

## REQUEST FOR ACTION

<b>To</b>	Ad-Hoc Committee/Board			
<b>Subject</b>	A & B Offer			
<b>Preparer</b>	Chair, Task Force of the Ad-Hoc Committee for the A&B Offer			
<b>Date</b>	March 16, 2017	<b>For Board</b>	x	<b>Action</b>
				<b>Info</b>

### EXECUTIVE SUMMARY

#### A. The AOOU of The Collection

The AOOU of The Collection (“AOOU”) consists of 397 - Residential Tower Units, 54 - Midrise or Loft Units and 4 – Commercial Units, or 455 – Units in aggregate.

#### B. A& B Properties Offer

On February 13, 2017, A&B Properties (“A&B”) offered to sell AOOU: (1) Tower Unit 401 for \$768,000; (2) Tower Parking Stalls No. 3088 and 6102 for \$90,000; and (3) Tower Storage Rooms No. S416 and S616 for \$134,400, or collectively \$992,400. A&B’s offer is contingent on: (1) there being no broker commissions; (2) 60 days closing from contract, subject to reasonable extensions (assume not to exceed 30 additional days); (3) 10% deposit on contract with additional 5% due within 30 days; and (4) No financing contingencies. See Exhibit A

#### C. Ad-Hoc Committee

On February 21, 2017, the AOOU Board appointed and approved an Ad-Hoc Committee (“Committee”) to review, decide, and execute documents for the purchase of the unit, storage, and parking (in whole or part). It was further stipulated that the Ad-Hoc Committee would be chaired by Howard Kam, Jr. and consist of all board members, except Sandra Billington and Sun Kim (employees of A&B and recusing themselves). Chair Kam solicited the assistance of board members Ken Shimada, Lee Cranmer and Ryan Kamo to serve on the Task Force to: (1) study and evaluate A&B’s offer; (2) secure tentative financing options from three local banks; (3) study and evaluate the need and feasibility of the AOOU’s accepting A&B’s offer (in full or in part); (4) consult with Hawaiiana to secure at least 50% unit owners approval to finance the acquisition of Tower Unit 401, Tower Parking Stalls No. 3088 and 6102 and/or Tower Storage Rooms No. S416 and S616; and (5) provide its findings to the Ad-Hoc Committee.

#### D. Findings of the Task Force

1. A&B Offer. Tower Unit 401 is a 3 bedroom/2 bath unit with in unit storage locker consisting of 1,326 square feet (larger than the typical 01 unit consisting of 1,133 square feet), assigned parking stalls no. 4098 & 4099 and locker no L445. The General Manager currently resides in the unit and the AOOU is renting it from A&B at \$4,000 per month on a month-to-month basis (inclusive of the monthly maintenance fee of \$1,094 per month). Tower Parking Stalls No. 3088 and 6102 are in addition to the two parking stalls assigned to Tower Unit 401. Tower Storage Rooms No. S416 consist of 112 square feet and S616 consist of 116 square feet.

The probable value of Tower Unit 401 is approximately \$988,000 (1,326 sf x an average comparable square foot value of \$744.78). See Exhibit B, which was used to arrive at the average comparable square foot value of \$744.78 for similar 3 bedroom sales at The Collection, Keola Lai, Pacifica and Moana Pacific. A&B has indicated that it would probably list the unit for \$1,035,000. Additionally, A&B mentioned that they sold Tower Unit 501 for \$815,664 in May 2014 and Tower Unit 601 for \$821,328 in August 2013. Recent re-sales of Tower units appear to be approximately \$200,000 higher than the units original purchase price, which would result in Tower Units 501 and 601 being slightly over \$1,000,000+ today.

2. Tentative Financing. American Saving Bank, Bank of Hawaii and First Hawaiian Bank are interested in financing the above acquisition and submitted their tentative financing term sheet. American Saving Bank offered 80% financing over 15 years with 0% fee at 3.25% fixed or 30 years with 0% fee at 4.125% fixed, see Exhibit C. First Hawaiian Bank offered 80% financing over 10 years with .50% fee at 3.75% during the first 5 years and market thereafter or 4.125% during the first 7 years and market thereafter, or 30 years with 1.75% fee at 4.25% fixed, see Exhibit D. Bank of Hawaii offered 100% financing over 15 years with 25 year amortization with \$250 fee at 3.87% fixed in the first 10 years and market thereafter in five year increments, or 80% financing over 30 years with 1.125% fee at 3.75% fixed or .50% fee at 3.875% fixed, see Exhibit E.

### 3. Need & Feasibility

#### a. Tower Unit 401 for \$768,000

(1). Need. There is a need for the AOOU to acquire Tower Unit 401 to fulfill its customary employment obligation with the General Manager, who is required to reside on property. Additionally, the purchase of the unit enables the AOOU to provide the General Manager with a mutually beneficial employment incentive valued at approximately \$6,000 today (\$4,000 lease value grossed up). More importantly, the Ten-Year Net Present Value Lease v. Buy Analysis ("Analysis") prepared by Board & Task Force Committee Member Ken Shimada clearly supports the proposition that the AOOU should purchase Tower Unit 401 under the various financing options provided by American Saving Bank, Bank of Hawaii and First Hawaiian Bank. As the Analysis indicated that the NPV of continuing to lease the unit over ten-year period is approximately \$1,188,000, whereas NPV of purchasing the unit under the various financing options are approximately \$658,000 to \$704,000, see Exhibit F.

(2). Feasibility. The purchase of Tower Unit 401 is well within the reach of the AOOU, if we elect an 80% financing arrangement with a 20% down payment of \$153,000 (\$768,000 x 20%) or Bank of Hawaii's 100% financing arrangement at approximately 4% interest per annum. As Jon Mckenna reported that the AOOU will have a cash balance of approximately \$890,000 after reimbursing A&B for expenses it incurred on our behalf, and budgeted receipts are about \$410,000 per month as compared to budgeted disbursements of about \$381,000 per month. Alternately, the Board may wish to consider a special assessment which would roughly equate to \$1,688 per unit ( $\$768,000 \div 455$  units) and avoid the need to secure 50% or more owners' approval to finance the purchase of Tower Unit 401.

b. Tower Storage Rooms S416 & S616 for \$134,400

(1). Need. The AOOU has 1,422 square feet of storage space located throughout the property. Acquiring Tower Storage Rooms S416 & S616 would provide us with additional on property storage capacity of 228 square feet or 16%, and increase our storage capacity to 1,650 square feet for an AOOU that serves 455 condo units, see Exhibit G. Management request that the AOOU acquire at least one of the additional storage rooms which is easily accessible in the parking structure to store our attic stock (windows) that is currently stored offsite. The other storage room is not essential but would serve the current and future needs of the AOOU, especially since A&B is offering both storage rooms at a price equivalent to that which was offered the owners.

(2) Feasibility. The purchase of the two storage rooms are well within the reach of the AOOU, if we elect an 80% financing arrangement with a 20% down payment of \$26,880 ( $\$134,400 \times 20\%$ ) or Bank of Hawaii's 100% financing arrangement at approximately 4% interest per annum. Alternately, the Board may wish to consider a special assessment which would roughly equate to approximately \$295 per unit ( $\$134,400 \div 455$  units) and avoid the need to secure 50% or more owners' approval to finance the purchase of Tower Storage Rooms S416 and S616.

c. Tower Parking Stalls 3088 & 6102 for \$90,000

(1). Need. The AOOU currently does not own parking stalls that it may use at its discretion, see Exhibit G. Management has indicated that the acquisition of the two Tower Parking Stalls would provide it with the ability to: (i) temporarily relocate residence parking during emergencies or repairs, etc.; and (ii) provide a parking fringe for key AOOU employees, especially where available parking in Kaka'ako becomes restricted with further development in the future.

(2) Feasibility. The purchase of the two parking stalls are well within the reach of the AOOU, if we elect an 80% financing arrangement with a 20% down payment of \$18,000 ( $\$90,000 \times 20\%$ ) or Bank of Hawaii's 100% financing arrangement at approximately 4% interest per annum. Alternately, the Board may wish to consider a special assessment which would roughly equate to approximately \$198 per unit ( $\$90,000 \div 455$  units) and avoid the need to secure 50% or more owners' approval to finance the purchase of Tower Parking Stalls 3088 & 6102.<sup>1</sup>

4. Securing 50% or More Owners Approval Process. Jon McKenna at Hawaiiana advised that the AOOU processes are, in part, as listed below:

a. Committee completes analysis of options and reaches a decision to purchase, including financing option [*Suspense Date of March 23, 2017*];

b. Committee enters into a Purchase & Sale Agreement with [or without]<sup>2</sup> financing contingency [*Suspense Date of March 31, 2017*];<sup>3</sup>

<sup>1</sup> Note that the AOOU could sell the storage rooms and parking stalls should the need arise or it is subsequently determined that they are not needed.

<sup>2</sup> A&B Offer specifically states "No financing contingencies," and accordingly, not sure if A&B would counter with a revised sales price.

c. Committee engage AOUO attorney to create owners correspondence and ballot in collaboration with Hawaiiana [Suspense Date of March 31, 2017];<sup>4</sup>

d. Committee to review owners correspondence, ballot and authorize mail out [*Suspense Date of April 8, 2017*];

e. Board conduct an informational “Town Hall Meeting” to inform owners of the Committee’s decision, rationale, and next steps [*Suspense Date of April 23, 2017*];

f. Hawaiiana mail-out and track responses; follow-up mail outs every 3-4 weeks to non-respondents until a majority vote is secured with General Manager’s assistance;

g. Committee executes loan application and secures loan commitment upon receipt of majority owners approval to finance the purchase;<sup>5</sup> and

h. Committee with assistance from Hawaiiana secure loan commitment, open escrow and completes the purchase.

#### **RECOMMENDATION**

The Task Force of the Ad-Hoc Committee of A&B Offer strongly recommends that the Ad-Hoc Committee/Board:

1. Accepts A&B’s offer of February 13, 2017 to purchase Tower Unit 401 at \$768,000, Tower Storage Rooms S416 & S616 at \$134,400 and Tower Parking Stalls 3088 & 6102 at \$90,000 pursuant to the terms as provided.<sup>6</sup>

2. Elect to finance the purchase through Bank of Hawaii under Option A (100% financing) or B (80% Financing) of its Credit Accommodation Letter, dated February 24, 2017.<sup>7</sup>

#### **RATIONALE**

<sup>3</sup> See. Section 3.2.13 of the Bylaws, subject to the prior opinion of counsel Board may purchase unit for resident manager and other units.

<sup>4</sup> See. Section 3.2.17 of the Bylaws, subject to the prior opinion of counsel Board may borrow for the benefit of the Association; see also, Section 6.23 of the Bylaws.

<sup>5</sup> See. Section 2.5.6 Majority of Unit Owners, “As used in these Bylaws, the term “Majority of Unit Owners” shall mean Owners of Units to which are appurtenant more than fifty percent (50%) of the Common Interest.”

<sup>6</sup> See. Exhibit A.

<sup>7</sup> See. Exhibit E.

The Task Force rationale for its recommendations are as noted below.

1. As to accepting A&B' offer-

a. Customary for HOA's to own their resident manager's unit, and the NPV Lease v. Buy Analysis clearly supports the "financed buy" versus "lease" alternative;

b. The additional storage rooms and parking will enable the AOOU to better fulfill its mission;

c. A&B's onetime opportunity offer for Unit 401 is below market, and the storage rooms & parking units are equivalent to their original list price;

d. Existing financing terms and conditions are extremely favorable;

e. The AOOU has sufficient funds to make the 20% down payment; and

f. The AOOU has the option of selling the unit, storage and parking at a potential profit, if deemed appropriate in the future.

2. As to Bank of Hawaii Credit Accommodation-

a. Option A, would preserve the AOUA's outlay of funds if the Board has concerns with the operating budget and there is need to preserve cash. As the interest portion of the P&I (including the additional storage and parking stalls) from the onset would be relatively close (approximately \$3,200 vs \$2,900) to the current lease payments net of CAM. However, there are future financing risks after the first ten years (e.g., rates and owners issues).

b. Option B, would put an approximately \$200,000 dent into the AUOA's current cash balance which is approximately \$890,000, and current budget receipts is expected to exceeds budgeted disbursement by approximately \$29,00 per month (\$410,000 - \$381,000).

Exhibits (If applicable)	Index	Title
	A	A&B Properties Offer
	B	Comparative Property Analysis
	C	American Savings Bank Term Sheet
	D	First Hawaiian Bank Term Sheet
	E	Bank of Hawaii Term Sheet
	F	NPV Lease v. Buy Analysis
	G	Parking & Storage Assessment
	H	Owners' Comments
	I	Subsequent Owner Inquiry

**FOR BOARD USE ONLY**

**CERTIFICATE OF BOARD ACTION**

x	Approved		Declined		Noted		Returned		Deferred		Withdrawn
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**Stipulations**

On March 23, 2017, the Ad-Hoc Committee approved the above recommendation to accept A&B's offer of February 13, 2017 to purchase Tower Unit 401 at \$768,000, Tower Storage Rooms S416 & S616 at \$134,400 and Tower Parking Stalls 3088 & 6102 at \$90,000 pursuant to the terms as provided therein.

With the stipulation that the purchase be 100% financed through Bank of Hawaii under Option A of its Credit Accommodation Letter, dated February 24, 2017.

**Coordinating Instructions**

**Distribution Instructions**

Recording Secretary	Howard Kam, Jr.	Action Date	3.23.17	RFA No.	006-2017
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## Jon Mckenna

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**From:** Stack, Rick at A&B <rstack@abprop.com>  
**Sent:** Monday, February 13, 2017 1:58 PM  
**To:** Jon Mckenna  
**Cc:** Billington, Sandra at A&B; 'Al Guzman'  
**Subject:** Collection 401 unit pricing

Jon,

As requested, the pricing and terms for the unit, parking and storage are as follows:

Unit 401	\$768,000
Parking (3088 and 6102)	90,000
Storage (S416 and S616)	<u>134,400</u>
Total	\$992,400

Terms:

No broker commissions  
60 days to close from contract (we'll be flexible on this)  
10% deposit on contract, additional 5% after 30 days  
No financing contingency

I understand that you will need to obtain approval of 50% of the owners to borrow funds for this purchase. If the board desires to move forward, I recommend starting this process immediately, along with applying for financing. When the owners' approval is achieved, we can sign the contract.

Please let me know if you have questions.

Thanks,

Rick

Land Status	MISC	Price	Original Price	\$ Change	% Change	Region	Neighborhood	Building	Address	City	ZIP	Parcel Number	Sold Price	Sold Date	Sold Ratio	Orig. Ratio	Beds	Bath	Living Sq Ft	Average Living Sq Ft	Living/Fatting	Lumal Yrs	Floor Yrs	Remodeled	Ult. Date	Days Condition	Tax	Maint. Assoc.	Other			
Sold	20162060	\$850,000	\$880,000	(\$30,000)	-3.41%	Metro	Kalihi	Moana Pacific	1256 Kapiolani Boulevard II 2008	Honolulu	96814	1-2-3-010-028-0543	\$850,000	01/20/17	100.00%	103.53%	3	2	1,206	\$704.81	2	42 Yrs	28	2007	08/23/16	107	\$221	\$930	\$0	50	Cable TV, Internet Service, Sewer, Water	
Sold	20162063	\$1,117,000	\$1,195,000	(\$78,000)	-6.94%	Metro	Kalihi	The Collection	600 Ala Moana Boulevard 3301	Honolulu	96814	1-2-3-010-041-0288	\$1,150,000	01/17/17	96.23%	103.91%	3	2	1,133	\$1,015.00	2	107 Yrs	31	2011	12/07/16	111	\$37	\$965	\$0	50	Cable TV, Internet Service, Sewer, Water	
Sold	20161912	\$850,000	\$859,000	(\$9,000)	-1.06%	Metro	Kalihi	Moana Pacific	1288 Kapiolani Boulevard 2009	Honolulu	96814	1-2-3-010-028-0108	\$816,500	01/13/17	98.37%	105.21%	3	2	1,206	\$677.03	2	42 Yrs	20	2007	07/21/16	131	\$186	\$930	\$0	50	Cable TV, Internet Service, Sewer, Water	
Sold	20162986	\$815,000	\$947,000	(\$132,000)	-13.94%	Metro	Kalihi	Moana Pacific	1206 Kapiolani Boulevard 1508	Honolulu	96814	1-2-3-010-028-0424	\$795,000	12/20/16	97.55%	119.12%	3	2	1,206	\$659.20	2	42 Yrs	13	2007	04/12/16	115	\$211	\$930	\$0	50	Expense, Sewer, Water	
Sold	20162918	\$1,050,000	\$1,050,000	\$0	0.00%	Metro	Kalihi	The Collection	600 Ala Moana Boulevard 4210	Honolulu	96814	1-2-3-010-028-0400	\$1,050,000	12/20/16	100.00%	100.00%	3	2	1,217	\$862.78	2	42 Yrs	4	2011	10/12/16	107	\$0	\$1,064	\$0	50	Cable TV, Internet Service, Sewer, Water	
Sold	20162274	\$980,000	\$960,000	(\$20,000)	-2.04%	Metro	Kalihi	Moana Pacific	1288 Kapiolani Boulevard II 2403	Honolulu	96814	1-2-3-010-028-0590	\$950,000	12/15/16	100.00%	101.05%	3	2	1,206	\$787.73	2	42 Yrs	44	2007	09/22/16	77	\$738	\$930	\$0	50	Cable TV, Internet Service, Sewer, Water	
Sold	20163045	\$981,921	\$981,921	\$0	0.00%	Metro	Kalihi	The Collection	600 Ala Moana Boulevard 2801	Honolulu	96814	1-2-3-010-028-0238	\$951,921	12/07/16	100.00%	100.00%	3	2	1,133	\$840.18	2	0 Yrs	28	2011	12/07/16	71	\$37	\$936	\$0	50	Cable TV, Internet Service, Sewer, Water	
Sold	20162923	\$971,170	\$0	\$971,170	-100.00%	Metro	Kalihi	The Collection	600 Ala Moana Boulevard 3810	Honolulu	96814	1-2-3-010-028-0068	\$971,170	12/07/16	100.00%	0.00%	3	2	1,133	\$857.17	2	107 Yrs	36	2011	12/07/16	76	\$40	\$1,004	\$0	50	AC Central, Cable TV, Hot Water, Internet	
Sold	20162422	\$825,000	\$825,000	\$0	0.00%	Metro	Kalihi	Moana Pacific	1288 Kapiolani Boulevard I 2308	Honolulu	96814	1-2-3-010-028-0140	\$825,000	11/22/16	100.00%	100.00%	3	2	1,206	\$684.08	2	45 Yrs	23	2007	10/04/16	104	\$273	\$930	\$0	50	Service, Sewer, Water	
Sold	20162815	\$1,075,000	\$1,075,000	\$0	0.00%	Metro	Kalihi	Pacific Honolulu	1009 Kapiolani Boulevard 4107	Honolulu	96814	1-2-3-010-028-0403	\$1,028,000	11/21/16	95.63%	104.57%	3	3	1,111	\$739.04	2	0 Yrs	11	2009	11/21/16	104	\$1,054	\$0	50	Cable TV, Internet Service, Other Common		
Sold	20162146	\$1,100,000	\$1,100,000	\$0	0.00%	Metro	Kalihi	Moana Pacific	1256 Kapiolani Boulevard 1303	Honolulu	96814	1-2-3-010-028-0689	\$1,100,000	11/02/16	100.00%	100.00%	3	2	1,206	\$912.11	2	42 Yrs	41	2007	08/17/16	101	\$245	\$930	\$0	50	Expense, Sewer, Water	
Sold	20161879	\$838,000	\$879,000	(\$41,000)	-4.78%	Metro	Kalihi	Moana Pacific	1256 Kapiolani Boulevard 2608	Honolulu	96814	1-2-3-010-028-0613	\$815,000	10/18/16	97.26%	107.38%	3	2	1,206	\$675.79	2	42 Yrs	34	2007	07/09/16	100	\$232	\$930	\$0	50	Cable TV, Internet Service, Sewer, Water	
Sold	20162574	\$1,088,700	\$1,088,000	\$700	0.06%	Metro	Kalihi	Pacific Honolulu	1009 Kapiolani Boulevard 2007	Honolulu	96814	1-2-3-010-028-0271	\$1,025,000	09/29/16	94.21%	106.15%	3	3	1,111	\$776.88	2	0 Yrs	30	2009	09/15/16	107	\$1,054	\$0	50	Service, Water		
Sold	20161158	\$849,000	\$849,000	\$0	0.00%	Metro	Kalihi	Moana Pacific	1288 Kapiolani Boulevard 1303	Honolulu	96814	1-2-3-010-028-0198	\$825,000	08/22/16	97.17%	102.91%	3	2	1,206	\$684.08	2	42 Yrs	30	2007	05/09/16	105	\$74	\$930	\$0	50	Expense, Sewer, Water	
Sold	20162246	\$729,000	\$729,000	\$0	0.00%	Metro	Kalihi	Moana Pacific	1288 Kapiolani Boulevard 1303	Honolulu	96814	1-2-3-010-028-0089	\$729,000	08/23/16	97.64%	104.04%	3	2	1,206	\$608.82	2	42 Yrs	19	2007	04/20/16	120	\$288	\$930	\$0	50	Expense, Sewer, Water	
Sold	20161654	\$729,000	\$729,000	\$0	0.00%	Metro	Kalihi	Moana Pacific	1288 Kapiolani Boulevard 1403	Honolulu	96814	1-2-3-010-028-0117	\$729,000	08/01/16	100.00%	100.00%	3	2	1,206	\$608.82	2	42 Yrs	21	2007	07/01/16	77	\$233	\$930	\$0	50	Cable TV, Internet Service, Sewer, Water	
Sold	20162019	\$825,000	\$825,000	\$0	0.00%	Metro	Kalihi	Moana Pacific	1256 Kapiolani Boulevard II 2503	Honolulu	96814	1-2-3-010-028-0509	\$800,000	06/30/16	96.97%	103.13%	3	2	1,206	\$663.35	2	42 Yrs	25	2007	03/09/16	97	\$218	\$930	\$0	50	Expense, Sewer, Water	
Sold	20162817	\$1,095,000	\$1,095,000	\$0	0.00%	Metro	Kalihi	Keolu Ltd	600 Queen Street 3029	Honolulu	96814	1-2-3-010-028-0332	\$1,150,000	05/09/16	100.00%	95.32%	3	2	1,111	\$820.26	3	96 Yrs	1	2008	04/12/16	53	\$1,113	\$0	50	Cable TV, Internet Service, Other Common		
Sold	20162071	\$919,000	\$919,000	\$0	0.00%	Metro	Kalihi	Pacific Honolulu	1009 Kapiolani Boulevard 2807	Honolulu	96814	1-2-3-010-028-0247	\$920,000	05/19/16	100.11%	99.89%	3	3	1,111	\$831.39	2	0 Yrs	21	2011	02/24/16	85	\$303	\$1,054	\$0	50	Expense, Sewer, Water	
Sold	20162034	\$828,000	\$828,000	\$0	0.00%	Metro	Kalihi	Moana Pacific	1288 Kapiolani Boulevard I 3103	Honolulu	96814	1-2-3-010-028-0207	\$851,000	04/15/16	102.78%	97.30%	3	2	1,206	\$705.64	2	0 Yrs	31	2007	02/08/16	67	\$223	\$930	\$0	50	Cable TV, Sewer, Water	
Sold	20162163	\$880,000	\$880,000	\$0	0.00%	Metro	Kalihi	Moana Pacific	1288 Kapiolani Boulevard 1303	Honolulu	96814	1-2-3-010-028-0275	\$880,000	04/11/16	100.00%	100.00%	3	2	1,204	\$730.90	2	42 Yrs	31	2007	2015	10/29/16	73	\$230	\$930	\$0	50	Cable TV, Internet Service, Sewer, Water
Sold	20157055	\$825,000	\$825,000	\$0	0.00%	Metro	Kalihi	Moana Pacific	1256 Kapiolani Boulevard 3208	Honolulu	96814	1-2-3-010-028-0577	\$810,000	03/16/16	98.18%	101.85%	3	2	1,206	\$671.64	2	0 Yrs	30	2007	10/30/15	135	\$211	\$930	\$0	50	Cable TV, Internet Service, Sewer, Water	

Average \$744.78  
Median \$705.22

# Term Loan For Discussion Purposes Only

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February 23, 2017

*This term sheet does not contain all of the material or essential terms of the proposed transaction, and further negotiations between the parties will be required before an agreement is reached. This is for discussion purposes only and does not represent a financing commitment from American Savings Bank. A financing commitment is subject to the receipt of all requested financial information, proper due diligence, and formal approval by American Savings Bank. This proposal shall not be shared or disclosed to any other person, business entity or financial institution.*

## AOUO THE COLLECTION

### This Request To Establish A Term Loan:

**Borrower:** The Borrower will be the Association of Unit Owners of The Collection (the “Borrower” or the “AOUO”), a Hawaii non-profit corporation and condominium association.

**Loan Amount:** The Loan will be in the amount of up to \$793,920.00.

**Purpose:** Loan proceeds will be used to finance up to 80% of the purchase price or appraised value, whichever is less, of unit #401 at The Collection condominium project located at 600 Ala Moana Boulevard on the island of Oahu, further identified by TMK: (1) 2-1-055-041-0008.

**Interest Rate:** During the Term of the Loan:  
Two interest rate options for a loan amount of \$793,920 are being proposed for discussion purposes only:

Option 1: 15 years @ 3.25%, fixed.

Option 2: 30 years @ 4.125%, fixed.

Please note these rates are subject to change with changes in the prevailing interest rate environment prior to the loan approval date. Other ARM options are available upon request.

**Maturity Date:** Option 1: The Loan shall mature fifteen (15) years from the date of booking.

Option 2: The Loan shall mature thirty (30) years from the date of booking.

**Amortization:** Option 1: The principal and interest payment will be amortized over fifteen (15) years.

Option 2: The principal and interest payment will be amortized over thirty (30) years.

## Term Loan For Discussion Purposes Only

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*February 23, 2017*

**Repayment:** Payments of principal and interest will be based on the loan principal balance outstanding, an amortization period of up to 30 years, and the interest rate option selected.<sup>1</sup>

Payment of all unpaid principal, accrued interest and outstanding charges will be due and payable in full in a single payment no later than the Maturity Date.

**Loan Fee:** None.

**Prepayment:** Borrower shall pay a prepayment fee equal to one percent (1.0%) of the amount prepaid if the loan is refinanced with any lender other than American Savings Bank.

**Collateral:** The Loan shall be secured by an ALTA-insured first mortgage and assignment of lease rents on unit #401 at The Collection, located at 600 Ala Moana Boulevard, further identified by TMK: (1) 2-1-055-041-0008 (the "Real Property"), together with all improvements thereon. Approval of the Loan is subject to a satisfactory valuation of the Real Property determined by the Bank and a maximum Loan-To-Value ratio of 80%.

The loan shall also be secured by a first priority security interest in and to all right, title, and interest in the Association of Unit Owners in and to maintenance fees and assessments, including special assessments, allocable to all of the apartments in the project, together with all of the association's lien rights against apartments for unpaid fees and assessments, but expressly excluding any reserve funds maintained by the association and required under section 514B-148 of the Hawaii Revised Statutes or under any of the projects constituent condominium documents, together with all of the association's rights and remedies pertaining to the apartments under Chapter 514B of the Hawaii Revised Statutes and the project's constituent condominium documents, and together with a general security interest in all accounts, general intangibles, sales contracts, escrow accounts, chattel paper, awards and payments, insurance policies, and other assets and property of the association now owned and hereafter acquired and the proceeds thereof.

**Appraisal:** Approval of the Loan is subject to a satisfactory receipt and review of an appraisal report of the Real Property ordered by the Bank at the Borrower's expense and a maximum Loan-To-Value ratio of 80%.

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<sup>1</sup> Based on a loan amount of \$793,920, the estimated monthly payments will be: Option 1: \$5,579 and Option 2: \$3,848.

**Financial Reporting:**

Borrower shall be required to submit the following within 120 days of its fiscal year end:

- Annual CPA-audited financial statement
- Current AOOU reserve analysis, as it is periodically updated
- Accounts receivable aging report
- Annual budget as approved by the Board
- Semi-annual company-prepared financial statements within 60 days following the Borrower's semi-annual period
- Any other information as the Bank may reasonably request from time to time

**Conditions to Closing Loan:**

(a) Borrower shall provide evidence satisfactory to Lender, such as but not restricted to, minutes of the Board of Directors' meeting(s) certified by the secretary of the AOOU relating to the AOOU's approval of the Loan purpose and amount, and borrowing resolutions satisfactory to Lender in form and content.

(b) The Lender shall have received the results of a recent lien search of The Collection condominium project and on the Borrower, and such search shall reveal no material liens except for liens permitted by the "Loan Documents", as hereinafter defined, or liens to be discharged on or prior to the Closing Date pursuant to documentation satisfactory to Lender.

(c) At Lender's request, Lender shall have received such legal opinions from counsel to the Borrower as Lender may require, and such other documents and instruments as are customary for transactions of this type or as Lender may reasonably request. At Lender's request, the Borrower's counsel's opinion(s) shall affirm that (i) the Borrower is duly formed both as a Hawaii nonprofit corporation and as a condominium apartment owner's association under Chapter 514A of the Hawaii Revised Statutes and/or under any other applicable Hawaii condominium law, that (ii) the Borrower is authorized to do business in the State of Hawaii and is in good standing, if applicable, that (iii) the Borrower has taken all necessary actions and obtained all required approvals and consents under both its constituent corporate and condominium documents and is, accordingly, duly authorized and empowered to execute the loan documents to be executed by the Borrower, that (iv) all governmental and other third-party consents and approvals required in connection with the Borrower's execution of and performance in accordance with the terms of the loan documents have been obtained, that (v) the individuals who have signed or will sign the loan documents have the authority to sign all such documents on behalf of the Borrower, and that (vi) all such documents, when so executed, shall constitute the binding legal

obligations of the Borrower and be enforceable against the Borrower in accordance with their terms.

**Insurance:** Borrower is required to provide evidence of hazard insurance coverage for replacement value of the Collateral, with the Bank named as loss payee. Insurance coverage with loss payee endorsement may be evidenced by a certificate of insurance delivered to the Bank. If the project is located in a HUD-designated flood area, the Borrower shall maintain flood insurance in amounts satisfactory to Lender.

**Environmental Indemnification:** Approval and funding are conditioned upon a satisfactory environmental questionnaire completed by Borrower and, if required by the Bank, an environmental report for the Real Property by an independent consultant acceptable to the Bank. The Loan Documents shall provide full indemnification to the Bank (which will survive repayment or foreclosure of the Loan) against any liability or expenses the Bank may incur at any time (either during or after the term of the Loan) resulting from hazardous substances, wastes, and/or materials on the Real Property

**Affirmative Covenants:** Customary affirmative covenants shall include but not be limited to: (a) the submission of annually audited financial statements, together with aging reports and reserve analysis; (b) notifications and maintenance of insurance; and (c) usual conduct of business, preservation and maintenance of existence of the AOOU.

**Expenses:** Borrower is responsible for all costs and expenses incurred in the underwriting and documentation of this Loan, regardless of whether or not the Loan is closed.

**Special Conditions:<sup>2</sup>** The Borrower shall:

- 1) Provide evidence that the required percentage of owners have voted to proceed with the aforementioned financing request, and the estimated costs thereof.
- 2) Submit its financial statements, together with the approved budget for the year 2017, current aging reports and reserve analysis prepared and certified by its property management company, all of which must be acceptable to the Bank.
- 3) Other conditions as may be required by the Bank.

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<sup>2</sup> There will be other conditions precedent to loan approval, including the Borrower's submittal and Bank review of its corporate documents. A list of these other documents will be furnished to the Borrower at a later date.

**The Collections  
600 Ala Moana Blvd.  
Term Sheet**

<b>Borrower</b>	Association of Unit Owners of The Collections
<b>Loan Amount</b>	Up to \$794,000
<b>Purpose</b>	New loan to finance 80% of the purchase price of a 3-bedroom, 2-bath fee simple residential condominium unit (#401 resident managers unit) located in the Collections project. The purchase includes Parking Stalls (3088 and 6102) and Storage (S416 and S616).
<b>Indicative Rate Options*</b>	<p><u>Option 1:</u> a) 3.750% per annum fixed for the first 5 years and adjusted and fixed to prevailing rates for the final 5 years.</p> <p>b) 4.125% per annum fixed for the first 7 years and adjusted and fixed to prevailing rates for the final 3 years.</p> <p><u>Option 2:</u> 4.25% per annum fixed for 30 years.</p>
<b>Proposed Loan Fee*</b>	<p><u>Option 1:</u> .50%</p> <p><u>Option 2:</u> 1.75%</p>
<b>Proposed Loan Term and Amortization</b>	<p><u>Option 1:</u> 10-year Term (25-year Amortization)</p> <p><u>Option 2:</u> 30-year Term (30-year Amortization)</p>
<b>Initial Proposed Minimum Monthly Payment*</b>	<p><u>Option 1:</u> a) Monthly principal and interest payments of \$4,083 fixed for the first 5 years then adjusted and fixed at prevailing rates for the remaining 5 years with a final payment of the unpaid principal balance and accrued interest due at maturity.</p> <p>b) Monthly principal and interest payments of \$4,247 fixed for the first 7 years then adjusted and fixed at prevailing rates for the remaining 3 years with a final payment of the unpaid principal balance and accrued interest due at maturity.</p> <p><u>Option 2:</u> Monthly principal and interest payments of \$3,906 fixed for 30 years.</p>
<b>Guarantors</b>	None.
<b>Security</b>	<ul style="list-style-type: none"><li>• First absolute assignment of all rights, title and interest of the Association including an assignment of all accounts, reserves and rights to collect assessments from owners.</li><li>• First mortgage on the residential unit #401. The maximum LTVR shall not exceed 80% based upon on a FIRREA compliant appraisal approved by FHB Appraisal Department.</li></ul>
<b>Prepayment Charge</b>	<p><u>Option 1:</u> None, if prepaid with internally generated funds. Otherwise, 1% of the amount prepaid.</p> <p><u>Option 2:</u> None.</p>
<b>Insurance Requirements</b>	Borrower shall maintain adequate fire, hurricane and extended coverage insurance, with adequate coinsurance, for the full insurable value of the improvements, fixtures and equipment and such other insurance customarily required by the Bank.
<b>Expenses</b>	All expenses shall be paid for by Borrower

\* Subject to change based on market conditions at the time of the loan commitment.

This term sheet does not contain all of the material or essential terms of the proposed transaction, and further negotiations between the parties will be required before an agreement is reached.

**The Collections  
600 Ala Moana Blvd.  
Term Sheet**

**Loan Conditions**

1. Subject to receipt and satisfactory review of all condominium documentation.
2. Borrower shall not, without the prior written consent of the Bank: a) incur any indebtedness; b) pledge, encumber or assign any assets and rights, title or interest in the Association.
3. The Borrower's attorney shall provide a Favorable Opinion Letter regarding FHB's loan documents prior to loan closing.
4. Borrower shall provide evidence of approval from the AOAO owners to borrow.

**Financial Reporting Requirements:**

Report	Quality	Proposed Frequency	Due Date
Financial Statements	Audited	Annually	By 6/30
Aging of Receivables	Co. Prepared	Annually	By 6/30
Operating Budget	Co. Prepared	Annually	By 6/30

\*Subject to change based on market conditions at the time of the loan commitment.

**Non-Binding Term Sheet.** This term sheet is intended solely as a basis for further discussion and is not intended to be and will not constitute a legally binding obligation or commitment of First Hawaiian Bank ("Bank") or the Borrower, including but not limited to any obligation to negotiate, in good faith or otherwise, the transaction described herein until an actual commitment is issued by Bank. An actual commitment is subject to the approval of appropriate Bank authorities and would be in accordance with standard underwriting guidelines. No legally binding obligation or commitment of Bank or the Borrower will be created, implied or inferred unless and until loan documents in final form are executed and delivered by all parties.

**Confidentiality Agreement.** The information and data contained in this term sheet are strictly confidential, intended only for Borrower, and will only be shared internally by Borrower with those who have a need-to-know. In addition, the term sheet shall not be shared in whole or in part with any third parties, except with express written permission from Bank.

**Acknowledged and agreed by:**

By: \_\_\_\_\_

Its:

**IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT:**

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account.

What this means for you: When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

This term sheet does not contain all of the material or essential terms of the proposed transaction, and further negotiations between the parties will be required before an agreement is reached.

February 24, 2017

**Association of Unit Owners of The Collection**

Dear Board of Directors:

Bank of Hawaii is pleased to express its interest in considering the credit accommodation described below. **This letter is not a commitment or offer to lend by the Bank**, but is only a summary of the credit accommodation we are considering at this time. The contents of this letter should be kept confidential.

Borrower: Association of Unit Owners of The Collection

Facility: Commercial Term Loan

Purpose: To purchase a residential condominium unit located in The Collection for the Resident Manager

	Option A	Option B	Option C
Purchase Price:	Up to \$992,400	Up to \$992,400	Up to \$992,400
Loan Amount:	Up to \$992,400	Up to \$793,920. The loan amount shall be limited to the lesser of 80% of the appraised value or 80% of the purchase price.	Up to \$793,920. The loan amount shall be limited to the lesser of 80% of the appraised value or 80% of the purchase price.
Term:	15-years from the date of booking	30-years from the date of booking	30-years from the date of booking
Amortization:	25-years	30-years	30-years
Interest Rate: <b><u>The following interest rates shall be determined no sooner than 30-days prior to booking of the loan.</u></b>	The interest rate shall be fixed for 10-years. The current indicative 10-year fixed interest rate is <u>3.870%</u> .  After the initial 10-year period, the interest rate shall reset for the remaining 5-year period at the prevailing rate for similar commercial loans.	The interest rate shall be fixed for 30-years. The current indicative 30-year fixed interest rate is <u>3.750%</u> .	The interest rate shall be fixed for 30-years. The current indicative 30-year fixed interest rate is <u>3.875%</u> .
Repayment Terms:  <i>The following quoted monthly payments do not include collection of funds to pay for taxes or insurance.</i>	Repaying <u>\$5,168</u> principal and interest per month based on \$992,400 loan amount, 3.870% interest rate, and 25-year amortization.	Repaying <u>\$3,677</u> principal and interest per month based on \$793,920 loan amount, 3.750% interest rate, and 30-year amortization.	Repaying <u>\$3,734</u> principal and interest per month based on \$793,920 loan amount, 3.875% interest rate, and 30-year amortization.

	Option A	Option B	Option C
Facility Fee / Points:	Approximately \$250 plus documentation fees.	Approximately \$8,932 or 1.125% plus documentation fees.	Approximately \$3,970 or 0.500% plus documentation fees.
Closing Costs:	Recording fees.	Appraisal cost, title insurance, recording fees, etc.	Appraisal cost, title insurance, recording fees, etc.
Collateral:	First position UCC security interest in all accounts and Borrower's right to collect assessments from the apartment owners, together with all existing and future statutory lien rights.	First mortgage on the unit being purchased.	First mortgage on the unit being purchased.
Prepayment Fee:	"Prepayment" will be defined as any accumulated unscheduled principal reduction of the original principal amount of this Note occurring <b>as a result of Borrower obtaining financing from another financial institution</b> . In the event of such occurrence, Borrower will pay a prepayment fee of one percent (1.00%) of the amount prepaid.	None	None

Guarantors:           None

- Financial Reporting:
- Borrower's annual CPA Audited financial statements, due annually
  - Borrower's annual Operating Budget, due annually
  - Borrower's annual Reserve Study, due annually
  - Borrower's annual Accounts Receivable aging schedule, due annually

Other  
Requirements  
or Special  
Conditions:

- Satisfactory review of Purchase and Sales Agreement for unit being purchased.
- Certification from the Borrower of the following:
  - There is no pending or threatened litigation on the property amongst the owners, developers, etc. If litigation is pending, Borrower to provide explanation of litigation.
  - Borrower is in compliance with reserve funding method in which the reserve study was prepared.
  - Borrower is in compliance with the State of Hawaii HRS 514-B (as amended) regarding entering into a financial transaction.
- Evidence of insurance covering the Borrower's common elements (including hurricane/windstorm/flood coverage).
- An opinion letter from the association's counsel that the Bank can rely on that the loan and security interests are duly authorized and are valid, binding, enforceable obligations of the association.
- Any final structure will additionally contain covenants, events of default, and other provisions typical for commercial financing transactions of this type which are not contained in this letter.

We expect to engage in further discussions with you and to require additional information before proceeding to obtain an approval of the proposed credit. If you approve the terms and conditions described here, we will seek the appropriate Bank approval based on such information.

However, you understand and acknowledge that such Bank approvals may not be obtained or, if obtained, may be conditioned on additional terms and/or conditions.

We hope that you will find our proposal fair and flexibly suited to your needs. Please sign and return the enclosed copy of this letter to us, if you approve the attached terms and conditions. By signing below, the Borrower is acknowledging, agreeing and consenting to the matters set forth in this letter, including, without limitation, such parties' acknowledgment and consent to the Bank conducting customary due diligence with respect to the Borrower and its principals (including, but not limited to, obtaining and reviewing credit reports of such parties).

This proposal will expire unless accepted by you on or before March 31, 2017. We look forward to working with you. If you have any questions concerning the proposal or if we can be of any further assistance, please feel free to contact me at (808) 694-6067.

Sincerely,  
**Bank of Hawaii**



Randy Au  
Vice President &  
Commercial Banking Officer

Acknowledgement and Acceptance

The undersigned hereby approves the terms and conditions in the attached letter, and agree and consent to the matters set forth in this letter, this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

**Association of Unit Owners of The Collection**

By: \_\_\_\_\_  
Its:

By: \_\_\_\_\_  
Its:

Select One Option Below:

- Option A
- Option B
- Option C

**Unit #401 Summary Analysis (For Discussion Purposes Only)**

Market Price Estimate (Based on 1,326 sq ft)	\$ 987,573
Sales Price	\$ 768,000
Annual Rent Escalation %	3.00%
Annual Asset Appreciation Est.	5.00%
Discount Rate	6.00%

**Summary Matrix**

Option	Rent	BOH - A	BOH - B	BOH - C	FHB - A	FHB - B	ASB - 1	ASB - 2
Term	Mon to Mon	15 (25 year amo)	30	30	10 (25 year amo)	30	15	30
Rate	N/A	3.870%	3.750%	3.875%	4.125%	4.250%	3.250%	4.125%
Current Cost/P&I	\$ 2,906	\$ 3,999	\$ 2,845	\$ 2,889	\$ 3,286	\$ 3,022	\$ 4,317	\$ 2,978
Down Payment & Closing Cost Est.	\$ -	\$ 250	\$ 162,532	\$ 157,570	\$ 156,672	\$ 164,352	\$ 153,600	\$ 153,600
NPV	\$ 1,188,327	\$ 657,986	\$ 681,823	\$ 681,884	\$ 692,801	\$ 703,853	\$ 668,235	\$ 688,019

Minimum NPV \$ 657,986

**Notes/Assumptions**

- Analysis of mortgage options and lease vs. buy only
- CAM excluded for analysis purposes
- Additional parking and storage excluded from analysis
- Assumes all rates are carried forward at time of rate resets where applicable
- Comparison based at year 10
- FHB option A1(b) utilized based on proximity to 10 year fixed rate term
- Current cost of rent shown as rent from rental agreement less CAM which is currently included in the rental agreement
- Terminal value of estimated market price escalation and principal balance included

## Salt and Waterfront Parking Rates

	Waterfront Plaza	Salt
Monthly Unreserved Parking - No Overnight Parking	\$190	\$200
Overnight Parking Only 6pm to 7am	\$150	n/a
Afternoon Parkers 3pm to 7am	\$175	n/a

PS# 3088  
6102

\$90,000 or  
\$45,000 per  
street

**Note** For Salt, stalls are limited. As tenant space is leased, monthly availability will decrease.

## AOUO STORAGE

Storage Location	Area	Use
Tower Loading Dock	150 Sq Ft	Will be used to store Cleaning Equipment (Extractors, Blowers, Wet Vacs). Proximity to Elevator is good.
Tower 8th Fl	446 Sq Ft	Uniforms, Holiday Décor, Attic Stock
Rec Deck	560 Sq Ft	Used as a work space to clean Grills, Mobile Ice Bins, Attic Stock
Lofts	266 Sq Ft	Work Space, attic stock and attic stock appliances.

1422 sf

Additional 228

1,650 sf

(546 @ 112 sf + 5616 @ 116 sf)

\$134400 / 228 sf = 590sf

## Two Owners' Comments Regarding A&B Offer

### First Comment from Russell Ryan

From: **Robert Pickett** <[robertpickett@outlook.com](mailto:robertpickett@outlook.com)>  
Date: Wed, Mar 1, 2017 at 9:37 PM  
Subject: Fwd: NPV analysis of loan options vs. lease  
To: Henry Lew MD <[hlewm@gmail.com](mailto:hlewm@gmail.com)>, Howard Kam <[hkamjr@gmail.com](mailto:hkamjr@gmail.com)>, Ken Shimada <[kdshimada@gmail.com](mailto:kdshimada@gmail.com)>, Lee Cranmer <[lcranmer@hawaii.edu](mailto:lcranmer@hawaii.edu)>, Sandra Billington <[sbillington@abprop.com](mailto:sbillington@abprop.com)>, Joseph Krahulik <[joekrahulik@gmail.com](mailto:joekrahulik@gmail.com)>, Robert Pickett <[robertpickett@outlook.com](mailto:robertpickett@outlook.com)>

Received this analysis from 2 of our owners. They asked me to forward to BOD.  
Thanks,  
Robert

Sent from my iPhone

Begin forwarded message:

**From:** Robert Pickett <[robertpickett@outlook.com](mailto:robertpickett@outlook.com)>  
**Date:** March 1, 2017 at 10:54:18 AM HST  
**To:** Joe Krahulik <[joekrahulik@gmail.com](mailto:joekrahulik@gmail.com)>  
**Cc:** "<[russell@myhighwayinn.com](mailto:russell@myhighwayinn.com)>" <[Russell@myhighwayinn.com](mailto:Russell@myhighwayinn.com)>, Henry Lew <[hlewm@gmail.com](mailto:hlewm@gmail.com)>, Monica Toguchi <[monica@myhighwayinn.com](mailto:monica@myhighwayinn.com)>  
**Subject: Re: NPV analysis of loan options vs. lease**

Totally agree with Henry and Joe.  
Thank you Russell for your analysis.  
Have a happy rainy day you all!

Sent from my iPhone

On Mar 1, 2017, at 10:50 AM, Joe Krahulik <[joekrahulik@gmail.com](mailto:joekrahulik@gmail.com)> wrote:

Dear Russell,

Thank you very much for all your hard work & excellent points. Other people may have different visions & missions. My vision & mission is to definitely see you as part of the Ad-Hoc Committee.

Joe

On Wed, Mar 1, 2017 at 9:51 AM, Russell Ryan <[russell@myhighwayinn.com](mailto:russell@myhighwayinn.com)> wrote:  
Gents:

Last night I did a very rough run down of the type of lease vs. buy analysis for the condo, storage & parking. As I anticipated – with the large downpayment of \$200,000, the analysis shows that buying the condo is not necessarily the best financial decision for the Aouo, regardless of the specific bank proposal. I did not do the BOH 100% analysis as the terms of 10y fixed plus 5 years float and a 25 y amortization suggest a very high monthly payment, a balloon payment, and it has egregious security interests on all the Aouo's funds in the event of default. So it will need time to research.

The analysis of lease vs. buy will sway based on discount rate, residual value and lease rate assumptions. Also, I am not sure if the properties if purchased would generate any depreciation tax benefits, or if its applicable given the tax status.

## Two Owners' Comments Regarding A&B Offer

To be clear, a thorough lease vs. buy NPV analysis with clear assumptions stated is the minimum bar for an analysis to determine the financial benefit of purchasing these assets. A comparison of loan options is helpful & necessary, but not sufficient.

Moreover, I would argue that *preservation of liquid capital* is the most important goal for the Aouo, and *not* buying assets. Such an asset purchase might compromise cash flows. To tie up maybe half the association's capital before the life-cycle costs of this building are known and the operating budget is refined from the boiler plate version I have seen (to include reserve accumulation, commercial area finances, insurance and professional fees, hawaiiana's fee e.g.) is not a sound financial decision for the aouo at this time. This is a very different analysis than a homeowner makes. Note the cash flows for this purchase represent just represent 2% of the association's monthly cash (regardless of lease or buy), but the downpayment could swallow 50% of all reserves on hand now. There are bigger fish to fry – labor and maintenance costs.

Next, I would also test the necessity of having to buy storage areas, when for example we already know that the surfboard room is over-configured and could be re-purposed to have half of it used for storage, free of charge. There may be other areas we do not know about.

Are 2 additional owned parking spots needed for employees, especially when the rail will be up and running in 5-8 years. Do we need a three bedroomed unit for the resident manager, would a two bedroom work? Can we obtain a longer fixed lease?

My recommendation absent any other progress would be to have a lease with purchase option from A&B, exercisable in several years to give the aouo time to figure out budgets, cash flows and investment policy guidelines, and not get rushed into this now. In business, leasing is OK.

Russell Ryan

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### Second Comment from Unknown Person

From: **Robert Pickett** <robertpickett@outlook.com>

Date: Sun, Feb 26, 2017 at 4:05 PM

Subject: Ad Hoc Committee

To: Howard Kam <hkamjr@gmail.com>, Henry Lew MD <hlewm@gmail.com>, Sun Kim <skim@abprop.com>, Ken Shimada <kdshimada@gmail.com>, Joseph Krahulik <joeKrahulik@gmail.com>, Ryan Kamo <rkamo@designpartnersinc.com>, Lee Cranmer <lcranmer@hawaii.edu>, Sandra Billington <sbillington@abprop.com>

Aloha Everybody,

Happy Oscar's Day!

Following is a copy of an email I received from one of our owners. Although I have full confidence in Mr. Kam's Special Task Force of Directors, I thought it important for all members of the Ad Hoc Committee be aware of this owner's concerns and input. I'm not entirely sure all of the points raised are relevant but I'm confident the Special Task Force will be able to sort it out and give us proper guidance.

Have a great Sunday,

Respectively,  
Robert

## Two Owners' Comments Regarding A&B Offer

Mahalo,

Robert

Couple of initial observations:

Pros:

- the price looks like a good price including the parking and storage.
- No commissions
- 10% down = \$100k.

Questions:

- Will seller split the deal to just acquire some of the assets
  - o Are the parking spaces those already dedicated to the unit 401?
  - o Are there no designated places for employee parking already?
  - o Are there no storage areas for maintenance equipment already?
- Will seller accept a long term lease, or a hybrid, lease for a few years to minimize cash out, then give an option to buy to the board, in order not to rush this.
  - o For example, until the cash flows of the Aouo are established, why would we tie up \$100k, or perhaps >\$200k before we have forecast our monthly cash flow and upcoming expenditures?

Cons:

- Analysis is for a standard residential mortgage – this assumption needs to be tested.
  - o Timing of 60 days is not enough
  - o Because the entity (A new LLC?) borrowing has no credit history, lenders should be consulted before negotiating with A&B
  - o Terms can be very different – higher interest rate, down >20%, shorter term, or even they may require balloons and re-fis.
  - o The board should not use an individual's credit then transfer to the LLC, it has tax implications
- Analysis for this investment should include a net NPV analysis of cash flows in several rent and lease scenarios.
  - o Note rent and mx fees may likely escalate at same rate, so notionally – 4 condos fees will always pay for manager's unit.
  - o Analysis should show assets being sold after term of loan.
- Is buying a condo a permissible investment with regards to the Board's investment policy?
  - o I know there is not an investment policy yet, but the point is most investment policies treat real-estate investing as speculative
  - o A Aouo board's investment in more condos would increase investment class concentration, and not diversify.

Sent from my iPhone

**Questions about the analysis of whether to purchase or continue to lease the RM's apartment and purchase other assets.**

1. What is the status of the analysis of whether the association should continue to lease or buy unit 401 and other facilities for \$1mm?
  - a. NPV analysis of lease vs buy?
  - b. Assumptions on residual value, discount rate, escalation, future rents?
  - c. What is the compelling reason to be focusing on this issue now, other than that it appears to be in the developer's interest to sell the property?
  - d. What alternatives to purchase now have been investigated or analyzed. Deferred purchase etc.
  - e. What is the required down payment for such a loan and term, 20-30% with 15-25 years is normal?
2. Has the association established whether it needs all or any of the other facilities (parking and storage), and determined there are no other free spaces on property, or parking needs?
3. Has the association determined whether a 3 bed or 2 bed apartment is the most suitable for the RM's apartment?
4. What is the cash balance today or Feb 28<sup>th</sup> 2017?
  - a. What are the projections for monthly incomes and expenses for running costs?
  - b. What is monthly accrual towards future major maintenance events
  - c. Has the association a 30 year projection of costs?
  - d. Does the association believe it is and will be correctly funded to have sufficient funds to pay for anticipated future maintenance costs without making special assessments?
  - e. What is plan for maintenance fees escalation with and without the investment in 1.d
  - f. The largest costs will be labor, maintenance and utilities, how do we plan to manage those?
5. The investment policy of the association prohibits investment in this condo, and is likely in place to prevent this type of investment. Is the board aware of this restriction?
  - a. An investment policy typically contains concentration risk parameters. Making an effective \$1mm investment of capital into this condo, will mean the association is too concentrated in one asset class, and should be prohibited.
  - b. What is the associations principle financial goals and does buying assets meet any of those goals.
6. What is the impact on the association's income and expenses wrt the vacant commercial space and unsold townhomes.

Lastly, one observation I would like to make is that the primary logic for purchasing a property as an individual is to have an asset when that individual no longer is generating a significant monthly income. This is not relevant to the association as it will always have income. An association's priority in my view is ensuring that monthly maintenance fees escalate to the minimum extent while ensuring the accounts are fully funded in contemplation of future maintenance events.

Russell Ryan