizabeth Tang

Mr. Russell Y. Tsuji
Land Division Administrator
State of Hawaii
Department of Land and Natural Resources
Land Division
P. O. Box 621
Honolulu, Hawaii 96809

Dear Mr. Tsuji:

Re: Turtle Bay Resort Conservation Easement and Ground Lease

At your request, John Child & Company has completed certain real estate appraisal assistance in matters relating to the proposed Turtle Bay Resort Conservation Easement and Ground Lease. This letter presents our value estimates. Supporting documentation is available in our workfile.

STUDY BACKGROUND

Turtle Bay Resort is an 845-acre master-planned destination resort that extends along the northerly side of Kamehameha Highway, from Kawela Bay to Kahuku Point, Koolau Loa, Oahu, Hawaii. About 391 acres of the resort are improved with:

- Turtle Bay Hotel
- Fazio Golf Course
- Palmer Golf Course
- Ocean Villas (oceanfront residential condominiums)
- Kuilima Estates East and West (golf front residential condominiums)
- Associated roads, infrastructure, and ancillary resort recreation facilities.

The balance of about 454 acres is undeveloped and comprises the planned expansion area of the Turtle Bay Resort. The parcels comprise various parcels in tax map keys 5-6-03, 5-7-01, and 5-7-06 of the First Taxation Division.

Turtle Bay Resort, LLC (TBR) owns the fee simple interest in 807 acres of developed and undeveloped properties within the balance of the Turtle Bay Resort. The balance of about 38 acres consists of three existing condominium developments with individually-owned apartments.



Ownership of Turtle Bay Resort Properties

	<u>Acres</u>
Turtle Bay Resort, LLC	
Developed Lands	
Turtle Bay Resort Hotel	29.097
Fazio and Palmer Golf Courses	319.223
Existing Clubhouse	3.530
Kuilima Drive	<u>1.454</u>
Subtotal - Developed Lands	353.304
Undeveloped Lands	<u>453.637</u>
Subtotal - Turtle Bay Resort, LLC	806.941
Privately-owned condominiums	<u>37.649</u>
Total	<u><u>844.590</u></u>

TBR and the State of Hawaii, through its Board of Land & Natural Resources (BLNR), propose to enter into two transactions involving portions of the Turtle Bay Resort, described under the following subheadings.

Conservation Easement

The first transaction involves a Conservation Easement that will encumber a 568.417-acre portion of the Turtle Bay Resort, shown in Exhibit A and identified as follows:

Parcels Involved in Conservation Easement Transaction [1]

<u>Lot</u>	<u>Proposed Action Plan Parcel Identification [1]</u>	<u>Acres</u>
5	Farmer's Market, portion	2.604
7	Farmer's Market, portion	9.103
8	Golf Course, portion	50.766
14	Park P-4	9.304

[1] Lot designations from "TURTLE BAY BULK LOT SUBDIVISION," as shown on Subdivision Map prepared by Ryan M. Suzuki, with R.M. Towill Corporation.



17	Park P-2	37.031
18	Golf Course, portion	25.664
20	Kuleana in Golf Course	3.783
21	Golf Course, portion	12.053
22 por.	RR-5, 6, RES-1	49.200
22 por.	Park P-3, Equestrian, roads, and other	26.008
23	Marsh	99.910
24	RES-2	8.774
25	Golf Course, portion	157.885
26	Golf Course, portion	69.072
1204A	Marconi Road	<u>7.260</u>
	Total	<u>568.417</u>

The purpose of the Conservation Easement is to preserve and maintain certain Conservation Values. According to Section II.C of the Conservation Easement,

The Easement Area contains important natural habitat, coastal and inland ecosystems, recreational, research, and educational values, and open space (collectively, the “Conservation Values”). These specific Conservation Values are of interest for protection through this Easement, and are listed in order of priority:

1. Natural Habitat, Coastal and Inland Ecosystems. The Easement Area contains ecologically significant ecosystems including, but not limited to, the native sand dunes located along the shoreline, and the Punaho‘olapa Marsh wetland area. These ecosystems contain and contribute to Hawaii's overall biodiversity, and are natural habitat for some threatened and endangered plant and animal species...
2. Recreational, Research, and Educational Values. The Easement Area’s recreational, research, and educational values contribute to the overall access to recreational opportunities in the State and to the availability of locations and land types needed to expand the knowledge base on Hawaiian ecosystems, geologic features, and historic land use practices. The Easement Area’s geological, archeological and culturally important features, and unique research opportunities, including, but not limited to flora, fauna, and ecosystem perspectives, are an important public benefit for the State...
3. Open Space. Preservation of the Easement Area's open space values contributes to the scenic and greenbelt qualities of the Ko‘olauloa region. Preservation of these scenic qualities provides a significant public benefit and will preserve the Easement Area’s scenic value and existing natural resources including, but not limited to, native species populations, ecosystem habitat for various plant and animal species, and important geological features found on the Easement Area...



In addition, the Conservation Easement describes the importance of the Easement Area for military buffer.

The proposed Conservation Easement imposes certain limitations on use, principal among them is the prohibition of residential development, including timeshare, resort or fractional interest units. Because of this, the proposed Conservation Easement has the greatest impact on those lots that had been targeted for resort residential and residential development, as such uses would no longer be allowed. These lots include:

Resort Residential and Residential Development Lots

<u>Lot</u>	<u>Proposed Action Plan Parcel Identification</u>	<u>Acres</u>
22 por.	RR-5, 6, RES-1	49.200
24	RES-2	<u>8.774</u>
	Total	<u><u>57.974</u></u>

In contrast, TBR's uses and activities on the remaining lots to be encumbered by the proposed Conservation Easement will remain largely unaffected.

Sale and Leaseback

The second transaction involves the fee simple acquisition and simultaneous leaseback of about 52.535 acres at Kawela Bay, as shown in Exhibit B and identified as follows:

Parcels Involved in Sale/Leaseback Transaction [1]

<u>Lot [1]</u>	<u>Masterplan Reference</u>	<u>Acres</u>
Lot 3	RR-1, Portion	31.384
Lot 4	RR-2	21.104
Lot R-6	RR-1, Portion	<u>0.047</u>
Total		<u><u>52.535</u></u>

[1] Lot designations from "TURTLE BAY BULK LOT SUBDIVISION," as shown on Subdivision Map prepared by Ryan M. Suzuki, with R.M. Towill Corporation.



The lease agreement will extend 65 years, with a rent payment of \$480 annually during the entire term. The lease permits the property to be used in substantially in the same manner that TBR has been using the premises prior to the lease encumbrance. According to the lease,

12. Character of use. The Lessee shall use or allow the premises leased to be used substantially in the same manner that Lessee has been using the premises immediately preceding the effective date of this lease, which existing uses include the uses set forth in the Baseline Documentation for the Turtle Bay Conservation Easement dated _____, 2015, and the commercial and non-commercial activities listed hereinbelow (collectively, the “Existing Uses”)... Similar and related uses and activities to the Existing Uses shall also be permitted, provided that such uses and activities do not have a greater adverse impact on the premises than the Existing Uses.

The lease prohibits residential use. According to the lease,

43. Restriction on residential use. The premises, or any portion, shall not be utilized for residential purposes. The construction or placement of any structure on the premises for residential purposes is strictly prohibited.

Finally, the lease incorporates certain rights and restrictions in the Conservation Easement to encumber other portions of the Turtle Bay Resort. According to the lease,

57. Conservation Easement Rights and Restrictions. During the term of this lease, Lessee shall be able to exercise only the rights set forth herein or listed in Sections B, C, and D of the Conservation Easement, subject to (a) compliance with the purpose set forth in Section A of the Conservation Easement and (b) the restrictions contained in Section E of the Conservation Easement.

The State of Hawaii and TBR are negotiating the acquisition prices associated with these ownership interests.

- The acquisition price for the conservation easement involving the 568.417-acre portion of the Turtle Bay Resort is to be based on the difference between the market values before and after the proposed encumbrance.
- The acquisition price for the fee simple sale and leaseback is reported to be based on the difference between the market values of the fee simple interest and leased fee interest in the 52.535-acre portion of the Turtle Bay Resort.



Mr. Russell Y. Tsuji
October 19, 2015
Page 6

As a part of the acquisition, the State of Hawaii has asked John Child & Company to provide certain valuation assistance relating to these acquisitions.

STUDY OBJECTIVES

The objectives of our assistance are to:

1. Estimate the market value of the proposed Conservation Easement as the difference in market values of the fee simple interest in the 568.417-acre portion of the Turtle Bay Resort, before and after the proposed conservation easement encumbrance.
2. Estimate the market value of the proposed sale and leaseback of the 52.535-acre Kawela Bay portion of the Turtle Bay Resort as the difference in market values of the fee simple and leased interests in this portion of the Turtle Bay Resort.

INTENDED USE AND USER(S)

Our assistance is intended to be used by the State of Hawaii in matters relating to its potential acquisition of certain interests in the Turtle Bay Resort. Our assistance is not intended for any other purpose or users and is not to be relied upon by any third parties for any purpose, whatsoever.

EFFECTIVE DATE OF APPRAISAL

The effective date of appraisal is October 1, 2015.

DEFINITIONS OF TERMS

Terms used in this assignment are defined in the Appraisal Institute's, **The Dictionary of Real Estate Appraisal**, Fifth Edition, unless otherwise footnoted.

Fair Market Value

“Fair market value” has the same meaning as “market value.”



Market value means the amount in cash, or on terms reasonably equivalent to cash, for which in all probability the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing and reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy or sell, giving due consideration to all available economic uses of the property at the time of the appraisal. [1]

Fee Simple Interest

For the purpose of this report, fee simple interest is the same as fee simple estate. Fee simple estate is defined as absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

Leased Fee Interest

A freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship (i.e., a lease).

Leaseback

An arrangement in which the seller of a property is obligated to lease the property from the buyer under terms and conditions that are negotiated by the parties.

Larger Parcel

Larger Parcel is defined as that tract, or those tracts, of land which possess a unity of ownership and have the same, or an integrated, highest and best use. Elements of consideration by the appraiser in making a determination in this regard are contiguity, or proximity, as it bears on the highest and best use of the property, unity of ownership, and unity of highest and best use. [2]

[1] Interagency Land Acquisition Conference, **Uniform Appraisal Standards for Federal Land Acquisitions**, 2000.

[2] Ibid.



Mr. Russell Y. Tsuji
October 19, 2015
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REPORTING

The results of our valuation assistance are presented in a letter report, a format intended to comply with the reporting requirements set forth under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice (USPAP) for a Restricted Appraisal Report.

The report does not present discussions of the data, reasoning, and analyses used in the appraisal process to develop the estimates of value. Supporting documentation concerning the data, reasoning, and analyses is available in our workfile. The rationale for the opinions and conclusions set forth in this report may not be properly understood without additional information in our workfile.

The format of this Restricted Appraisal Report is specific to the needs of the client and for the intended use stated in this report.

PRIOR ASSIGNMENT DISCLOSURE

Within the past three years, we have provided real estate appraisal and/or appraisal review services relating to an ownership interest in the property that is the subject of this proposal.

JURISDICTIONAL EXCEPTION

The USPAP Jurisdictional Exception Rule provides that “if any part of [USPAP] standards is contrary to the law or public policy of any jurisdiction, only that part shall be void and of no force or effect in that jurisdiction.

Contrary to USPAP Standards Rule 1-2(c), the definition of market value defined under Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA) and used in this report does not call for the estimate of value to be linked to a specific exposure time estimate, but merely that the property be exposed on the open market for a reasonable length of time, given the character of the property and its market.

This is contrary to USPAP Standards Rule 1-2 and is considered a jurisdictional exception.

ASSUMPTION OF HYPOTHETICAL CONDITION

A hypothetical condition is that which is contrary to what exists but is supposed for the purpose of analysis. A hypothetical condition assumes conditions contrary to known facts.



The valuation of the portions of the Turtle Bay Resort in the “after” condition is based on the hypothetical condition that portions are encumbered by either the Conservation Easement or lease, with terms and conditions not materially different from those proposed.

Use of this hypothetical condition has an effect on the results of this assignment.

OTHER STUDY CONDITIONS

This analysis is subject to other study conditions that are presented in the Addendum.

ESTIMATED MARKET VALUE OF THE PROPOSED CONSERVATION EASEMENT

The proposed Conservation Easement will encumber a 568.417-acre portion of the Turtle Bay Resort owned by TBR. However, it has the greatest impact on the 57.974-acre portion of the Turtle Bay Resort targeted for future resort residential and residential development, as such uses would no longer be allowed. In contrast, the remaining portion of the Turtle Bay Resort to be encumbered will be largely unaffected, as the broad spectrum of current and anticipated uses will continue to be permitted.

As a result, the market value attributable to the proposed Conservation Easement is estimated as the difference between the market values of the 57.974-acre portion of the Turtle Bay Resort planned for future residential development.

- While development is currently not feasible because of associated infrastructure costs and other development obligations, the long-term highest and best use of this 57.974-acre portion of the Turtle Bay Resort, *before* the proposed Conservation Easement encumbrance, is for investment and potential future residential development.
- *After* encumbrance, the highest and best use of this portion of the Turtle Bay Resort would be for open space activities permitted under the Conservation Easement.

The sales comparison approach is used to estimate the market values *before* and *after* the proposed encumbrance using transactions of properties sharing similar highest and best uses. The sales comparison approach assumes that the value of a property relates directly to the prices of comparable, competitive properties. It assumes that the value of a property tends to be set by the price that would be paid to acquire a substitute property of equal utility and desirability.



Based on the comparative analyses, the market value of the fee simple interest in the 57.974 acres comprising the residential development parcels *before* and *after* the proposed Conservation Easement encumbrance is shown as follows:

Difference Between the Market Values
Before and After the Proposed Conservation Easement

	<u>Estimated market value</u>
<i>Before</i> Conservation Easement encumbrance	\$2,090,000
<i>After</i> Conservation Easement encumbrance	<u>320,000</u>
Difference	<u><u>\$1,770,000</u></u>

As a result, the market value of the proposed Conservation Easement to encumber the 568.417 acres within the Turtle Bay Resort, as of October 1, 2015, is estimated to be:

ONE MILLION SEVEN HUNDRED SEVENTY THOUSAND DOLLARS
(\$1,770,000).

**ESTIMATED MARKET VALUE OF THE
PROPOSED SALE AND LEASEBACK**

The market value of the proposed sale and leaseback of the 52.535-acre Kawela Bay portion of the Turtle Bay Resort is estimated as the difference in market values of the fee simple and leased fee interests in this portion of the Turtle Bay Resort.

Fee Simple Valuation Method

The Proposed Action Plan envisioned development of this portion of the Turtle Bay Resort with 225 resort residential units. However, given associated development costs and current market conditions, the highest and best use of the 52.535-acre Kawela Bay portion of the Turtle Bay Resort is considered to be for residential subdivision.

Based on this highest and best use for residential subdivision development, the subdivision development analysis is used to estimate the market value of the fee simple interest in the property.



Belt Collins Hawaii, LLC (Belt Collins) formulated a subdivision plan for a slightly larger, 55.119-acre Kawela Bay parcel that included the 52.535-acre portion involved in the sale and leaseback, and an adjacent 2.584-acre portion to be conveyed to the City & County of Honolulu. The subdivision plan is included as Exhibit C.

The subdivision plan includes 89 residential lots. However, two lots are set aside to accommodate development of required affordable housing of nine units, being 10% of the proposed market lots. Consequently, the number of salable lots is reduced to 87. [1]

Among the residential lots in the subdivision plan, 12 lots front Kawela Bay, 10 lots are positioned along the ocean at Turtle Bay, and one large lot is at Kawela Point. These oceanfront lots are subject to a 100-foot shoreline setback. [2]

The valuation analysis projects gross sales revenue from the sales of the individual lots, deducts direct and indirect costs, and marketing and related holding expenses over the development and absorption period, and discounts the resulting net cash flows at an appropriate rate reflective of the associated risks and opportunities to estimate the market value of the fee simple interest in the property.

Leased Fee Valuation Method

The income approach is used to value the leased fee interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort because its value is predicated on the present value of future benefits.

Once encumbered by the proposed lease, the State's leased fee ownership interest consists of the right to collect \$480 annually during the 65-year term and the reversionary rights to the fee simple interest in the property at the end of the lease.

The analysis focuses on estimating the present value of the income stream and reversionary interest in the property at the end of the lease. The discount rate to capitalize the income stream and reversion into a present value estimate is estimated by comparison with the risks and opportunities associated with comparable investments.

[1] Lots 66 and 67, with a combined area of 44,959 sq ft , would be set aside for the required 9-unit affordable housing development. The development density, one unit per 4,995 sq ft of land area, is consistent with development densities to accommodate affordable housing development requirements elsewhere in the Turtle Bay Resort.

[2] Structures over 50 feet in height would be subject to a 300-foot shoreline setback.

Mr. Russell Y. Tsuji
October 19, 2015
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**Estimated Market Value of the
Proposed Sale and Leaseback**

The market value of the proposed sale and leaseback of the 52.535-acre Kawela Bay portion of the Turtle Bay Resort is estimated as the difference in market values of the fee simple and leased interests in this portion of the Turtle Bay Resort.

We are in the process of refining the valuation analyses of the respective ownership interests. However, we estimate the difference between the market values of the fee simple and leased fee interests in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort, as of October 1, 2015, to be:

AT LEAST FORTY MILLION DOLLARS
(At least \$40,000,000).

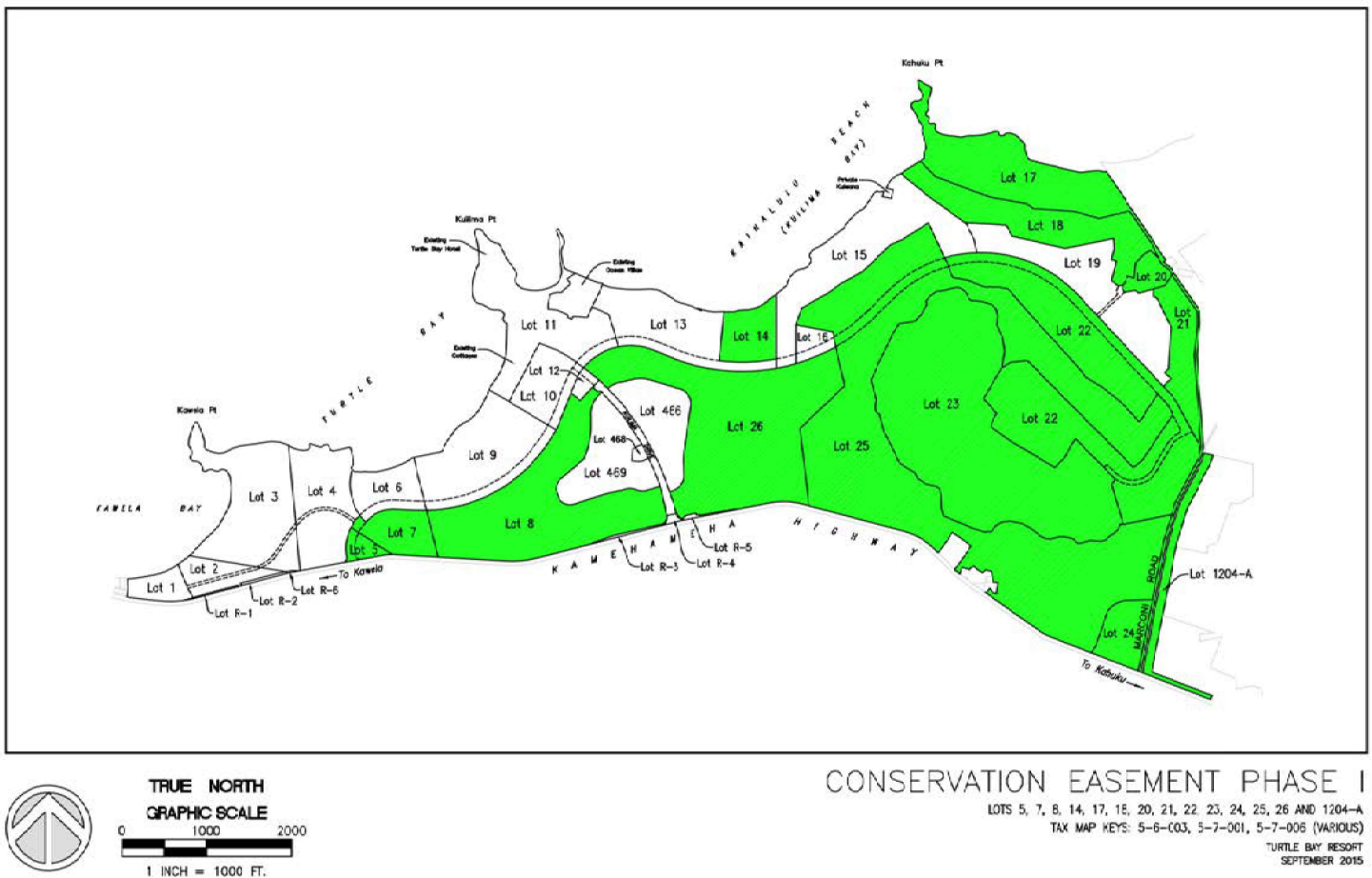
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We appreciate having the opportunity to assist you on this interesting assignment. Please contact us if you have any questions.

Sincerely,

JOHN CHILD & COMPANY, INC.

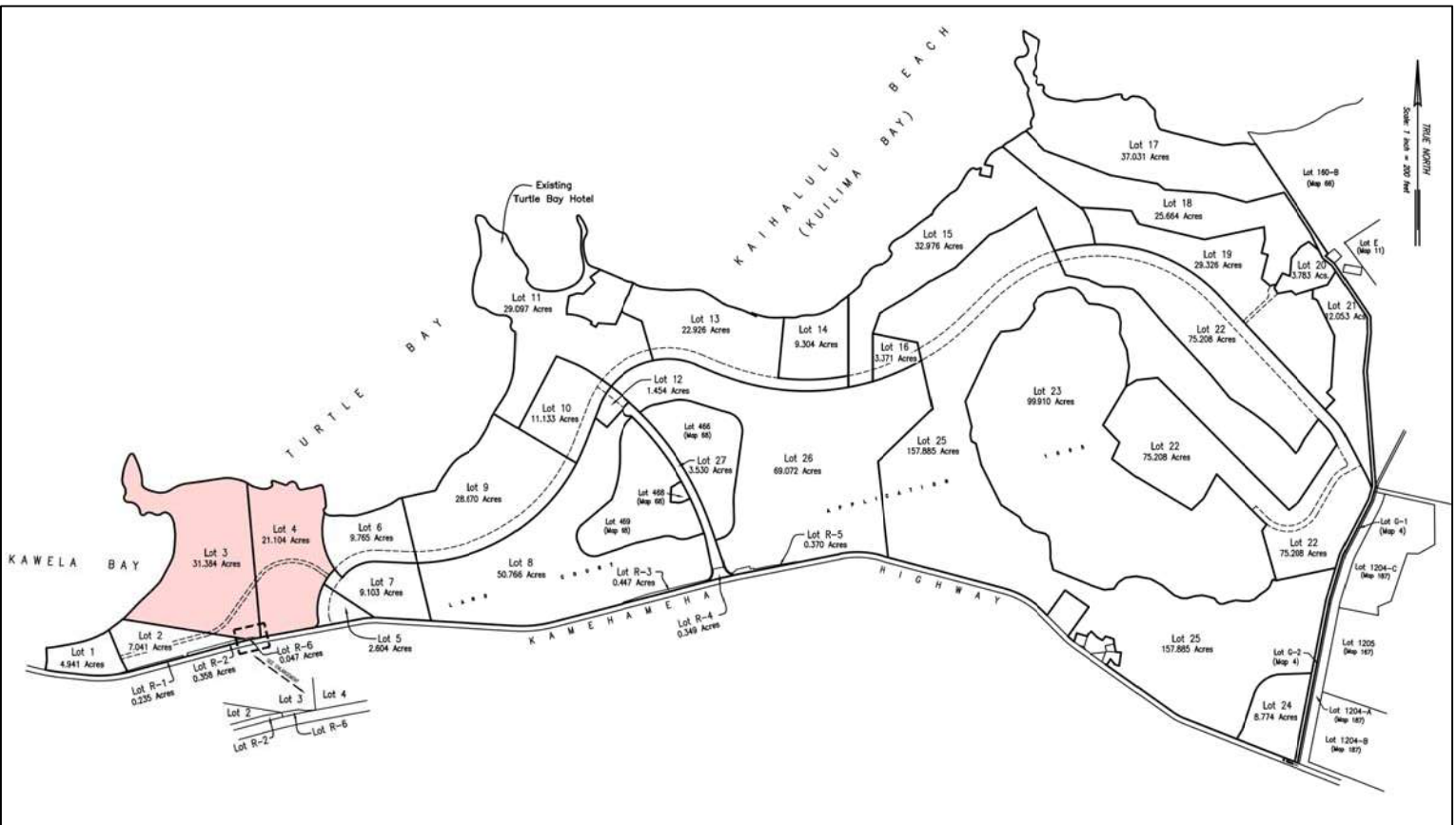
Paul D. Cool, MAI, CRE
Vice President
Certified General Appraiser License No. 71
State of Hawaii
Expires December 31, 2015



Source: R.M. Towill Corporation; included as Exhibit B of the Deed of Conservation Easement and Restriction of Development Rights.

Turtle Bay Resort Conservation Easement and Lease
IDENTIFICATION OF LOTS INCLUDED IN THE SALE AND LEASEBACK

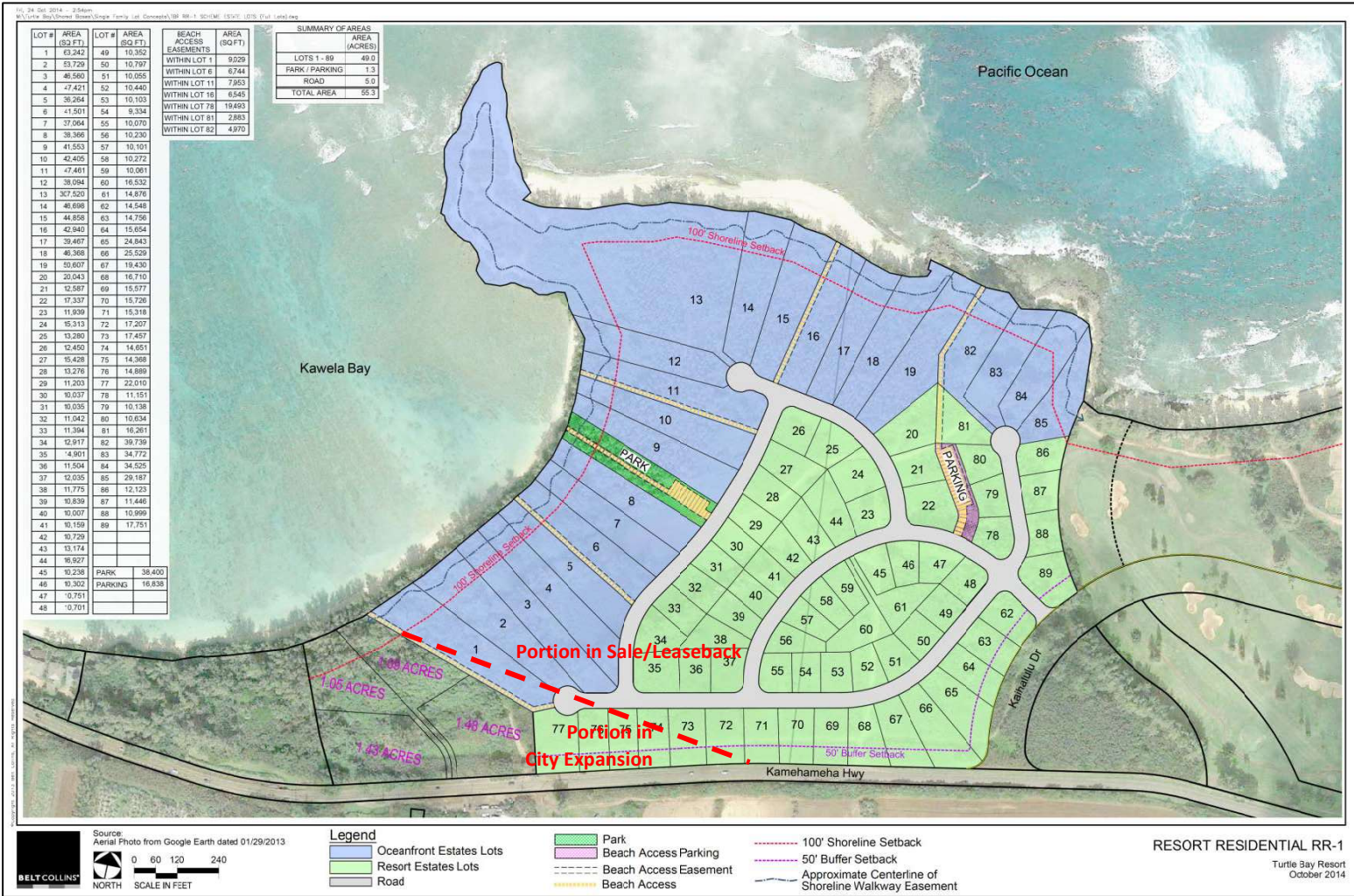
Exhibit B



Source: R.M. Towill Corporation.

Turtle Bay Resort Conservation Easement and Lease
PROPOSED RESIDENTIAL SUBDIVISION PLAN

Exhibit C



Source: Belt Collins Hawaii, LLC with annotations by John Child & Company.





The study conditions that are the basis of the analyses, opinions, and conclusions of this report are as follows:

Property Descriptions

The description of the lots to be encumbered by the proposed Conservation Easement are based, in part, on the legal descriptions provided by the client.

Property descriptions is also based on:

- Deed of Conservation Easement and Restriction of Development Rights, unexecuted, version 330194.1.
- Warranty Deed, draft, unexecuted, version 328170.4.
- State of Hawaii, Department of Land and Natural Resources, General Lease No. ___ between State of Hawaii and Turtle Bay Resort, LLC Covering Lots 3, 4, and R-6 (together with all easements appurtenant to said lots) of the “TURTLE BAY BULK LOT SUBDIVISION,” as shown on Subdivision Map prepared by Ryan M. Suzuki, with R.M. Towill Corporation, approved by Department of Planning and Permitting, City and County of Honolulu, on July 17, 2015, File No. 2014/SUB-145, unexecuted, version 327892.10.
- Turtle Bay Bulk Lot Subdivision, as shown on the Subdivision Map prepared by Ryan M. Suzuki, with R.M. Towill Corporation, approved by Department of Planning and Permitting, City and County of Honolulu, on July 17, 2015, File No. 2014/SUB-145.
- Cumming Corporation, Turtle Bay Resort – Proposed Action Master Plan, Master Plan Cost Review, February 20, 2014.
- Belt Collins Hawaii, LLC, Turtle Bay Resort – Kawela Side Development Costs, undated and received March 25, 2014.
- Belt Collins Hawaii, LLC, Turtle Bay – RR Parcel On-site Development Cost Opinion, August 11, 2014.
- Lee Sichter LLC, Final Supplemental Environmental Impact Statement for Turtle Bay Resort Expansion, July 2013.
- Townscape, Inc., Turtle Bay Makai Conservation Lands, State Fee Simple and Conservation Easement Lands, Baseline Documentation, September 2015, Final.
- Public data from the City and County of Honolulu, Hawaii Information Service, Inc., Honolulu Board of REALTORS, and other data sources.
- Tax maps and aerial photographs.
- Discussions with representatives of the State of Hawaii and Turtle Bay Resort.
- Property visit.

Jurisdictional Exceptions

The Uniform Standards of Professional Appraisal Practice (USPAP) Jurisdictional Exception Rule provides that “if any part of [the USPAP] standards is contrary to the law or public policy of any jurisdiction, only that part shall be void and of no force or effect in that jurisdiction.”



Contrary to USPAP Standards Rule 1-2(c), the definition of market value defined under Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA) and used in this report does not call for the estimate of value to be linked to a specific exposure time estimate, but merely that the property be exposed on the open market for a reasonable length of time, given the character of the property and its market.

This is contrary to USPAP Standards Rule 1-2 and is considered a jurisdictional exception.

Report Format

The results of our valuation assistance are presented in a letter report, a format intended to comply with the reporting requirements set forth under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice (USPAP) for a Restricted Appraisal Report.

The report does not present discussions of the data, reasoning, and analyses used in the appraisal process to develop the estimates of value. Supporting documentation concerning the data, reasoning, and analyses is available in our workfile. The rationale for the opinions and conclusions set forth in this report may not be properly understood without additional information in our workfile.

The format of this Restricted Appraisal Report is specific to the needs of the client and for the intended use stated in this report.

Basis of Analyses, Opinions, and Conclusions

The analyses, opinions, and conclusions of this report rely on data and information provided by others. The information is believed to be reliable; however, no responsibility is assumed for the accuracy of information provided by others.

The analyses, opinions, and conclusions assume:

1. No hidden or unapparent surface or subsurface conditions of the property, structures, soils, subsoils, geological formations, ground water, or drainage conditions exist that would render the property more or less valuable.
 2. Existing improvements comply with all applicable public and private zoning codes, regulations and covenants, unless stated otherwise.
 3. The client has provided us with all significant, relevant information covering the property that is the subject of this report.
-



No responsibility is assumed for matters legal in nature affecting the property or its title, which is assumed to be good and merchantable.

Properties in Hawaii typically include a reservation in favor of the State of Hawaii of all mineral and metallic mines. Our analyses, opinions, and conclusions assume these reservations do not have an impact on the value or use of the property.

Any drawings, maps, photographs, and similar exhibits accompanying this report are included to assist the reader in visualizing the property. No responsibility is assumed for the accuracy of these exhibits.

Hazardous Substances

Unless otherwise stated, the existence of hazardous substances (actual, alleged or threatened discharge, disposal, seepage, migration, release, growth, infestation, spread or escape of molds, mildews, fungi and/or spores, or any materials, goods or products containing, harboring or nurturing these substances) that could be present on the property, or other environmental conditions that could impact the property, were not brought to the attention of the appraisers nor observed during the site visit.

The appraisers are not trained or qualified to detect hazardous substances or conditions even if these hazards, or evidence of potential presence of these hazards, are visible on the property.

Therefore, this report assumes no hazardous substance or condition exists that would impact the analyses, opinions or conclusions. If a hazardous substance or condition exists, it could have a negative effect on the value of the property.

Archaeological or Historically Significant Conditions

The appraisers are not trained or qualified to recognize archaeological or historically significant conditions, even if these conditions are visible on the property.

Unless otherwise stated, archaeological or historically significant conditions that could be present on the property were not identified nor observed during the site visit. The report assumes no archaeological or historically significant condition exists that would impact the analyses, opinions or conclusions of this report. If an archaeological or historically significant condition exists, it could impact the use or value of the property and affect the results of this assignment.

Endangered Species

The appraisers are not trained or qualified to recognize endangered flora or fauna qualified for protection under the Endangered Species Act of 1973, even if visible on the property.



Unless otherwise stated, the presence of endangered flora or fauna was not identified, and the report assumes no endangered species are present on the property. The presence of endangered species could impact the value of the property.

Americans With Disabilities Act (ADA)

The Americans with Disabilities Act (ADA) became effective January 26, 1992. Unless otherwise stated, this report was not based on any specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. A survey of the property together with a detailed analysis of the requirements of the ADA could reveal that the property is not in compliance with one or more of the requirements of the ADA. If so, it could have a negative effect on the value of the property.

Terms of Assignment

We have no obligation to update our report because of events and transactions occurring subsequent to the effective date of the report.

Neither our fees nor payment were contingent upon the results of the report.

Use of Report

This report is valid only if presented in whole, with the letter of transmittal and signed certification.

This report or any portion of this report may not be reproduced or published without the prior written consent of John Child & Company, and then only with proper qualification.

The contents of this report or portions of this report, the identity of the appraisers or any reference to John Child & Company, the Appraisal Institute, the Counselors of Real Estate, or the American Society of Appraisers, or to their respective designations may not be disseminated to the public through advertising media, public relations media, news media, sales media, or any other public means of communication.

Limitation on Liability

John Child & Company shall not be liable to Client or to any third party (including without limitation lenders and other persons to whom Client may show this report for the purposes of obtaining credit, insurance or any other benefit or promise) in the event that the use or value of the subject property is or becomes different from the use or value estimates, analyses, opinions or conclusions in this report unless it is established by clear and convincing evidence that John Child & Company acted in bad faith or willfully and recklessly failed to exercise an appropriate standard of care in the community while performing this assignment. In any event, John Child & Company's



liability to Client or to any third party shall be limited to the amount of the fees to complete this assignment.

This report may not be shown to any third party without our consent and without receiving a written acknowledgement from any person to whom it is shown that such person has read, understands and agrees to be bound by the limitation of liability in this paragraph.

CERTIFICATION



We certify, to the best of our knowledge and belief:

- Reported statements of fact are true and correct.
- Reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our unbiased professional analyses, opinions, and conclusions.
- We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
- Within the past three years, we have provided real estate appraisal and/or consulting services relating to an ownership interest in the property that is the subject of this report.
- Our engagement was not contingent upon developing or reporting predetermined results.
- Our compensation is not contingent on the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event and is not contingent on an action or event resulting from the analyses, opinions or conclusions in, or use of, this report.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. It is also subject to the same review by the Counselors of Real Estate and the American Society of Appraisers.
- Paul D. Cool personally visited the real estate that is the subject of this report.
- As of the date of this report, Paul D. Cool, MAI has completed the continuing education program of the Appraisal Institute.
- No one other than the undersigned prepared the analysis, opinions, and conclusions in this report.

JOHN CHILD & COMPANY, INC.

Paul D. Cool, MAI, CRE
Vice President
Certified General Appraiser License No. 71
State of Hawaii
Expires December 31, 2015



SCOPE OF PROFESSIONAL SERVICES

Background

John Child & Company is a professional corporation that specializes in real estate appraisal and consulting and business valuation. It is the only company in Hawaii with expertise and professional designations in both real estate appraisals and business valuations.

John Child & Company was established by John F. Child, Jr. in 1937. The Company was the first firm to specialize in market research in Hawaii. Since 1937, the Company has provided a critical knowledge of real estate market conditions and trends gained from the strength of its market research. As a result, its clients have confidence that John Child & Company appraisal and valuation assignments are based on competent analysis and careful documentation, and its consulting assignments focus on the key issues and provide sound alternatives.

The Company's professional team members' past and current local, regional, and national leadership positions in their professional organizations help to establish and promote the highest standards of professional practice and ethics for the industry.

Real Estate Appraisal and Consulting

The Company's real estate consulting and appraisal practice includes a range of specialized services covering real estate in Hawaii and the Pacific area. Professional services include:

- Valuation of real estate
- Litigation support
- Arbitration
- Market rent analysis
- Highest and best use studies
- Market and financial feasibility analyses
- Economic and fiscal impact assessments
- Purchase price allocation.

Its assignments include all types of real estate interests such as fee simple, leasehold, leased fee, and other partial rights and fractional interests. Its assignments cover a variety of land uses and property types such as:

- Office buildings and commercial property
- Industrial property
- Telecommunications facilities
- Hotels and resort properties
- Agricultural, conservation, and vacant land
- Conservation easements
- Shopping centers and retail facilities
- Residential developments (single family, multifamily, and condominium)



- Master-planned and mixed-use projects
- Golf courses
- Healthcare facilities
- Redevelopment projects
- Special-purpose property
- Timeshare properties.

Business Valuation

The Company's business valuation practice focuses on the valuation of closely-held businesses, including controlling and minority interests in corporations, partnerships, limited liability companies (LLCs), and family limited partnerships (FLPs). Its business valuation practice provides assistance in:

- Estate planning
- Tax reporting
- Mergers, acquisitions, and sales
- Stock transfers and redemptions
- Financial reporting
- Succession planning
- Internal accounting
- Litigation support.

REPRESENTATIVE ASSIGNMENTS

The Company has provided real estate appraisal and consulting and business valuations for more than 75 years.

Real Estate Appraisal and Consulting

The Company's real estate appraisal and consulting practice covers a variety of properties and property interests. Real estate interests include fee simple, leasehold, leased fee, and other partial rights and fractional interests. Representative projects are listed as follows:

Redevelopment

Aloha Tower	Kakaako Redevelopment Plan	Pawaa Redevelopment
Honolulu Waterfront Master	Kakaako Waterfront Park	Masterplan
Development Plan	Kapalama Development	

Resorts

Hawaiian Riviera (proposed)	Kiahuna Plantation	Princeville
Hualalai	Ko Olina	Regents International (proposed)
Ka'anapali North Beach	Makena	Turtle Bay
Kauai Lagoons	Manini'owali	Waikoloa Beach Resort
Ka'upulehu	Mauna Kea	Wailea Resort



Hotels

Ala Moana Hotel	Kea Lani Hotel	Pacific Beach Hotel
Coco Palms	Keauhou Beach Hotel	Princeville Hotel
Embassy Suites Ka'anapali	Koa Kea Hotel	Koa Kea hotel
Four Seasons Resort Hualalai	King Kamehameha Kona Beach Hotel	Sheraton Kauai Resort
Halekulani Hotel	Kona Village	Sheraton Waikiki
Hilton Hawaiian Village	Maui Marriott	W Hotel
Hotel Hana Maui	Maui Prince	Wailea Beach Resort
Hyatt Regency Maui	Maui Wailea Inter- Continental Hotel	Waikiki Beachcomber
Hyatt Regency Waikiki		Waikiki Circle Hotel
Kahala Hilton		Waikiki Resort Hotel

Shopping Centers

Ala Moana	Keauhou Shopping Center	Pearl City
Aloha Tower Marketplace	King's Village	Prince Kuhio Mall
Coconut Grove	Koko Marina	Princeville
Enchanted Lakes	Kona Marketplace	Royal Hawaiian
Ewa Pointe Marketplace	Koolau Center	Wailea Shopping Village
Hawaii Kai Shopping Center	Lanikai Center	Windward City
Hawaii Kai Towne Center	Mililani	Windward Mall

Golf Courses

Asahi Kanko Olomana Course	Ko Olina	Waikapu Country Club
Dunes at Maui Lani	Mid-Pac Country Club	Waialeale Golf Course
Hawaii Country Club	Pearl Country Club	Waikoloa (Kings)
Hawaii Kai Golf Course	Princeville (Makai and Prince)	Waikoloa Village (two proposed)
Ka'anapali	Sandalwood Golf Course	Wailea (Blue, Emerald, and Gold)
Kauai Lagoons (Kiele and Lagoons)	Silversword Golf Course	

Office Buildings

1164 Bishop	Commerce Tower	HMSA Building
Aina Haina Professional Building	Davies Pacific Center	James Campbell Building
Ala Moana Building	Financial Plaza of the Pacific	Pan Am Building
Ala Moana Pacific Center	Grosvenor Center	Waialae Building
Amfac Towers	Harbor Court	Waikiki Bank of Hawaii Building
ANA Kalakaua Center	Hawaiian Life Building	Waikiki Trade Center
C. Brewer Building	Hawaii National Bank	

Industrial Properties

Airport Industrial Subdivision	Halawa Industrial Subdivision	Manana
Airport Trade Center	Hawaii Business Center	Mapunapuna
Bougainville	Kapolei	Mill Town
Bougainville Commercial Center	Kona Industrial Subdivision	Panasonic/Technics Center
Halawa Center	Lihue Industrial Park	Sand Island Business Park
	Makalapua Business Center	Waipahu



Residential

Discovery Bay	Ko Olina Fairways	Royal Capitol Plaza
Ewa by Gentry	Lahaina Residential	The Kahala Beach
Harbor Court	Makakilo	The Kalia, Inc.
Honolulu Park Place	Maui Eldorado	Uplands at Mauna Kea
Imperial Plaza	Mawaena Kai	Victoria Tower
Kalele Kai	Mililani	Wailea Golf Vistas
Kamaole Heights	Nauru Tower	Wailea Pualani Estate
Kamehame Ridge	One Archer Lane	

Healthcare

Arcadia Retirement Residence	Kauai Care Center	Regency at Hualalai
Castle Medical Center	Pali Momi Medical Center	Roselani Place
Clinical Laboratories of Hawaii	Ponds at Punalu'u	St. Francis Healthcare Systems
Hawaii Health Care Systems Corporation	Queen's Health Systems	Straub Hospital & Clinic
Kahuku Medical Center	Queen's Diagnostic Laboratories Services	Wilcox
Kapiolani Medical Center for Women and Children		

Agricultural, Conservation, and Conservation Easements

Campbell Palehua and Kahe Ranch	Kealia Pond	Moanalua Valley
Dunbar Ranch	Kona Forest Unit Access	Palmyra Atoll
Galbraith Trust Lands	Kuamo'o Point	Pupukea Property Conservation Easement
Hana Ranch	Kukaiiau Ranch Conservation Easement	Pu'u O Hoku Ranch
Honouliuli Forest Reserve	Maka'ala'e Conservation Easement	Ulupalakua Ranch Conservation Easements
Kanepuu Conservation Easement	May's Landing	Waimea Valley
Kaupo Ranch Wai'u and Nu'u Lands	McCandless Ranch Conservation Easement	Wao Kele O Puna

Special Purpose

Cemeteries/Memorial Parks	Hawaiian Home Land Claims	Schools
Chinese Cultural Plaza	Kapaa Land Fill	State of Hawaii Airports
Churches	Kaunalapau Harbor	Telecommunications Sites
Convents	NAS Barbers Point Electrical Distribution System	Tokai University
Condominium and Residential Lease-to-Fee Conversions	Oahu Club	Visitor Attractions
Hawaii Newspaper Agency Building	Outrigger Canoe Club	



Business Valuation

The Company's business valuation practice focuses on closely-held businesses in Hawaii. Business valuation assignments typically estimate the market value of controlling and minority interests in closely-held corporations, limited liability companies, and partnerships.

These assignments are prepared to assist in estate planning and estate and gift tax reporting to the Internal Revenue Service. Business valuations are also used to assist in litigation, mergers, stock redemptions, and acquisitions.

Valuations of closely-held businesses include:

Corporations

Aala Produce, Inc. - supplier of provisions to vessels
Dowling Company, Inc. - real estate developer
Finance Investment, Ltd. - real estate developer, investor, and provider of diversified financial services
Gay & Robinson, Inc. - sugar grower
Industrial Investors, Inc. - real estate investor and manager
Jas W. Glover Holding Company, Ltd. - construction contractor
K. Inouye Properties, Inc. - real estate investor and manager
Loyalty Development Company, Inc. - real estate developer, investor, and manager
Loyalty Enterprises, Ltd. - property management and insurance agency
Palani Ranch Company, Inc. - cattle rancher
Ponoholo Ranch Limited - cattle rancher
Sen Plex Corporation - plumbing and air conditioning contractor, real estate manager
SSFM Engineers - professional engineering services

Limited Partnerships and Limited Liability Companies

Aaron Properties Partners of Hilo - Hilo Burger King
Baruch Bakar and Beth-El - real estate investor
Caroline J. Robinson LLC - real estate investor
CGB Partners - real estate investor
Honolulu Open Medical Imaging, LLC - medical imaging facility
J.L.P. Robinson LLC - real estate investor
K.J.L. Associates - real estate investor and manager
KSM Associates LLC - real estate investor
KVH Partners - real estate investor
Kaha Kai LLC - real estate investor
Kamali'i Family Limited Partnership - real estate investor
Lanihau Properties LLC - real estate developer and manager
Leong Brothers - real estate investor and manager
Loyalty Associates - real estate investor
Loyalty Investments - real estate investor
Maui Quest, LLC - real estate investor and developer
Robinson Kunia Land LLC - real estate investor
SCF Limited Partnership - real estate investor and manager
Taihook Associates - real estate investor and manager
Taira Family Limited Partnership - real estate investor
The Mark A. Robinson Trusts - real estate investors



CLIENTS

The Company provides professional services to a range of clients representing private, non-profit, and public interests. Selected clients in private industry, non-profit organizations, and public agencies are listed.

PRIVATE INDUSTRY

Attorneys

Alston Hunt Floyd & Ing	Law Offices of Shuichi Miyasaki
Ashford & Wriston	Law Offices of Wesley Y.S. Chang
Bays Lung Rose & Holma	McCorriston Miller Mukai McKinnon
Bendet Fidell	Milberg LLP
Blank Rome LLP (New York office)	Ning, Lily & Jones
Cades Schutte	Orloff, Lowenbach, Stifelman & Siegel, P.A.
Carlsmith Ball	Oshima Chun Fong & Chung
Case & Lynch	Paul Johnson Park & Niles
Case Lombardi & Pettit	Porter Tom Quitquit Chee & Watts, LLP
Charles Adams Ritchie & Duckworth	Price Okamoto Himeno & Lum
Chun Kerr Dodd Beaman & Wong	Rush Moore
Crockett & Nakamura	Serle Court (London)
Damon Key Leong Kupchak Hastert	Starn O'Toole Marcus & Fisher
Dwyer Schraff Meyer Grant & Green	Tom Petrus & Miller, LLLC
Glynn & Finley, LLP	Torkildson Katz Moore Hetherington & Harris
Goodsill Anderson Quinn & Stifel	Van Buren Campbell & Shimizu
Imanaka Asato	Wagner Choi Verbrugge
Ing Horikawa Jorgensen & Endo	

Architects/Planners

AM Partners, Inc.	Leo H. Daley/Alfred A. Yee Division
Belt Collins & Associates	PBR Hawaii
C.H. Guernsey & Company	Parsons Brinkerhoff, Inc.
Cascadia PM	RM Towill Corp.
Helber Hastert & Fee Planners	Townscape, Inc.
Kober/Hanssen/Mitchell Architects	Weston Solutions

Banks/Lenders

American Savings Bank	First Hawaiian Bank
Bank of America	Fukuoka City Bank
Bank of Hawaii	GE Capital Hawaii, Inc.
Central Pacific Bank	GE Capital Real Estate
Chemical Bank	GMAC Commercial Mortgage
Citibank, N.A.	Hawaii National Bank
City Bank	Key Commercial Mortgage
Continental Bank, Chicago	Liberty Bank, Connecticut
First Federal Savings and Loan Association	Nippon Credit Bank



Banks/Lenders, Continued

Orix Corporation	The Industrial Bank of Japan, Ltd.
Sanwa Bank, Ltd.	The Kyowa-Saitama Bank
The Bank of Tokyo-Mitsubishi, Ltd.	The Long-Term Credit Bank of Japan, Ltd.
The Chuo Mitsui Trust & Banking Co., Ltd.	Wells Fargo Bank
The Daiwa Bank, Ltd.	

Builders/Construction

Armstrong Builders, Ltd.	Pacific Construction Co., Ltd.
Charles Pankow Builders	Tokyu Construction Co., Ltd.
Grace Pacific Corporation	

Closely Held Corporations/Limited Partnerships/Family Trusts

Akala Partners	Loyalty Investments
Gay & Robinson	M & T Yamaguchi Family Limited Partnership
Jas. W. Glover Holding Company, Ltd.	Maui Quest LLC
J.L.P. Robinson LLC	Palani Ranch
K.J.L. Associates	Ponoholo Ranch, Limited
KVH Partners and CGB Partners	Sen Plex Corp.
Knudsen Trusts	Sheridan Ing Marital Trust
Lanikai Properties, LLC	Taihook Associates
Leong Brothers	The Mark A. Robinson Trusts
Loyalty Development	

Developers/Landowners

A&B Properties, Inc.	Kaneohe Ranch
Aloha Tower Associates	Kapolei Property Development, LLC
Bedford Properties, Inc.	McCandless Land & Cattle Company
(fka Kaiser National Housing Corporation Development Company)	McCormack Properties
Bradley Holdings	Monsanto Company
Campbell Hawaiian Investors, LLC	Nansay Hawaii
Central Pacific Realty	Niu Pia Farms
Chiyoda Hawaii Corporation	O. G. Hawaii Corporation
Cuzco Development U.S.A. LLC	Pahio Development
Dowling Company, Inc.	Pauahi Management Corp.
Elleair Hawaii, Inc.	Queen Emma Land Company
Finance Realty	Sam Koo Pacific, LLC
Gentry Companies	Stone Companies
Hana Ranch Partners	Tesoro Hawaii Corporation
Hanalei Land Company	The Myers Corporation
Haseko (Hawaii), Inc.	Toyo Real Estate Co., Ltd.
Hemmeter/Tokyu Waterfront Joint Venture	Ulupalakua Ranch Inc.
James Campbell Company	Violet Hee Lum Properties, Inc.



Diversified Corporations

Amfac/JMB Hawaii, Inc.
- Amfac Property Development Co.
Azabu USA Corporation
Cook Inlet Region, Inc. (CIRI)
Dole Foods (fka Castle & Cooke, Inc.)
- Castle & Cooke Retail
- Mililani Town, Inc.

Kitano Indo Gaisa Co., Ltd.
Kokusai-Motorcars Co., Ltd.
Nissho Iwai Corporation
Oceanic Properties, Inc.
Shimizu Corporation
Shinwa Golf Kabushiki Kaisha

Investors/Investment Bankers/Insurance Companies

First American Title Company, Inc.
IDG Realty, Ltd.
ITOCHU Corporation (C. Itoh & Co., Ltd.)
Mass Mutual

Meridian Pacific
The Equitable Life Assurance Society of the
United States of America

Resort Operators/Owners

Alpha U.S.A., Inc.
Kapalua Land Company, Ltd.
Kaupulehu Makai Venture (Hualalai Resort)
Namalu LLC (Makena Resort)

Princeville Development Company
Shinwa International
Turtle Bay Resort
Wailea Resort Company, Inc.

Retailers

7-Eleven (Hawaii), Inc.
City Mill Co., Ltd.
J.C. Penney Company, Inc.
Kyotaru International
Louis Vuitton Hawaii, Inc.

McDonald's Restaurants of Hawaii
Safeway, Inc.
Sears Holding Corporation
Star Markets, Inc.

Trust Companies and Trusts

First Hawaiian Trust
Hawaiian Trust Co., Ltd.
Knudsen Trusts

MAR Trusts
The Queen Lili'uokalani Trust

NON-PROFIT ORGANIZATIONS

Castle Medical Center
Chaminade College
Hawaii Health Systems Corporation
Hawaii Opera Theatre
Hawaii Pacific Health
Hawaii Pacific University
Honolulu Community Action Program, Inc. (HCAP)
Iolani School
Japan Association of Real Estate Appraisers
Kahuku Medical Center
Kamehameha Schools
KCAA Pre-Schools of Hawaii
Manoa Valley Theatre

Maui Coastal Land Trust
National Tropical Botanical Garden
Pacific Buddhist Academy
Punahou School
Queen's Health Systems
Seagull Schools, Inc.
The Fathers of the Sacred Hearts
The Sisters of the Sacred Hearts
St. Francis Healthcare Systems of Hawaii
The Nature Conservancy
The Trust for Public Land
Young Women's Christian Association (YWCA)



PUBLIC AGENCIES

Bank Regulatory Agencies

Federal Depository Insurance Corporation (FDIC)

Federal Home Loan Bank Board (FHLBB)

City & County of Honolulu

Honolulu Authority for Rapid Transportation
Honolulu Public Transit Authority
Department of Housing and Community
Development

Department of Design and Construction
Department of the Corporation Counsel

County of Hawaii

Department of Finance

Department of Public Works

County of Kauai

Department of Water

Federal Agencies

Internal Revenue Service
National Business Center, Appraisal Services
Directorate
U.S. Attorney General
U.S. Department of Agriculture, Forest Service
U.S. Department of Agriculture, Natural Resource
Conservation Service

U.S. Department of the Army
U.S. Department of the Navy
U.S. Department of Interior, Fish & Wildlife
Service

Public Utilities

Citizens Utilities Company - Kauai Electric
Eurus Energy America Corporation

Hawaiian Electric Industries (HEI, Inc.)
Pacific Resources, Inc.

State of Hawaii

Attorney General
Department of Hawaiian Home Lands
Department of Land & Natural Resources
Department of Transportation

Hawaii Community Development Authority
Hawaii Housing Finance and Development
Corporation
Office of Hawaiian Affairs

PROFESSIONAL TEAM QUALIFICATIONS

The professional team has a wide range of real estate experience gained through a variety of field experience, professional accomplishments, training, and education. Team members have earned their reputation for quality work and professional service.



Professional Designations

Team members hold designations earned from the major professional organizations. Team members have earned the MAI designation from the Appraisal Institute, the CRE (Counselor of Real Estate) from The Counselors of Real Estate, and ASA (Accredited Senior Appraiser) from the American Society of Appraisers.

State Certification

Members of the professional team are Certified General Appraisers under the State of Hawaii license and certification program.

Other Qualifications and Training

Professional team members are qualified as expert witnesses in the courts of Hawaii; actively participate in and serve as arbitrators and review appraisers; and continue to attend courses, seminars and workshops to strengthen their own specialized appraisal skills and education.

Professional Team Members

Professional team members include:

- Karen Char, MAI, CRE, ASA, President
- Paul D. Cool, MAI, CRE, Vice President
- Shelly H. Tanaka, MAI, AI-GRS, Vice President
- Elizabeth Tang, Analyst

The education and professional experiences of team members are outlined in their accompanying resumes.

QUALIFICATIONS OF JOHN CHILD & COMPANY



PAUL D. COOL, MAI, CRE

Vice President

Paul joined John Child & Company in 1972. He has appraised property on all the major islands in Hawaii. With this perspective, Paul understands the cyclical nature of Hawaii's real estate markets. He has also valued properties on the U.S. Mainland, Guam, and the island of Diego Garcia in the Indian Ocean.

Paul serves in leadership positions in NAIOP Hawaii, the Hawaii Chapter of the Counselors of Real Estate, and the Appraisal Institute.

Education

- Bachelor of Business Administration, Business Economics and Quantitative Methods, University of Hawaii, 1980
- Successfully completed various courses, workshops, and seminars, including:
 - Appraisal Institute, Complex Litigation Appraisal Case Studies, 2014
 - Appraisal Institute, Real Estate Finance, Value, and Investment Performance, 2014
 - Appraisal Institute, National USPAP Update Course, 2014
 - Appraisal Institute, Residential and Commercial Valuation of Solar, 2013
 - Appraisal Institute, Marketability Studies, 2012
 - Appraisal Institute, IRS Valuation, 2012
 - Appraisal Institute, Appraisal Curriculum Overview, 2010
 - Appraisal Institute, Hotel Valuation, 2010
 - Appraisal Institute, Business Practices and Ethics, 2009
 - Appraisal Institute, Litigation Skills for the Appraiser, 2008
 - Appraisal Institute, Uniform Appraisal Standards for Federal Land Acquisitions, 2006
 - American Society of Farm Managers & Rural Appraisers, Agricultural Lease Valuation, 2006
 - Appraisal Institute, Conservation Easements, 2001

Professional Associations

- Member, Appraisal Institute (MAI designation)
 - President, Hawaii Chapter, 2001
 - Director, 2014 - 2016
 - Chair, Hawaii Chapter Membership Admissions, Development & Retention, 2004 - 2013
 - Chair, Hawaii Chapter Admissions Committee, 1997
 - Chair, Hawaii Chapter External Affairs Committee, 1996
 - Chair, Hawaii Chapter Candidate Guidance Committee, 1994 - 1995
 - Member, Regional Ethics Panel, 1998
 - Member, Young Advisory Council, 1996
 - Member, The Counselors of Real Estate (CRE designation)
 - Chairperson, Hawaii Chapter, 2012, 2001
 - Treasurer, Hawaii Chapter, 2009
 - Alternate Chief Delegate, 20th Pan Pacific Congress - Auckland, New Zealand, 2000
 - Alternate Chief Delegate, 19th Pan Pacific Congress - Singapore, 1998
-



Other Real Estate Associations

- Member, Hawaii Chapter of NAIOP (NAIOP Hawaii)
 - Vice President, Hawaii Chapter, 2015
 - President, Hawaii Chapter, 2002
 - Director, Hawaii Chapter, 2014
 - Chair, Public Relations Committee, 2000 - 2009
 - Treasurer, Hawaii Chapter, 2007 - 2008
 - Chair, Kukulua Hale Awards of Excellence, 2004 - 2005
 - Chair, Membership Committee, 1998 - 1999
 - Chair, Government Affairs Committee, 1997

Public Service

- Chair, Real Estate Appraiser Advisory Committee, Professional & Vocational Licensing Division, Department of Commerce and Consumer Affairs, State of Hawaii, 2007 - 2015
- Advisory Committee Member, Regulated Industries Complaints Office, Department of Commerce and Consumer Affairs, State of Hawaii, 2004 - 2015
- Member, City & County of Honolulu Leasehold Conversion Task Group, 2004

Publications

- Paper presented to the 19th Pan Pacific Congress of Real Estate Appraisers, Values, and Counsellors, "Leasehold Home Ownership on Oahu, Hawaii: Long Term Influence on Value and Marketability," 1998
- Paper presented to the 20th Pan Pacific Congress of Real Estate Appraisers, Values, and Counsellors, "Resort Residential Investment in Hawaii: Recovery of a Market," 2000

Professional Experience

- Vice President, John Child & Company, Inc. (1972 to present)

Professional Certification

- The Appraisal Institute conducts a voluntary program of continuing education for its designated members. Members who meet the minimum standards of this program are awarded periodic educational certification. Paul D. Cool, MAI is certified under this program.

State Certification

- Certified General Appraiser, State of Hawaii, License Number CGA-71, expiring December 31, 2015.

Court Testimony

- Qualified as an expert witness in the valuation of real property in the Courts of the State of Hawaii.
-

Appraisal Report to
State of Hawaii
Department of Land & Natural Resources

Covering the

**PROPOSED SALE AND LEASEBACK OF
THE 52.535-ACRE KAWELA BAY
PORTION OF THE TURTLE BAY
RESORT**

Kawela and Kahuku, Koolau Loa, Oahu, Hawaii

As of October 1, 2015



EXHIBIT D



November 3, 2015

Karen Char, MAI, CRE
Paul D. Cool, MAI, CRE
Shelly H. Tanaka, MAI, AI-GRS
Elizabeth Tang

Mr. Russell Y. Tsuji
Land Division Administrator
State of Hawaii
Department of Land & Natural Resources
Land Division
P.O. Box 621
Honolulu, Hawaii 96809

Dear Mr. Tsuji:

**Re: Proposed Sale and Leaseback of the 52.535-Acre Kawela Bay
Portion of the Turtle Bay Resort**

At your request, John Child & Company has estimated the market values of the fee simple and leased fee interests in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort. This letter outlines the study background and estimated market values that are presented in the attached report.

STUDY BACKGROUND

Turtle Bay Resort is an 845-acre master-planned destination resort that extends along the northerly side of Kamehameha Highway, from Kawela Bay to Kahuku Point, Koolau Loa, Oahu, Hawaii. About 391 acres of the resort are improved with:

- Turtle Bay Hotel
- Fazio Golf Course
- Palmer Golf Course
- Ocean Villas (oceanfront residential condominiums)
- Kuilima Estates East and West (golf front residential condominiums)
- Associated roads, infrastructure, and ancillary resort recreation facilities.

The balance of about 454 acres is undeveloped and comprises the planned expansion area of the Turtle Bay Resort.

Turtle Bay Resort, LLC (TBR) owns the fee simple interest in 807 acres of developed and undeveloped properties within the balance of the Turtle Bay Resort. The balance of about 38 acres consists of three existing condominium developments with individually-owned apartments.



TBR and the State of Hawaii, through its Board of Land & Natural Resources (BLNR), propose to enter into a transaction involving the fee simple acquisition and simultaneous leaseback of about 52.535 acres at Kawela Bay identified as follows:

Parcels Involved in Sale/Leaseback Transaction [1]

<u>Lot [1]</u>	<u>Proposed Action Plan Reference</u>	<u>Acres</u>
Lot 3	RR-1, Portion	31.384
Lot 4	RR-2	21.104
Lot R-6	RR-1, Portion	<u>0.047</u>
Total		<u>52.535</u>

The lease agreement will extend 65 years, with a rent payment of \$480 annually during the entire term. The lease permits the property to be used substantially in the same manner that TBR has been using the premises prior to the lease encumbrance. However, the lease prohibits residential use. Finally, the lease incorporates certain rights and restrictions in the Conservation Easement to encumber other portions of the Turtle Bay Resort.

As a part of the acquisition, the State of Hawaii has asked John Child & Company to provide certain valuation assistance relating to this acquisition.

STUDY OBJECTIVE

The objective of our assistance is to estimate the market value of the proposed sale and leaseback of the 52.535-acre Kawela Bay portion of the Turtle Bay Resort as the difference in market values of the fee simple and leased interests in this portion of the Turtle Bay Resort.

EFFECTIVE DATE OF APPRAISAL

The effective date of the appraisal is October 1, 2015.

[1] Lot designations from "TURTLE BAY BULK LOT SUBDIVISION," as shown on Subdivision Map prepared by Ryan M. Suzuki, with R.M. Towill Corporation.



INTENDED USE AND USER(S)

Our assistance is intended to be used by the State of Hawaii in matters relating to its potential acquisition of certain interests in the Turtle Bay Resort. Our assistance is not intended for any other purpose or users and is not to be relied upon by any third parties for any purpose, whatsoever.

DEFINITIONS OF TERMS

Terms used in this assignment are defined in the Appraisal Institute's, **The Dictionary of Real Estate Appraisal**, Fifth Edition, unless otherwise footnoted.

Fair Market Value

“Fair market value” has the same meaning as “market value.”

Market value means the amount in cash, or on terms reasonably equivalent to cash, for which in all probability the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing and reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy or sell, giving due consideration to all available economic uses of the property at the time of the appraisal. [1]

Fee Simple Interest

For the purpose of this report, fee simple interest is the same as fee simple estate. Fee simple estate is defined as absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

Leased Fee Interest

A freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship (i.e., a lease).

[1] Interagency Land Acquisition Conference, **Uniform Appraisal Standards for Federal Land Acquisitions**, 2000.



Leaseback

An arrangement in which the seller of a property is obligated to lease the property from the buyer under terms and conditions that are negotiated by the parties.

Larger Parcel

Larger Parcel is defined as that tract, or those tracts, of land which possess a unity of ownership and have the same, or an integrated, highest and best use. Elements of consideration by the appraiser in making a determination in this regard are contiguity, or proximity, as it bears on the highest and best use of the property, unity of ownership, and unity of highest and best use. [1]

JURISDICTIONAL EXCEPTION

The Uniform Standards of Professional Appraisal Practice (USPAP) Jurisdictional Exception Rule provides that “if any part of [the USPAP] standards is contrary to the law or public policy of any jurisdiction, only that part shall be void and of no force or effect in that jurisdiction.

Contrary to USPAP Standards Rule 1-2(c), the definition of market value defined under Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA) and used in this report does not call for the estimate of value to be linked to a specific exposure time estimate, but merely that the property be exposed on the open market for a reasonable length of time, given the character of the property and its market.

This is contrary to USPAP Standards Rule 1-2 and is considered a jurisdictional exception.

STUDY CONDITIONS

This analysis is subject to other study conditions that are presented in Section I of the attached report.

ESTIMATED MARKET VALUES

The market value of the proposed sale and leaseback of the 52.535-acre Kawela Bay portion of the Turtle Bay Resort is estimated as the difference in market values of the fee simple and leased fee interests in this portion of the Turtle Bay Resort.

[1] Interagency Land Acquisition Conference, **Uniform Appraisal Standards for Federal Land Acquisitions**, 2000.



Based on the valuation analyses presented in the attached report, the market values of the fee simple and leased fee interests in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort, as of October 1, 2015, are estimated to be as follows:

Estimated Market Values of the
Fee Simple and Leased Fee Interests

	<u>Estimated market value</u>
Fee simple interest	\$47,320,000
Leased fee interest	<u>2,950,000</u>
Difference	<u>\$44,370,000</u>

As a result, the difference between the market values of the fee simple and leased fee interests in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort, as of October 1, 2015, is estimated to be:

FORTY FOUR MILLION THREE HUNDRED SEVENTY THOUSAND DOLLARS
(\$44,370,000).

ADDITIONAL VALUE ESTIMATE

The residential subdivision plan that forms the basis for the fee simple valuation of the 52.535-acre portion of the Turtle Bay Resort is for a slightly larger, 55.119-acre Kawela Bay parcel that also includes a 2.584-acre portion to be conveyed by TBR to the City & County of Honolulu.

Based on the valuation analysis presented in Section IV of the attached report, the market value of the fee simple interest attributable to this 2.584-acre portion, as of October 1, 2015, is estimated to be \$2,490,000.

* * * * *

Mr. Russell Y. Tsuji
November 3, 2015
Page 6



We appreciate having the opportunity to assist you on this interesting assignment. Please contact us with any questions.

Sincerely,

JOHN CHILD & COMPANY, INC.

Paul D. Cool, MAI, CRE
Vice President
Certified General Appraiser License No. 71
State of Hawaii
Expires December 31, 2015

Elizabeth Tang
Analyst

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- Addendum 3 - Summary of Entitlement Obligations
- Addendum 4 - Deed of Conservation Easement and Restriction of Development Rights
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- Addendum 6 - Aerial Photographs and Maps of the Comparable House Lots

- Qualifications of John Child & Company, Inc.
- Qualifications of Paul Cool, MAI, CRE
- Qualifications of Elizabeth Tang

I - STUDY BACKGROUND



This section presents the study background, study objective, intended use and users, effective date of appraisal, intended use and user(s) definitions of terms, study conditions, and scope of work.

STUDY BACKGROUND

Turtle Bay Resort is an 845-acre master-planned destination resort that extends along the northerly side of Kamehameha Highway, from Kawela Bay to Kahuku Point, Koolau Loa, Oahu, Hawaii. About 391 acres of the resort are improved with:

- Turtle Bay Hotel
- Fazio Golf Course
- Palmer Golf Course
- Ocean Villas (oceanfront residential condominiums)
- Kuilima Estates East and West (golf front residential condominiums)
- Associated roads, infrastructure, and ancillary resort recreation facilities.

The balance of about 454 acres is undeveloped and comprises the planned expansion area of the Turtle Bay Resort.

Turtle Bay Resort, LLC (TBR) owns the fee simple interest in 807 acres of developed and undeveloped properties within the balance of the Turtle Bay Resort. The balance of about 38 acres consists of three existing condominium developments with individually-owned apartments.

TBR and the State of Hawaii, through its Board of Land & Natural Resources (BLNR), propose to enter into a transaction involving the fee simple acquisition and simultaneous leaseback of about 52.535 acres at Kawela Bay identified as follows:

Parcels Involved in Sale/Leaseback Transaction [1]

<u>Lot [1]</u>	<u>Proposed Action Plan Reference</u>	<u>Acres</u>
Lot 3	RR-1, Portion	31.384
Lot 4	RR-2	21.104
Lot R-6	RR-1, Portion	<u>0.047</u>
Total		<u><u>52.535</u></u>

[1] Lot designations from "TURTLE BAY BULK LOT SUBDIVISION," as shown on Subdivision Map prepared by Ryan M. Suzuki, with R.M. Towill Corporation.



The lease agreement will extend 65 years, with a rent payment of \$480 annually during the entire term. The lease permits the property to be used substantially in the same manner that TBR has been using the premises prior to the lease encumbrance. However, the lease prohibits residential use. Finally, the lease incorporates certain rights and restrictions in the Conservation Easement to encumber other portions of the Turtle Bay Resort.

As a part of the acquisition, the State of Hawaii has asked John Child & Company to provide certain valuation assistance relating to this acquisition.

STUDY OBJECTIVE

The objective of our assistance is to estimate the market value of the proposed sale and leaseback of the 52.535-acre Kawela Bay portion of the Turtle Bay Resort as the difference in market values of the fee simple and leased interests in this portion of the Turtle Bay Resort.

EFFECTIVE DATE OF APPRAISAL

The effective date of the appraisal is October 1, 2015.

INTENDED USE AND USER(S)

Our assistance is intended to be used by the State of Hawaii in matters relating to its potential acquisition of certain interests in the Turtle Bay Resort. Our assistance is not intended for any other purpose or users and is not to be relied upon by any third parties for any purpose, whatsoever.

DEFINITIONS OF TERMS

Terms used in this assignment are defined in the Appraisal Institute's, **The Dictionary of Real Estate Appraisal**, Fifth Edition, unless otherwise footnoted.

Fair Market Value

“Fair market value” has the same meaning as “market value.”

Market value means the amount in cash, or on terms reasonably equivalent to cash, for which in all probability the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing and reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy



or sell, giving due consideration to all available economic uses of the property at the time of the appraisal. [1]

Fee Simple Interest

For the purpose of this report, fee simple interest is the same as fee simple estate. Fee simple estate is defined as absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

Leased Fee Interest

A freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship (i.e., a lease).

Leaseback

An arrangement in which the seller of a property is obligated to lease the property from the buyer under terms and conditions that are negotiated by the parties.

Larger Parcel

Larger Parcel is defined as that tract, or those tracts, of land which possess a unity of ownership and have the same, or an integrated, highest and best use. Elements of consideration by the appraiser in making a determination in this regard are contiguity, or proximity, as it bears on the highest and best use of the property, unity of ownership, and unity of highest and best use. [2]

STUDY CONDITIONS

The study conditions that are the basis of the analyses, opinions, and conclusions of this report are as follows:

Property Descriptions

The description of the lots involved in the proposed sale and leaseback are based, in part, on the legal descriptions included in Addendum 1.

[1] Interagency Land Acquisition Conference, **Uniform Appraisal Standards for Federal Land Acquisitions**, 2000.

[2] Ibid.



Property descriptions are also based on:

- Warranty Deed, draft, unexecuted, version 328170.4.
- State of Hawaii, Department of Land and Natural Resources, General Lease No. ___ between State of Hawaii and Turtle Bay Resort, LLC Covering Lots 3, 4, and R-6 (together with all easements appurtenant to said lots) of the “TURTLE BAY BULK LOT SUBDIVISION,” as shown on Subdivision Map prepared by Ryan M. Suzuki, with R.M. Towill Corporation, approved by Department of Planning and Permitting, City and County of Honolulu, on July 17, 2015, File No. 2014/SUB-145, unexecuted, version 327892.10.
- Turtle Bay Bulk Lot Subdivision, as shown on the Subdivision Map prepared by Ryan M. Suzuki, with R.M. Towill Corporation, approved by Department of Planning and Permitting, City and County of Honolulu, on July 17, 2015, File No. 2014/SUB-145.
- Cumming Corporation, Turtle Bay Resort – Proposed Action Master Plan, Master Plan Cost Review, February 20, 2014.
- Belt Collins Hawaii, LLC, Turtle Bay Resort – Kawela Side Development Costs, undated and received March 25, 2014.
- Belt Collins Hawaii, LLC, Turtle Bay – RR Parcel On-site Development Cost Opinion, August 11, 2014.
- Lee Sichter LLC, Final Supplemental Environmental Impact Statement for Turtle Bay Resort Expansion, July 2013.
- Townscape, Inc., Turtle Bay Makai Conservation Lands, State Fee Simple and Conservation Easement Lands, Baseline Documentation, September 2015, Final.
- Public data from the City and County of Honolulu, Hawaii Information Service, Inc., Honolulu Board of REALTORS, and other data sources.
- Tax maps and aerial photographs.
- Discussions with representatives of the State of Hawaii and Turtle Bay Resort.
- Property visit.

Jurisdictional Exceptions

The Uniform Standards of Professional Appraisal Practice (USPAP) Jurisdictional Exception Rule provides that “if any part of [the USPAP] standards is contrary to the law or public policy of any jurisdiction, only that part shall be void and of no force or effect in that jurisdiction.

Contrary to USPAP Standards Rule 1-2(c), the definition of market value defined under Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA) and used in this report does not call for the estimate of value to be linked to a specific exposure time estimate, but merely that the property be exposed on the open market for a reasonable length of time, given the character of the property and its market.

This is contrary to USPAP Standards Rule 1-2 and is considered a jurisdictional exception.



Report Format

The appraisal assignment is presented in an Appraisal Report that is intended to comply with the reporting requirements set forth under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice for an Appraisal Report.

The report contains summary discussions of the data, reasoning, and analyses used to estimate the market value of the property. Any data, reasoning, and analyses not presented in the Appraisal Report are available in our workfile.

Basis of Analyses, Opinions, and Conclusions

The analyses, opinions, and conclusions of this report rely on data and information provided by others. The information is believed to be reliable; however, no responsibility is assumed for the accuracy of information provided by others.

The analyses, opinions, and conclusions assume:

1. No hidden or unapparent surface or subsurface conditions of the property, structures, soils, subsoils, geological formations, ground water, or drainage conditions exist that would render the property more or less valuable.
2. Existing improvements comply with all applicable public and private zoning codes, regulations and covenants, unless stated otherwise.
3. The client has provided us with all significant, relevant information covering the property that is the subject of this report.

No responsibility is assumed for matters legal in nature affecting the property or its title, which is assumed to be good and merchantable.

Properties in Hawaii typically include a reservation in favor of the State of Hawaii of all mineral and metallic mines. Our analyses, opinions, and conclusions assume these reservations do not have an impact on the value or use of the property.

Any drawings, maps, photographs, and similar exhibits accompanying this report are included to assist the reader in visualizing the property. No responsibility is assumed for the accuracy of these exhibits.



Hazardous Substances

Unless otherwise stated, the existence of hazardous substances (actual, alleged or threatened discharge, disposal, seepage, migration, release, growth, infestation, spread or escape of molds, mildews, fungi and/or spores, or any materials, goods or products containing, harboring or nurturing these substances) that could be present on the property, or other environmental conditions that could impact the property, were not brought to the attention of the appraisers nor observed during the site visit.

The appraisers are not trained or qualified to detect hazardous substances or conditions even if these hazards, or evidence of potential presence of these hazards, are visible on the property.

Therefore, this report assumes no hazardous substance or condition exists that would impact the analyses, opinions or conclusions. If a hazardous substance or condition exists, it could have a negative effect on the value of the property.

Archaeological or Historically Significant Conditions

The appraisers are not trained or qualified to recognize archaeological or historically significant conditions, even if these conditions are visible on the property.

Unless otherwise stated, archaeological or historically significant conditions that could be present on the property were not identified nor observed during the site visit. The report assumes no archaeological or historically significant condition exists that would impact the analyses, opinions or conclusions of this report. If an archaeological or historically significant condition exists, it could impact the use or value of the property and affect the results of this assignment.

Endangered Species

The appraisers are not trained or qualified to recognize endangered flora or fauna qualified for protection under the Endangered Species Act of 1973, even if visible on the property.

Unless otherwise stated, the presence of endangered flora or fauna was not identified, and the report assumes no endangered species are present on the property. The presence of endangered species could impact the value of the property.

Americans With Disabilities Act (ADA)

The Americans with Disabilities Act (ADA) became effective January 26, 1992. Unless otherwise stated, this report was not based on any specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. A survey of the property together with a detailed analysis of the requirements of the ADA could reveal that the property is not in compliance with one or more of the requirements of the ADA. If so, it could have a negative effect on the value of the property.



Terms of Assignment

We have no obligation to update our report because of events and transactions occurring subsequent to the effective date of the report.

Neither our fees nor payment were contingent upon the results of the report.

Use of Report

This report is valid only if presented in whole, with the letter of transmittal and signed certification.

This report or any portion of this report may not be reproduced or published without the prior written consent of John Child & Company, and then only with proper qualification.

The contents of this report or portions of this report, the identity of the appraisers or any reference to John Child & Company, the Appraisal Institute, the Counselors of Real Estate, or the American Society of Appraisers, or to their respective designations may not be disseminated to the public through advertising media, public relations media, news media, sales media, or any other public means of communication.

Limitation on Liability

John Child & Company shall not be liable to Client or to any third party (including without limitation lenders and other persons to whom Client may show this report for the purposes of obtaining credit, insurance or any other benefit or promise) in the event that the use or value of the subject property is or becomes different from the use or value estimates, analyses, opinions or conclusions in this report unless it is established by clear and convincing evidence that John Child & Company acted in bad faith or willfully and recklessly failed to exercise an appropriate standard of care in the community while performing this assignment. In any event, John Child & Company's liability to Client or to any third party shall be limited to the amount of the fees to complete this assignment.

This report may not be shown to any third party without our consent and without receiving a written acknowledgement from any person to whom it is shown that such person has read, understands and agrees to be bound by the limitation of liability in this paragraph, except as may be otherwise provided by section 171-17, Hawaii Revised Statutes.

SCOPE OF WORK

The scope of work to complete this assignment is outlined as follows:



Background

1. Participated in meetings with representatives of the DLNR, Turtle Bay Resort, LLC, Trust for Public Land, and the North Shore Community Land Trust.
2. Reviewed documents relevant to the valuation.
3. Toured the Turtle Bay Resort property on August 21, 2013 with Mr. Scott McCormack, Vice President of Real Estate, Turtle Bay, Replay Resorts, Inc.
4. Researched State and County data sources to verify land use designations.
5. Gathered other property and neighborhood information from public sources.
6. Reviewed maps, GIS data, and other graphics compiled by the Federal (USGS), State and County entities.

Highest and Best Use

1. Evaluated the highest and best use of the 52.545-acre Kawela Bay portion of the Turtle Bay Resort to be for residential subdivision.

Valuation of the Fee Simple Interest

1. Estimated the individual retail prices for the oceanfront and non-oceanfront residential house lots at Kawela Bay, assuming completion of the subdivision improvements, using the sales comparison approach.
2. Reviewed historical and anticipated near-term market conditions and projected the marketing period to sell the individual residential house lots.
3. Estimated and projected the costs to complete the subdivision improvements and market the individual house lots over the projected marketing period.
4. Considered the risks and opportunities associated with the proposed subdivision and estimated the appropriate discount rate for the projected net sales revenue over the projected construction and marketing period.
5. Estimated the market value of the fee simple interest in the land underlying the proposed residential subdivision as the present value of the projected net sales revenue.
6. Allocated the estimated market value between the 52.535-acre Kawela Bay portion of the Turtle Bay Resort to be conveyed to the State of Hawaii and the 2.584-acre portion to be conveyed to the City and County of Honolulu.



Valuation of the Leased Fee Interest

1. Projected the income stream over the 65-year lease term and the reversionary fee simple interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort at the end of the lease.
2. Analyzed discount rates achieved in comparable investments and estimated the appropriate rate(s) for the lease rent and reversion of the property.
3. Estimated the market value of the leased fee interest by the income capitalization approach as the present value of the projected income stream and reversion in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort.

II - PROPERTY AND NEIGHBORHOOD DESCRIPTION



This section describes the Turtle Bay Resort, and 52.535-acre Kawela Bay portion involved in the proposed sale and leaseback, in terms of property identification and description, existing encumbrances, property ownership history, proposed lease terms and conditions, assessed values and real property tax, applicable regulations relating to land use and development, regional and neighborhood descriptions.

PROPERTY IDENTIFICATION AND DESCRIPTION

Turtle Bay Resort is an 845-acre master-planned destination resort at the northerly end of the island of Oahu, Hawaii, as shown in Exhibit II-A. [1]

Turtle Bay Resort is on a coastal plain, north of the Koolau Mountain foothills. The southerly boundary extends along Kamehameha Highway, the major coastal traffic corridor. The ocean forms Turtle Bay Resort's northerly shoreline boundary.

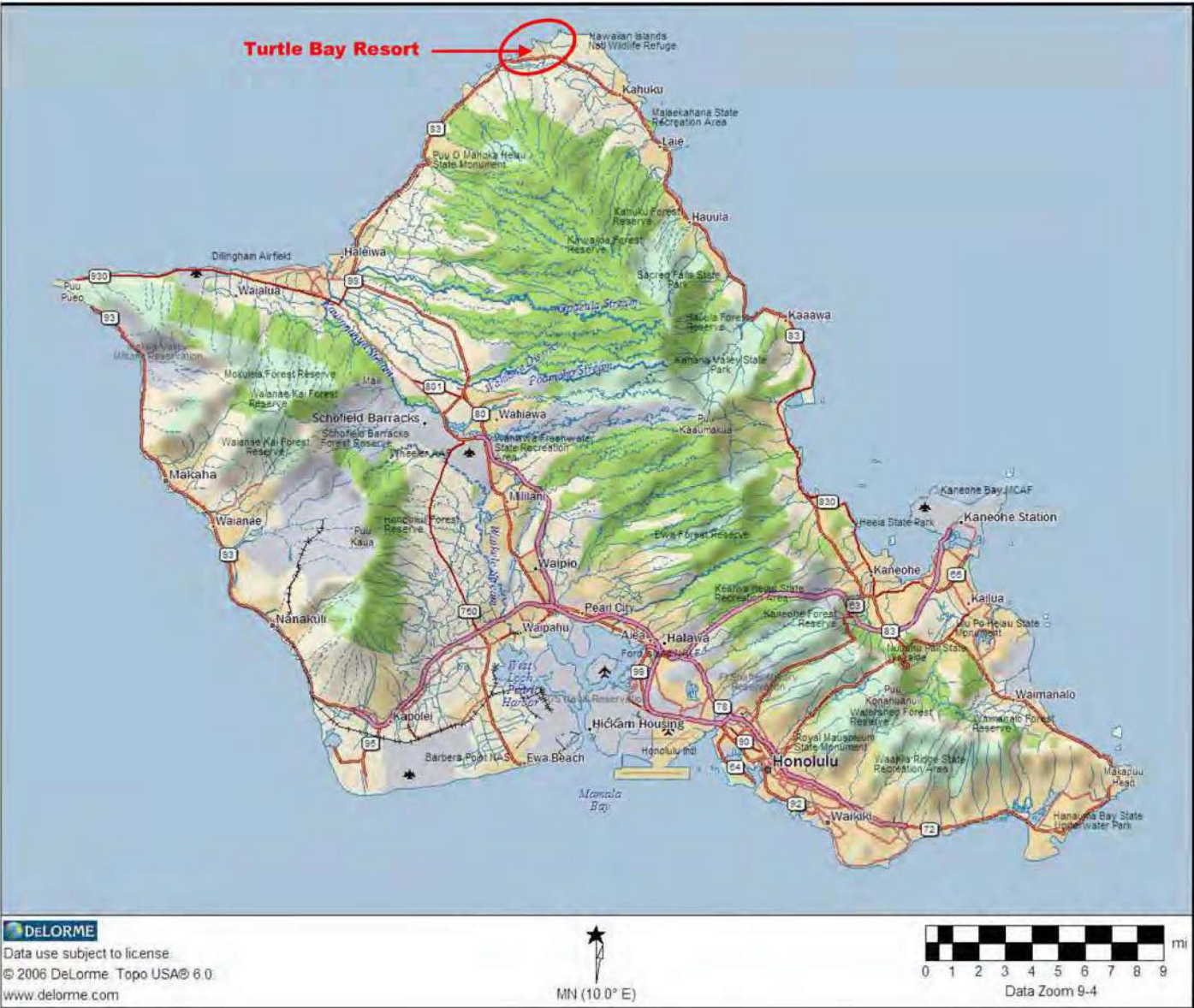
Vicinity of the Turtle Bay Resort



The ocean shoreline consists primarily of three bays. From east to west, they are identified as:

- Kuilima Bay, also referred to as Kaihahulu Bay,
- Turtle Bay, and
- Kawela Bay.

[1] Unless otherwise indicated, land areas were determined by R.M. Towill Corporation and may differ from those shown on tax maps, Final Supplemental Environmental Impact Statement for the Turtle Bay Resort Expansion July 2013 (FSEIS), or other documents.



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As noted in the FSEIS, the shoreline generally consists of beach-rock covered with white sand; however, certain areas consist of exposed beach-rock. Kawela Bay is a roughly symmetrical horseshoe-shaped, relatively shallow bay with minimal wave action or influence from coastal currents. Turtle Bay is a half-mile long crescent. Kuilima Point at the east end of the beach blocks most of the trade-wind generated swells from the beach, although these swells do wrap around the peninsula to create a popular surf break in the lee of the Resort.

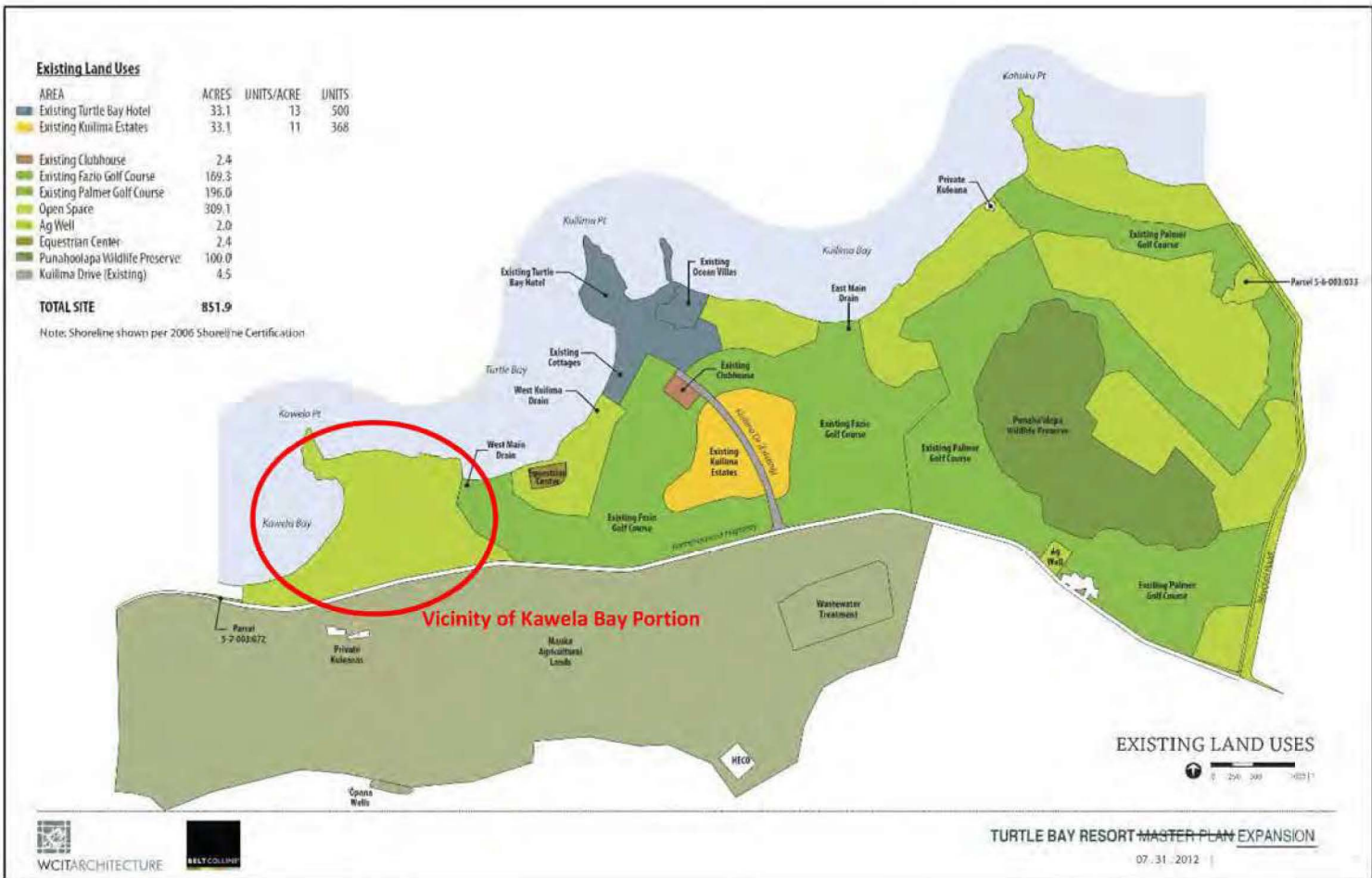
Topography of Turtle Bay Resort is generally level, varying between about 0 and 24 feet, but typically 5 to 10 feet. Coastal sand dunes have greater heights. Two streams, the O'io Stream to the east and the Kawela Stream to the west, extend across Kamehameha Highway through the Turtle Bay Resort.

About 391 acres of the resort are improved with:

- Turtle Bay Hotel
- Fazio Golf Course
- Palmer Golf Course
- Ocean Villas (oceanfront residential condominiums)
- Kuilima Estates East and West (golf front residential condominiums)
- Associated roads, infrastructure, and ancillary resort recreation facilities.

The balance of about 454 acres is undeveloped and comprises the planned expansion area of the Turtle Bay Resort, as shown in Exhibit II-B.

Turtle Bay Resort, LLC (TBR) owns the fee simple interest in 807 acres of developed and undeveloped properties within the balance of the Turtle Bay Resort. The balance of about 38 acres consists of three existing condominium developments with individually-owned apartments. Ownership is shown as follows:



Source: Final Supplemental Environmental Impact Statement for the Turtle Bay Resort Expansion
 July 2013, Figure 1-8.





Ownership of Turtle Bay Resort Properties

	<u>Acres</u>
Turtle Bay Resort, LLC	
Developed Lands	
Turtle Bay Resort Hotel	29.097
Fazio and Palmer Golf Courses	319.223
Existing Clubhouse	3.530
Kuilima Drive	<u>1.454</u>
Subtotal - Developed Lands	353.304
Undeveloped Lands	<u>453.637</u>
Subtotal - Turtle Bay Resort, LLC	806.941
Privately-owned condominiums	<u>37.649</u>
Total	<u><u>844.590</u></u>

The Turtle Bay Resort parcels comprise various parcels in tax map keys 5-6-03, 5-7-01, and 5-7-06 of the First Taxation Division. The parcels owned by TBR are identified by tax map key in Exhibit II-C.

The Turtle Bay Resort parcels also comprise various lots identified in the Turtle Bay Bulk Lot Subdivision, as shown on the Subdivision Map prepared by Ryan M. Suzuki, with R.M. Towill Corporation, approved by Department of Planning and Permitting, City and County of Honolulu, on July 17, 2015, File No. 2014/SUB-145 (Subdivision Map), as shown in Exhibit II-D and tabulated in Exhibit II-E.

PROPOSED RESORT DEVELOPMENT

Under the plan formulated in the mid-1980s, Turtle Bay Resort's expansion area was to include 2,500 rooms on five hotel sites, about 1,000 salable apartments on six condominium sites, and other sites to be developed with other ancillary resort facilities.

Since its acquisition in 2010, TBR has formulated an alternative development plan for the resort. The Final Supplemental Environmental Impact Statement dated July 2013 (FSEIS) presents the proposed plan, referred to as the "Proposed Action," and other development alternatives. The Proposed Action Plan is shown in Exhibit II-F and includes the following:

- Two new full-service hotels with a combined total of 625 units. The hotels may be operated as time-share or traditional service hotels;
- 590 new Resort-Residential Units, consisting of a combination of multi-family and single-family units;



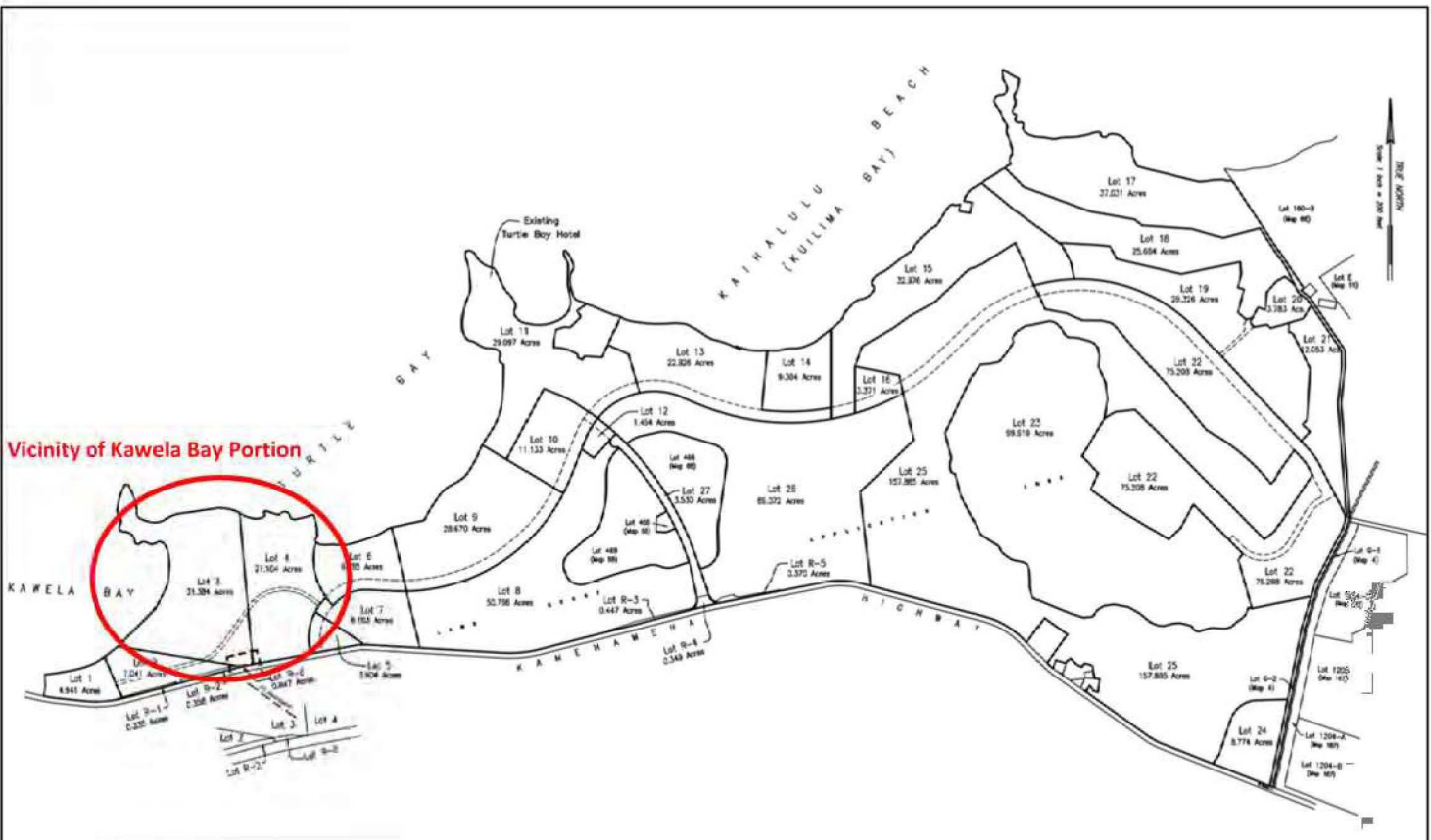
IDENTIFICATION OF PROPERTIES OWNED BY TURTLE BAY RESORT, LLC

<u>Tax map key</u>	<u>Acres</u>
5-6-03:33	3.917
5-6-03:40	77.048
5-6-03:41	110.087
5-6-03:42	2.421
5-6-03:44	89.907
5-6-03:50	7.260
5-7-01:01	90.898
5-7-01:16	72.777
5-7-01:17	1.035
5-7-01:20	26.653
5-7-01:22	83.333
5-7-01:30	0.310
5-7-01:31	5.185
5-7-01:33	132.039
5-7-01:37	46.504
5-7-06:01	8.493 [1]
5-7-06:02	25.690 [1]
5-7-06:22	4.800
5-7-06:23	<u>30.100 [1]</u>
Total	<u>818.457</u>

[1] Portions included in the 52.535-acre Kawela Bay Portion involved in the proposed sale and leaseback.

Note: Acreage differs from that based on R.M. Towill calculations.

Source: Hawaii Information Service and Department of Budget & Fiscal Services, Real Property Assessment Division data.



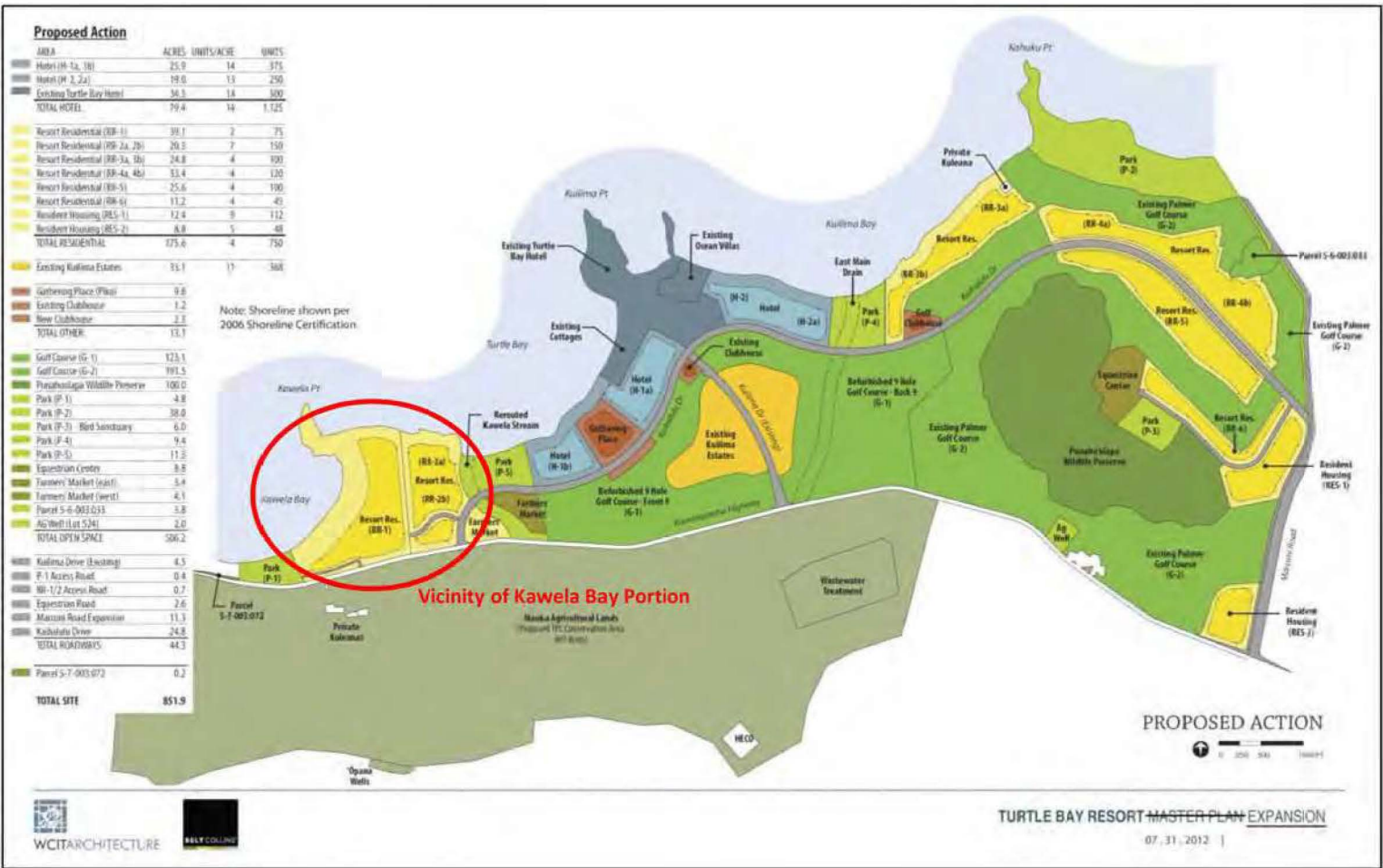
Source: Turtle Bay Bulk Lot Subdivision, as shown on the Subdivision Map prepared by Ryan M. Suzuki, with R.M. Towill Corporation, approved by Department of Planning and Permitting, City and County of Honolulu, on July 17, 2015, File No. 2014/SUB-145.


IDENTIFICATION OF TURTLE BAY RESORT PARCELS OWNED BY TURTLE BAY RESORT, LLC

Lot [1]	Proposed Action Plan Identification	Existing/Proposed Uses	Acres
1	Park P-1	Park	4.941
2	RR-1, portion	Open Space / Preservation	7.041
3	RR-1, portion	Open Space / Conservation	31.384
4	RR-2, portion	Open Space / Conservation	21.104
5	Farmer's Market, portion	Open Space / Conservation	2.604
6	Hotel H-1, portion, Park P-5	Resort Hotel	9.765
7	Farmer's Market, portion	Open Space / Conservation	9.103
8	Golf Course	Golf Course - Fazio	50.766
9	Hotel H-1, portion	Resort Hotel	28.670
10	Hotel H-1, portion, Gathering Place	Resort Hotel / Commercial	11.133
11	Turtle Bay Resort Hotel	Existing Resort Hotel	29.097
12	Existing Clubhouse	Existing Clubhouse	1.454
13	Hotel H-2	Resort Hotel	22.926
14	Park P-4	Open Space / Conservation	9.304
15	RR-3	Resort Residential	32.976
16	New Clubhouse	New Clubhouse	3.371
17	Park P-2	Open Space / Conservation	37.031
18	Golf Course	Golf Course - Palmer	25.664
19	RR-4	Resort Residential	29.326
20	Kuleana in Golf Course	Golf Course - Palmer	3.783
21	Golf Course	Golf Course - Palmer	12.053
22	RR-5, 6, RES-1, Park P-3, Equestrian, other	Open Space / Conservation	75.208
23	Marsh	Open Space / Conservation	99.910
24	RES-2	Open Space / Conservation	8.774
25	Golf Course	Golf Course - Palmer	157.885
26	Golf Course	Golf Course - Fazio	69.072
27	Roadway	Kuilima Drive	3.530
1204A	Marconi Road	Open Space / Conservation / Road	7.260
R-1	RR-1, portion	Open Space / Preservation	0.235
R-2	RR-1, portion	Open Space / Preservation	0.358
R-3	Roadway	Roadway	0.447
R-4	Roadway	Roadway	0.349
R-5	Roadway	Roadway	0.370
R-6	RR-2, portion	Open Space / Conservation	0.047
	Total		<u>806.941</u>

[1] Turtle Bay Bulk Lot Subdivision, as shown on the Subdivision Map prepared by Ryan M. Suzuki, with R.M. Towill Corporation, approved by Department of Planning and Permitting, City and County of Honolulu, on July 17, 2015, File No. 2014/SUB-145.

Source: Updated land areas by R.M. Towill, May 28, 2015, as presented in Turtle Bay Makai Conservation Lands, Baseline Documentation, September 2015.



Source: Final Supplemental Environmental Impact Statement for the Turtle Bay Resort Expansion
 July 2013, Figure 3-1.





- 160 Community Housing Units that will be priced to be affordable to residents of the Ko‘olau Loa/North Shore region;
- Approximately 73 acres of park area distributed among five parks;
- A total of 12 new public shoreline access ways;
- An approximate 100-acre Punaho‘olapa Marsh wildlife preserve;
- Shoreline setbacks in excess of minimum requirements and ranging from 150 feet to 300 feet and resulting in a combined total of approximately 42 acres of setback area;
- A new resort entrance near Kawela Bay and a new lateral roadway (tentatively named Kaihalulu Drive) extending the length of the resort generally parallel to the shoreline;
- Improvements to Marconi Road and the eventual signalization of all three resort’s intersections with Kamehameha Highway (Kaihalulu, Kuilima and Marconi);
- The renovation of the Fazio Golf Course to be combined with the existing Palmer Golf Course to create a 27-hole golf complex, with a new Golf Clubhouse;
- A new Equestrian Center to replace the existing facility;
- A network of interior pedestrian paths and equestrian trails;
- A Farmers’ Market; and
- A new low-density commercial resort center called The Gathering Place, which will also host guests and regional visitors.

Completion of the Proposed Action Plan would require a significant capital investment to complete the necessary off-site and resort infrastructure and meet obligations associated with certain land use entitlements. In February 2014, on behalf of TBR, Cumming Corporation estimated these costs to total about \$121.7 million, shown as follows:

Estimated Off-Site and Resort Infrastructure Costs (Rounded) [1]

	<u>West of Kuilima Drive</u>	<u>East of Kuilima Drive</u>	<u>Total</u>
Off-site road improvements	\$16,100,000	\$4,200,000	\$20,300,000
Turtle Bay Resort infrastructure	17,400,000	62,100,000	79,500,000
Park improvements and access	4,500,000	10,900,000	15,400,000
Drainage & well improvements	<u>0</u>	<u>6,500,000</u>	<u>6,500,000</u>
Total	<u>\$38,000,000</u>	<u>\$83,700,000</u>	<u>\$121,700,000</u>

[1] Cumming Corporation, Turtle Bay Resort – Proposed Action Master Plan, Master Plan Cost Review, February 20, 2014.



52.535-ACRE KAWELA BAY PORTION OF THE TURTLE BAY RESORT

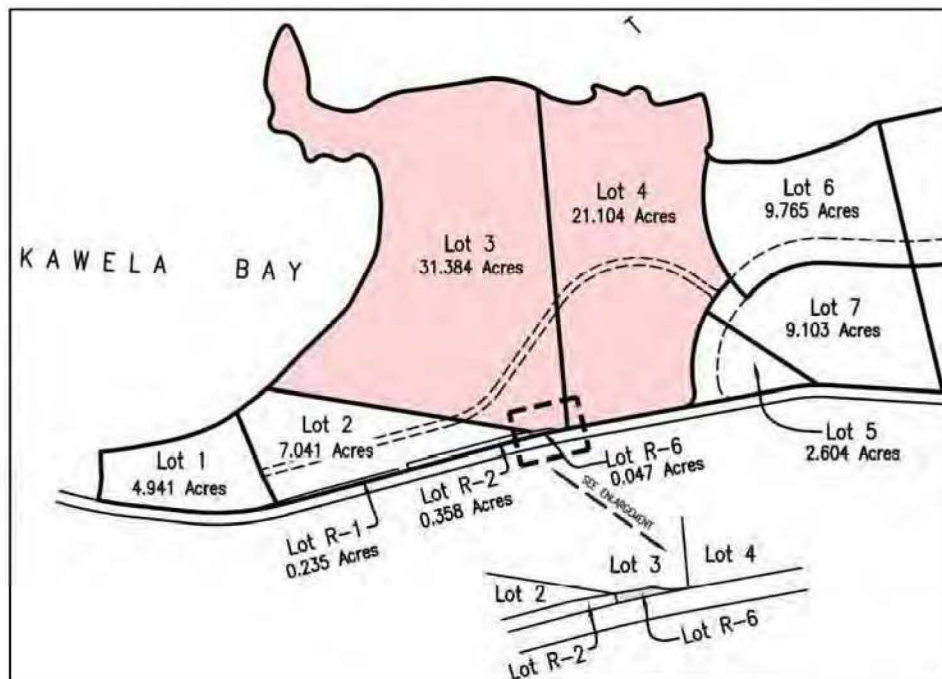
TBR and the State of Hawaii, through its Board of Land & Natural Resources (BLNR), propose to enter into a transaction involving the fee simple acquisition and simultaneous leaseback of about 52.535 acres at Kawela Bay identified as follows:

Parcels Involved in Sale/Leaseback Transaction [1]

<u>Lot [1]</u>	<u>Proposed Action Plan Reference</u>	<u>Acres</u>
Lot 3	RR-1, Portion	31.384
Lot 4	RR-2	21.104
Lot R-6	RR-1, Portion	0.047
Total		<u>52.535</u>

The three lots comprising the 52.535-acre Kawela Bay portion of the Turtle Bay Resort are shown as follows:

Portion of Subdivision Map Identifying Lots 3, 4, and R-6



[1] Lot designations from “TURTLE BAY BULK LOT SUBDIVISION,” as shown on Subdivision Map prepared by Ryan M. Suzuki, with R.M. Towill Corporation.



Survey maps identifying Lots 3, 4, and R-6 are included as Exhibit II-G. Photographs of the Kawela Bay portion of the Turtle Bay Resort are included as Exhibit II-H.

PROPERTY OWNERSHIP HISTORY

TBR owns the fee simple interest in the developed and undeveloped properties that comprise the Turtle Bay Resort, exclusive of the existing Ocean Villas and Kuilima Estates East and West condominium developments.

TBR acquired its ownership interest in these properties, together with a well site and certain condominium ownership interests, from Kuilima Resort Company on February 23, 2010. According to public records, the total price paid by TBR was \$133,285,000. The Limited Warranty Deed is recorded at the State of Hawaii Bureau of Conveyances as Document 2010-024406.

While the entity composition may have changed, Kuilima Resort Company had owned the fee simple interest in the Turtle Bay Resort properties since at least the late 1980s.

EXISTING ENCUMBRANCES

The lots comprising the Turtle Bay Resort properties owned by TBR, including those lots to be encumbered by the Conservation Easement, are encumbered by a variety of access, utility, landscaping, and drainage easements, setbacks, and other restrictions that facilitate the current and anticipated land uses in the resort.

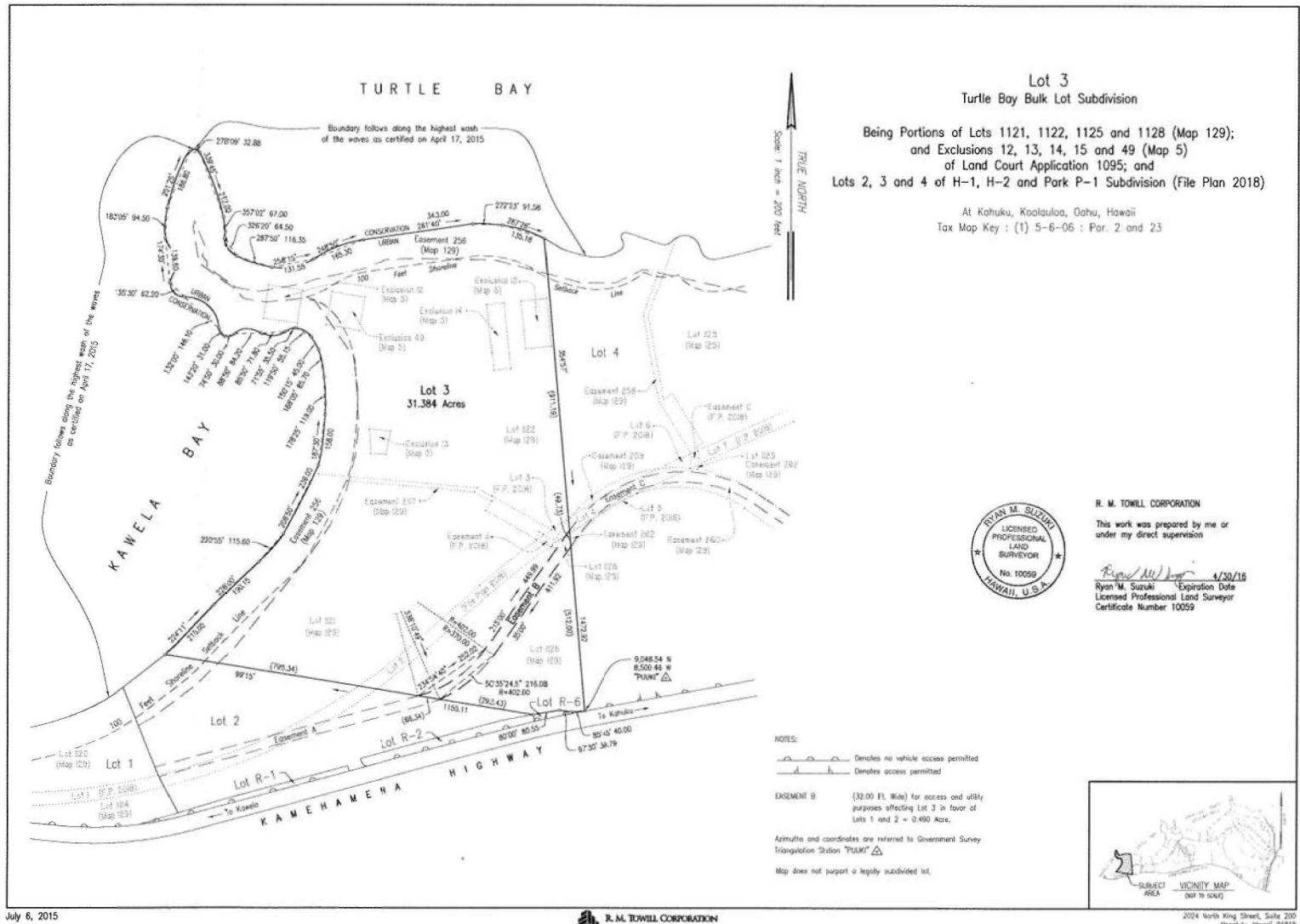
Specific encumbrances for the 52.535-acre Kawela Bay portion of Turtle Bay are largely limited to access, utility, and landscaping easements, as described in the legal descriptions from the proposed Warranty Deed between TBR and the State of Hawaii included in Addendum 1. Among these is a 100-foot wide shoreline easement along Kawela Bay and the ocean.

These existing encumbrances do not have a material effect on the overall utility or value of this portion of the Turtle Bay Resort involved in the sale and leaseback.

Additionally, in exchange for certain land use entitlements, land use and development of these and other TBR lots are subject to certain terms and conditions presented in the following:

- State Land Use Commission Findings of Fact, Conclusions of Law, and Decision and Order, dated March 27, 1986, Docket No. A85-595 (D&O)
- Unilateral Agreement and Declaration for Conditional Zoning, dated September 23, 1986, and approved by the Honolulu City Council pursuant to Ordinance 86-99 (UA)
- Special Management Area Use Permit and Shoreline Setback Variance granted by the Honolulu City Council pursuant to Resolution No. 86-308 (SMA Permit).

Source: R.M. Towill Corporation.



July 6, 2015

R. M. TOWILL CORPORATION
SINCE 1928

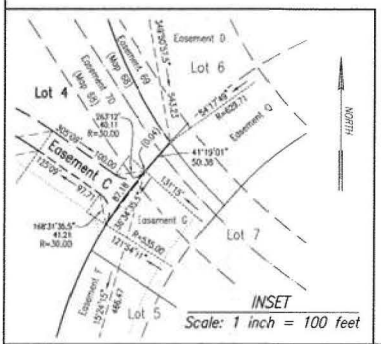
Turtle Bay Resort Sale and Leaseback
SURVEY MAPS OF LOTS 3, 4, AND R-6

Exhibit II-G
Page 1





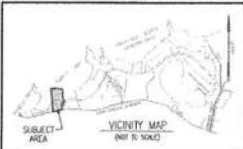
NOTES:
 Denotes no vehicle access permitted
 Denotes access permitted
EASEMENT C (32.00 FT. Wide) for access and utility purposes affecting Lot 4 in favor of Lots 1, 2 and 3 = 0.593 Acres.
 Azimuths and coordinates are referred to Government Survey Triangulation Station "PUUKO" .
 Map does not purport a legally subdivided lot.



Lot 4
 Turtle Bay Bulk Lot Subdivision
 Being All of Exclusion 16 (Map 5) and
 Portions of Lots 1121 and 1125 (Map 129)
 of Land Court Application 1095 and
 Lot 2 of H-1, H-2 and Park P-1 Subdivision
 (File Plan 2018)
Designation of Restriction of Vehicular Access Rights
 At Kahuku, Koolauloa, Oahu, Hawaii
 Tax Map Keys : (1) 5-7-01 : Par. 20 and 22 and
 (1) 5-7-06 : Par. 1, 2 and 23



R. M. TOWILL CORPORATION
 This work was prepared by me or
 under my direct supervision
Ryan M. Suzuki 4/30/16
 Ryan M. Suzuki Expiration Date
 Licensed Professional Land Surveyor
 Certificate Number 10059

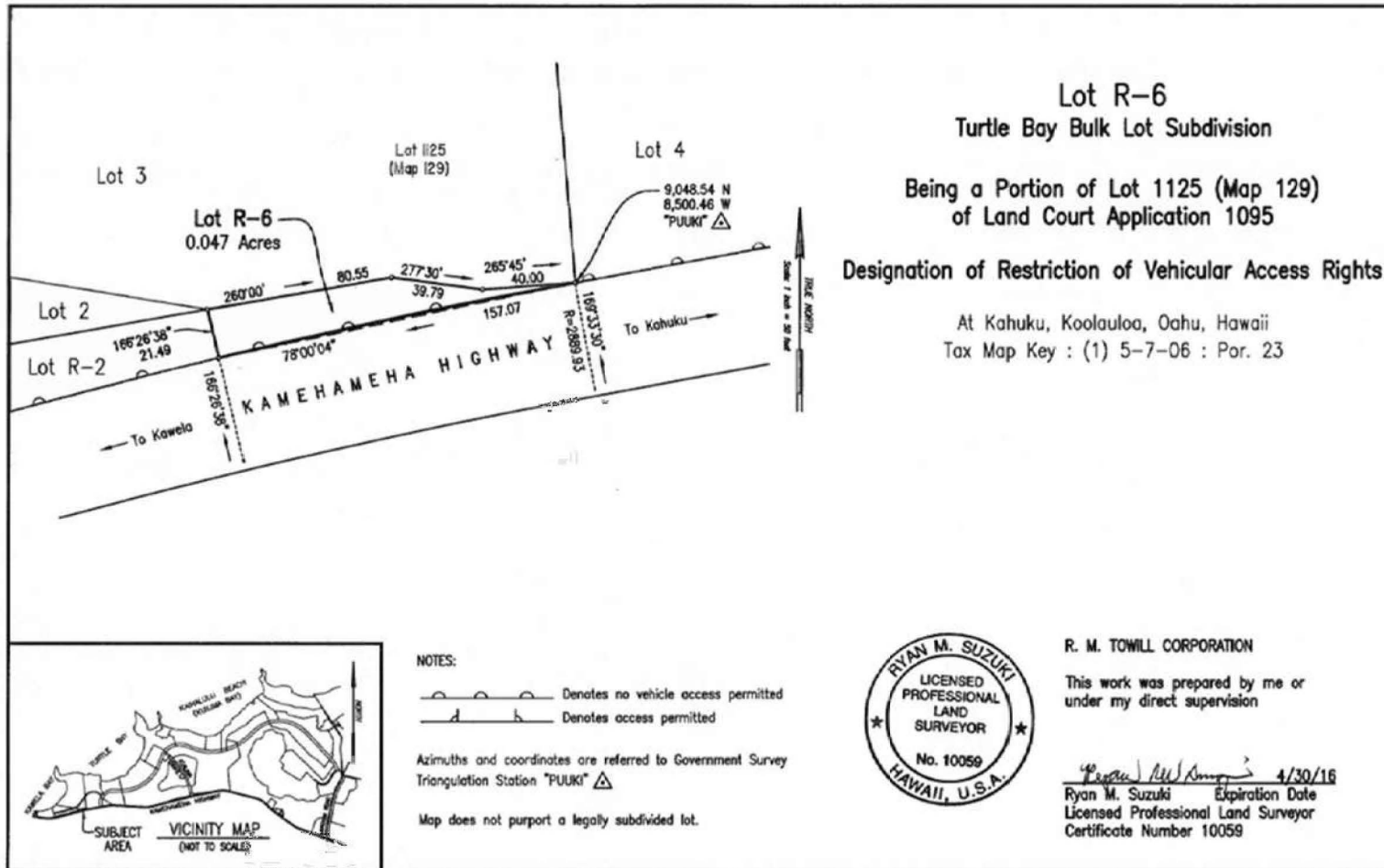


July 6, 2015

R. M. TOWILL CORPORATION
 LAND SURVEYORS

2024 North King Street, Suite 200
 Honolulu, Hawaii 96813





Lot R-6
Turtle Bay Bulk Lot Subdivision

Being a Portion of Lot 1125 (Map 129)
of Land Court Application 1095

Designation of Restriction of Vehicular Access Rights

At Kahuku, Koolauloa, Oahu, Hawaii
Tax Map Key : (1) 5-7-06 : Por. 23



R. M. TOWILL CORPORATION
This work was prepared by me or under my direct supervision

Ryan M. Suzuki 4/30/16
Ryan M. Suzuki Expiration Date
Licensed Professional Land Surveyor
Certificate Number 10059

June 12, 2015

R. M. TOWILL CORPORATION
SINCE 1939

2024 North King Street, Suite 200
Honolulu, Hawaii 96819



PHOTOGRAPHS OF THE 52.535-ACRE KAWELA BAY PARCEL



Photo No. 1: Aerial photograph of Lots 3, 4, and R-6 that comprise the 52.535-acre Kawela Bay portion of the Turtle Bay Resort. (Source: Google Earth)

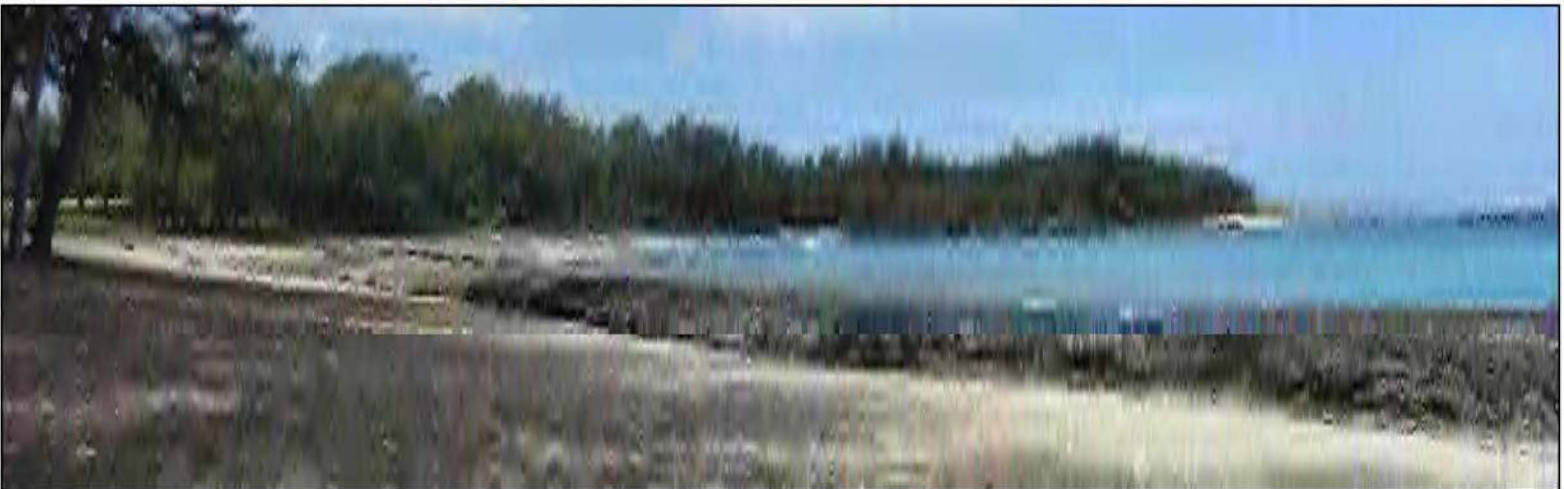


Photo No. 2: View from a position along Turtle Bay in a westerly direction towards Lot 4.



Photo No. 3: View in the vicinity of the northerly boundary of Lots 3 and 4 in an easterly direction across Turtle Bay. A portion of the Turtle Bay Resort Hotel is visible at left.



Photo No. 4: View from a similar position facing in a westerly direction. Kawela Point is visible at center of the photograph.

Photographs taken on August 21, 2013, unless otherwise noted.



Photo No. 5: View from Kawela Point in a southerly direction across Kawela Bay.



Photo No. 6: View from a position near the westerly end of Lot 3 in a westerly direction across Kawela Bay.



Photo No. 7: View from a similar position in a northeasterly direction across Kawela Bay.



Photo No. 8: View from the interior of Lot 3 illustrating an example of existing site conditions.

Photographs taken on August 21, 2013, unless otherwise noted.



Photo No. 9: View from a position along Kamehameha Highway, west of Lot 3, in a southwesterly direction.



Photo No. 10: View from a similar position along Kamehameha Highway, west of Lot 3, in a southeasterly direction.

Photographs taken on August 21, 2013, unless otherwise noted.



The requirements associated with these documents and their timing are summarized in Addendum 3.

OFFSITE UTILITIES AND INFRASTRUCTURE SYSTEMS

While future development will require a variety of onsite utility and infrastructure systems, capacities of offsite utility systems are available to TBR in sufficient capacities to support the Proposed Action Plan.

PROPOSED LEASE

TBR and the State of Hawaii, through its Board of Land & Natural Resources (BLNR), propose to enter into a transaction involving the fee simple acquisition and simultaneous leaseback of about 52.535 acres at Kawela Bay. The proposed lease is included as Addendum 2.

The lease agreement will extend 65 years, with a rent payment of \$480 annually during the entire term. The lease permits the property to be used substantially in the same manner that TBR has been using the premises prior to the lease encumbrance. According to the lease,

12. Character of use. The Lessee shall use or allow the premises leased to be used substantially in the same manner that Lessee has been using the premises immediately preceding the effective date of this lease, which existing uses include the uses set forth in the Baseline Documentation for the Turtle Bay Conservation Easement dated _____, 2015, and the commercial and non-commercial activities listed hereinbelow (collectively, the "Existing Uses")... Similar and related uses and activities to the Existing Uses shall also be permitted, provided that such uses and activities do not have a greater adverse impact on the premises than the Existing Uses.

The lease prohibits residential use. According to the lease,

43. Restriction on residential use. The premises, or any portion, shall not be utilized for residential purposes. The construction or placement of any structure on the premises for residential purposes is strictly prohibited.

Finally, the lease incorporates certain rights and restrictions in the Conservation Easement to encumber other portions of the Turtle Bay Resort. According to the lease,



57. Conservation Easement Rights and Restrictions. During the term of this lease, Lessee shall be able to exercise only the rights set forth herein or listed in Sections B, C, and D of the Conservation Easement, subject to (a) compliance with the purpose set forth in Section A of the Conservation Easement and (b) the restrictions contained in Section E of the Conservation Easement. [1]

ASSESSED VALUES AND REAL PROPERTY TAX

Real property in Hawaii has been assessed at 100% of market value since 1983. Assessments are determined annually based on a valuation date of October 1 of the prior year. Each tax map parcel is assessed individually.

The 52.535-acre Kawela Bay portion of the Turtle Bay Resort are portions of tax map keys 5-7-06:01, 02, and 23, three parcels totaling 64.283 acres.

For 2015 taxation purposes, the City and County of Honolulu Department of Budget & Fiscal Services, Real Property Assessment Division has estimated the market value of the fee simple interest in the three tax map parcels at \$15,491,000. The assessed value for these parcels have increased modestly since 2013, shown as follows:

Total Assessed Values

Tax year	Land	Buildings	Total
2015	\$15,491,000	\$0	\$15,491,000
2014	15,491,000	0	15,491,000
2013	15,501,600	0	15,501,600

Based on the assessed values and current tax rates, the annual real property tax for 2015 totals about \$199,375.

APPLICABLE REGULATIONS RELATING TO LAND USE AND DEVELOPMENT

Ordinances and other regulations applicable to land use and development of the Turtle Bay Resort are discussed in terms of State Land Use Classification, the City and County of Honolulu Development Plan, and the Land Use Ordinance (LUO) of the City and County of Honolulu, Special Management Area (SMA), and flood hazard districts.

[1] The Deed of Conservation Easement and Restriction of Development Rights, unexecuted, version 330194.1 referenced in the lease is included in Addendum 4.



State Land Use Classification

The State Land Use classifications under Chapter 205, Hawaii Revised Statutes, establish the basic planning and use parameters for all lands in the State of Hawaii. The four basic land use districts are as follows:

- Urban
- Rural
- Agricultural
- Conservation.

The State Land Use classifications provide general guidelines for the type of uses to be maintained within each district. With the exception of the Conservation classified lands, which are administered by the State Board of Land and Natural Resources, the primary use and development of the lands are controlled by County regulations.

The 52,535-acre Kawela Bay portion of the Turtle Bay Resort, together with a majority of the balance of the resort, is within the Urban State Land Use district, as shown in Exhibit II-I.

Portions of Punaho'olapa Marsh and a smaller parcel at the easterly end of the resort are within the Agricultural State Land Use district. Finally, a coastal portion at the easterly end of the resort is within the Conservation State Land Use district.

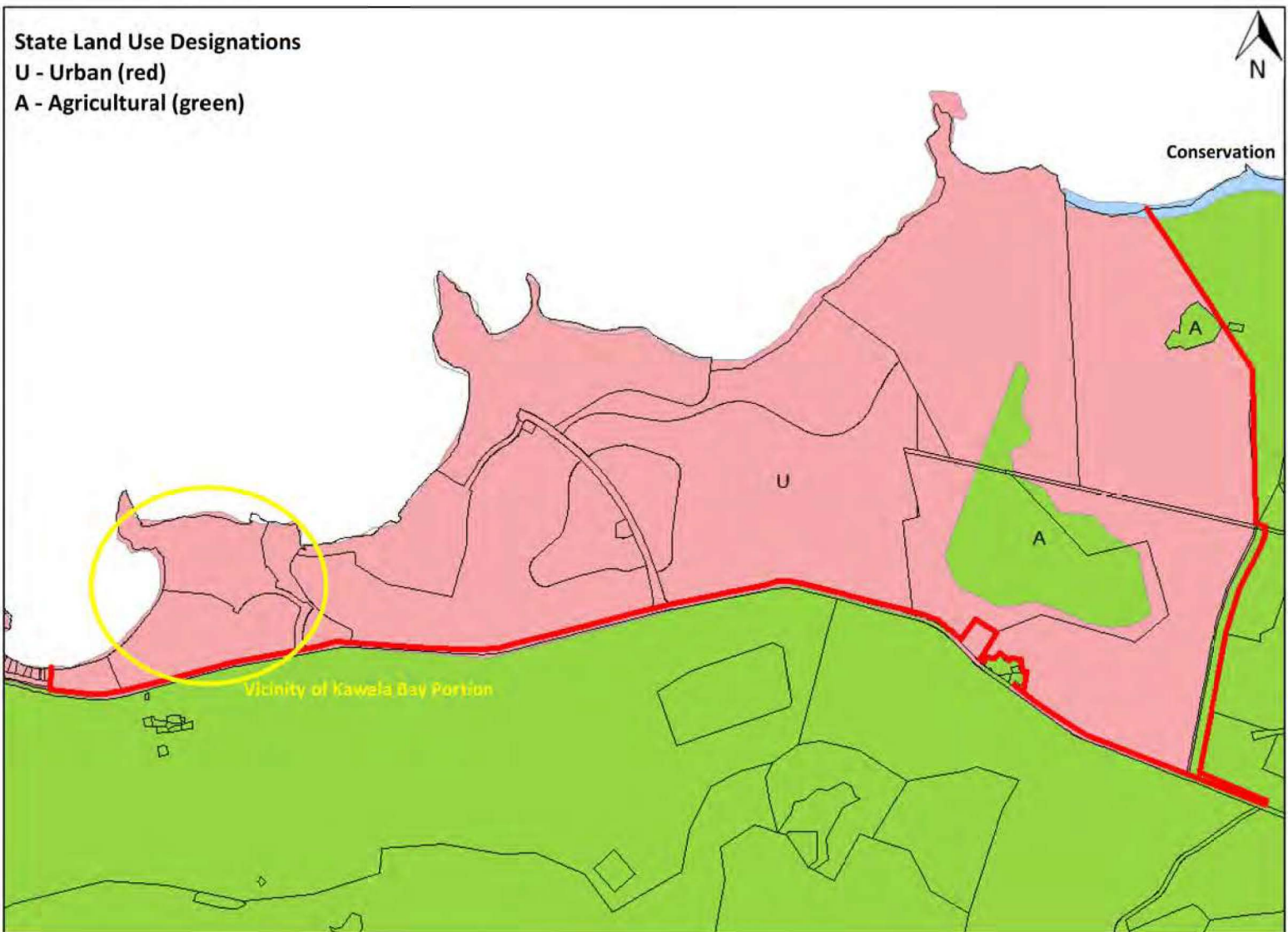
In 1986, a 236-acre portion of the Turtle Bay Resort was reclassified by the State Land Use Commission from the Agricultural District to the Urban District. The Findings of Fact, Conclusions of Law, and Decision and Order dated March 27, 1986 (D&O) included the nine conditions of approval. The requirements associated with the D&O are summarized in Addendum 3.

County Development Plan

The County Development Plan divides the island into eight development plan areas. It provides a detailed scheme for implementing the desired sequence, patterns, and characteristics of future development which implements the long-range development policies of the County General Plan.

The Turtle Bay Resort is in the Koolau Loa Sustainable Communities Plan (Koolau Loa SCP) Area. According to the 1999 Koolau Loa Sustainable Communities Plan (KLSCP),

“The vision for Koolau Loa seeks to preserve the region’s rural character and its natural, cultural, scenic and agricultural resources. The region will remain country, characterized by small towns and villages with distinct identities that exist in harmony with the natural settings of mountain ridges and winding coastline.”



Source: State of Hawaii, Office of State Planning, GIS Data Set, 2014.



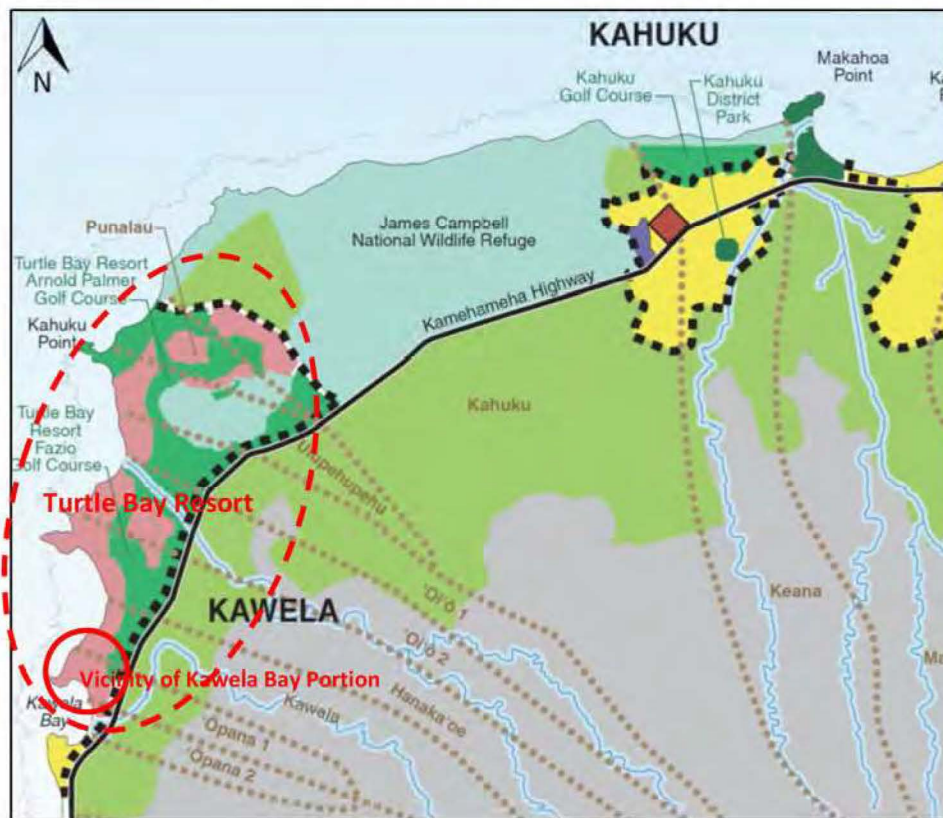
The KLSCP identifies Turtle Bay Resort (then known as Kuilima) as being located within the Rural Community Boundary and characterizes it as a “Major Resort Destination” planned for a total of 4,000 visitor units.

Since its completion in October 1999, the Department of Planning and Permitting (DPP) has undertaken a comprehensive review of the Koolau Loa SCP. The Pre-Final Plan dated December 2012 reflects the results of this comprehensive review. [1]

The Pre-Final Plan presents a vision for Koolau Loa extends to the year 2035. Overall, the region will remain rural, with wide open spaces, agricultural lands and rural communities continuing to define the rural landscape. Growth, primarily in Malaekahana, will largely be a result of the expansion of Brigham Young University-Hawaii.

Under the Pre-Final Plan, Turtle Bay Resort is within a Community Growth Boundary and has been designated for Resort, Golf Course, and Preservation uses, shown as follows:

Portion of Land Use Map from the Koolau Loa SCP Pre-Final Plan



[1] The Planning Commission recommended approval of the Plan on April 3, 2013, and on July 9, 2015, Bill 53 (2015) was introduced for the proposed updated KLSCP as submitted by the Planning Commission.



The 52.535-acre Kawela Bay portion of the Turtle Bay Resort is among the parcels designated Resort.

County Zoning

The purpose of the City & County of Honolulu's Land Use Ordinance (LUO) is to regulate land use in a manner that will encourage orderly development according to adopted land use policies, including the General Plan and the Development Plans. The LUO is administered and regulated by DPP, according to adopted land use policies.

DPP's development guidelines set forth regulations governing:

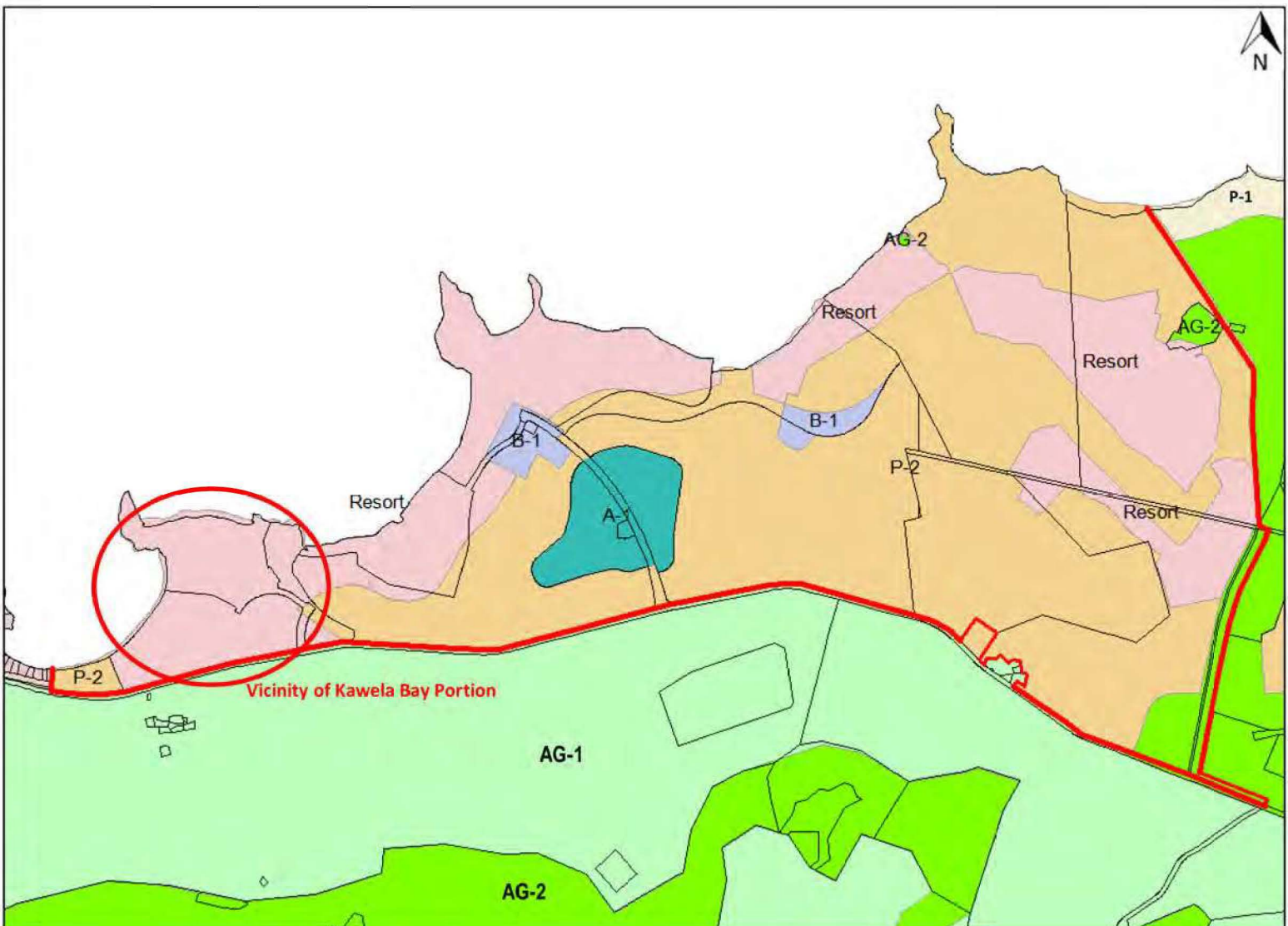
- Land use
- Minimum lot area, lot width, and yard spacing
- Maximum floor area ratio and building height
- Public open spaces
- Off-street parking.

LUO zoning designations for the Turtle Bay Resort are shown on the map included as Exhibit II-J, and summarized as follows:

- Properties master-planned for hotel, resort residential, and residential development are generally within the Resort zoning district. Portions are also zoned B-1 Neighborhood Business.
- Portions of the Turtle Bay Resort within golf course areas, within the Punaho'olapa Marsh, or designated for park use under the Proposed Action Plan are zoned P-2 General Preservation.
- Small portions of the Turtle Bay Resort, consisting of Lots 20 and 24, are zoned Ag-2 General Agriculture.

The 52.535-acre Kawela Bay portion of the Turtle Bay Resort is included in the Resort zoning district.

Excerpts from the LUO regarding development standards for the Resort, B-1 Neighborhood Business, Ag-2 General Agriculture, and P-2 General Preservation districts are included in Addendum 5.





The portions of the Turtle Bay Resort were zoned Resort and B-1 Neighborhood Business in 1986. In exchange for the rezoning, Kuilima Development Company (KDC), predecessor to TBR, executed a Unilateral Agreement (UA) with the City and County and other parties. Land use and development requirements associated with the UA are summarized in Addendum 3. [1]

Special Management Area

Chapter 25 of the Revised Ordinances of Honolulu relates to Special Management Areas. The purpose of Chapter 25 is as follows:

It is the City and County of Honolulu's policy to preserve, protect, and where possible, to restore the natural resources of the coastal zone of Hawaii. Special controls on development within an area along the shoreline are necessary to avoid permanent loss of valuable resources and foreclosure of management options, and to insure that adequate public access is provided to public owned or used beaches, recreation areas, and natural reserves, by dedication or other means. It is also the policy of the city and county to avoid or minimize damage to natural or historic special management area wetlands wherever prudent or feasible; to require that activities not dependent upon a wetland location be located at upland sites; to allow wetland losses only where all practicable measures have been applied to reduce those losses that are unavoidable and in the public interest.

As are most properties along the seaward side of Kamehameha Highway in the region, Turtle Bay Resort is within a Shoreline Management Area and would require a Special Management Area (SMA) permit for most types of development. Developments requiring a SMA permit include but is not limited to the following:

- (A) The placement or erection of any solid material or any gaseous, liquid, solid or thermal waste;
- (B) Grading, removing, dredging, mining or extraction of any materials;
- (C) Change in the density or intensity of use of land, including but not limited to the division or subdivision of land;
- (D) Change in the intensity of use of water, ecology related thereto, or of access thereto; and
- (E) Construction, reconstruction, demolition or alteration of the size of any structure.

[1] Unilateral Agreement and Declaration for Conditional Zoning dated September 23, 1986, and approved by the Honolulu City Council pursuant to Ordinance 86-99. The agreement was amended in 1988 to include the Kuilima Estates residential condominiums and additional portions of the Turtle Bay Resort.



Turtle Bay Resort is operating under an existing SMA Use Permit and Shoreline Setback Variance granted by the Honolulu City Council pursuant to Resolution No. 86-308. The SMA Use Permit includes certain requirements associated with land use and development that are summarized in Addendum 3.

The Proposed Action may require a modification to the existing SMA Use Permit to address the fact that the Proposed Action represents a change to the resort's original master plan.

Flood Zone District

Flood Hazard Districts were established pursuant to the U.S. National Flood Insurance Act of 1968 (Public Laws 90-448 and 91-152), as amended, and the U.S. Flood Disaster Protection Act of 1973 (Public Law 93-234), as amended. These districts are delineated on the Flood Boundary and Flood Maps, Flood Insurance Rate Maps (FIRM) and any amendments by the Federal Emergency Management Agency.

The purpose of establishing the districts is to protect life and property and to reduce public costs for flood control and rescue and relief efforts. These measures are intended to promote the health, safety, convenience, and general welfare of the community.

Most of the Turtle Bay Resort is within Special Flood Hazard Areas subject to inundation by the 1% annual chance flood and designated Zone AE, with base flood elevations of about 11 feet. Coastal portions of the Turtle Bay Resort, including the 52.535-acre Kawela Bay portion, are with Zone VE, coastal flood zone with velocity hazard (wave action), with base flood elevations between 12 and 17 feet.

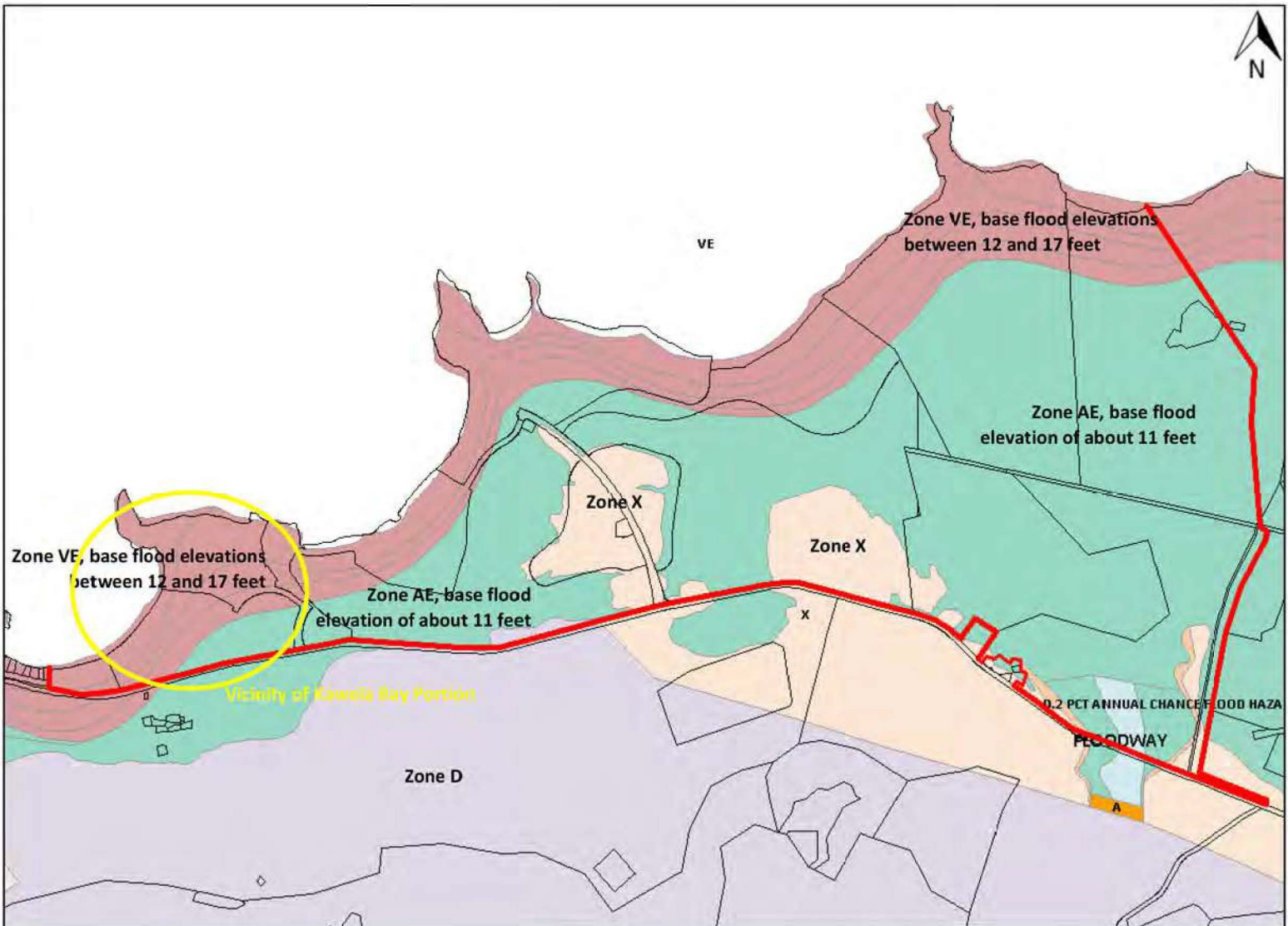
Smaller portions in the vicinity of the existing Kuilima Estates condominiums and along Kamehameha Highway are in Zone X, areas determined to be outside the 0.2% annual chance floodplain.

Portions of the Turtle Bay Resort along Hoolapa Stream at Kamehameha Highway is designated as Floodway Areas in Zone AE. The floodway is the channel of a stream plus any adjacent floodplain areas that must be kept free of encroachment so that the 1% annual chance flood can be carried without substantial increases in flood heights.

The flood zone designations for Turtle Bay Resort are shown in Exhibit II-K.

NEIGHBORHOOD ANALYSIS

The Turtle Bay Resort is located in the community of Kahuku along the northern coast of the island of Oahu, State of Hawaii, as previously shown on Exhibit II-A.





The nearest major centers of commercial retail activity are in Haleiwa, 12.5 miles to the west, and Kaneohe, 26 miles to the southeast. Access to these areas is via Kamehameha Highway, the two-lane coastal road that extends along Oahu's north shore. The proximity of the Turtle Bay Resort to other points of interest on Oahu are as follows:

<u>Point of Interest</u>	<u>Miles</u>
Haleiwa	12.5
Kaneohe	26.0
Wahiawa and H-2 Freeway	22.5
Waikele and H-1/H-2 Merge	30.0
Kapolei	37.5
Honolulu International Airport	38.0
Downtown Honolulu	42.5
Waikiki	46.0

The community of Kahuku is rural in nature. Kahuku began as a plantation town in the late 1800s. Lands in and around Kahuku were actively cultivated as part of the Kahuku Sugar Company operations until the plantation's closure in 1971. Following the closure of plantation operations, the economic base shifted to diversified agriculture and small scale resort tourism. Today, the major employers in Kahuku now include:

- Kahuku Medical Center
- Turtle Bay Resort
- Brigham Young University (in Laie)
- Polynesian Cultural Center (in Laie).

Kahuku's demographics have remained stable and are not anticipated to change significantly in the near-term. The demographic trends in the region, from Pupukea to Hauula and encompassing Kahuku, are shown as follows:



Kahuku Demographic Trends [1]

	2000	2010	Estimated 2015	Projected 2020
Persons	15,351	17,781	18,159	18,693
Households	4,006	4,266	4,379	4,527
Persons per household	3.83	4.17	4.15	4.13
Median age	NA	29.0	29.8	NA
Median household income				
Housing units				
Total	4,742	5,224	5,274	5,375
Occupied	4,008	4,266	4,378	4,527
Occupancy rate	85%	82%	83%	84%
Owner-occupied housing unit median value	NA	NA	\$493,263	\$667,717

The Kahuku environs include a number of supporting community services and shopping facilities, that evolved from the plantation era, including:

- Kahuku Dental Clinic
- Kahuku Elderly - Hauoli Hale
- Kahuku Elementary School
- Kahuku Farms
- Kahuku Federal Credit Union
- Kahuku Golf Course
- Kahuku High and Middle School
- Kahuku Hospital
- Kahuku Police Station
- Kahuku Public & School Library
- Kahuku Sugar Mill Specialty Shopping
- Kahuku Village Association

Turtle Bay Mauka Lands, LLC, an entity related to TBR, owns the fee simple interest in nearly 470 acres along the southerly side of Kamehameha Highway, across from the Turtle Bay Resort, and immediately west of the Kahuku Mauka Agricultural Lands. These lands have been occupied by small farmers. Turtle Bay Mauka Lands proposes to encumber this property with a conservation easement to preserve sustainable agricultural activities in perpetuity.

Aside from development at Turtle Bay Resort, additional residential development is anticipated to be largely contained in Laie and Malaekahana. Dwellings in these areas are expected to meet the needs of area residents that work in the community.

[1] U.S. Bureau of the Census, Census of Population and Housing, and ESRI forecasts for 2015 and 2015. Boundaries include Hauula, Kahuku, Kawela Bay, Laie and Pupukea Census Designated Places (CDP).



HIGHEST AND BEST USE

Highest and best use is defined as:

The highest and most profitable use for which the property is adaptable and needed or likely to be needed in the reasonably near future...[1]

Highest and best use is considered to be the use that is physically possible, legally permissible, financially feasible, and maximally productive.

The determination of the highest and best use is an important consideration in the appraisal of the property. The highest and best use of a property determines the selection of comparable properties which are key factors in the various approaches to value.

As a part of the analysis of highest and best use, the *Larger Parcel* is to be determined. The *Larger Parcel* is defined as follows:

That tract, or those tracts, of land which possess a unity of ownership and have the same, or an integrated, highest and best use. Elements of consideration by the appraiser in making a determination in this regard are contiguity, or proximity, as it bears on the highest and best use of the property, unity of ownership, and unity of highest and best use. [2]

In terms of unity and contiguity of ownership, Turtle Bay Resort, LLC (TBR) owns the fee simple interest in the majority of the Turtle Bay Resort, about 807 acres of the 845 acres. Only the existing resort residential condominium developments are not owned by TBR. [3]

The Turtle Bay Resort has been master planned as an integrated resort destination. While the extent or intensity of development has evolved, the land components have remained integrated and compatible with one another. Broadly speaking, the 807 acres of developed and undeveloped lands owned by TBR could constitute the Larger Parcel.

[1] Interagency Land Acquisition Conference, **Uniform Appraisal Standards for Federal Land Acquisitions**, 2000.

[2] Ibid.

[3] Turtle Bay Mauka, LLC, an entity related to TBR, owns the fee simple interest in about 468 acres of agricultural land inland of Kamehameha Highway and south of the Turtle Bay Resort. Physical characteristics and underlying land use designations differentiate the highest and best use of this property from the Turtle Bay Resort. Consequently, it is not considered a part of the Larger Parcel.



TBR's use and ownership of those portions of the Turtle Bay Resort not included in the proposed sale and leaseback of the 52.535-acre Kawela Bay portion of the Turtle Bay Resort are unaffected by the proposed transactions. The existing and anticipated uses of this portion of the Turtle Bay Resort will be neither enhanced nor diminished by the proposed transfer of ownership or lease encumbrance. Consequently, the 52.535-acre Kawela Bay portion of the Turtle Bay Resort involved in the proposed sale and leaseback is judged to constitute the Larger Parcel.

The Proposed Action Plan envisioned development of the 52.535-acre Kawela Bay portion of the Turtle Bay Resort and adjacent property with 225 resort residential units in low-rise multi-family configuration. According to the FSEIS,

Based upon listening to the community, and balanced with economic viability, the Proposed Action reduces development in the vicinity of Kawela Bay and Kawela Point to two projects with a total of 225 Resort Residential Units in an area of approximately 60 acres, at a net density of less than 3 units/acre.

To further demonstrate this commitment, along Kawela Bay, all buildings will be set back a minimum of 300 feet from the certified shoreline, consistent with the requirements of the property's approved land use entitlements. Along the shoreline east of Kawela Point, all buildings will be set back a minimum of 150 feet. Proposed building heights will be a maximum of four habitable floors/60 feet on the R-2 development site facing the Resort and three habitable floors/50 feet on the R-1 development site facing Kawela Bay.

Alternatively, the 52.535-acre Kawela Bay portion of the Turtle Bay Resort could support a lower density residential subdivision capitalizing on the demand for oceanfront house lots. Development costs would be lower as no vertical construction would be involved. Additionally, the projected marketing period would likely be shortened.

Given current strong market conditions and anticipated pricing and development costs, the highest and best use of TBR's fee simple interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort, *prior to the proposed lease encumbrance*, is considered to be for residential subdivision.

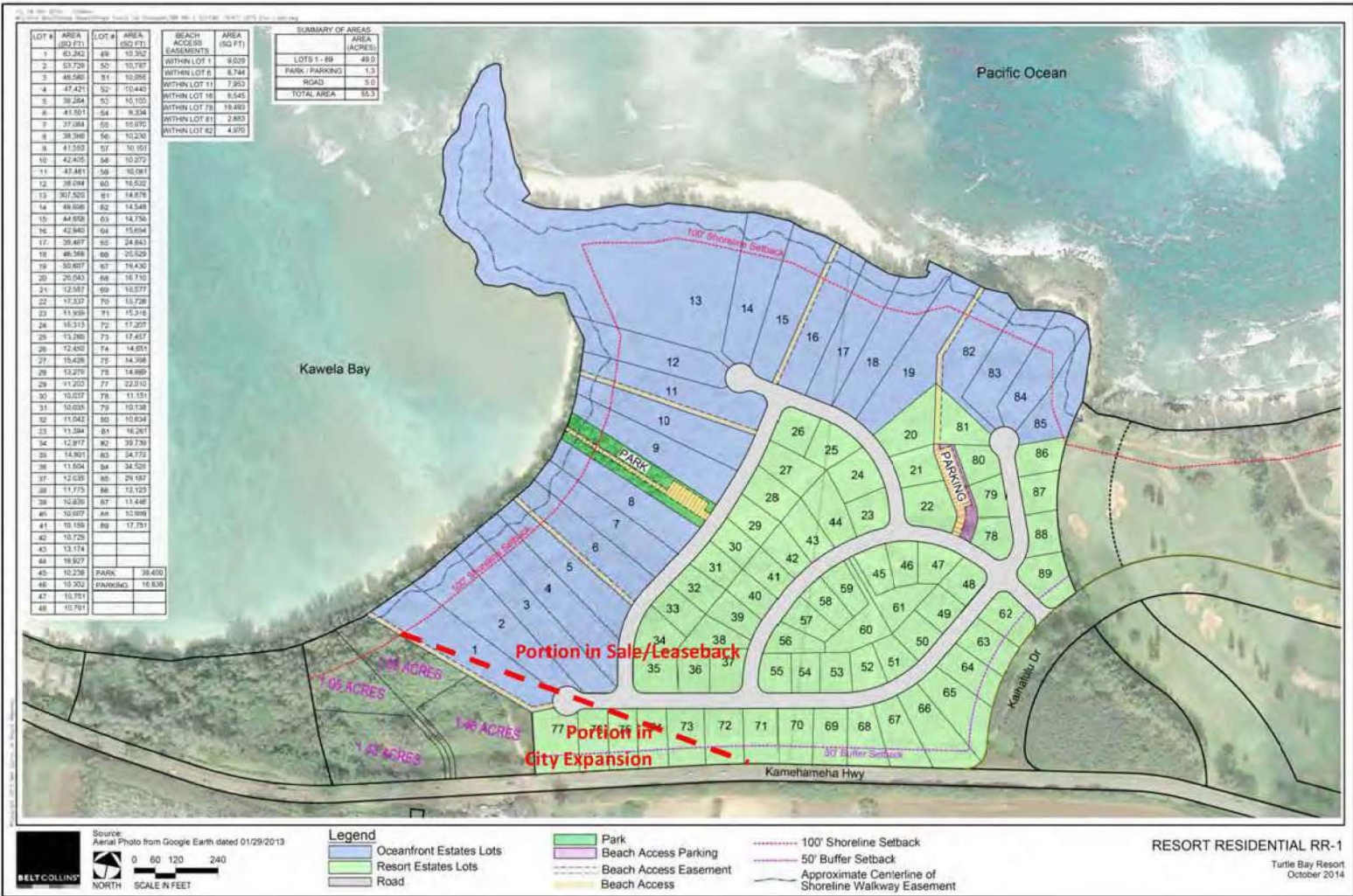
Belt Collins Hawaii, LLC (Belt Collins) formulated a subdivision plan for a slightly larger, 55.119-acre Kawela Bay parcel that included the 52.535-acre portion involved in the sale and leaseback, and an adjacent 2.584-acre portion to be conveyed to the City & County of Honolulu (portion of Lot 2). The subdivision plan is included as Exhibit II-L.

The subdivision plan includes 89 residential lots. However, two lots are set aside to accommodate development of required affordable housing of nine units, being 10% of the proposed market lots. Consequently, the number of salable lots is reduced to 87. [1]

[1] Lots 66 and 67, with a combined area of 44,959~~sq~~ft, would be set aside for the required 9-unit affordable housing development. The development density, one unit per 4,995~~sq~~ft of land area, is consistent with development densities to accommodate affordable housing development requirements elsewhere in the Turtle Bay Resort.

Turtle Bay Resort Sale and Leaseback
PROPOSED RESIDENTIAL SUBDIVISION PLAN

Exhibit II-L



Source: Belt Collins Hawaii, LLC with annotations by John Child & Company.





Among the residential lots in the subdivision plan, 12 lots front Kawela Bay, 10 lots are positioned along the ocean at Turtle Bay, and one large lot is at Kawela Point. These oceanfront lots are subject to a 100-foot shoreline setback. [1]

Five oceanfront lots and one non-oceanfront lot are encumbered by beach access easements that extend the depth of each lot. These easements vary in size from about 2,883 sq. ft. to 9,029 sq. ft. . The inventory of salable lots is shown in Exhibit II-M and summarized as follows:

Characteristics of the Salable Residential House Lots

	No. of lots	Net Land Area (sq.ft.)	
		Mean	Median
Non-oceanfront Lots	<u>64</u>	13,076	11,987
Oceanfront Lots			
Typical	22	41,254	39,488
Kawela Point	<u>1</u>	307,520	307,520
Subtotal	<u>23</u>	52,830	39,508
Total	<u><u>87</u></u>	23,586	14,651

The hypothetical subdivision is envisioned to have 44-foot wide rights-of-way improved with sidewalks, curbs, gutters, and underground utilities. Subdivision covenants, conditions and restrictions (CC&Rs) are anticipated to establish standards and quality similar to the Sunset Beach Colony subdivision. The hypothetical subdivision is also anticipated to offer secured access. [2]

Under the terms and conditions of the proposed lease, current uses of the property will continue to be permitted. However, residential use will not be permitted. Consequently, the highest and best use of the TBR's leasehold interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort, *after the proposed lease encumbrance*, would be for open space and recreation activities consistent with those currently occurring on the property.

[1] Structures over 50 feet in height would be subject to a 300-foot shoreline setback.

[2] A secured entry could monitor public access during permitted hours and limit access to residents and guests at other times.


IDENTIFICATION OF SUBDIVIDED LOTS

Lot	Land Area (Square Feet)			Ocean front	Frontage	Lot	Land Area (Square Feet)			Ocean front	Frontage
	Gross	Beach access easement	Net				Gross	Beach access easement	Net		
Salable Lots:						Salable Lots, continued:					
1	63,242	9,029	54,213	Yes	Kawela	47	10,751		10,751	No	Interior
2	53,729		53,729	Yes	Kawela	48	10,701		10,701	No	Interior
3	46,560		46,560	Yes	Kawela	48	10,701		10,701	No	Interior
4	47,421		47,421	Yes	Kawela	49	10,352		10,352	No	Interior
5	36,264		36,264	Yes	Kawela	50	10,797		10,797	No	Interior
6	41,501	6,744	34,757	Yes	Kawela	51	10,055		10,055	No	Interior
7	37,064		37,064	Yes	Kawela	52	10,440		10,440	No	Interior
8	38,366		38,366	Yes	Kawela [1]	53	10,103		10,103	No	Interior
9	41,553		41,553	Yes	Kawela [1]	54	9,334		9,334	No	Interior
10 *	42,405		42,405	Yes	Kawela [2]	55	10,070		10,070	No	Interior
11	47,461	7,953	39,508	Yes	Kawela	56	10,230		10,230	No	Interior
12	38,094		38,094	Yes	Kawela	57	10,101		10,101	No	Interior
13	307,520		307,520	Yes	Point	58	10,272		10,272	No	Interior
14	46,698		46,698	Yes	Ocean	59	10,061		10,061	No	Interior
15	44,858		44,858	Yes	Ocean	60	16,532		16,532	No	Flag [4]
16	42,940	6,545	36,395	Yes	Ocean	61	14,876		14,876	No	Flag [4]
17	39,467		39,467	Yes	Ocean	62	14,548		14,548	No	Interior
18	46,368		46,368	Yes	Ocean	63	14,756		14,756	No	Interior
19	50,607		50,607	Yes	Ocean	64	15,654		15,654	No	Interior
20	20,043		20,043	No	Interior	65	24,843		24,843	No	Interior
21	12,587		12,587	No	Interior [3]	68	16,710		16,710	No	Kam Hwy
22	17,337		17,337	No	Interior [3]	69	15,577		15,577	No	Kam Hwy
23	11,939		11,939	No	Interior	70	15,726		15,726	No	Kam Hwy
24	15,313		15,313	No	Interior	71	15,318		15,318	No	Kam Hwy
25	13,280		13,280	No	Interior	72	17,207		17,207	No	Kam Hwy
26	12,450		12,450	No	Interior	73	17,457		17,457	No	Kam Hwy
27	15,428		15,428	No	Interior	74	14,651		14,651	No	Kam Hwy
28	13,276		13,276	No	Interior	75	14,368		14,368	No	Kam Hwy
29	11,203		11,203	No	Interior	76	14,889		14,889	No	Kam Hwy
30	10,037		10,037	No	Interior	77	22,010		22,010	No	Kam Hwy
31	10,035		10,035	No	Interior	78	11,151		11,151	No	Kam Hwy [3]
32	11,042		11,042	No	Interior	79	10,138		10,138	No	Kam Hwy [3]
33	11,394		11,394	No	Interior	80	10,634		10,634	No	Kam Hwy [3]
34	12,917		12,917	No	Interior	81	16,261	2,883	13,378	No	Kam Hwy
35	14,901		14,901	No	Interior	82	39,739	4,970	34,769	Yes	Ocean (Flag)
36	11,504		11,504	No	Interior	83	34,772		34,772	Yes	Ocean
37	12,035		12,035	No	Interior	84	34,525		34,525	Yes	Ocean
38	11,775		11,775	No	Interior	85	29,187		29,187	Yes	Ocean
39	10,839		10,839	No	Interior	86	12,123		12,123	No	Golf
40	10,007		10,007	No	Interior	87	11,446		11,446	No	Golf
41	10,159		10,159	No	Interior	88	10,999		10,999	No	Golf
42	10,729		10,729	No	Interior	89	17,751		17,751	No	Golf
43 *	13,174		13,174	No	Interior [2]						
44	16,927		16,927	No	Interior	Non-Salable Lots for Affordable Housing:					
45	10,238		10,238	No	Interior	66	25,529		25,529	No	Kam Hwy
46	10,302		10,302	No	Interior	67	19,430		19,430	No	Kam Hwy

[1] Adjacent to park and parking lot.

[2] Benchmark house lot

[3] Adjacent to parking lot for beach access.

[4] House lot surround by other house lots.

Source: Subdivision Plan prepared by Belt Collins Hawaii LLC, October 2014.

III - RETAIL PRICES OF THE SALABLE HOUSE LOTS



The market value of the fee simple interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort is based, in part on the retail prices of the 87 salable residential house lots in a hypothetical subdivision.

The pricing analysis is predicated on the hypothetical condition that all necessary on- and off-site improvements are completed and the individual lots are separately salable. The use of this hypothetical conditions has an effect on value.

This section presents the valuation method and analyses used to estimate the individual retail prices of the residential house lots in the hypothetical subdivision.

SUBDIVISION PLAN

As discussed in Section II, Belt Collins Hawaii, LLC (Belt Collins) formulated a subdivision plan for a slightly larger, 55.119-acre Kawela Bay parcel that included the 52.535-acre portion involved in the sale and leaseback, and an adjacent 2.584-acre portion to be conveyed to the City & County of Honolulu (portion of Lot 2). The subdivision plan is included as Exhibit II-L.

The subdivision plan includes 89 residential lots. However, two lots are set aside to accommodate development of required affordable housing of nine units, being 10% of the proposed market lots. Consequently, the number of salable lots is reduced to 87. The inventory of salable house lots is shown in Exhibit II-M and summarized as follows:

Characteristics of the Salable Residential House Lots

	No. of lots	Net Land Area (sq.ft.)	
		Mean	Median
Non-oceanfront Lots	64	13,076	11,987
Oceanfront Lots			
Typical	22	41,254	39,488
Kawela Point	1	307,520	307,520
Subtotal	23	52,830	39,508
Total	87	23,586	14,651

VALUATION METHOD AND APPROACH

The valuation analysis to estimate the retail prices of the 87 hypothetical house lots considered the three approaches to value: the sales comparison, income capitalization, and cost approaches.



The sales comparison approach was used to estimate the retail prices of the residential house lots because a sufficient number of transactions of similar properties were available to show price trends and reliable indicators of value. The income capitalization and cost approaches were not used because these approaches have limited application in valuing vacant land.

The sales comparison approach assumes that the value of a property relates directly to the prices of comparable, competitive properties. It assumes that the value of a property tends to be set by the price that would be paid to acquire a substitute property of equal utility and desirability.

The sales comparison approach focuses on identifying and analyzing sales of similar properties and adjustments for differences in sales price. These differences include: property rights, market conditions, location, physical and legal characteristics, and sales terms and motivations of the buyers and sellers.

The valuation approach is outlined as follows:

1. Identified benchmark oceanfront and non-oceanfront house lots for the comparative analysis.
2. Investigated relevant markets for transactions of fee simple properties that shared similar highest and best uses as the benchmark oceanfront and non-oceanfront house lots.
3. Verified the transactions to determine their accuracy and to obtain additional information about the transactions.
3. Separately analyzed and adjusted the price indicators to the benchmark oceanfront and non-oceanfront house lots to account for significant factors influencing price.
4. Weighted the adjusted price indicators based on the reliability of the analysis and comparable data available.
5. Reconciled the weighted price indicators and estimated the retail prices for the benchmark oceanfront and non-oceanfront house lots.
6. Analyzed the benchmark oceanfront and non-oceanfront house lots in comparison to the remaining lots and estimated the retail prices for the 87 salable residential house lots.

BENCHMARK LOTS

The hypothetical subdivision plan formulated by Belt Collins includes 23 oceanfront and 64 non-oceanfront house lots for a total of 87 salable house lots.

Excluding the Kawela Point lot, the 22 typical oceanfront house lots are relatively long, narrow lots with net land areas averaging about 40,500^{sq}ft. The non-oceanfront house lots tend to be smaller and less narrow, with net land areas averaging about 12,500^{sq}ft.



Considering the characteristics of the salable house lots in the hypothetical subdivision, Lots 10 and 43 were selected as the benchmark oceanfront and non-oceanfront house lots, respectively. Benchmark oceanfront Lot 10 has a gross and net land area of 42,405 sq. ft. Benchmark non-oceanfront Lot 43 has a gross and net land area of 13,174 sq. ft. The locations of these two benchmark lots within the hypothetical subdivision are shown as follows:

Identification of the Benchmark Lots 10 (Oceanfront) and 43 (Non-Oceanfront)



SELECTION OF COMPARABLES

Transactions of oceanfront and non-oceanfront house lots along Oahu's North Shore were reviewed. Criteria used in the selection process included properties that are:



-
- in similar or competitive neighborhoods
 - relatively recent
 - similar in size and other physical characteristics
 - similar in highest and best use.

Based on this review, eight transactions involving oceanfront house lots and seven transactions involving non-oceanfront house lots were selected for comparison to the benchmark lots. These properties are in coastal locations within about eight miles of Kawela Bay. The locations of the eight oceanfront properties and seven non-oceanfront properties are shown in Exhibit III-A.

Property characteristics and transaction details for the oceanfront and non-oceanfront house lots are presented in Exhibits III-B and III-C. Tax maps and aerial photographs of the comparable properties are included as Addendum 6.

Additional comments regarding the transactions are outlined as follows:

Comparable Oceanfront House Lots

- Comparable 1 involves a 40,729^{sq}ft oceanfront parcel at along the southerly end of Malaekahana Bay, about 6 miles southeast of Kawela Bay. The property was improved with a single-family dwelling that was not in livable condition, a small cottage, and a tennis court.

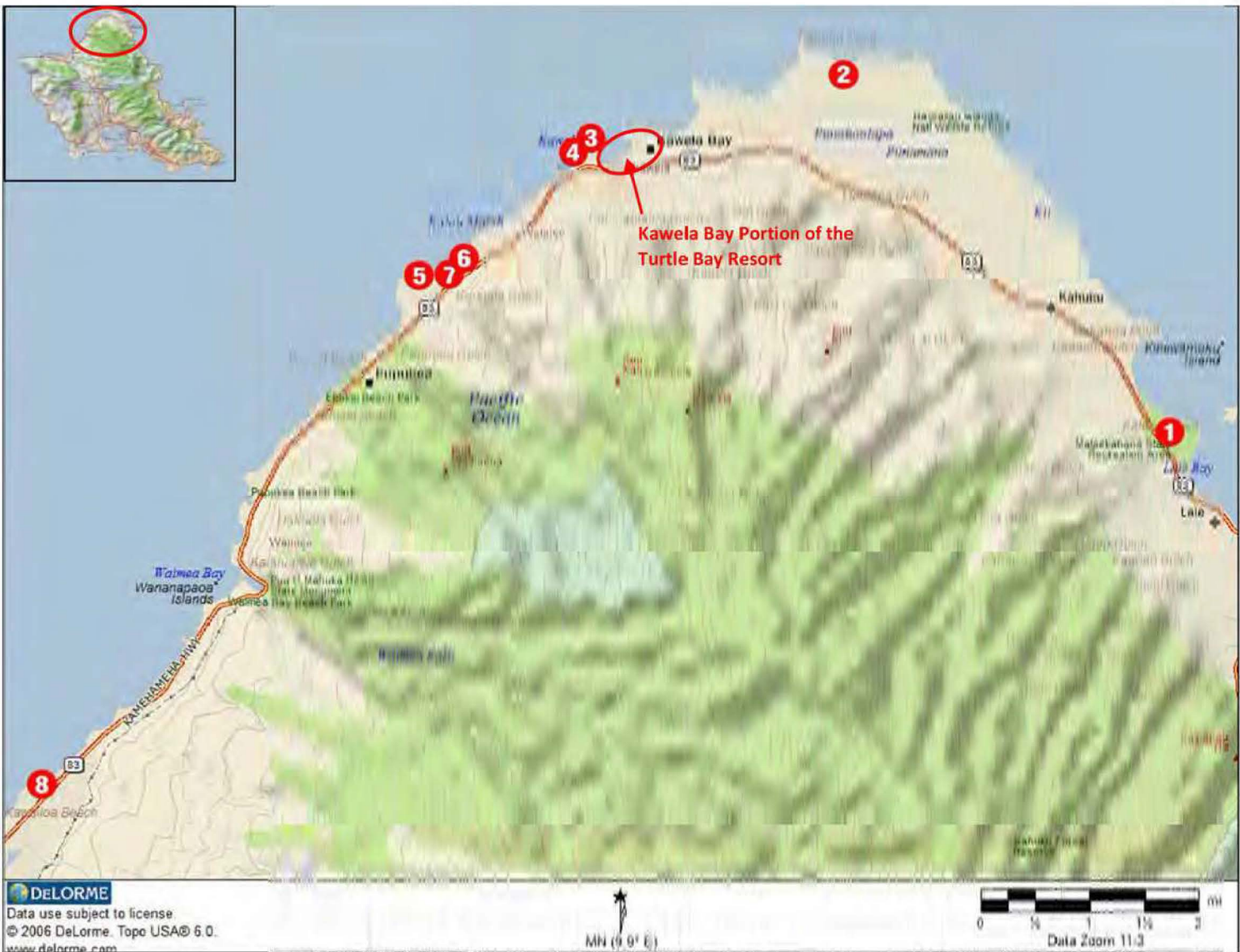
On the market for 30 days at \$1,900,000, the property was sold in March 2015 for \$1,710,000. The buyer's agent indicated purchase price was based on the underlying land value and the improvements had no contributory value. The buyers, island residents, intended to rebuild.

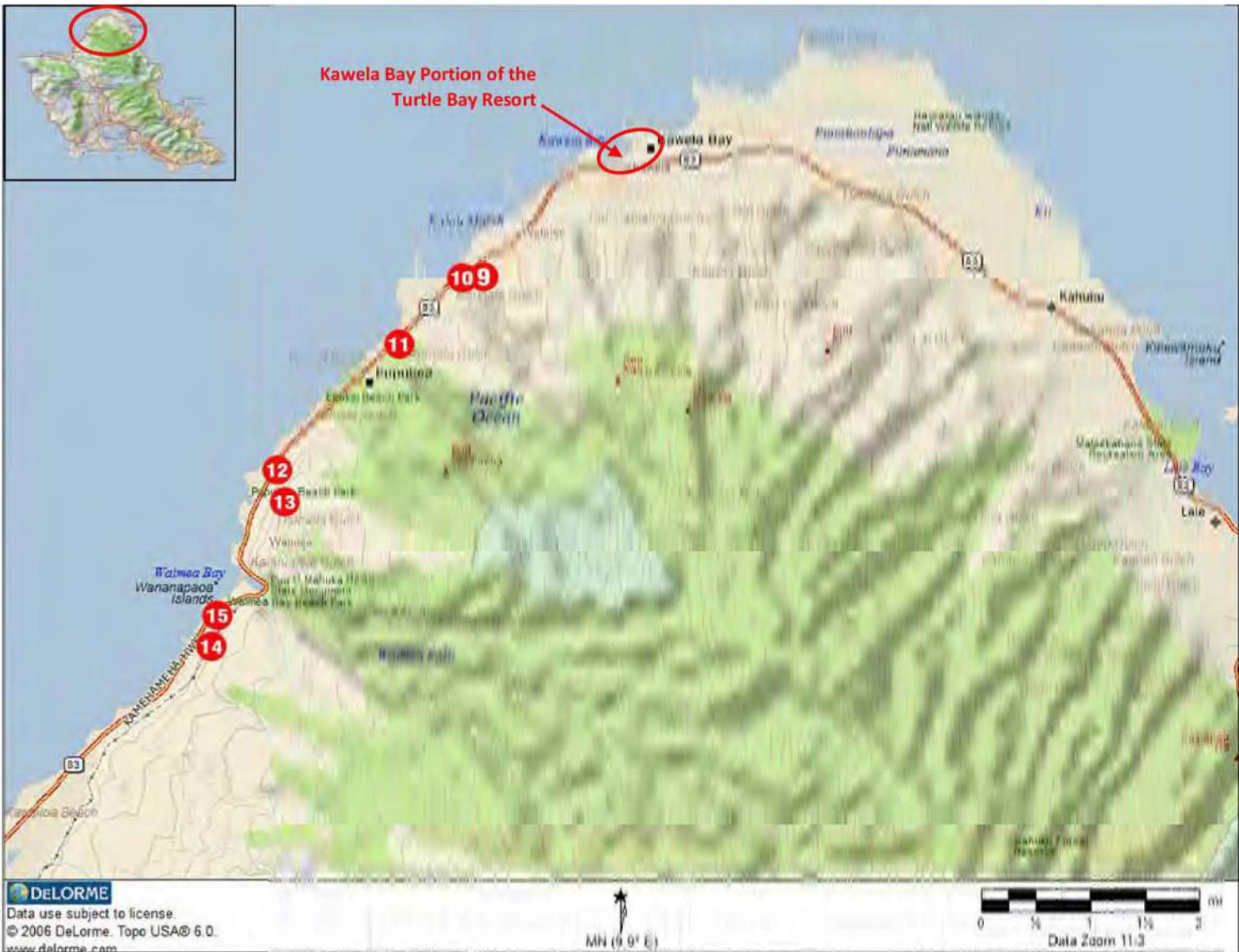
- Comparable 2 involves a 124,625^{sq}ft condominium lot in the newly created Marconi Point Condominium, about 2 miles northeast of Kawela Bay. The condominium lot was purchased in March 2015 for \$2,500,000, the full asking price. The lot had been on the market for 132 days prior to sale.

The underlying Ag-2 General Agriculture zoning requires certain agricultural uses and imposes certain size limitations on farm dwelling size.

- Comparable 3 is an active listing of an 18,992^{sq}ft parcel along the ocean near the westerly end of Kawela Bay. The property is improved with a small single-family dwelling that was constructed in the 1940s.

The parcel has been on the market for 166 days at an asking price of \$2,490,000. The listing agent indicated the asking price is based on the underlying land value and that the improvements have no value.







IDENTIFICATION OF THE COMPARABLE OCEANFRONT LOT TRANSACTIONS

	Benchmark Lot 10	1	2	3	4	5	6	7	8
Identification:									
Reference	Lot 10	D'Amato	Compton	Boruch (Listing)	Bhisdell	Owens	Modern Development	Oliver	Pacific Return
Tax map key	--	5-6-0128	5-6-0353 CPR 2	5-7-0357	5-7-0358	5-8-0369	5-8-0637	5-8-0639	6-1-1012
Address	--	56-155H Kamehameha Hwy	Terminus of Marconi Rd	57-329 Pali palihaia Pl	57-335 Pali palihaia Pl	58-041 Makale St.	58-139 Napoohna Pl	58-153 Napoohna Pl	61-673 Kamehameha Hwy
Location	Kawela Bay	Makalekaha	Marconi Point	Kawela Bay	Kawela Bay	Sunset Beach	Sunset Beach Colony	Sunset Beach Colony	Lanikea
Physical Data:									
Land area (sq. ft.)									
Gross	42,405	40,729	124,625	18,992	19,907	28,227	17,792	18,114	9,895
Net of erosion	42,405	40,729	124,625	18,992	19,907	17,827	17,792	18,114	9,895
Configuration	Long, narrow	Long, narrow	Long, narrow	Rectangular	Trapezoidal	Trapezoidal	Rectangular	Rectangular	Rectangular
Frontage	Kawela Bay	Makalekaha Bay	Marconi Point	Ocean at Kawela Bay	Ocean at Kawela Bay	Sunset Beach	Ocean	Ocean	Ocean
Frontage type	Sandy beach	Sandy beach	Sandy/Rocky beach	Sandy beach	Sandy beach	Sandy beach	Sandy beach	Sandy beach	Sandy beach
Topography	Level	Level	Level	Level	Level	Level	Level	Level	Level
Building improvements	None	Improved	None	Improved	Improved	None	None	None	Vacant
Type	--	SFD and Cottage	--	SFD	SFD	--	--	--	--
Bedrooms/Bathrooms	--	5/4	--	2/1	3/1	--	--	--	--
Area (sq. ft.)	--	4,660	--	656	1,014	--	--	--	--
Year built	--	1991	--	1943	1941	--	--	--	--
Land Use Classifications:									
State land use	Urban	Urban	Agricultural	Urban	Urban	Urban	Urban	Urban	Urban
County zoning	Resort	R-5 Residential	Ag-2 Agriculture	R-5 Residential	R-5 Residential	R-5 Residential	R-5 Residential	R-5 Residential	R-5 Residential
Transaction Data:									
Seller	--	U.S. Bank National Assn	Makai Ranch, LLC	Frank J. Boruch et al.	Herman T.F. Lum Trust	Dana Cederberg Trust	Gorden S. Merchant	Hale O Kane LLC	Wade M. Barrow et al.
Buyer	--	John J. D'Amato et al.	Toby B. Compton et al.	--	Lance M. Bhisdell et al.	Antone A. Owens et al.	Modern Development LLC	M.D. Oliver Family Trust	Pacific Return LLC
Instrument	--	Limited Warranty Deed	Unit Deed	Active Listing	Deed	Deed	Warranty Deed	Warranty Deed	Warranty Deed
Instrument date	October 1, 2015	March 13, 2015	March 4, 2015	October 1, 2015	December 30, 2013	September 12, 2015	July 2, 2014	October 7, 2014	July 18, 2014
Recordation date	--	April 30, 2015	March 10, 2015	--	January 6, 2014	September 21, 2015	July 15, 2014	October 20, 2014	July 23, 2014
Document	--	Doc T-9259077	Doc A-55170266	--	Doc T-8771066	Doc T-9394014	Doc T-8961031	Doc T-9058070	Doc A-53170350
Purchase price	--	\$1,710,000	\$2,500,000	\$2,490,000	\$2,000,000	\$2,400,000	\$3,000,000	\$3,300,000	\$2,050,000
Allocation:									
Land	--	\$1,710,000	\$2,500,000	\$2,490,000	\$2,000,000	\$2,400,000	\$3,000,000	\$3,300,000	\$2,050,000
Buildings	--	0	0	0	0	0	0	0	0
Per sq. ft.	--	0	0	0	0	0	0	0	0
Terms	--	Cash	Cash, PMM	--	Cash	Cash	Cash	Cash	Cash
Indicated Land Price:									
Total	--	\$1,710,000	\$2,500,000	\$2,490,000	\$2,000,000	\$2,400,000	\$3,000,000	\$3,300,000	\$2,050,000
Per square foot of net land area	--	41.98	20.06	131.11	100.47	134.63	168.62	182.18	207.18

Source: John Child & Company.

IDENTIFICATION OF THE COMPARABLE NON-OCEANFRONT TRANSACTIONS

	Benchmark Lot 43	9	10	11	12	13	14	15
Identification:								
Reference	Lot 43	Lopes	Lifestyle Retail	Terrapin Pacific	Sato	Pohaku Development	Dollman	Little
Tax map key	--	5-8-04:13	5-8-06:49	5-9-02:70	5-9-03:23, CPR 3	5-9-11:57 & 67	6-1-03:59	6-1-13:20
Address	--	58-300 Kamehameha Hwy	58-180 Napoona Pl	59-209 Ke Nui Rd. A	59-595 Ke Iki Rd. #3	59-061 Pupukea Rd.	61-1028 Tutu Pl	61-106 Hihou Way
Location	Kawela Bay	Sunset Beach	Sunset Beach Colony	Sunset Beach	Sunset Beach	Pupukea	Bhiffs at Waimea	Waimea Point
Physical Data:								
Land area (sq.ft.)								
Gross	13,174	5,000	10,915	5,000	7,000	20,000	7,500	6,521
Net of erosion	13,174	5,000	10,915	5,000	7,000	20,000	7,500	6,521
Configuration	Rectangular	Rectangular	Rectangular	Rectangular	Rectangular	Rectangular	Rectangular	Trapezoidal
Frontage	Interior	Interior	Interior	Interior	Interior	Interior	Interior	Interior
Frontage type	None	Kam Hwy (Maui)	Kam Hwy (Maui)	Kam Hwy (Maui)	Kam Hwy (Maui)	Kam Hwy (Maui)	Kam Hwy (Maui)	Kam Hwy (Maui)
Topography	Level	Level	Level	Level	Level	Level	Sloping	Level
Building improvements	None	Improved	None	Improved	None	None	None	None
Type	--	SFD	--	SFD	--	--	--	--
Bedrooms/Bathrooms	--	2/1	--	3/1	--	--	--	--
Area (sq.ft.)	--	846	--	837	--	--	--	--
Year built	--	1963	--	1948	--	--	--	--
Land Use Classifications:								
State land use	Urban	Urban	Urban	Urban	Urban	Urban	Urban	Urban
County zoning	Resort	R-5 Residential	R-5 Residential	R-5 Residential	R-5 Residential	R-5 Residential	R-5 Residential	R-5 Residential
Transaction Data:								
Seller	--	Continental Pacific LLC	James M. Fey et al.	Sumo Properties LLC	Ke Iki Properties, LLC	Karin E. Sole	Dhara, LLC	Jo A. Walters
Buyer	--	Johnny R.D. Lopes et al.	Lifestyle Retail Properties LLC	Terrapin Pacific LLC	Midori Sato	Pohaku Development LLC	Sammal F. Dollman et al.	Clark M. Little et al.
Instrument	--	Warranty Deed	Warranty Deed	Warranty Deed	Apartment Deed	Warranty Deed	Warranty Deed	Warranty Deed
Instrument date	October 1, 2015	November 28, 2014	November 12, 2013	April 22, 2014	December 23, 2013	October 17, 2014	August 24, 2015	November 26, 2014
Recordation date	--	December 3, 2014	November 14, 2013	April 29, 2014	February 6, 2014	October 30, 2014	August 27, 2015	December 11, 2014
Document	--	Doc T-9102069	Doc T-8718103	Doc T-8771066	Doc A-51500767	Doc A-54160020	Doc T-9369171	Doc A-54580042
Purchase price	--	\$605,000	\$805,000	\$925,000	\$727,000	\$1,189,500	\$900,000	\$525,000
Allocation:								
Land	--	\$605,000	\$805,000	\$925,000	\$727,000	\$1,189,500	\$900,000	\$525,000
Buildings	--	0	0	0	0	0	0	0
Per sq.ft.	--	0	0	0	0	0	0	0
Terms	--	Cash	Cash	Cash	Cash	Cash	Cash	Cash
Indicated Land Price:								
Total	--	\$605,000	\$805,000	\$925,000	\$727,000	\$1,189,500	\$900,000	\$525,000
Per square foot of net land area	--	121.00	73.75	185.00	103.86	59.48	120.00	80.51

Source: John Child & Company.



-
- Comparable 4 involves a 19,907^{sq}ft parcel near the westerly end of Kawela Bay and neighboring Comparable 3. The parcel sold in December 2013 for \$2,000,000. The buyer's agent indicated the property had been in escrow at a price of \$2,300,000. However, the price was reduced to \$2,000,000 based on an appraisal completed for financing.

The existing single-family dwelling was constructed in the early 1940s and was considered an interim use until the parcel is redeveloped.

- Comparable 5 involves an oceanfront parcel at Sunset Point, about 2.5 miles southwest of Kawela Bay. Although the parcel has an area of 28,227^{sq}ft, a survey identified an area "net" of erosion of about 17,827^{sq}ft.

The parcel was originally listed in November 2015 at a price of \$3,950,000, which was subsequently reduced to \$3,500,000 before the listing expired in mid-May 2015. The parcel was placed back on the market in late May 2015 at an asking price of \$2,950,000. The price was subsequently reduced to \$2,550,000. The parcel was sold in September 2015 for \$2,400,000.

This was reportedly the only oceanfront lot available for sale in the Sunset Point area. The buyer had been watching this property, hoping that the price would drop or that another lot would become available. The buyer's agent stated the buyer has already obtained a contractor to start on the construction of a dwelling.

- Comparable 6 involves a parcel in the Sunset Beach Colony, a gated subdivision about 2 miles southwest of Kawela Bay. The 17,792^{sq}ft parcel was purchased in July 2014 for \$3,000,000, the asking price. The parcel had been listed for about 315 days.

The buyer agent indicated that the buyer has contracted to purchase the adjacent 18,466^{sq}ft parcel for \$3,500,000 with escrow closing by the end of October 2015. The buyer intends to construct a dwelling.

- Comparable 7 also involves an oceanfront parcel in the Sunset Beach Colony subdivision. The 18,114^{sq}ft parcel was purchased in October 2014 for \$3,300,000. The buyer's agent indicated the buyer intended to construct a dwelling. Building permit applications for a two-story single-family dwelling were submitted in December 2014 and approved in April 2015.
- Comparable 8 involves a 9,895^{sq}ft oceanfront parcel at Laniakea, about 8 miles southwest of Kawela Bay. The parcel was initially listed at an asking price of \$2,430,000. The price was subsequently reduced to \$2,320,000. After 183 days on the market, the parcel sold in July 2014 for \$2,050,000.

The parcel was improved with a small single-family dwelling that was constructed in the early 1940s. The buyer's agent indicated the price was for the underlying land as the buyer intends to demolish the existing improvements and construct a new dwelling.



Comparable Non-Oceanfront House Lots

- Comparable 9 involves a 5,000 sq ft parcel along the southeasterly (mauka) side of Kamehameha Highway, opposite the Sunset Beach Colony subdivision. The parcel was listed for sale at an asking price of \$599,000. The seller received multiple offers and, after being on the market 34 days, sold the property at a price of \$605,000.

The parcel was improved with a small single-family dwelling constructed in the early 1960s. However, the buyer's agent reported the structure was in poor condition with no windows, major wood rot, and extensive water damage. The buyer attributed no value to the improvements and intends to build a new dwelling.

- Comparable 10 involves a parcel along Kamehameha Highway in the Sunset Beach Colony subdivision. The 10,915 sq ft parcel was initially listed for sale in late January 2013 at a price of \$915,000; the price was subsequently reduced to \$825,000 when the property sold in November 2013. The purchase price was \$805,000.

The buyer subsequently re-listed the property in February 2014 at \$1,100,000; the listing expired in February 2015. While not oceanfront, the listing agent indicated the property will have good ocean views from the second floor of a dwelling, particularly because the building on the ocean side of the street is only a single story.

- Comparable 11 involves a 5,000 sq ft parcel off of Ke Nui Road, northwest (makai) of Kamehameha Highway at Sunset Beach, about 3 miles southwest of Kawela Bay. The parcel had been on the market for 178 days at an asking price of \$950,000 and was purchased in April 2014 for \$925,000.

The buyer's agent said the buyer had been particularly interested in the location for a new house. Improvements on the property at the time of sale consisted of a small single-family dwelling constructed in the late 1940s. The buyer reportedly attributed no value to these improvements.

- Comparable 12 involves a 7,000 sq ft condominium lot also off of Ke Nui Road at Sunset Beach. The lot was purchased in December 2013 for \$727,000. The lot was on the market for about 142 days at an asking price of \$749,000. The seller's agent reported two other offers were received, both at \$699,000. The offshore buyer intends to construct a dwelling on the lot.

- Comparable 13 involves two adjacent parcels at the corner of Pupukea Road and Amaumau Place, mauka of Kamehameha Highway and south of the Foodland Pupukea supermarket. The 20,000 sq ft assemblage was purchased in October 2014 for \$1,189,500, the asking price. The parcels had been on the market since February 2014, about 216 days.

The seller's agent remarked there were few offers for the parcels, likely because of the relatively high price. The buyer has since constructed three dwellings on the parcels.



-
- Comparable 14 involves a parcel in the Bluffs at Waimea subdivision, southeast of Kamehameha Highway, about 6 miles southwest of Kawela Bay. Located at the top of the entry street, the 7,500 \pm parcel is afforded good ocean views. The parcel, one of two listed for sale, was purchased in August 2015 for \$900,000. Although architectural plans were included in the sale, the buyer's agent report no value was attributed to them. The parcel was purchased for single-family development.
 - Comparable 15 involves a 6,521 \pm parcel along Kamehameha Highway in the Waimea Point subdivision. The parcel was purchased in November 2014 for \$525,000, the asking price. While having been on the market since February 2014, the buyer's agent considered the price slightly below market.

Improvements completed in the early 1990s were demolished in 2006 after a fire. The buyer is currently processing a building permit application for a new two-story single-family dwelling.

RELEVANT UNITS OF COMPARISON

Based on the characteristics of the benchmark lots and the selected comparables, the relevant units of comparison and bases for comparative analysis are price per square foot of land area and price per lot.

The selected transactions and other market activity were reviewed and analyzed to identify sales price differences. Using the relevant units of comparison, the selected transactions were compared and adjusted to the benchmark oceanfront and non-oceanfront lots.

DISCUSSION OF ADJUSTMENTS

The comparable transactions and other market activity were reviewed and analyzed to identify sales price differences. Adjustments were made for differing factors that affect price. Price variations for the selected comparable transactions are largely attributable to differences in:

- conditions of sale (e.g., listing)
- market conditions (time)
- location
- access
- road frontage and privacy
- quality of ocean frontage
- physical characteristics (e.g., frontage to depth, configuration)
- zoning and impact on use
- subdivision improvements
- size.



Positive adjustments account for higher utility or value of the characteristics of the benchmark lot in relation to the comparable. Negative adjustments account for lower utility or value of the benchmark lot in relation to the comparable. The adjustments are discussed under the following subheadings.

Property Rights and Financing Terms and Conditions of Sale

The fee simple transactions were acquired for cash or cash equivalent terms. The selected transactions were negotiated between willing and knowledgeable, disinterested parties. Favorable sales terms were not negotiated for the properties. Therefore, these transactions did not require adjustments for property rights, financing terms, or conditions of sale.

Comparable 3 involves a property that is currently listed for sale. Although several of the comparable transactions were sold at prices equivalent to their asking prices, sales prices are typically lower than asking prices. Acknowledging this, the asking price for Comparable 3 is adjusted by -5% to account for the more general relationship between asking price and sales price.

Market Conditions (Time)

The adjustment for market conditions reflects changes in prices of vacant properties over time.

Overall, the comparable transactions are relatively recent and reflective of current market prices. Aside from the one listing, four of the comparables properties sold in 2015, seven sold in 2014 and three occurred in November and December 2013.

Recent market activity along Oahu's North Shore was reviewed to assess trends in market conditions since late 2013. Despite variability in volume or pricing between years, the general trend has been towards increasing prices.

The few number of vacant oceanfront lots sold annually, together with the variability in physical characteristics limit the usefulness of aggregated data from this segment.



Annual Sales of Vacant Lots
Under 1 Acre on Oahu's North Shore Area [1]

Year	Oceanfront		Non-Oceanfront	
	Lots sold	Median price	Lots sold	Median price
2010	2	\$2,554,000	7	\$352,778
2011	0	0	15	475,000
2012	4	809,600	8	269,000
2013	4	1,645,000	13	344,240
2014	2	5,750,000	12	351,410
2015	2	1,646,000	11	300,000

However, because of the ample number of sales, the recent upward trend in pricing is apparent in prices for improved, non-oceanfront single-family properties, shown as follows:

Annual Sales of Improved Single-Family Dwellings
on Lots Under 1 Acre on Oahu's North Shore Area [2]

Year	Lots sold	Median price
2010	155	\$455,000
2011	187	458,500
2012	154	449,000
2013	200	525,000
2014	181	545,000
2015	147	595,000

Seller expectations have improved with average monthly asking prices of oceanfront lots nearly doubling since the 2011/2012 period, shown as follows:

[1] Based on Honolulu Board of REALTORS Multiple Listing Service data. Data for 2015 are through September. Includes tax map zones 5, 6, and 7.

[2] Ibid.



Average Monthly Listings of Oceanfront Lots
Under 2 Acres in Oahu's North Shore Area [1]

Year	No. of lots	Dollar Volume	
		Total	Per lot
2010	10	\$24,900,333	\$2,532,237
2011	9	12,762,833	1,405,083
2012	13	17,379,250	1,390,340
2013	17	34,647,667	2,068,517
2014	17	43,759,917	2,549,121
2015	18	45,803,533	2,560,446

Viewed more broadly, market conditions for most segments of Oahu's real estate market (e.g., residential, commercial, industrial, and resort) have improved since the last trough five to six years ago. Recent prices are generally higher than those in 2013.

Based on the recent market trends, prices are judged to have increased at rates between about 4% and 5% annually since late 2013. Consequently, the comparable transactions are adjusted 0% to 10% for changes in market conditions, as follows:

Market Conditions Adjustment

<u>Year of sale</u>	<u>Adjustment</u>
2013	10%
2014	5%
2015	0%

Location

Comparable 1 involves a parcel fronting Malaekahana Bay, farther south and east from the North Shore area and nearer Laie.

Relative to the other oceanfront comparables, a price difference is evident. For example, a 13,607^{sq}ft parcel along Laie Bay, improved with a single-family dwelling constructed in 1951, sold in August 2015 for \$1,370,000. The seller's agent was unsure of the buyer's intention regarding the existing improvements.

[1] Based on Honolulu Board of REALTORS Multiple Listing Service data. Averages for 2015 are through September.



If all attributable to land, and accounting for size differences, the price paid for the Laie Bay Property is about 35% to 40% lower than the price indicated by Comparable 4 (Blaisdell) at Kawela Bay, shown as follows:

	<u>Land area (sq.ft.)</u>	<u>Sale date</u>	<u>Price per sq.ft.</u>	<u>Price per lot</u>
<i>Kawela Bay Property:</i>				
5-7-03:58	19,907	12/30/2013	\$100	\$2,000,000
Adjustment for changes in market conditions			<u>1.10</u>	<u>1.10</u>
Adjusted price for Kawela Bay Property			<u>\$111</u>	<u>\$2,200,000</u>
<i>Laie Bay Property:</i>				
5-5-03:45	13,607	8/31/2015	\$101	\$1,370,000
Adjustment for size			<u>0.70</u>	<u>1.00</u>
Adjusted price for Laie Bay Property			<u>\$70</u>	<u>\$1,370,000</u>
Indicated adjustment from Kawela Bay to Laie Bay			<u>0.64</u>	<u>0.62</u>

This would suggest an upward adjustment of 60% from Laie Bay to Kawela Bay. Recognizing the privacy afforded parcels along Malaekahana Bay and prices relative to the other oceanfront comparables, an adjustment of +35% is judged appropriate to account for the differences in location between Comparable 1 and the benchmark oceanfront Lot 10.

The remaining comparables and the two benchmark house lots share similar locational characteristics. Consequently, no adjustment is supported.

Access

The majority of the comparable properties have convenient access via standard county or private roadways. However, access to Comparables 3, 4, and 12 are from non-standard, unpaved roadways that extend from Kamehameha Highway. An adjustment of +5% is made to these comparables for conditions inferior to the benchmark lots.

Road Frontage and Privacy

The benchmark oceanfront and non-oceanfront lots are positioned within the hypothetical subdivision, away from Kamehameha Highway. Positions away from this major traffic corridor enhances privacy and reduces traffic noise. Comparables 1 through 7 and 11 through 15 are also away from direct Kamehameha Highway frontage.



In contrast, Comparables 8 and 9 are positioned along Kamehameha Highway. An adjustment of +5% is considered appropriate to acknowledge this differential. Comparable 10 is in the Sunset Beach Colony subdivision. Its major axis extends about 170 lineal feet along both Kamehameha Highway and Napoonala Street. With significantly more frontage, an adjustment of +10% is judged appropriate.

Quality of Ocean Frontage

The oceanfront benchmark Lot 10 fronts along the sandy beach at Kawela Bay. The quality of its ocean frontage is similar to oceanfront Comparables 1, and 3 through 8. No adjustment for differences in the quality of ocean frontage is necessary for these transactions.

Comparable 2 involves an oceanfront parcel at Marconi Point. The frontage is a mix of sandy beach with exposed beach rock. This condition is judged inferior to the oceanfront benchmark Lot 10. An adjustment of +5% is judged reasonable to reflect this difference on ocean frontage quality.

Physical Characteristics

The benchmark oceanfront Lot 10 is a relatively long and narrow parcel with a frontage to depth ratio of about 1:10. The configuration is less efficient than parcels that are more 'square' in configuration. Oceanfront Comparables 1, 2, and 8 are also long and narrow parcels and are considered similar to the benchmark lot. No adjustment is needed.

However, oceanfront Comparables 3 through 7 have more typical frontage to depth ratios that vary between 1:1.6 and 1:2.0. The configuration of these comparables are superior to the benchmark oceanfront Lot 10 and the associated prices are adjusted by -10% for this difference.

The benchmark non-oceanfront Lot 43 has a more typical configuration, with a frontage to depth ratio of about 1:1.9. The comparable non-oceanfront transactions are generally similar in configuration and other physical characteristics. No adjustment is necessary.

Zoning and Impact on Use

Oceanfront Comparable 2 involves a 124,625 sq ft condominium lot in the newly created Marconi Point Condominium, about 2 miles northeast of Kawela Bay. The underlying Ag-2 General Agriculture zoning, implemented by the associated condominium development guidelines, require certain agricultural uses and imposes certain size limitations on farm dwelling size. They include:

- Farm dwelling means a dwelling located on and used in connection with a farm where agricultural activity provides income to the family occupying the dwelling.
- The farm dwelling building envelope (footprint) shall not exceed 5,000 sq ft.
- The total living area of the farm dwelling shall not exceed 7,500 sq ft.



Although common for agriculturally-zoned properties, the benchmark oceanfront and non-oceanfront house lots and the remaining comparable properties are not subject to such use requirements and limitations. Comparable 2 is adjusted by +5% to account for the difference in zoning and impact on use.

Subdivision Improvements

The adjustment considers the nature and extent of subdivision improvements associated with the comparable properties.

The hypothetical subdivision is envisioned to have 44-foot wide rights-of-way improved with sidewalks, curbs, gutters, and underground utilities. Subdivision covenants, conditions and restrictions (CC&Rs) are anticipated to establish standards and quality similar to the Sunset Beach Colony subdivision. The hypothetical subdivision is also anticipated to offer secured access. [1]

These subdivision features are considered generally similar to those associated with Comparable 2 (Marconi Point), Comparables 6, 7, and 10 (Sunset Beach Colony), and Comparable 14 (Bluffs at Waimea). Consequently, no adjustment is warranted.

Comparables 1, 5, 8, 9, 11, 12, and 13 are not within a unifying subdivision offering similar features or development standards to ensure quality and exclusivity. These comparables are adjusted by +10% for this difference.

Comparables 3 and 4 are in a neighborhood offering secured access. Other differing subdivision characteristics warrant an adjustment of +5%. Similarly, Comparable 15 is adjusted by +5% for its differences.

Size

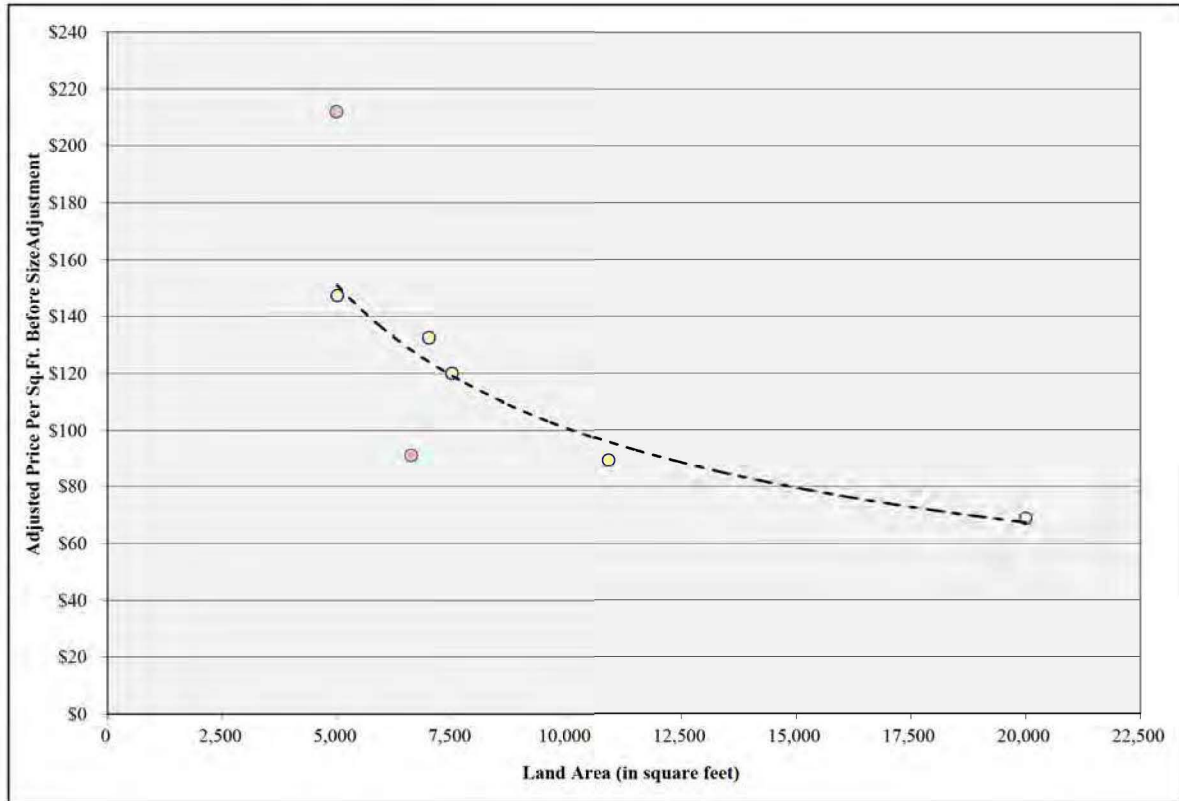
The adjustment for size recognizes the impact that land area has on price. On a price per square foot of land area, the relationship is generally inverse: prices per square foot generally decrease as size increases. In contrast, the lot prices generally increase directly as land area increases.

For example, the non-oceanfront comparable data exhibit a relatively strong relationship between land area and the adjusted price per square foot before adjustment for differences in size, as shown as follows:

[1] A secured entry could monitor public access during permitted hours and limit access to residents and guests at other times.



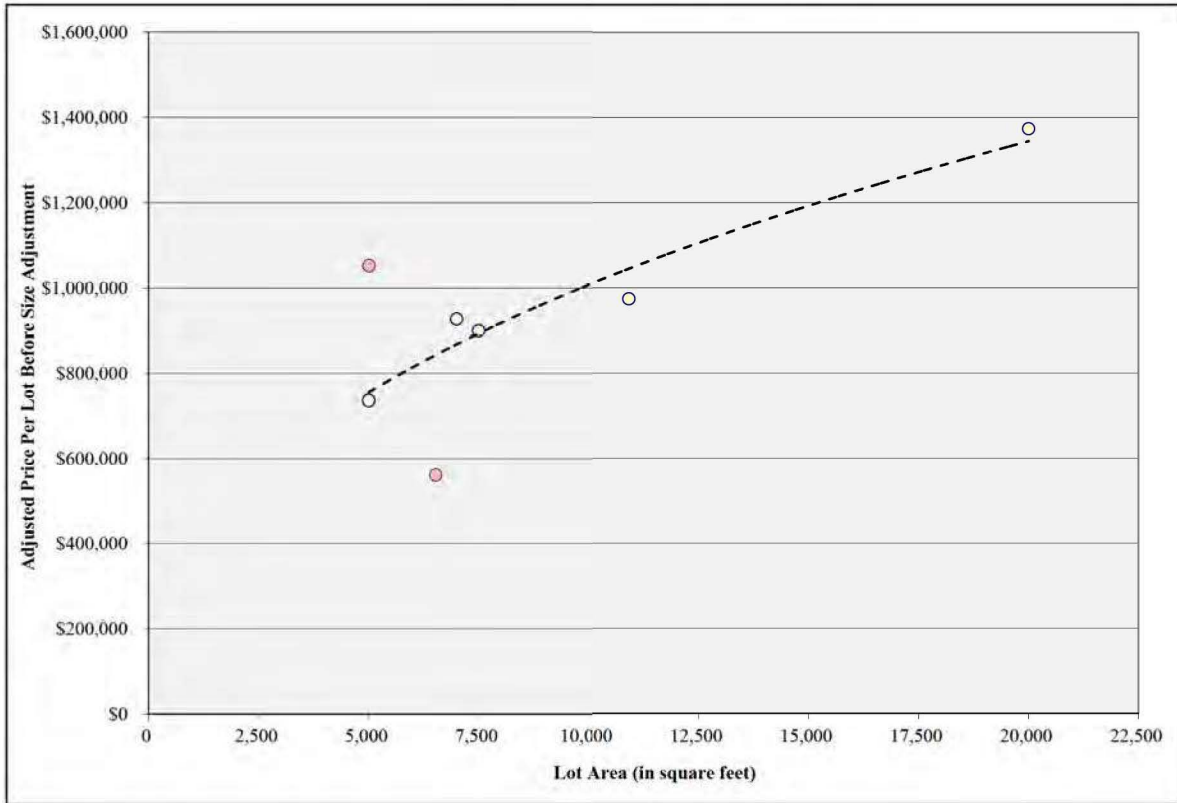
Relationship between Land Area and Adjusted Price Per Square Foot Before Size Adjustment



Similarly, the relationship between land area and the adjusted price per lot before adjustment for differences in size, as shown as follows:



Relationship between Land Area and Adjusted Price Per Lot Before Size Adjustment



While a similar relationship is evident with comparable oceanfront property prices, the slopes are different.

Considering the size-price relationships, the appropriate size adjustments for the price per square foot and price per lot analyses involving the non-oceanfront comparables are estimated to be as follows:



Size Adjustments for the Non-Oceanfront Comparables

No.	Property	Land area (sq.ft.)	Per sq.ft. Analysis	Per Lot Analysis
9	Lopes	5,000	-45%	50%
10	Lifestyle Retail	10,915	-10	10
11	Terrapin Pacific	5,000	-45	50
12	Sato	7,000	-30	30
13	Pohaku Development	20,000	30	-15
14	Dollman	7,500	-30	25
15	Little	6,521	-35	35
	Benchmark Lot 43	13,174	--	--

Similarly, the size adjustments for the oceanfront comparables are estimated to be as follows:

Size Adjustments for the Oceanfront Comparables

No.	Property	Land area (sq.ft.)	Per sq.ft. Analysis	Per Lot Analysis
1	D'Amato	40,729	-5%	0%
2	Compton	124,625	185	-5
3	Boruch (Listing)	18,992	-55	5
4	Blaisdell	19,907	-50	5
5	Owens	17,827	-55	5
6	Modern Development	17,792	-55	5
7	Oliver	18,114	-55	5
8	Pacific Return	9,895	-75	5
	Benchmark Lot 10	42,405	--	--

ADJUSTED PRICE INDICATORS

The land price indicators for the benchmark oceanfront lot after adjustment for significant factors range between about \$54.70/ŕ and \$77.50/ŕ of land area and between \$2,290,000 and \$3,270,000 per lot, as shown in Exhibit III-D and summarized as follows:

**ADJUSTED PRICE PER SQUARE FOOT INDICATORS FOR THE
BENCHMARK OCEANFRONT LOT 10**

	D'Amato 1	Compton 2	Boruch (Listing) 3	Blaisdell 4	Owens 5	Modern Development 6	Oliver 7	Pacific Return 8
Unadjusted price	\$41.98	\$20.06	\$131.11	\$100.47	\$134.63	\$168.62	\$182.18	\$207.18
Adjustments:								
Conditions of sale & financing	1.00	1.00	0.95	1.00	1.00	1.00	1.00	1.00
Time & market conditions	1.00	1.00	1.00	1.10	1.00	1.05	1.05	1.05
Composite adjustment	1.00	1.00	0.95	1.10	1.00	1.05	1.05	1.05
Adjusted price after conditions of sale & time adjustments	41.98	20.06	124.55	110.52	134.63	177.05	191.29	217.54
Other adjustments:								
Location	1.35	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Access	1.05	1.00	1.05	1.05	1.00	1.00	1.00	1.00
Road frontage and privacy	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.05
Ocean frontage	1.00	1.05	1.00	1.00	1.00	1.00	1.00	1.00
Physical characteristics	1.00	1.00	0.90	0.90	0.90	0.90	0.90	1.00
Land use	1.00	1.05	1.00	1.00	1.00	1.00	1.00	1.00
Subdivision improvements & other	1.10	1.00	1.05	1.05	1.10	1.00	1.00	1.10
Composite adjustment	1.56	1.10	0.99	0.99	0.99	0.90	0.90	1.16
Adjusted price before size	65.49	22.07	123.30	109.41	133.28	159.35	172.16	252.35
Size adjustment	0.95	2.85	0.45	0.50	0.45	0.45	0.45	0.25
Adjusted price, rounded	\$62.20	\$62.90	\$55.50	\$54.70	\$60.00	\$71.70	\$77.50	\$63.10



**ADJUSTED PRICE PER DEVELOPABLE LOT INDICATORS FOR THE
TYPICAL OCEANFRONT LOT**

	D'Amato 1	Compton 2	Boruch (Listing) 3	Blaisdell 4	Owens 5	Modern Development 6	Oliver 7	Pacific Return 8
Unadjusted price	<u>\$1,710,000</u>	<u>\$2,500,000</u>	<u>\$2,490,000</u>	<u>\$2,000,000</u>	<u>\$2,400,000</u>	<u>\$3,000,000</u>	<u>\$3,300,000</u>	<u>\$2,050,000</u>
Adjustments:								
Conditions of sale & financing	1.00	1.00	0.95	1.00	1.00	1.00	1.00	1.00
Time & market conditions	<u>1.00</u>	<u>1.00</u>	<u>1.00</u>	<u>1.10</u>	<u>1.00</u>	<u>1.05</u>	<u>1.05</u>	<u>1.05</u>
Composite adjustment	<u>1.00</u>	<u>1.00</u>	<u>0.95</u>	<u>1.10</u>	<u>1.00</u>	<u>1.05</u>	<u>1.05</u>	<u>1.05</u>
Adjusted price after conditions of sale & time adjustments	<u>1,710,000</u>	<u>2,500,000</u>	<u>2,365,500</u>	<u>2,200,000</u>	<u>2,400,000</u>	<u>3,150,000</u>	<u>3,465,000</u>	<u>2,152,500</u>
Other adjustments:								
Location	1.35	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Access	1.05	1.00	1.05	1.05	1.00	1.00	1.00	1.00
Road frontage and privacy	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.05
Ocean frontage	1.00	1.05	1.00	1.00	1.00	1.00	1.00	1.00
Physical characteristics	1.00	1.00	0.90	0.90	0.90	0.90	0.90	1.00
Land use	1.00	1.05	1.00	1.00	1.00	1.00	1.00	1.00
Subdivision improvements & other	<u>1.10</u>	<u>1.00</u>	<u>1.05</u>	<u>1.05</u>	<u>1.10</u>	<u>1.00</u>	<u>1.00</u>	<u>1.10</u>
Composite adjustment	<u>1.56</u>	<u>1.10</u>	<u>0.99</u>	<u>0.99</u>	<u>0.99</u>	<u>0.90</u>	<u>0.90</u>	<u>1.16</u>
Adjusted price before size Size adjustment	<u>2,667,600</u>	<u>2,750,000</u>	<u>2,341,800</u>	<u>2,178,000</u>	<u>2,376,000</u>	<u>2,835,000</u>	<u>3,118,500</u>	<u>2,496,900</u>
	<u>1.00</u>	<u>0.95</u>	<u>1.05</u>	<u>1.05</u>	<u>1.05</u>	<u>1.05</u>	<u>1.05</u>	<u>1.05</u>
Adjusted price, rounded	<u>\$2,670,000</u>	<u>\$2,610,000</u>	<u>\$2,460,000</u>	<u>\$2,290,000</u>	<u>\$2,490,000</u>	<u>\$2,980,000</u>	<u>\$3,270,000</u>	<u>\$2,620,000</u>





Adjusted Prices Per Sq.Ft. and Per Lot
for the Benchmark Oceanfront Lot 10

No.	Property	Per Sq.ft. Analysis		Per Lot Analysis	
		Unadjusted	Adjusted	Unadjusted	Adjusted
1	D'Amato	\$41.98	\$62.20	\$1,710,000	\$2,670,000
2	Compton	20.06	62.90	2,500,000	2,610,000
3	Boruch (Listing)	131.11	55.50	2,490,000	2,460,000
4	Blaisdell	100.47	54.70	200,000	2,290,000
5	Owens	134.63	60.00	2,400,000	2,490,000
6	Modern Development	168.62	71.70	3,000,000	2,980,000
7	Oliver	182.18	77.50	3,300,000	3,270,000
8	Pacific Return	207.18	63.10	2,050,000	2,620,000

Similarly, the land price indicators for the benchmark non-oceanfront lot after adjustment for significant factors *cluster* between about \$81.10/ft² and \$92.80/ft² of land area and between \$1,070,000 and \$1,210,000 per lot, as shown in Exhibit III-E and summarized as follows:

Adjusted Prices Per Sq.Ft. and Per Lot
for the Benchmark Non-Oceanfront Lot 43

No.	Property	Per Sq.ft. Analysis		Per Lot Analysis	
		Unadjusted	Adjusted	Unadjusted	Adjusted
9	Lopes	\$121.00	\$81.10	\$605,000	\$1,110,000
10	Lifestyle Retail	73.75	80.30	805,000	1,070,000
11	Terrapin Pacific	185.00	117.50	925,000	1,600,000
12	Sato	103.86	92.80	727,000	1,210,000
13	Pohaku Development	59.48	89.30	1,189,500	1,170,000
14	Dollman	120.00	84.00	900,000	1,130,000
15	Little	80.51	57.70	525,000	780,000

WEIGHTING OF PRICE INDICATORS

Reliability weightings are used in recognition of the relative reliance of the adjusted price indicators. The weighting process considers the:

**ADJUSTED PRICE PER SQUARE FOOT INDICATORS FOR THE
BENCHMARK INFERIOR LOT 43**

	Lopes 9	Lifestyle Retail 10	Terrapin Pacific 11	Sato 12	Pohaku Development 13	Dollman 14	Little 15
Unadjusted price	<u>\$121.00</u>	<u>\$73.75</u>	<u>\$185.00</u>	<u>\$103.86</u>	<u>\$59.48</u>	<u>\$120.00</u>	<u>\$80.51</u>
Adjustments:							
Conditions of sale & financing	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Time & market conditions	<u>1.05</u>	<u>1.10</u>	<u>1.05</u>	<u>1.10</u>	<u>1.05</u>	<u>1.00</u>	<u>1.05</u>
Composite adjustment	<u>1.05</u>	<u>1.10</u>	<u>1.05</u>	<u>1.10</u>	<u>1.05</u>	<u>1.00</u>	<u>1.05</u>
Adjusted price after conditions of sale & time adjustments	<u>127.05</u>	<u>81.13</u>	<u>194.25</u>	<u>114.25</u>	<u>62.45</u>	<u>120.00</u>	<u>84.54</u>
Other adjustments:							
Location	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Access	1.00	1.00	1.00	1.05	1.00	1.00	1.00
Road frontage	1.05	1.10	1.00	1.00	1.00	1.00	1.00
Physical characteristics	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Land use	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Subdivision improvements & other	<u>1.10</u>	<u>1.00</u>	<u>1.10</u>	<u>1.10</u>	<u>1.10</u>	<u>1.00</u>	<u>1.05</u>
Composite adjustment	<u>1.16</u>	<u>1.10</u>	<u>1.10</u>	<u>1.16</u>	<u>1.10</u>	<u>1.00</u>	<u>1.05</u>
Adjusted price before size	147.38	89.24	213.68	132.53	68.70	120.00	88.77
Size adjustment	<u>0.55</u>	<u>0.90</u>	<u>0.55</u>	<u>0.70</u>	<u>1.30</u>	<u>0.70</u>	<u>0.65</u>
Adjusted price, rounded	<u>\$81.10</u>	<u>\$80.30</u>	<u>\$117.50</u>	<u>\$92.80</u>	<u>\$89.30</u>	<u>\$84.00</u>	<u>\$57.70</u>



	<u>Lopes 9</u>	<u>Lifestyle Retail 10</u>	<u>Terrapin Pacific 11</u>	<u>Sato 12</u>	<u>Pohaku Development 13</u>	<u>Dollman 14</u>	<u>Little 15</u>
Unadjusted price	<u>\$605,000</u>	<u>\$805,000</u>	<u>\$925,000</u>	<u>\$727,000</u>	<u>\$1,189,500</u>	<u>\$900,000</u>	<u>\$525,000</u>
Adjustments:							
Conditions of sale & financing	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Time & market conditions	<u>1.05</u>	<u>1.10</u>	<u>1.05</u>	<u>1.10</u>	<u>1.05</u>	<u>1.00</u>	<u>1.05</u>
Composite adjustment	<u>1.05</u>	<u>1.10</u>	<u>1.05</u>	<u>1.10</u>	<u>1.05</u>	<u>1.00</u>	<u>1.05</u>
Adjusted price after conditions of sale & time adjustments	<u>635,300</u>	<u>885,500</u>	<u>971,300</u>	<u>799,700</u>	<u>1,249,000</u>	<u>900,000</u>	<u>551,300</u>
Other adjustments:							
Location	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Access	1.00	1.00	1.00	1.05	1.00	1.00	1.00
Road frontage	1.05	1.10	1.00	1.00	1.00	1.00	1.00
Physical characteristics	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Land use	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Subdivision improvements & other	<u>1.10</u>	<u>1.00</u>	<u>1.10</u>	<u>1.10</u>	<u>1.10</u>	<u>1.00</u>	<u>1.05</u>
Composite adjustment	<u>1.16</u>	<u>1.10</u>	<u>1.10</u>	<u>1.16</u>	<u>1.10</u>	<u>1.00</u>	<u>1.05</u>
Adjusted price before size	736,900	974,100	1,068,400	927,700	1,373,900	900,000	578,900
Size adjustment	<u>1.50</u>	<u>1.10</u>	<u>1.50</u>	<u>1.30</u>	<u>0.85</u>	<u>1.25</u>	<u>1.35</u>
Adjusted price, rounded	<u>\$1,110,000</u>	<u>\$1,070,000</u>	<u>\$1,600,000</u>	<u>\$1,210,000</u>	<u>\$1,170,000</u>	<u>\$1,130,000</u>	<u>\$780,000</u>

Source: John Child & Company.





- Reliability of the comparable transactions for comparative purposes (market conditions, financing terms, and conditions of sale)
- Similarities and differences between the comparable properties and the benchmark oceanfront and non-oceanfront lots
- Relative support for the adjustments.

Considering these factors, the reliability weightings for the comparable transactions are as follows:

Reliability Weightings

No.	Property	Reliability weighting	No.	Property	Reliability weighting
<i>Oceanfront Comparables:</i>			<i>Non-Oceanfront Comparables:</i>		
1	D'Amato	5%	9	Lopes	5%
2	Compton	20	10	Lifestyle Retail	30
3	Boruch (Listing)	10	11	Terrapin Pacific	5
4	Blaisdell	10	12	Sato	15
5	Owens	10	13	Pohaku Development	20
6	Modern Development	20	14	Dollman	20
7	Oliver	20	15	Little	5
8	Pacific Return	5			
Total		100%	Total		100%

The weighted price ranges for the benchmark oceanfront Lot 10 are as follows:

Weighted Prices for the Benchmark Oceanfront Lot 10

Basis of comparison	Comparables	Weighted Price	
		Per sq.ft.	Per lot
All transactions	1 through 8	\$65.70	\$2,760,000
Most reliable	2, 6, and 7	70.70	2,950,000
Unweighted mean	1 through 8	63.50	2,670,000
Unweighted median	1 through 8	62.60	2,620,000



Similarly, the weighted price ranges for the benchmark non-oceanfront Lot 43 are as follows:

Weighted Prices for the Benchmark Non-Oceanfront Lot 43

<u>Basis of comparison</u>	<u>Comparables</u>	<u>Weighted Price</u>	
		<u>Per sq.ft.</u>	<u>Per lot</u>
All transactions	1 through 8	\$85.50	\$1,140,000
Most reliable	2, 6, and 7	83.90	1,120,000
Unweighted mean	1 through 8	86.10	1,150,000
Unweighted median	1 through 8	84.00	1,130,000

ESTIMATED RETAIL PRICES OF THE BENCHMARK LOTS

The range of adjusted and weighted prices support a range of retail prices for the Benchmark Oceanfront Lot 10 between about \$2,650,000 and \$3,000,000, shown as follows:

Indicated Range of Retail Price for the 42,405^{sq.ft.} Benchmark Oceanfront Lot 10

	<u>Price Range</u>	
<i>Price Per Sq.Ft. of Land Area:</i>		
Land price per square foot	\$62.60 -	\$70.70
Land area (square feet)	<u>42,405</u>	<u>42,405</u>
Indicated land value, rounded	<u>\$2,650,000</u>	<u>\$3,000,000</u>
<i>Price Per Lot:</i>		
Land price per lot	\$2,620,000 -	\$2,950,000
Number of lots	<u>1</u>	<u>1</u>
Indicated land value, rounded	<u>\$2,620,000</u> -	<u>\$2,950,000</u>

The range of adjusted and weighted prices support a range of retail prices for the Benchmark Non-oceanfront Lot 43 between about \$1,050,000 and \$1,230,000, shown as follows:



Indicated Range of Retail Price for the 13,174^{sq} Benchmark Non-oceanfront Lot 43

	<u>Price Range</u>	
<i>Price Per Sq.Ft. of Land Area:</i>		
Land price per square foot	\$80.00 -	\$93.00
Land area (square feet)	<u>13,174</u>	<u>13,174</u>
Indicated land value, rounded	<u>\$1,050,000</u>	<u>\$1,230,000</u>
<i>Price Per Lot:</i>		
Land price per lot	\$1,070,000 -	\$1,210,000
Number of lots	<u>1</u>	<u>1</u>
Indicated land value, rounded	<u>\$1,070,000</u> -	<u>\$1,210,000</u>

Based on the preceding analyses, the retail price of the Benchmark Oceanfront Lot 10 is estimated to be \$2,785,000 or about \$65.70^{sq} of land area. Likewise, the retail price of the Benchmark Non-oceanfront Lot 43 is estimated to be \$1,130,000 or nearly \$85.80^{sq} of land area.

ESTIMATED RETAIL PRICES OF THE REMAINING SALABLE LOTS

The benchmark oceanfront and non-oceanfront lots are compared to the remaining salable lots in the hypothetical subdivision. Factors considered in the pricing analysis included:

- road frontage and privacy (e.g., frontage along Kamehameha Highway)
- quality of ocean frontage
- physical characteristics (e.g., frontage to depth, configuration)
- lot size
- other factors (e.g., proximity to public beach parking and golf course frontage).

The pricing analyses for the oceanfront and non-oceanfront lots are presented in Exhibits III-F and III-G.

Belt Collins Hawaii, LLC (Belt Collins) formulated a subdivision plan for a slightly larger, 55.119-acre Kawela Bay parcel that included the 52.535-acre portion involved in the sale and leaseback, and an adjacent 2.584-acre portion to be conveyed to the City & County of Honolulu (portion of Lot 2).

The pricing analysis is predicated on the hypothetical condition that all necessary on- and off-site improvements are completed and the individual lots are separately salable.

Turtle Bay Resort Sale and Leaseback
**ESTIMATED RETAIL PRICES FOR THE REMAINING SALABLE
 OCEANFRONT LOTS**

Exhibit III-F

Lot	Lot Area (sq.ft.)		Benchmark price per sq.ft.	Intra-project location	Lot shape	Ocean frontage	Lot area	Other factors	Composite adjustment	Adjusted retail price	
	Gross	Net [1]								Per sq.ft.	Total
1	63,242	54,213	\$65.70	1.00	1.05	1.00	0.80	1.00	0.84	\$55.19	\$2,990,000
2	53,729	53,729	65.70	1.00	1.05	1.00	0.80	1.00	0.84	55.19	2,965,000
3	46,560	46,560	65.70	1.00	1.00	1.00	0.90	1.00	0.90	59.13	2,755,000
4	47,421	47,421	65.70	1.00	1.00	1.00	0.90	1.00	0.90	59.13	2,805,000
5	36,264	36,264	65.70	1.00	1.00	1.00	1.15	1.00	1.15	75.56	2,740,000
6	41,501	34,757	65.70	1.00	1.00	1.00	1.20	1.00	1.20	78.84	2,740,000
7	37,064	37,064	65.70	1.00	1.00	1.00	1.15	1.00	1.15	75.56	2,800,000
8	38,366	38,366	65.70	1.00	1.00	1.00	1.10	0.95 [3]	1.05	68.99	2,645,000
9	41,553	41,553	65.70	1.00	1.00	1.00	1.00	0.95 [3]	0.95	62.42	2,595,000
10	42,405	42,405				Benchmark Lot					2,785,000
11	47,461	39,508	65.70	1.00	1.00	1.00	1.05	1.00	1.05	68.99	2,725,000
12	38,094	38,094	65.70	1.00	1.00	1.00	1.10	1.00	1.10	72.27	2,755,000
13	307,520	307,520	65.70	1.10 [2]	1.10	1.00	0.15	1.00	0.18	11.83	3,640,000
14	46,698	46,698	65.70	1.00	1.00	1.00	0.90	1.00	0.90	59.13	2,760,000
15	44,858	44,858	65.70	1.00	1.00	1.00	0.95	1.00	0.95	62.42	2,800,000
16	42,940	36,395	65.70	1.00	1.00	1.00	1.15	1.00	1.15	75.56	2,750,000
17	39,467	39,467	65.70	1.00	1.00	1.00	1.05	1.00	1.05	68.99	2,725,000
18	46,368	46,368	65.70	1.00	1.00	1.00	0.90	1.00	0.90	59.13	2,740,000
19	50,607	50,607	65.70	1.00	1.00	1.00	0.85	1.00	0.85	55.85	2,825,000
82	39,739	34,769	65.70	1.00	0.95	0.95	1.20	1.00	1.08	70.96	2,465,000
83	34,772	34,772	65.70	1.00	1.00	0.95	1.20	1.00	1.14	74.90	2,605,000
84	34,525	34,525	65.70	1.00	1.00	0.95	1.20	1.00	1.14	74.90	2,585,000
85	29,187	29,187	65.70	1.00	1.00	0.95	1.45	1.05 [4]	1.45	95.27	2,780,000
Total of the retail prices for the individual oceanfront lots										<u>\$63,975,000</u>	

[1] Net of beach access easement.

[2] Location at Kawela Point.

[3] Proximity to beach parking lot.

[4] Golf frontage and location at westerly end of Turtle Bay.

Source: John Child & Company.



**ESTIMATED RETAIL PRICES FOR THE REMAINING SALABLE
NON-OCEANFRONT LOTS**


Lot	Lot Area (sq.ft.)		Benchmark price per sq.ft.	Intra-project location	Lot shape	Lot area	Other factors	Composite adjustment	Adjusted retail price	
	Gross	Net [1]							Per sq.ft.	Total
20	20,043	20,043	\$85.78	1.00	1.00	0.80	1.00	0.80	\$68.62	\$1,375,000
21	12,587	12,587	85.78	1.00	1.00	1.05	0.95 [3]	1.00	85.78	1,080,000
22	17,337	17,337	85.78	1.00	1.00	0.85	0.95 [3]	0.81	69.48	1,205,000
23	11,939	11,939	85.78	1.00	1.00	1.05	1.00	1.05	90.07	1,075,000
24	15,313	15,313	85.78	1.00	1.00	0.90	1.00	0.90	77.20	1,180,000
25	13,280	13,280	85.78	1.00	1.00	1.00	1.00	1.00	85.78	1,140,000
26	12,450	12,450	85.78	1.00	1.00	1.05	1.00	1.05	90.07	1,120,000
27	15,428	15,428	85.78	1.00	1.00	0.90	1.00	0.90	77.20	1,190,000
28	13,276	13,276	85.78	1.00	1.00	1.00	1.00	1.00	85.78	1,140,000
29	11,203	11,203	85.78	1.00	1.00	1.10	1.00	1.10	94.36	1,055,000
30	10,037	10,037	85.78	1.00	1.00	1.15	1.00	1.15	98.65	990,000
31	10,035	10,035	85.78	1.00	1.00	1.15	1.00	1.15	98.65	990,000
32	11,042	11,042	85.78	1.00	1.00	1.10	1.00	1.10	94.36	1,040,000
33	11,394	11,394	85.78	1.00	1.00	1.10	1.00	1.10	94.36	1,075,000
34	12,917	12,917	85.78	1.00	1.00	1.00	1.00	1.00	85.78	1,110,000
35	14,901	14,901	85.78	1.00	1.00	0.95	1.00	0.95	81.49	1,215,000
36	11,504	11,504	85.78	1.00	1.00	1.10	1.00	1.10	94.36	1,085,000
37	12,035	12,035	85.78	1.00	1.00	1.05	1.00	1.05	90.07	1,085,000
38	11,775	11,775	85.78	1.00	1.00	1.05	1.00	1.05	90.07	1,060,000
39	10,839	10,839	85.78	1.00	1.00	1.10	1.00	1.10	94.36	1,025,000
40	10,007	10,007	85.78	1.00	1.00	1.15	1.00	1.15	98.65	985,000
41	10,159	10,159	85.78	1.00	1.00	1.15	1.00	1.15	98.65	1,000,000
42	10,729	10,729	85.78	1.00	1.00	1.15	1.00	1.15	98.65	1,060,000
43	13,174	13,174			Benchmark Non-Oceanfront Lot					1,130,000
44	16,927	16,927	85.78	1.00	1.00	0.85	1.00	0.85	72.91	1,235,000
45	10,238	10,238	85.78	1.00	1.00	1.15	1.00	1.15	98.65	1,010,000
46	10,302	10,302	85.78	1.00	1.00	1.15	1.00	1.15	98.65	1,015,000
47	10,751	10,751	85.78	1.00	1.00	1.15	1.00	1.15	98.65	1,060,000
48	10,701	10,701	85.78	1.00	1.00	1.15	1.00	1.15	98.65	1,055,000
49	10,352	10,352	85.78	1.00	1.00	1.15	1.00	1.15	98.65	1,020,000
50	10,797	10,797	85.78	1.00	1.00	1.10	1.00	1.10	94.36	1,020,000
51	10,055	10,055	85.78	1.00	1.00	1.15	1.00	1.15	98.65	990,000

**ESTIMATED RETAIL PRICES FOR THE REMAINING SALABLE
NON-OCEANFRONT LOTS**


Lot	Lot Area (sq.ft.)		Benchmark price per sq.ft.	Intra- project location	Lot shape	Lot area	Other factors	Composite adjustment	Adjusted retail price	
	Gross	Net [1]							Per sq.ft.	Total
52	10,440	10,440	85.78	1.00	1.00	1.15	1.00	1.15	98.65	1,030,000
53	10,103	10,103	85.78	1.00	1.00	1.15	1.00	1.15	98.65	995,000
54	9,334	9,334	85.78	1.00	1.00	1.20	1.00	1.20	102.94	960,000
55	10,070	10,070	85.78	1.00	1.00	1.15	1.00	1.15	98.65	995,000
56	10,230	10,230	85.78	1.00	1.00	1.15	1.00	1.15	98.65	1,010,000
57	10,101	10,101	85.78	1.00	1.00	1.15	1.00	1.15	98.65	995,000
58	10,272	10,272	85.78	1.00	1.00	1.15	1.00	1.15	98.65	1,015,000
59	10,061	10,061	85.78	1.00	1.00	1.15	1.00	1.15	98.65	995,000
60	16,532	16,532	85.78	1.00	0.90	0.90	1.00	0.81	69.48	1,150,000
61	14,876	14,876	85.78	1.00	0.90	0.95	1.00	0.86	73.77	1,095,000
62	14,548	14,548	85.78	1.00	1.00	0.95	1.00	0.95	81.49	1,185,000
63	14,756	14,756	85.78	1.00	1.00	0.95	1.00	0.95	81.49	1,200,000
64	15,654	15,654	85.78	1.00	1.00	0.90	1.00	0.90	77.20	1,210,000
65	24,843	24,843	85.78	1.00	1.00	0.70	1.00	0.70	60.05	1,490,000
68	16,710	16,710	85.78	0.95 [2]	1.00	0.85	1.00	0.81	69.48	1,160,000
69	15,577	15,577	85.78	0.95 [2]	1.00	0.90	1.00	0.86	73.77	1,150,000
70	15,726	15,726	85.78	0.95 [2]	1.00	0.90	1.00	0.86	73.77	1,160,000
71	15,318	15,318	85.78	0.95 [2]	1.00	0.90	1.00	0.86	73.77	1,130,000
72	17,207	17,207	85.78	0.95 [2]	1.00	0.85	1.00	0.81	69.48	1,195,000
73	17,457	17,457	85.78	0.95 [2]	1.00	0.85	1.00	0.81	69.48	1,215,000
74	14,651	14,651	85.78	0.95 [2]	1.00	0.95	1.00	0.90	77.20	1,130,000
75	14,368	14,368	85.78	0.95 [2]	1.00	0.95	1.00	0.90	77.20	1,110,000
76	14,889	14,889	85.78	0.95 [2]	1.00	0.95	1.00	0.90	77.20	1,150,000
77	22,010	22,010	85.78	0.95 [2]	1.00	0.75	1.00	0.71	60.90	1,340,000
78	11,151	11,151	85.78	1.00	1.00	1.10	0.95 [3]	1.05	90.07	1,005,000
79	10,138	10,138	85.78	1.00	1.00	1.15	0.95 [3]	1.09	93.50	950,000
80	10,634	10,634	85.78	1.00	1.00	1.15	0.95 [3]	1.09	93.50	995,000
81	16,261	13,378	85.78	1.00	1.00	1.00	1.00	1.00	85.78	1,150,000
86	12,123	12,123	85.78	1.00	1.00	1.05	1.25 [4]	1.31	112.37	1,360,000
87	11,446	11,446	85.78	1.00	1.00	1.10	1.25 [4]	1.38	118.38	1,355,000
88	10,999	10,999	85.78	1.00	1.00	1.10	1.25 [4]	1.38	118.38	1,300,000
89	17,751	17,751	85.78	1.00	1.00	0.85	1.25 [4]	1.06	90.93	1,615,000

Total of the retail prices for the individual interior lots

\$71,610,000

[1] Net of beach access easement.

[2] Road frontage along Kamehameha Highway and privacy.

[3] Proximity to beach parking lot.

[4] Golf frontage.

Source: John Child & Company.



Based on the analysis, the total of the retail price for the 87 salable lots in the hypothetical residential subdivision formulated by Belt Collins is estimated to be about \$135,585,000, as shown as follows:

Total of the Retail Prices of the
Salable Lots in the Hypothetical Subdivision

	<u>Salable lots</u>	<u>Total</u>	<u>Per lot</u>
Oceanfront lots	23	\$63,975,000	\$2,781,522
Non-oceanfront lots	<u>64</u>	<u>71,610,000</u>	1,118,906
Total	<u>87</u>	<u>\$135,585,000</u>	\$1,558,448

IV – ESTIMATED MARKET VALUE OF THE FEE SIMPLE INTEREST



This section presents the valuation method and analyses used to estimate the market value of the fee simple interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort.

SUBDIVISION PLAN

As discussed in Section II, Belt Collins Hawaii, LLC (Belt Collins) formulated a subdivision plan for a slightly larger, 55.119-acre Kawela Bay parcel that included the 52.535-acre portion involved in the sale and leaseback, and an adjacent 2.584-acre portion to be conveyed to the City & County of Honolulu (portion of Lot 2). The subdivision plan is included as Exhibit II-L.

The subdivision plan includes 89 residential lots. However, excluding the two lots set aside to accommodate development of required affordable housing of nine units, the number of salable lots is reduced to 87, consisting of 23 oceanfront lots and 64 non-oceanfront lots.

VALUATION METHOD AND STUDY APPROACH

The valuation methods considered the sales comparison, income capitalization and cost approaches. The income capitalization approach was not used because it has limited application in valuing vacant land.

The highest and best use of the 52.535-acre Kawela Bay portion of the Turtle Bay Resort is for residential subdivision.

Ideally, the market value of the fee simple interest in the 52.535-acre parcel would be estimated by direct comparison to transactions of other development sites in the North Shore neighborhood sharing a similar highest and best use for subdivision development. However, few properties suitable for subdivision have been sold or made available for purchase. Consequently, relevant sales of comparable development sites on Oahu, along the North Shore in particular, are not available for direct comparison.

The subdivision development approach is used when transactions of comparable sites are limited and the highest and best use of the subject property is for development. It assumes the hypothetical subdivision is developed and individual lots are sold.

In the subdivision development approach, the sales revenue generated by the proposed development is estimated and all of the costs required to develop and market the project are deducted. The revenue and costs are projected over the anticipated development and marketing period. The projected net cash flow is discounted to a present value using a discount rate reflective of the risks and opportunities associated with the development plan.



This approach is reliable because subdivision development is the highest and best use of the parcel, and sufficient market data is available to reliably estimate the:

- Sales prices of the finished lots
- Absorption period and present value of the sales revenue
- Direct and indirect construction costs including marketing and related holding expenses.

The analysis is summarized as follows:

1. Estimated the total of the retail prices for the 87 individual salable lots in the hypothetical subdivision.
2. Reviewed historical and anticipated market conditions and projected the sales period necessary to market the salable lots to individual buyers.
3. Estimated and projected the costs associated with the planning, construction, financing, and marketing of the subdivision development.
4. Estimated and projected the net cash flow as the difference between the projected development costs and sales revenue over the anticipated development and marketing period.
5. Considered the range of discount rates reflecting the risks and opportunities associated with the subdivision development.
6. Discounted the projected net cash flow at the appropriate range of discount rates.
7. Estimated the market value of the fee simple interest in the larger 55.119-acre Kawela Bay parcel as the present value of the projected net cash flow.
8. Allocated the estimated market value between the 52.535-acre Kawela Bay portion of the Turtle Bay Resort involved in the sale and leaseback and an adjacent 2.584-acre portion to be conveyed to the City & County of Honolulu.

TOTAL OF THE RETAIL PRICES

Based on the valuation analyses presented in Section III, the total of the retail prices for the 87 salable lots in the hypothetical residential subdivision formulated by Belt Collins is estimated to be about \$135,585,000, as shown as follows:



Total of the Retail Prices of the
Salable Lots in the Hypothetical Subdivision

	<u>Salable lots</u>	<u>Total</u>	<u>Per lot</u>
Oceanfront lots	23	\$63,975,000	\$2,781,522
Non-oceanfront lots	64	71,610,000	1,118,906
Total	<u>87</u>	<u>\$135,585,000</u>	\$1,558,448

PROJECTED SALES PERIOD

According to Hawaii Information Service data set, 485 residential properties between 5,000^{sq} ft and one acre on Oahu's North Shore are currently unimproved. Of these, only 47 are reported as having ocean frontage.

Based on information reported through the Honolulu Board of REALTORS, the total number of vacant lots under one acre in size along Oahu's North Shore has remained relatively constant at roughly about 10 and 15 annually since 2010, shown as follows:

Annual Sales of Vacant Lots
Under 1 Acre on Oahu's North Shore Area [1]

<u>Year</u>	<u>Ocean- front</u>	<u>Non ocean- front</u>	<u>Total</u>	<u>Percent ocean- front</u>
2004	4	23	27	15%
2005	7	25	32	22
2006	0	10	10	0
2007	2	15	17	12
2008	3	8	11	27
2009	0	3	3	0
2010	2	7	9	22
2011	0	15	15	0
2012	4	8	12	33
2013	4	13	17	24
2014	2	12	14	14
2015 9 mos.	2	11	13	15

[1] Based on Honolulu Board of REALTORS Multiple Listing Service data. Data for 2015 are through September. Includes tax map zones 5, 6, and 7.



The relatively low sales rates observed generally in the North Shore market can be attributable, in part, to the lack of supply. Also, these figures exclude properties currently improved with older structures that are purchased for redevelopment. This frequently the case, particularly for oceanfront properties.

The demand for improved single-family properties, both oceanfront and non-oceanfront, has been robust in recent years, shown as follows:

Annual Sales of Improved Single-Family Dwellings
on Lots Under 1 Acre on Oahu's North Shore Area [1]

<u>Year</u>	<u>Ocean- front</u>	<u>Non ocean- front</u>	<u>Total</u>	<u>Percent ocean- front</u>
2004	54	255	309	17%
2005	51	241	292	17
2006	24	173	197	12
2007	17	164	181	9
2008	18	120	138	13
2009	17	108	125	14
2010	13	155	168	8
2011	16	187	203	8
2012	29	154	183	16
2013	17	200	217	8
2014	25	181	206	12
2015 9 mos.	16	147	163	10

The offering of residential house lots in an oceanfront resort subdivision setting on Oahu is unique. The last offering involving an oceanfront subdivision with a sizable number of lots occurred in 2003 and involved Sunset Beach Colony. Sunset Beach Colony is a 19-acre gated, oceanfront community located at Kaunala Bay, west of Sunset Beach.

Prior to development, the land was composed of 30 lots containing 42 older residential rental units. Western United Life Assurance (WULA) purchased the assemblage in June 2001 for \$7,500,000. While having the potential to be subdivided into 45-plus lots, WULA opted for a lower density subdivision with 27 salable house lots, consisting of 15 oceanfront and 12 non-oceanfront lots averaging about 16,500^{sq}ft.

The lots were sold within 16 days by way of sealed bids in September 2003. Retail prices totaled nearly \$26,700,000 with oceanfront lot prices averaging \$1,460,000 and non-oceanfront lot prices averaging \$400,000.

[1] Based on Honolulu Board of REALTORS Multiple Listing Service data. Data for 2015 are through September. Includes tax map zones 5, 6, and 7.



A more recent offering involves a non-oceanfront subdivision. The Bluffs at Waimea is a 25-lot residential subdivision along the southeasterly side of Kamehameha Highway and south of Waimea Bay. The lots vary in size between about 7,500 sq ft and 10,000 sq ft . Prices ranged between \$480,000 and nearly \$700,000.

Marketing commenced in the third quarter of 2011. However, only 12 lots were sold during the ensuing 2+ year period through January 2014. The 11 remaining unsold lots were purchased by Dhara LLC, an investment group from China, in August 2014 for about \$5,885,000. One lot was subsequently resold in August 2015 for \$900,000. The remaining 10 lots have been taken off the market.

Because of the scarcity of this type of property on Oahu, this category of house lots are more typically found in resorts on the neighbor islands of Hawaii, Maui, and Kauai. These include:

Maui:	Hawaii:
Kapalua	Mauna Kea
Kaanapali	Mauna Lani
Wailea	Waikoloa Beach
Makena	Hualalai
	Kaupulehu
Kauai:	Kukio
Princeville	Maniniowali
Kiahuna	Holua
Kukuiula	Hokulia

The number of vacant single-family lots sold in these neighbor island resorts had fluctuated between about 230 and 180 annually between 1999 and 2003. While reaching a peak of nearly 310 lots in 2005, the number of sales has decreased and has fluctuated between about 60 and 120 lots annually since 2008, shown as follows:



Annual Single-Family Lot Sales in Selected Resorts

<u>Year</u>	<u>Initial developer sales</u>	<u>Resales</u>	<u>Total</u>	<u>Percent Developer sales</u>
2004	148	144	292	51%
2005	152	159	311	49
2006	102	95	197	52
2007	97	72	169	58
2008	30	43	73	42
2009	9	51	60	15
2010	13	47	60	22
2011	5	49	54	9
2012	1	69	70	1
2013	20	100	120	17
2014	15	93	108	14
2015 9 mos.	31	74	105	30

While variations are attributed to market conditions, higher annual lot sales have correspond with periods of increased supply and developer sales. In recent years, the number of new residential subdivisions has been limited to offerings at:

- Hualalai Resort
- Kaupulehu
- Wainani at Poipu.

While a significant number of unimproved house lots remain in resort settings, the number that are developer-owned and intended for sale is limited. The subset consisting of oceanfront lots is further constrained, shown as follows:



Composition of Unimproved Single-Family House Lots in Hawaii Resorts

	<u>Developer- owned</u>	<u>Individually owned</u>	<u>Total</u>	<u>Percent developer- owned</u>
Oceanfront:				
Hawaii	0	14	14	0%
Maui	0	0	0	0
Kauai	<u>0</u>	<u>0</u>	<u>0</u>	0
Total - oceanfront	<u>0</u>	<u>14</u>	<u>14</u>	0
Non-oceanfront:				
Hawaii	192	500	692	28
Maui	1	235	236	0
Kauai	<u>28</u>	<u>174</u>	<u>202</u>	14
Total - non-oceanfront	<u>221</u>	<u>909</u>	<u>1,130</u>	20
Total				
Hawaii	192	514	706	27
Maui	1	235	236	0
Kauai	<u>28</u>	<u>174</u>	<u>202</u>	14
Total	<u>221</u>	<u>923</u>	<u>1,144</u>	19

About one-half of the developer-owned lots on Hawaii are in the Hokulia subdivision. The balance is in Hualalai, Kukio, Kaupulehu, and Holua at Keauhou.

Despite the inherent difficulties in quantifying the market support for this particular property type, absorption rates of about two lots per month for oceanfront lots and one lot per month for interior lots would represent reasonable expectations for lot sales within the hypothetical subdivision, given the anticipated pricing and professional marketing efforts typically associated with new offerings in upscale developments.

As a result, the 87 salable lots in the hypothetical subdivision are projected to be marketed over a period of about seven years, including two years during construction, shown as follows:



Projected Absorption and Sales Rates

Year	Period	Annual Lot Sales		
		Ocean front	Interior	Total
1	10/1/2015 - 9/30/2016]			
2	10/1/2016 - 9/30/2017]-	17	14	31 [1]
3	10/1/2017 - 9/30/2018	6	12	18
4	10/1/2018 - 9/30/2019	--	12	12
5	10/1/2019 - 9/30/2020	--	12	12
6	10/1/2020 - 9/30/2021	--	12	12
7	10/1/2021 - 9/30/2022	--	2	2
Total		<u>23</u>	<u>64</u>	<u>87</u>
<i>Market Demand (annual)</i>		<u>24</u>	<u>12</u>	<u>36</u>

Near-term market conditions are anticipated to remain relatively strong. Considering recent trends and anticipated market conditions, the retail prices are projected to increase at an average annual appreciation rate of 3% over the projected marketing period.

CURRENT AND PROJECTED DEVELOPMENT COSTS

The construction costs include those specifically associated with the development of the hypothetical subdivision, referred to as on-site costs, and those associated with improvements and projects located outside the hypothetical subdivision but necessary or required as a part of its development.

On-Site Development Costs

As previously discussed, Belt Collins has formulated a subdivision plan on a 55.119-acre Kawela Bay parcel that included the 52.535-acre portion involved in the sale and leaseback. In conjunction with this effort, Belt Collins estimated the direct, on-site construction costs to complete the proposed subdivision development.

The on-site "Parcel Development Cost" of the development site referred to as RR1/RR2, corresponding with referenced lots in the Proposed Action Plan, were estimated as of March 25, 2015 to total about \$8,220,000, as shown in Exhibit IV-A.

[1] Two-year planning and construction period through September 2017.



ESTIMATE ON-SITE DEVELOPMENT COST ASSOCIATED WITH HYPOTHETICAL SUBDIVISION

TURTLE BAY - RR Parcel On-site Development Cost Opinion						Belt Collins Hawaii 3/25/2014	
Item No.	Description	Quantity	Unit	Unit Price	Amount	Subtotal	
Construction Costs - per LF for 40' ROW - Minor Street serving local traffic with cul-de-sac							
a	Site Improvements					\$448	
	Clear and Grub	0.001	AC	\$6,650		\$7	
	Temporary Erosion Control	0.001	AC	\$50,889		\$51	
	2" AC Pav't -26' paved	2.2	SY	\$43		\$95	
	6" AC Base Course	2.2	SY	\$30		\$66	
	6" Aggregate Subbase	2.2	SY	\$25		\$55	
	Pavement Striping and Marking	1	LF	\$5		\$5	
	Fine Grading	4.4	SY	\$10		\$44	
	4" conc Sidewalk wit 6" base course	2.4	SF	\$15		\$36	
	Curb & Gutter	2	LF	\$45		\$90	
b	Potable Water System - 12" Pipe					\$272	
	Trench Excavation & cushion	0.56	CY	\$75		\$42	
	8" water line w/ valves & Fittings	1.0	LF	\$225		\$225	
	chlorination & testing	1.0	LF	\$5		\$5	
d	Sanitary Sewer System - 6" Pipe		(from Cumming)			\$254	
e	Electrical System (excludes HECO Charges)		(from Ronald N.S. Ho & Associates)			\$350	
g	Drainage		(based on Cumming)			\$0	
	Construction Total 40' ROW					\$1,324	
	Cumming costs						
	Clear & grub (with mark-up)	\$6,650	ac				
	Fine Grading	\$25,000	ac				
	Markup Factor	1.105054	(3% General Conditions, 1.25% bond/insurance & Hawai'i GET)				
PARCEL DEVELOPMENT COST							
RR1/RR2							
Note: Road to Park P-1 excluded in on-site development cost (considered master developer cost)							
RR-1 February 2014 concept SF concept							
	Road	1156	lf		44' ROW	\$2,146,378	
	clear & grub	39.1	ac			\$260,023	
	Fine Grading	39.1	ac			\$977,500	
	Shoreline walkway	3900	lf			\$ 1,292,913	
			total			\$4,676,814	
RR-2 February 2014 concept SF concept							
	Road	1400	lf			\$2,599,420	
	clear & grub	20.3	ac			\$134,999	
	Fine Grading	20.3	ac			\$507,500	
	Shoreline walkway	900	lf			\$ 298,364	
			total			\$3,540,284	
Total density - 81 lots				cost per lot	\$101,445.66		
RR-1 / RR-2							
3/17/2014 Concept Single Family Lots 48 lots)							
	Road	1340	lf		40' ROW	\$1,774,117	
	clear & grub	26.5	ac			\$176,231	
	Fine Grading	26.5	ac			\$662,500	
	Shoreline walkway	3900	lf			\$ 1,292,913	
			total			\$3,905,760	
				cost per lot	\$81,370.01		
3/17/2014 Concept Multi-Family Development (177 units) - accessed and served from 44' ROW Access Road							
No RR-2 Multi-family site development cost are considered							

Source: Belt Collins Hawaii, March 25, 2014.



Belt Collins prepared revised costs dated August 11, 2014 to account for the five-acre portion of RR1 to be transferred to the City. This reduction in area also reduced the length of the shoreline walkway. As a result of these revisions, the on-site construction cost to complete the proposed subdivision was estimated to total nearly \$7,980,000, shown as follows:

Belt Collins On-Site Construction Costs [1]

	As of 3/25/2014	As of 8/11/2014
RR-1:		
Road	\$2,146,378	\$2,146,378
Clear & grub	260,023	226,440
Fine grading	977,500	851,250
Shoreline walkway	<u>1,292,913</u>	<u>1,213,349</u>
Subtotal	<u>4,676,814</u>	<u>4,437,417</u>
RR-2:		
Road	2,599,420	2,599,420
Clear & grub	134,999	134,999
Fine grading	507,500	507,500
Shoreline walkway	<u>298,364</u>	<u>298,364</u>
Subtotal	<u>3,540,283</u>	<u>3,540,283</u>
Total	<u>\$8,217,097</u>	<u>\$7,977,700</u>

Off-Site Development Costs

In 2007, Replay Resorts, Inc. (Replay Resorts), on behalf of Turtle Bay Resort, LLC (TBR), retained Cummins Corporation to estimate the development costs associated with the Turtle Bay Resort Proposed Action Plan described in the Supplemental Environmental Impact Statement.

At that time, the hard construction costs were estimated to total about \$120.9 million. Cummins Corporation subsequently submitted an updated cost review dated February 20, 2014. [2] The hard construction costs at that time were estimated to total about \$121.7 million.

[1] The on-site costs were predicated on gross acreage and lineal feet of roadway. The costs were neutral with respect to slight variations in the number of subdivided lots.

[2] Cummins Corporation, Turtle Bay Resort – Proposed Action Master Plan North Shore, Hawaii, Master Plan Cost Review, February 20, 2014



Belt Collins completed a detailed review and assessment of the costs developed by Cummins Corporation and identified those specifically necessary and required for the completion of the hypothetical subdivision. Based on its review and assessment, Belt Collins estimated the off-site development costs attributable to the hypothetical subdivision at nearly \$17,100,000, as shown in Exhibit IV-B.

**Total Direct On- and
Off-Site Development Costs**

The on- and off-site development costs total nearly \$25,100,000, shown as follows:

Total Direct On- and Off-Site Development Costs
(As of 1st Quarter 2014)

On-Site costs	\$7,977,700
Off-Site costs	<u>17,093,523</u>
Total development costs	<u><u>\$25,071,223</u></u>

Although the on-site costs were adjusted to reflect a change in acreage in August 2014, the on- and off-site costs are largely reflective of conditions as of the first quarter of 2014. Construction costs have trended higher since that time. In its 3rd Quarter 2015 comparative cost report, Rider Levett Bucknall reports the construction cost index for Honolulu increased 15.5%, from 20,243 as of April 2014 to 23,390 as of July 2015. The recent trend in Honolulu's construction costs is shown as follows:



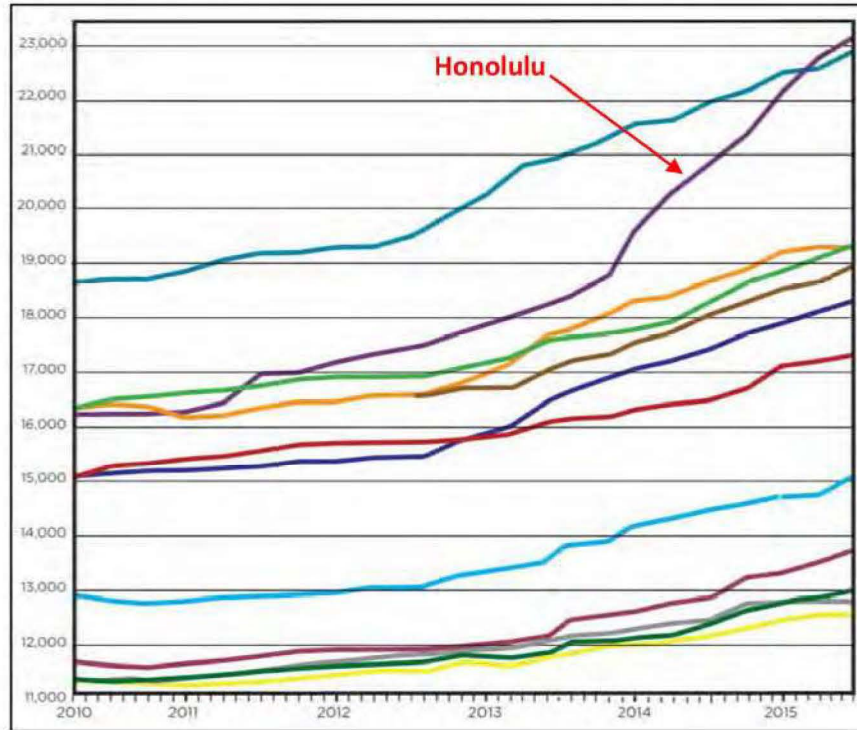
**ALLOCATED OFF-SITE DEVELOPMENT COST ASSOCIATED WITH
HYPOTHETICAL SUBDIVISION**

Turtle Bay Resort - Kawela Side Development Costs*	
Description	Total
Kawela Intersection/Kaihalulu Dr. - assume P-1 Access	
Kaihalulu Dr. Sta 0+00 to 13+00	\$ 2,552,066
Kaihalulu Dr. Drainage Culverts	\$ 1,655,263
West Main Drain Improvements	\$ 2,539,339
Sewer System Improvements	
WWPS1	\$ 252,604
4" Sewer Force Main	\$ 942,301
Water System Improvements	
Non-potable Water System Improvements	\$ 317,398
	\$ 69,131
Electrical System Improvements	
HECO Charges	\$ 1,501,215
	\$ 202,664
RR-1 (H-1) Beach Access	\$ 464,714
RR-2 (H-2) Beach Access	\$ 523,101
Mauka drainage - Kawela Stream Restoration with Bridge	\$ 6,073,727
Total Kawela side	\$ 17,093,523
* Based on "Turtle Bay Resort - Proposed Action Master Plan North Shore, Hawai'i, Master Plan Cost Review February 20, 2014	

Source: Belt Collins Hawaii based on Cumming Corporation, Turtle Bay Resort – Proposed Action Master Plan North Shore, Hawaii, Master Plan Cost Review, February 20, 2014.



Comparative Cost Index
RLB America, Quarterly Construction Cost Report, Third Quarter 2015



By contrast, the Honolulu construction cost index for single-family residences and high-rise buildings indicates year-over-year rates of increase of about 7.4% to 7.5%, shown as follows:

Honolulu Construction Cost Index [1]
(January 1992 = 100)

<u>Period</u>	<u>Single-family</u>	<u>High-rise building</u>
2014, First Quarter	253.7	233.0
2015, First Quarter [2]	272.6	250.4
Percent change	7.4%	7.5%

[1] Hawaii State Department of Business, Economic Development & Tourism.

[2] Most recent quarter reported.



Considering trends in construction costs, the direct on- and off-site development costs associated with the hypothetical subdivision are estimated to total about \$26,950,000, about 7.5% higher than costs estimated as of the first quarter of 2014, shown as follows:

Current Estimates of the Total Direct
On- and Off-Site Development Costs
(As of October 1, 2015)

On-Site costs	\$8,576,000
Off-Site costs	<u>18,376,000</u>
 Total development costs	 <u>\$26,952,000</u>

The construction period is anticipated to extend over a two-year period. About 75% of the direct on- and off-site costs are expected to be committed and/or incurred during the first year of construction.

Other Indirect Development Costs

Other indirect development costs associated with the proposed subdivision are discussed as follows:

- **Construction financing:** Construction financing includes interest expenses and loan fee. According to the RealtyRates “*Developer Survey, 3rd Quarter 2015*” lender-quoted interim rates for subdivisions and planned unit developments (PUDs) range from about 4.00% to 9.70% and average 6.76%. Loan terms typically span 1- to 5 years and require interest-only payments with average loan fees of 1% to 4% of the loan amount, as follows:

RealtyRates.com DEVELOPER SURVEY - 3rd Quarter 2015*							
Interim (Construction) Financing							
PROPERTY TYPE	SPREAD OVER BASE (Prime)	INTEREST RATE	LOAN FEES	LOAN-TO-VALUE RATIO	LOAN-TO-COST RATIO	LOAN TERM (Mos.)	AMORTIZATION
Residential Subdivisions & PUDs							
Minimum	0.75%	4.00%	1.00%	50%	70%	12	Interest Only
Maximum	6.45%	9.70%	4.00%	100%	100%	60	Interest Only
Average	3.57%	6.76%	2.21%	74%	84%	41	Interest Only

Based on the anticipated construction cost totaling about \$26,950,000, the interest expense over the two-year construction period is estimated to be nearly \$1,820,000, shown as follows:



Loan amount	\$26,952,000
Annual interest-only loan rate	6.76%
Loan term (years)	2
Average percent balance outstanding	<u>50%</u>
Total interest payment (product)	<u>\$1,822,000</u>

Loan fees to be incurred in the first year are estimated at 2.2% of the loan amount or about \$593,000.

- Real property taxes: The annual real property taxes are currently about \$195,000 based on the Resort and Hotel land use classification used by the City & County of Honolulu Real Property Assessment Division. The associated tax rate is \$12.90 per \$1,000 of assessed value. Real property taxes during the two-year development period are projected to remain at the current level. Following the completion of construction and closing of lot sales, real property taxes are projected based on the appreciated values of the unsold lot inventory.
- Administrative and general expenses: The administrative and general expenses are budgeted at \$200,000 annually during the two-year construction period. These expenses are projected to decrease over the remaining period following completion of construction.
- Marketing expenses: Marketing expenses for new developments are commonly quantified as a percent of sales. Given the projected average lot prices and absorption period, marketing expenses are projected to average 1% of sales revenue over the sales and marketing period.
- Sales Commissions: Given the anticipated marketing effort, pricing, absorption period, and mix of direct project brokerage and outside shared-commission sales, sales commissions at 4% of gross sales are judged appropriate.
- Closing costs: Other closing costs and expenses are projected at 0.5% of gross sales.

PROJECTED NET CASH FLOW

Based on the projected sales revenue and development costs, the projected net cash flow over the anticipated construction and market period is shown in Exhibit IV-C and as follows:

Source: John Child & Company.

Development Year	1	2	3	4	5	6	7	Total
Absorption:								
Oceanfront lots	0	17	6	0	0	0	0	23
Non-oceanfront lots	0	14	12	12	12	12	2	64
Total	0	31	18	12	12	12	2	87
Sales Revenue:								
Oceanfront lots	\$0	\$48,704,448	\$17,705,499	\$0	\$0	\$0	\$0	
Non-oceanfront lots	0	16,134,622	14,244,564	14,671,908	15,112,068	15,565,428	2,672,064	
Total - Sales Revenue	0	64,839,070	31,950,063	14,671,908	15,112,068	15,565,428	2,672,064	
Direct Development Costs:								
Off-Site	13,782,000	4,594,000	0	0	0	0	0	
On-Site	6,432,000	2,144,000	0	0	0	0	0	
Subtotal - Direct Development Costs	20,214,000	6,738,000	0	0	0	0	0	
Indirect Development Costs:								
Financing	1,959,000	455,000	0	0	0	0	0	
Real property taxes	195,000	195,000	727,148	520,486	341,155	150,596	0	
Administrative & general	200,000	200,000	100,000	100,000	100,000	100,000	0	
Marketing	324,000	324,000 [1]	320,000	147,000	151,000	156,000	27,000	
Sales commissions	0	2,593,563	1,278,003	586,876	604,483	622,617	106,883	
Closing costs	0	324,195	159,750	73,360	75,560	77,827	13,360	
Subtotal - Indirect Development Costs	2,678,000	4,091,758	2,584,901	1,427,722	1,272,198	1,107,040	147,243	
Total - Development Costs	22,892,000	10,829,758	2,584,901	1,427,722	1,272,198	1,107,040	147,243	
Net cash flow	(22,892,000)	54,009,312	29,365,162	13,244,186	13,839,870	14,458,388	2,524,821	
Present value factor at a 22% discount rate	0.81967	0.67186	0.55071	0.45140	0.37000	0.30328	0.24859	
Present value of net cash flow	(\$18,763,886)	\$36,286,696	\$16,171,688	\$5,978,426	\$5,120,752	\$4,384,940	\$627,645	\$49,806,261

[1] Although based on 1% of sales revenue, marketing would have begun in Year 1. Consequently, amounts have been pro-rated between Years 1 and 2.

Turtle Bay Resort Sale and Leaseback
PROJECTED NET CASH FLOW

Exhibit IV-C





Projected Net Cash Flow

Year	Sales revenue	Development costs	Net cash flow
1	\$0	\$22,892,000	(\$22,892,000)
2	64,839,070	\$10,829,758	54,009,312
3	31,950,063	2,584,901	29,365,162
4	14,671,908	1,427,722	13,244,186
5	15,112,068	1,272,198	13,839,870
6	15,565,428	1,107,040	14,458,388
7	2,672,064	147,243	2,524,821

SELECTION OF THE DISCOUNT RATE

The projected net cash flows are discounted to a present value estimate using a discount (yield) rate that reflects the risks and opportunities associated with the development. The discount rate commonly includes developer's profit.

The real estate investment return expectations of investors in the United States provide a meaningful basis of comparison for estimating the appropriate discount rate.

The PwC Real Estate Investor Survey reports in its Second Quarter 2015 survey discount rates for the national development land market for a broad cross-section of property types of between 10.0% and 20%, with an average of 15.9%, shown as follows:

Investor Yield Rates for National Development Land Market

Exhibit DL-1 DISCOUNT RATES (IRRS) ^a Second Quarter 2015		
	CURRENT QUARTER	FOURTH QUARTER 2014
FREE & CLEAR		
Range	10.00% - 20.00%	10.00% - 25.00%
Average	15.90%	16.75%
Change		- 85

a. Rate on unleveraged, all-cash transactions; including developer's profit

Focusing on a narrower and more relevant market sector, RealtyRates' "Developer Survey, 3rd Quarter 2015" reports discount rates for subdivision and planned unit developments (PUDs) nationally and in Hawaii, California, and Guam as follows:



Discount Rates for Residential Developments with 10 to 500 Units [1]

	<u>Low</u>	<u>High</u>	<u>Average</u>
National:			
Actual	14.4%	51.3%	33.0%
Pro forma	13.9	49.3	32.4
Hawaii, California and Guam:			
Actual	18.1	38.9	27.8
Pro forma	17.4	38.3	26.7

As is evident in RealtyRate’s market survey results, rates for the Hawaii, California, and Guam markets have tended to be lower than rates nationally. Although not evident in the survey results, yield rates across a broad variety of property types in Hawaii tend to be lower than those in other geographic areas. This is largely because of the high barriers to market entry, scarcity of supply, and geographic appeal.

Considering the anticipated market support at the projected lot pricing and the bases for the associated development costs, together with the unique location of the hypothetical subdivision at the Turtle Bay Resort, a discount rate between 20% and 24% would reflect the risks and opportunities associated with the projected net cash flow.

PRESENT VALUE OF THE NET CASH FLOW

At a discount rate of 22%, the present value of the projected net cash flow of the projected development and marketing period is estimated to be \$49,810,000, as also shown in Exhibit IV-C.

The present value at discount rates between 20% and 24% ranges between \$46,930,000 and \$52,920,000, shown as follows:

Present Value of the Projected Net Cash Flow at Varying Discount Rates

<u>Discount rate</u>	<u>Present value</u>
24%	\$46,930,000
23	48,340,000
22	49,810,000
21	51,330,000
20	52,920,000

[1] Discount rates for conventionally finance subdivisions and planned unit developments. Actual rates are those achieved by survey respondents; pro forma rates reflect forward-looking revenue and expenses. Developer’s profit is not treated as a separate line item expense.



ESTIMATED MARKET VALUE

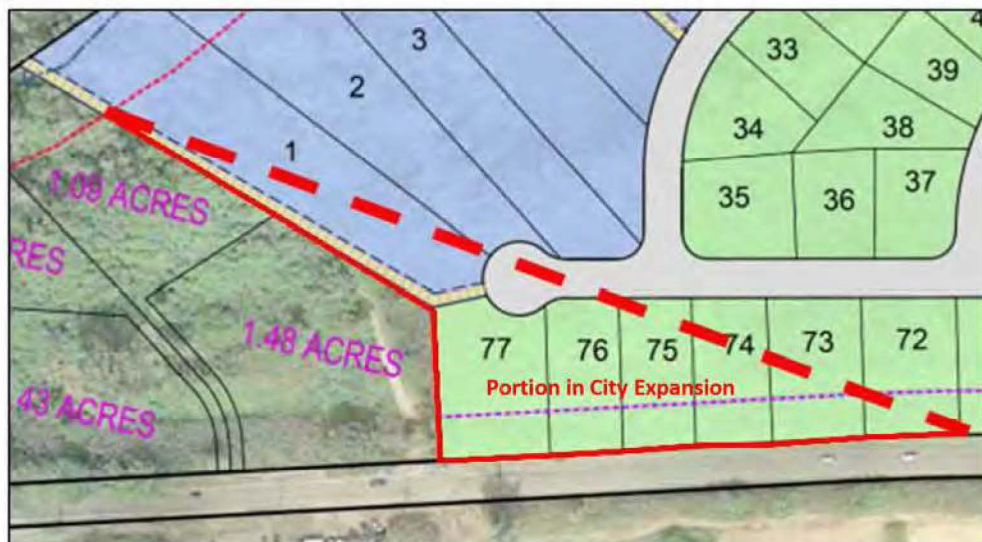
Based on the preceding analysis, the market value of the fee simple interest in the larger 55.119-acre Kawela Bay parcel is estimated to be \$49,810,000.

As discussed in Section II, Belt Collins Hawaii, LLC (Belt Collins) formulated a subdivision plan for a slightly larger, 55.119-acre Kawela Bay parcel that included the 52.535-acre portion involved in the sale and leaseback, and an adjacent 2.584-acre portion to be conveyed to the City & County of Honolulu.

The estimated market value is allocated between the 52.535-acre portion involved in the sale and leaseback, and an adjacent 2.584-acre portion to be conveyed to the City & County of Honolulu based on the total of the retail prices associated with each component.

The 2.584-acre portion to be conveyed to the City & County of Honolulu extends over portions of Lot 1, Lots 72 to 77, and the roadway cul-de-sac, as shown in Exhibit II-L and as follows:

Portion of Belt Collins Subdivision Plan Identifying 2.584-Acre Portion





The approximate areas of these components are as follows:

Composition of 2.584-Acre Portion

	<u>Acres</u>
Lot 1	
In access easement	0.168
Balance, net of access easement	0.323
Lots 72 to 77	1.978
Road	<u>0.115</u>
Total	<u><u>2.584</u></u>

Based on the pricing analysis presented in Section III, the retail price of Lot 1, with an area of 54,213 sq. ft. net of the access easement, is estimated to be \$2,990,000 or about \$55.19/ sq. ft. . Similarly the retail prices associated with Lots 72 to 77 total \$7,140,000, about \$70.99/ sq. ft. for an area totaling 100,582 sq. ft.

At these retail prices per square foot, the pro rata retail prices associated with the 2.584 acres is estimated to total \$6,900,000, shown as follows:

Pro Rata Retail Prices Attributable to the 2.584-Acre Portion

	<u>Acres</u>	<u>Pro Rata Retail Price</u>	
		<u>Per sq. ft.</u>	<u>Total</u>
Lot 1			
In access easement	0.168	--	--
Balance, net of access easement	0.323	\$55.19	\$780,000
Lots 72 to 77	1.978	70.99	6,120,000
Road	<u>0.115</u>	--	<u>--</u>
Total	<u><u>2.584</u></u>		<u><u>\$6,900,000</u></u>

With the retail prices of the 87 salable lots in the hypothetical subdivision totaling \$135,585,000, the portion associated with the 2.584-acre portion represents about 5%, shown as follows:



Composition of Retail Prices

	<u>Acres</u>	<u>Total of retail prices</u>	<u>Percent of total prices</u>
Portion to City & County of Honolulu	2.584	\$6,900,000	5%
Balance in proposed sale and leaseback	<u>52.535</u>	<u>128,685,000</u>	<u>95</u>
Total	<u>55.119</u>	<u>\$135,585,000</u>	<u>100%</u>

The market value of the fee simple interest in the in the larger 55.119-acre Kawela Bay parcel is allocated between the 52.535-acre portion involved in the sale and leaseback, and the adjacent 2.584-acre portion to be conveyed to the City & County of Honolulu as follows:

Allocation of the Estimated Market Value

	<u>Acres</u>	<u>Percent of total prices</u>	<u>Market value</u>
Portion to City & County of Honolulu	2.584	5%	\$2,490,000
Balance in proposed sale and leaseback	<u>52.535</u>	<u>95</u>	<u>47,320,000</u>
Total	<u>55.119</u>	<u>100%</u>	<u>\$49,810,000</u>

Based on the preceding analyses, the market value of the fee simple interest in the 52.535-acre portion of the Turtle Bay Resort involved in the sale and leaseback, as of October 1, 2015, is estimated to be:

FORTY SEVEN MILLION THREE HUNDRED TWENTY THOUSAND DOLLARS
(\$47,320,000).

V – ESTIMATED MARKET VALUE OF THE LEASED FEE INTEREST



This section presents the valuation method and analyses used to estimate the market value of the leased fee interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort.

PROPOSED LEASE

Turtle Bay Resort, LLC (TBR) and the State of Hawaii, through its Board of Land & Natural Resources (BLNR), propose to enter into a transaction involving the fee simple acquisition and simultaneous leaseback of about 52.535 acres at Kawela Bay. The proposed lease is included as Addendum 2.

The lease agreement will extend 65 years, with a rent payment of \$480 annually during the entire term. The lease permits the property to be used in substantially in the same manner that TBR has been using the premises prior to the lease encumbrance.

Fee simple ownership in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort will revert to the State of Hawaii at the end of the 65-year lease term.

VALUATION METHOD AND STUDY APPROACH

The valuation methods considered the three approaches to value: cost, income, and direct sales comparison. The income approach was used because leased fee interests are primarily purchased by investors for the future benefits of the property.

The purchase of an income-producing property represents the exchange of present dollars for the right to receive future dollars. The market value of the leased fee interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort to be encumbered by the proposed lease is estimated using a discounted cash flow analysis.

The discounted cash flow analysis focuses on the current land value and known ground rent payments. It derives paired appreciation and discount rates to determine the pairings used to estimate the market value of the leased fee interest.

PROJECTED INCOME STREAM

The lease rent during the entire 65-year lease term will be \$480 annually.

PROJECTED VALUE AT REVERSION

The unencumbered fee simple interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort will revert to the State of Hawaii at the end of the lease term in 65 years.



Based on the valuation analyses presented in Section IV, the market value of the fee simple interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort, as of October 1, 2015, is estimated to be \$47,320,000.

The current land value is anticipated to appreciate at an annual compound rate of averaging about 3% through the duration of the lease. This rate is consistent with long-term growth rates for a variety of residential, commercial and industrial real estate in Hawaii.

As a result, the reversionary value of the fee simple interest in 52.535-acre Kawela Bay portion of the Turtle Bay Resort in 65 years is projected to be nearly \$323,200,000.

ANALYSIS OF THE APPROPRIATE DISCOUNT RATES

Discount rates reflect the risks and opportunities associated with an ownership interest in a property. Risk includes safety and the degree to which the benefits of the ownership meet the requirements of an investment. The factors considered in evaluating the desirability of an investment include:

- Durability of the income stream
- Safety of the investment
- Potential for appreciation
- Value as collateral.
- Certainty of yield
- Management burden
- Marketability.

A leased fee ownership interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort shares some characteristics with leased fee interests in investment-type commercial and industrial properties in Hawaii. They are characterized by periodic payments and an ultimate reversion of a property at the end of the agreement.

However, because the annual ground rent is relatively low and fixed for the entire lease term, the investment opportunity associated with the leased fee interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort is essentially the land reversion in 65 years.

Leased fee interests in commercial and industrial properties sold since 2008 were analyzed. At a 3% appreciation rate and land reversion at the end of the lease, the comparable sales indicate discount rates between 5.7% and 10.9%, shown in Exhibit V-A and illustrated below:

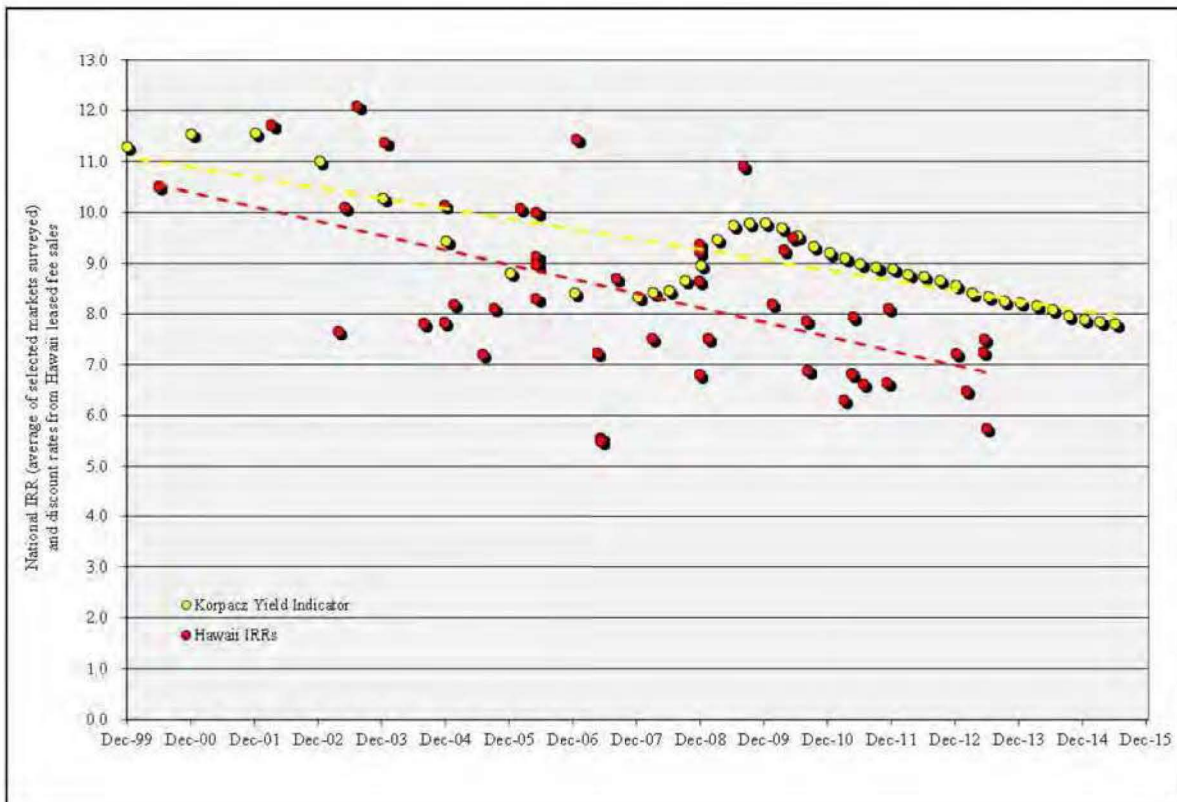
No.	Property description	Tax map key	Land area (sf)	Zoning	Sale date	Sale Price	Remaining lease term (in years)		Discount rate at 3% appreciation
							Total	Fixed	
Investor Purchasers:									
1	7-11 Waipio	9-4-99:56	22,807	I-2	6/6/2013	\$2,400,000	25.5	5.5	7 - 8%
2	Sears Distribution Center	9-8-59:09	593,941	I-2	5/31/2013	30,000,000	24.9	14.9	7.1%
3	West Maui Center	4-5-07:02 (Maui)	152,504	M-2	2/22/2013	9,400,000	21.3	8.3	6.5%
4	Esposito R.E. Trust	2-1-50:57	5,000	MUZ-R	12/2/2011	830,000	18.3	18.3	8.1%
5	City Financial Tower Parking Garage	2-1-16:08	14,746	BMX-4	12/1/2011	6,200,000	42.2	7.2	6.6%
6	M. Dyer & Sons	9-8-59:11	155,856	I-2	5/16/2011	9,000,000	18.0	8.0	7.9%
7	Hyatt Regency Waikiki: CK Corp Parcels	2-6-23:10 & 11	27,455	Resort M/U	3/31/2011	42,500,000	36.8	5.8	6.3%
8	Kobe Restaurant Ala Moana Parcel	2-6-09:06	4,362	Resort M/U	8/30/2010	2,200,000	13.3	3.3	6.9%
9	Piliialoha Maui	9-4-49:12 & 64	47,559	M-2	4/12/2010	2,644,601	21.6	6.6	9.3%
10	2003/2007 Fern Street	2-7-03:41	9,914	A-2	2/5/2010	1,200,000	33.0	3.0	8.2%
11	411 Puuhale Road	1-2-09:59	23,224	IMX-1	8/24/2009	1,840,000	27.6	7.6	10.9%
12	Tesoro Maui Triangle	3-8-79:06 (Maui)	22,000	M-2	2/3/2009	2,230,000	8.5	4.5	7.5%
13	Servco Lexus Maui Triangle	3-8-79:05 (Maui)	41,053	M-2	12/18/2008	3,140,000	8.9	8.9	8.7%
14	Krispy Kreme Maui	3-8-79:24 (Maui)	41,128	M-2	12/16/2008	2,136,000	25.1	25.1	9.2%
15	Pflueger/BMW/Acura Maui Triangle	3-8-79:02 et al. (Maui)	157,384	M-2	12/16/2008	9,745,000	12.9	12.9	9.4%
16	Checker Auto Parts Waipahu	9-4-49:12 & 64	45,000	B-2	12/15/2008	3,600,000	15.0	15.0	6.8%
Lessee-Purchasers:									
17	Maile Sky Court	2-6-16:46	28,339	Apt	6/17/2013	17,200,000	37.4	2.4	5.7%
18	Aqua Lotus Hotel Waikiki	3-1-32:16	16,598	A-2	7/18/2011	5,620,000	28.5	3.5	6.6%
19	M. Dyer & Sons	9-8-59:11	155,856	I-2	5/16/2011	9,000,000	18.0	8.0	7.9%
20	Castle Professional Center	4-6-02:44	67,653	B-2	5/11/2011	7,000,000	15.5	5.5	6.8%
21	Kalihi Shell	1-7-29:14	13,905	BMX-3	8/19/2010	1,900,000	6.6	1.6	7.9%
22	Home Depot Iwilei	1-5-12:07	392,084	IMX-1	6/10/2010	23,170,000	13.0	[1] 13.0	9.5%
23	411 Puuhale Road	1-2-09:59	23,224	IMX-1	3/2/2010	2,200,000	27.3	7.3	9.5%
24	FHB Kona Property	7-5-04:46 (Kona)	102,627	CV-10	9/14/2009	5,610,000	26.5	5.5	8.8%
25	Maui Country Club - Golf	3-8-01:71	59,111	Interim/R-3	12/16/2008	3,545,000	95.0	7.0	7.3%
26	Ocean Resort Hotel Waikiki	2-6-27:07	10,006	Resort M/U	3/25/2008	2,900,000	34.8	9.8	7.5%

[1] Lessee has four, 5-year options to extend.





IRRs from Hawaii Leased Fee Sales and National Surveyed Results



Despite variability in the data, Hawaii rates appear to have trended down since late 2009/early 2010. Average investment yields for broad property types from national surveys suggest a similar trending downward, although the reduction is not as steep as that suggested by Hawaii yields. The national data indicates recent yields of about 150 basis points lower since late 2009/early 2010.

The three most recent Hawaii transactions were to investors and indicate yields of between 6.5% and 7.5%. In the past, the lower bound was considered to be associated with unique properties or motivations of lessee-purchases. However, this recent data tends to suggest that lower yields are associated with broader leased fee offerings.

Viewed collectively, leased fee yields associated with a variety of non-residential property types are not greater than 8.5%, and likely to be between 6.5% and 8.0% in the current market.

Given the alternative investment yields and the comparative risks and opportunities, a discount rate of 7.5% is considered appropriate for the leased fee investment associated with the 52.535-acre Kawela Bay portion of the Turtle Bay Resort.



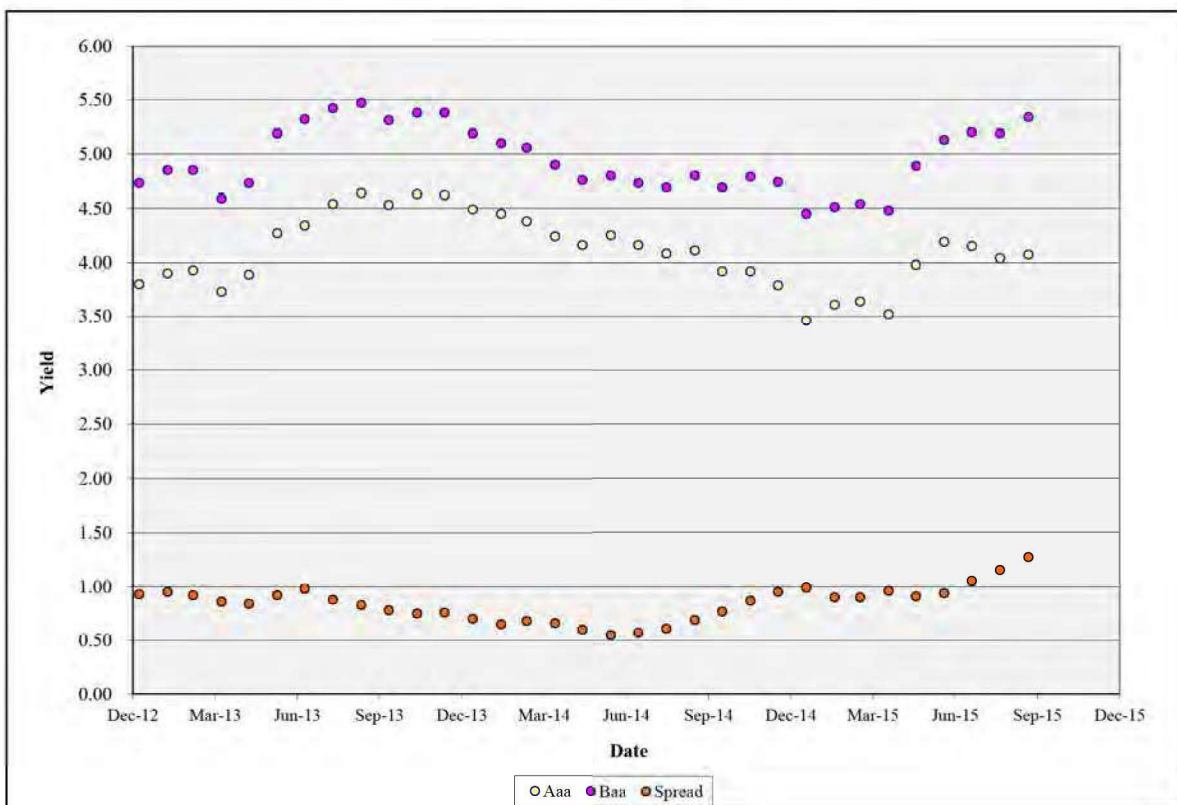
Collateral Test of Reasonableness

As a test of reasonableness, yields for Aaa and Baa-rated 30-year bonds were considered. [1]

- Aaa yields fluctuated between about 3.5% and 4.5% since January 2013. Recently, yields have trended upwards since January 2015. The yield as of September 2015 is 4.07%.
- Baa yields have fluctuated between about 4.5% and 5.5% since January 2013. The yield as of September 2015 is 5.34%.

The recent trends in Aaa and Baa yields is shown as follows:

Moody's Seasoned Aaa and Baa Corporate Bond Yields



[1] Based on data from Moody's Investor Services. Moody's tries to include bonds with remaining maturities as close as possible to 30 years. Moody's drops bonds if the remaining life falls below 20 years, if the bond is susceptible to redemption, or if the rating changes.



These yields reflect no appreciation opportunity. At a 3% annual appreciation rate assumption, current yields for Moody's Aaa and Baa 30 year bonds would be about 7.2% and 8.5%, respectively.

As a result, bond yields would support a range of discount rates generally consistent with the yields based on sales of leased fee interests in commercial and industrial properties.

**PRESENT VALUE OF PROJECTED
INCOME STREAM AND REVERSION**

Using a discount rate of 7.5%, the present value of the income stream and reversionary interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort is estimated to be \$2,950,000, as shown in Exhibit V-B.

**ESTIMATED MARKET VALUE
OF THE LEASED FEE INTEREST**

The market value of the leased fee interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort is estimated as the present value of the projected income stream and reversionary interest.

Based on the preceding analyses, the market value of the leased fee interest in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort involved in the sale and leaseback, as of October 1, 2015, is estimated to be:

TWO MILLION NINE HUNDRED FIFTY THOUSAND DOLLARS
(\$2,950,000).



PRESENT VALUE OF THE PROJECTED INCOME STREAM AND REVERSION
(Using a 7.5% Discount Rate)

<u>From</u>	<u>To</u>	<u>Number of annual periods</u>	<u>Annual rent per period</u>	<u>Discount factor</u>	<u>Present value</u>
<i>Present value of the income stream:</i>					
11/1/2015	10/31/2080	65	\$480.00	14.2031	<u>\$6,817</u>
<i>Estimated present value of the reversion:</i>					
Estimated current land value					47,320,000
Projected annual appreciation to end of lease					<u>6.8300</u>
Estimated value at reversion					323,195,600
Present value factor					<u>0.0091</u>
Present value of land at reversion					<u>2,941,080</u>
Present value of the income stream and reversion, rounded					<u><u>\$2,950,000</u></u>

VI – ESTIMATED MARKET VALUE OF THE SALE AND LEASEBACK



The market value of the proposed sale and leaseback of the 52.535-acre Kawela Bay portion of the Turtle Bay Resort is estimated as the difference in market values of the fee simple and leased fee interests in this portion of the Turtle Bay Resort.

Based on the valuation analyses presented in Sections IV and V, the market values of the fee simple and leased fee interests in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort, as of October 1, 2015, are estimated to be as follows:

Estimated Market Values of the Fee Simple and Leased Fee Interests	
	<u>Estimated market value</u>
Fee simple interest	\$47,320,000
Leased fee interest	<u>2,950,000</u>
Difference	<u><u>\$44,370,000</u></u>

As a result, the market value of the proposed sale and leaseback, being the difference between the market values of the fee simple and leased fee interests in the 52.535-acre Kawela Bay portion of the Turtle Bay Resort, as of October 1, 2015, is estimated to be:

FORTY FOUR MILLION THREE HUNDRED SEVENTY THOUSAND DOLLARS
(\$44,370,000).

CERTIFICATION



We certify, to the best of our knowledge and belief:

- Reported statements of fact are true and correct.
- Reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and legal instructions, and are our unbiased professional analyses, opinions, and conclusions.
- We have no present or prospective interest in the property appraised, and we have no personal interest or bias with respect to the parties involved.
- Within the past three years, we have provided real estate appraisal and/or consulting services relating to an ownership interest in the property that is the subject of this report and have informed the client prior to acceptance of this assignment.
- Our engagement was not contingent upon developing or reporting predetermined results.
- Our compensation is not contingent on the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event and is not contingent on an action or event resulting from the analyses, opinions or conclusions in, or use of, this report.
- The appraisal was made and the appraisal report prepared in conformity with the Uniform Appraisal Standards for Federal Land Acquisitions and the Uniform Standards of Professional Appraisal Practice.
- Reported analyses, opinions, and conclusions were developed, and this report conforms with the requirements of the Standards of Professional Appraisal Practice and Code of Professional Ethics of the Appraisal Institute and American Society of Appraisers (ASA), and the use of this report is subject to the requirements of these professional organizations relating to review by its duly authorized representatives.
- The State of Hawaii has a Real Estate Appraiser Certification program. As of date of this report, Paul D. Cool, MAI (CGA-71) is a certified general appraiser in the State of Hawaii.
- As of the date of this report, Paul D. Cool, MAI has completed the requirements of the continuing education program of the Appraisal Institute.
- Paul D. Cool made a personal inspection of the appraised property which is the subject of this report.
- No one other than the undersigned prepared the analysis, opinions, and conclusions in this report.
- Elizabeth Tang provided significant professional assistance in relation to market trends and data.
- In my opinion, as of October 1, 2015, the market values of the fee simple and leased fee interests in the 52.545-acre Kawela Bay portion of the Turtle Bay Resort involved in the proposed sale and leaseback are estimated to be \$47,320,000, and \$2,950,000, respectively. The difference between the two market value estimates is \$44,370,000.

JOHN CHILD & COMPANY, INC.

Paul D. Cool, MAI, CRE
Vice President
Certified General Appraiser License No. 71
State of Hawaii
Expires December 31, 2015

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 E

- 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.

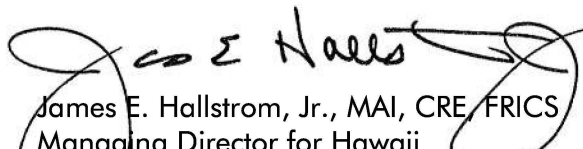
Subject Property Purchase Price

- 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 2nd 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