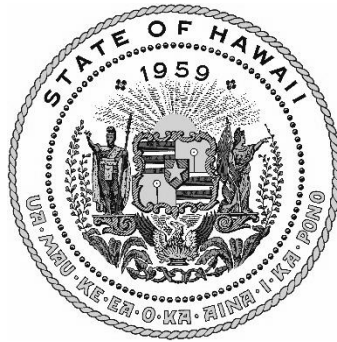


REPORT TO THE TWENTY-EIGHTH LEGISLATURE
STATE OF HAWAII
2016 REGULAR SESSION

RELATING TO THE ACQUISITION OF ALI 'I PLACE



Prepared by:
DEPARTMENT OF LAND AND NATURAL RESOURCES
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State of Hawaii

In response to:
Act 183, Session Laws of Hawaii 2015

November 2015

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PURPOSE

Act 183, Session Laws of Hawaii (SLH) 2015, requires the Department of Land and Natural Resources (DLNR) and the Department of Accounting and General Services to provide a report to the Legislature for the 2016 Regular Session on the progress made in regard to conducting due diligence for a transaction to acquire the leasehold interest in and the building referred to as "Ali'i Place" on land identified as Tax Map Key (TMK) no. (1) 2-1-017:008. The Legislature appropriated \$500,000 in general revenues or so much as may be necessary for Fiscal Year (FY) 2015-2016 to pay for costs in connection with such acquisition.

Act 183 took effect on July 1, 2015. On or about July 7, 2015, DLNR submitted a Request to Release and Expend the full \$500,000 appropriation to the Department of Budget and Finance and the Governor for review and approval. On or about August 12, 2015, DLNR received the approval of the Department of Budget and Finance and Governor for release and expenditure of up to \$450,000.

DUE DILIGENCE

Section 171-30, Hawaii Revised Statutes (HRS), requires an appraisal of the fair market value of the private real property or interest therein to be acquired. DLNR underwent the state procurement process to hire a licensed real estate appraiser for this purpose.

DLNR's Land Division's notice of its procurement solicitation for FY 2016-2017 was published on May 17, 2015. Ten submissions by appraisers were timely received. Pursuant to Section 103D-304(c), HRS, a review committee appointed by DLNR Chairperson Suzanne Case reviewed and evaluated all submissions from real estate appraisers who timely submitted statements of qualifications and expressions of interest, and prepared the list of qualified persons to provide appraisal services for Land Division. The Review Committee found all ten applicants to be qualified.

When an appraisal is required, all appraisers on the qualified list will be evaluated for the job in accordance with the requirements of subsections (e) and (f) of Section 103D-304, HRS, by a selection committee appointed by Chairperson Case. Although the statute requires that a minimum of three persons be ranked, the selection committee will likely rank all of the qualified appraisers (and in any event will at least rank the top three qualified appraisers). The selection criteria provided in subsection (e), in descending order of importance, are:

- (1) Experience and professional qualifications relevant to the project type;

- (2) Past performance on projects of similar scope for public agencies or private industry, including corrective actions and other responses to notices of deficiencies;
- (3) Capacity to accomplish the work in the required time; and
- (4) Any additional criteria determined in writing by the selection committee to be relevant to the purchasing agency's needs or necessary and appropriate to ensure full, open, and fair competition for professional services contracts.

In accordance with Section 103D-304(g), HRS, the selection committee will send its ranking to the Chairperson for approval. If approved, pursuant to Section 103D-304(h), HRS, Land Division staff (as the Chairperson's designee) will contact the first-ranked appraiser and negotiate a contract in writing, to include a rate of compensation that is fair and reasonable. If a satisfactory contract cannot be reached with the first-ranked appraiser, negotiations will be formally terminated and negotiations with the second ranked appraiser will commence. (The process will continue down the list of the ranked appraisers if necessary.) Section 103D-304(h), HRS, also provides that negotiations shall be conducted confidentially.

For appraisal services for Ali'i Place, appraisers on the list of qualified appraisers were ranked by a selection committee on August 18, 2015. The highest ranked appraiser was James E. Hallstrom, Jr. of The Hallstrom Group/CBRE, Inc. The ranking was approved by the Chairperson on August 18, 2015. Discussions were conducted with Mr. Hallstrom and his company.

DLNR issued a contract for appraisal services and a Notice to Proceed on September 18, 2015, to James E. Hallstrom, Jr., through The Hallstrom Group/CBRE, Inc. The scope of the appraisal services to be provided is as follows:

- (1) Determine the fair market value, as of the date of the appraisal report, of the leasehold and any other interests in and improvements upon TMK no. (1) 2-1-017, Parcel 8 held by Bristol Alii Holdings, LLC, pursuant to Act 183, SLH 2015 and Section 171-30, HRS, for possible acquisition by the State of Hawaii.
- (2) Determine the fair market value, as of the date of the appraisal report, of the County of Honolulu's leased fee interest in the land and building (if any), identified and designated as TMK no. (1) 2-1-017, Parcel 8 and upon which the building known as "Ali'i Place" is situated, pursuant to Section 171-30, HRS, for possible acquisition by the State of Hawaii from the City and County of Honolulu.
- (3) Have a property condition report of the improvements completed for use in this assignment. The Hallstrom Group/CBRE, Inc., will select its own subcontractor for this report.
- (4) Estimate the value of the Ali'i Place office building by Replacement Cost Analysis. This study is intended to be a supplement to a separately quoted market value appraisal of the leasehold and leased fee interests in the subject property. The value by Replacement Cost Analysis will provide the basis upon which to evaluate the

opportunity cost of purchasing the existing building versus acquiring a site and constructing a building of equal quality and utility. The Hallstrom Group/CBRE, Inc., will select its own subcontractor for this analysis.

Opportunity cost is defined as the cost of options forgone or opportunities not chosen. (The Dictionary of Real Estate Appraisal, Fifth Edition, Appraisal Institute, 2010).

(5) Consultation and other appraisal services as may be subsequently needed in connection with items nos. (1), (2), (3), and (4) above.

DLNR intends to open discussions with the leaseholder Bristol Alii Holdings, LLC, as soon as the appraisal report has been completed.¹ DLNR is optimistic that the appraisal report will be completed within 60 to 75 days from the issuance of the Notice to Proceed. The appraisal report will be made available to the Legislature for its 2016 Regular Session.

¹ “Completed” in the sense that the appraiser’s final report has been received, reviewed and accepted by DLNR, which does take some time.