

## REQUEST FOR ACTION

<b>To</b>	The Collection Board of Directors				
<b>Subject</b>	Modify to non-residential GM system				
<b>Preparer</b>	Wei-Kung Wang, Henry Lew, and Edison Ting				
<b>Date</b>	5/25/2019	<b>For Board</b>	x	<b>Action</b>	<b>Info</b>

### EXECUTIVE SUMMARY

In August 2017, the Collection's AOOU purchased the following from the developer: (a) a 3-bedroom unit (#401) with two parking stalls at \$768,000 for the use of residential GM, (b) two parking stalls at \$90,000, and (c) two storage rooms at \$134,000 for general use. At a combined cost of **\$998,000** (including closing cost), the AOOU financed the purchase through a loan of \$992,400 from Bank of Hawaii (BOH). The term of the loan is 15 years, beginning August 8, 2017. The beginning interest rate is 3.87% for the first 10 years and then at a rate equal to the then prevailing rate for similar commercial loans for similar borrows at the BOH, which is expected to be much higher than the beginning rate. **The current loan payment is \$5,168 per month, totaling \$62,016 per year.**

During the executive session of the Board meeting on 4/25/2019, the Board had a candid discussion on the cost associated with this matter. The information provided by our attorney was that the residential GM system is not a requirement. We have found successful examples of well-managed high-end condominiums by non-residential GM system in Honolulu.

### RECOMMENDATION

Modify from residential GM system to non-residential GM system.

### RATIONALE

**Changing to non-residential GM system would bring significant money-savings for the AOOU.** The current 3-bedroom unit #401 and its two parking stalls could be rented out with an estimated \$4,500 income per month, totaling \$54,000 per year, which could be used to cover part of the current loan payment.

In our current GM system, we're already functioning as a non-residential system by our existing GM working a fixed 8-hour schedule with no visible presence or business-related communications after hours. In the past two years, the documented events after work hours could be handled by well-trained resident specialists, and if needed, by the non-residential GM on-call. If the GM is called or required to report to duty after hours, the GM would be reimbursed accordingly. As needed, further detail of this arrangement can be decided by the Board.

The interest rate of our current loan (\$992,400 from BOH) is 3.87% for the first 10 years (till August 2027) followed by a balloon interest rate. The term is 15 years on a 25-year amortization schedule, which means that there will be a balloon payment that

the AOOU will either have to refinance or make higher monthly payments to fully amortize the loan by maturation or payoff at maturity (**Exhibits A and B**). If we start the non-residential GM system now while renting out rather than selling the unit #401, this would provide us an opportunity and time window to evaluate the performance of non-residential GM system at the Collection before 2027. If the non-residential GM system functions as expected, then we could either refinance, or sell the unit #401 by August 2027 to avoid the balloon interest rate then.

A comparison of GM salary of comparable condo in Honolulu is attached (**Exhibit C**).

Request of 2019 salary survey data from HMC is attached (**Exhibit D**).

<b>Exhibits</b> (If applicable)	<b>Index</b>	<b>Title</b>
	A	E-mail clarification about our loan from CPA Ratna Nuti (5/17/2019).
	B	Page 2 of the Q and A loan document from the Collection (5/2017)
	C	Comparison of GM salary of comparable condo in Honolulu (Residential GM and Non-Residential GM systems)
	D	Request of 2019 salary survey data from HMC (Non-Residential GM)

<b>FOR BOARD USE ONLY</b>						
<b>CERTIFICATE OF BOARD ACTION</b>						
X	Approved		Declined		Noted	
					Returned	
					Deferred	
					Withdrawn	
<b>Stipulations</b>						
<b>Coordinating Instructions</b>						
<b>Distribution Instructions</b>						
Recording Secretary	Desmond Oliveira			Action Date	06/17/19	RFA No. 22-2019

**Exhibit A:** E-mail clarification about our loan from CPA Ratna Nuti (5/17/2019).

Page 7: 6. "The term of the loan is 15 years.....for the next 5 years". I have checked with Debi, the term of the loan is 25 years. So for the next 15 years, we will pay high interest rates. Please correct these numbers.

The term of your loan is 15 years. Please see attached the Credit Agreement with the bank. The loan matures on August 8, 2032, that is 15 years. However, the payments are being made on a 25 year amortization schedule. This means at the maturity of the loan, there will be a balloon payment that the Association will either have to refinance or make higher monthly payments to fully amortize the loan by maturity or payoff at maturity. Please review the attached credit agreement and let me know if you have other documents that I did not get. Please see page 2, Section 1.04 b ii.

## Exhibit B: Page 2 of the Q and A loan document of the Collection (201705)

Q: Are the results of the vote confidential?

A: Owners will be notified of whether the vote passed or failed and the % of yes and no votes. The results are not confidential; owners can request to review the Association documents in accordance with the process defined in State Law.

Q: Can you explain what a 15 year term loan, amortized over 25 years with interest fixed at 3.87% for the first 10 years which adjust every 5 years thereafter mean? After the 15 years is there a balloon payment due at the end of the 15 years? After the first 10 years, shouldn't there be only 5 years left?

A: At the end of year 10, the interest rate will reset for the remaining 5-years at the current indicative 5-year fixed rate. The monthly payments will adjust based on the current balance at that time, the new 5-year fixed rate, and the remaining 15-year amortization.

**\$705K: loan with 5% interest X15 years= \$1233.75K= \$82.25K per year**

Yes, after the first 10 years, there are only 5 years left. Yes, there will be a balloon payment remaining at the end of the 15 years. The Board will then have to decide whether to pay off the remaining amount owed or refinance.

The estimation of the balloon payment at the end of year 10 would be approximately \$705,000.

**\$705K: loan with 6% interest X15 years= \$1339.5K= \$89.3K per year**

As the rate is going to change at the end of year 10, it cannot be predicted what the balloon payment will be at the end of year 15. However, for discussion sake, if the rate were to remain the same for the additional 5 years of the term, the balloon payment at the end of year 15 would be approximately \$514,000.

The Board can consider putting away additional funds each year in order to be able to pay off the loan in 10 or 15 years, subsequently avoiding the increased rate after 10 years and the balloon payment after 15 years. The Board can also consider making additional principal payments during the term of the loan in preparation for the 10 and 15 year milestones.

Q: Who are the other 2 lenders of the competitive proposals received by the Board, besides BOH?

A: American Savings Bank and First Hawaiian.

Q: Why purchase storage units?

A: The storage units will be used for a variety of attic stock left over from construction and items such as rec deck pavers, extractors, blowers, wet vacs, uniforms, holiday decorations, wood decking, lighting parts, exterior window glass and decorative stone pieces could be stored and costly future purchase avoided. Some of these items do need storage to be stored in a dry enclosed environment. Yes, the storage units (and parking stalls) can be sold to pay down the principal of the loan.

Q: Is there an option not to purchase the storage rooms?

A: There was an option to not purchase the storage rooms; the Board decided to purchase.

Q: Why purchase parking stalls?

A: The parking stalls may be utilized for additional employee parking, visitor parking, rental parking, or to temporarily relocate residence parking during emergencies, repairs etc. or, a combination of these.

Q: Can we get a better rate with 20% down? Can we get the 20% (\$198,480) from our Cash Reserve? This reduces the Monthly Payment to \$4,111 and the balance due after 10 years of minimum payments is approximately \$562,000.

A: Yes, 20% option was available but the Board selected the option presented. At this point, if the key terms of the loan were to be changed, a new vote would have to be obtained from the ownership.

Q: What is the breakout of the cost for each item; Unit 401, each parking space, each storage unit.

A: Unit 401 - \$768,000 (2 stalls and 2 storage are assigned to the unit); Parking Spaces - \$90,000 (\$45,000 each); Storage units - \$134,400 (\$67,200 each)

**Exhibit C: Comparison of GM salary of comparable condo in Honolulu**

	Years of experience as GM /as of now	GM salary	Notes
<b>Residential GM system</b>			
Honolulu Park Place (437 units)		\$92,000 + bonus	
Keauhou Place (423 units)	10+/12+ years	\$90,000 + bonus	
Symphony Honolulu (388 units)		\$125,000 + bonus	
Waihonua (345 units)		\$108,150 + bonus	
The Collection (456 units)	0/3 years	\$96,849 + bonus	Based on 2019 budget
<b>Non-Residential GM system</b>			
Watermark 1551 Ala Wai	30+ years	\$85,586	\$55,650 - \$108,654 (from HMC)
Uraku Tower		\$100,303	\$85,902 - \$118,820 (from HMC)
Nauru Tower		\$130,000	Plus \$10,000 for housing and additional allowances (from HMC)



## 2019 Salary Survey

Please complete this form to request your salary survey data. We will provide the Maximum, Minimum and Average base salary according to your selections below.

<b>Requested By (ME):</b>	Debi Balmilero
<b>The information is needed by:</b>	asap
<b>Date and Time Requested:</b>	5/15/19 1:18 PM

1. Properties (AOAO) Comparable to **The Collection**

**OR** select from ALL THREE of the following property characteristics:

Category	1:	X	2:	X	3:	X	4:	X
Building Type:	Budget		Moderate		Luxury			
Classification:	HiRise		LowRise		Townhouse		Single Fam	
No. of Units:	<50		50-99		100-249		300+	

\*\*The Board would like to compare General Managers at buildings that do not have live in management:

Similar to

1. Nauru Tower
2. 1551 Ala Wai

And 3 more comparable properties in the town area

2. Job Title:	X	AVE	MAX	MIN	HR/SALARY
1. GENERAL MANAGER	X	100,303	118,820	85,902	

They would like salary rates and any compensation packages for these properties.



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2. Job Title:	X	AVE	MAX	MIN	HR/SALARY
GENERAL MANAGER	X	85,586	108,654	55,650	

They would like salary rates and any compensation packages for these properties.