



ALOHA TOWER DEVELOPMENT CORPORATION

LINDA LINGLE
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BOARD MEETING ALOHA TOWER DEVELOPMENT CORPORATION

May 31, 2006
No. 1 Capitol District
250 S. Hotel Street
4th Floor Conference Room
Honolulu, Hawaii

MINUTES OF MEETING

BOARD MEMBERS PRESENT: Melissa Pavlicek, Chairperson
Sidney Quintal, Vice-Chairperson – C&C of Honolulu
Neal Otani
Theodore Liu – DBEDT
Robert Masuda – DLNR (arrived at 12:05 p.m.)
Barry Fukunaga – DOT-H
Jason Okuhama

ATDC STAFF PRESENT: Sandy Pfund, Dana Yoshimura, Gertrude Tomokiyo

OTHERS PRESENT: Rory DeJohn, Ken Leach, Jim Stubenberg, Allan Dowsett,
Jorg Mast, Dick Ragatz, Ken Hughes, Sumner Howard,
Paul Sheriff, Andrew Gomes, John Michael White,
Vernon Woo, Michelle Matson

LEGAL COUNSEL PRESENT: Gregg Kinkley, Deputy Attorney General

I. CALL TO ORDER

Chair Pavlicek called the meeting to order at 12:04 p.m.

Chair Pavlicek called for a motion to place the Item for Action regarding New World Divers first on the agenda due to the expected length of time required for the Informational Item. Director Masuda moved and the motion was seconded by Director Okuhama. The motion passed unanimously.

V. ITEMS FOR ACTION

A. Approval of a Second Extension of Time to Commence Construction of the New World Divers Project by September 6, 2006

Ms. Pfund presented her staff report recommending approval of an extension of time to September 6, 2006, to commence construction of the project.

Director Masuda asked Mr. Sheriff if a 120-day extension would be sufficient.

Mr. Sheriff replied in the affirmative and noted that with construction costs escalating daily, he would endeavor to start as soon as possible.

Chair Pavlicek asked for a motion to approve the second extension for the construction of the New World Divers Project. Director Masuda moved and Director Quintal seconded the motion. The Chair called for any discussion.

Chair Pavlicek indicated that Director Louie did not attend this Board meeting on the assumption that Mr. Jason Okuhama had replaced him on the Board effective upon his confirmation by the Senate in April. She noted that due to the uncertainty as to when Mr. Okuhama's term officially starts, Mr. Okuhama was excused from voting on this agenda item.

The motion passed unanimously.

II. APPROVAL OF MINUTES

A. Regular Meeting of April 26, 2006

Chair Pavlicek called for a motion to adopt the Meeting Minutes for the meeting held on April 26, 2006. Director Quintal moved to adopt the minutes and was seconded by Director Otani. The motion passed unanimously.

III. REPORT OF THE CHIEF EXECUTIVE OFFICER

Ms. Pfund referred to her report in the Board packet.

Ms. Pfund introduced and expressed appreciation to Ms. Gert Tomokiyo who agreed to serve as the ATDC Secretary on a temporary basis until a permanent replacement is retained.

Chair Pavlicek expressed the Board's gratitude to Ms. Pfund for her efforts in keeping the Board abreast of all the developments regarding ATDC. Chair Pavlicek also expressed

appreciation to Directors Masuda, Fukunaga and Otani for serving on the Investigative Committee to review the UC URBAN Project.

IV. ITEMS FOR INFORMATION

A. Presentation of a Development Proposal for Piers 5 and 6 by UC URBAN (Kenneth H. Hughes, Inc.).

Mr. Kenneth Hughes made a PowerPoint presentation to the Board on his revised development proposal for Piers 5 and 6. See Exhibit A.

Mr. Hughes also introduced members of his development team who were present at the meeting.

Chair Pavlicek requested a further detailed description of a leasehold “fractional condominium” ownership model.

Mr. Dick Ragatz (consultant) replied that an owner would have joint ownership of a 65-year lease. If there was a long-term lease, or deeded ownership, it would be conveyed to a specific unit for regulatory purposes. All the owners in the development would have access to all the units although a 65-year lease would be conveyed in a specific unit.

Chair Pavlicek questioned if there were other differences in ownership.

Mr. Ragatz replied that there would not be any difference in the form of conveyance; it would just be the amount of time the owner would have access to the unit.

Chair Pavlicek asked if there were differences in the demographic profile of persons purchasing fractionals versus time-share ownership.

Mr. Ragatz stated there were differences. The average income of a time-share buyer would be \$82,00 to \$85,000 and the average price of a week would be \$15,000, although in Hawaii, it would be higher. The average income of a fractional buyer would be about \$400,000 and the average price about \$250,000.

Mr. Ragatz further noted that preliminarily, he predicts there would be a significant local market for fractionals. He stated that the project always had a single ownership condominium component. He noted that with respect to affordable housing in Hawaii, such units require heavy subsidies and are most feasible in locations that are uncomplicated to build on.

Chair Pavlicek indicated that the Board needed to know the details regarding the components of the project.

Director Liu questioned why the entire development did not consist of whole condominiums.

Mr. Hughes stated that there was a balance between condo and fractional. He indicated that a fractional is not time-share. He noted that the advantage of a fractional is that an owner would not need to own an entire year's use when realistically an owner could only use say five weeks out of the year. The owner would end up with permanent ownership, but only on a limited basis. He further noted that it differed from a condo hotel or time-share.

Director Liu questioned why the price entry level was so much higher than time-share and what the value was.

Mr. Ragatz stated that the units were larger, had higher quality furnishings and fixtures, the stays were longer, and the overlay of services were higher. Mr. Ragatz noted that one of the advantages of a fractional is that it broadens the market for the developer. He further stated that one of the advantages for the local community was that these units would be filled by people who spend more time in the restaurants and shops because they already had permanent residences.

Director Fukunaga inquired about the hotel component as he thought it was needed to make the project work.

Mr. Hughes replied that a boutique hotel is being studied as an option in this project. He stated that a fractional is not a true hotel but that the operations and management are similar to services provided in a hotel.

Chair Pavlicek asked if the potential boutique hotel would have additional units on top of the 300 units.

Mr. Hughes replied affirmatively.

Chair Pavlicek asked if the 150 private residence units would operate like a hotel.

Mr. Hughes stated affirmatively. He then introduced his partner, Mr. Jorg Mast, to provide more information.

Mr. Mast stated his experience has been in the restaurant and hotel business in Germany. He indicated that it was important for private residences clubs to have services and amenities and he noted that a small boutique hotel typically would have 60 to 80 rooms and a celebrity chef restaurant.

Mr. Hughes stated that Honolulu was missing a great athletic club facility, which would be part of the condo fractional sale but would also be available to anyone.

Director Liu asked if the project would be built at maximum heights.

Mr. Hughes stated in the negative, that they are opting for a building crouched, soft and calm on the harbor.

Chair Pavlicek stated that the development looked huge for that space from the perspective of the public. She asked how the developer would address that concern to the public.

Mr. Hughes stated that the development was not a big building and it is difficult to get a sense of scale based on conceptual design renderings.

Mr. Hughes further stated that the project would not require any financial assistance from ATDC, the State, City and County or Federal governments. He noted that ATDC would receive the proceeds of the ground lease and the funds could be used for the redevelopment of the waterfront.

Chair Pavlicek asked for a clarification.

Mr. Hughes explained that the project would entail issuance of a fixed ground lease to the developer and the appraised lease rent amount would be paid in cash up front to the State discounted to present value. Mr. Hughes further stated that the upfront capital would functionally make it more like fee ownership and by eliminating the concurrent payment annually on the ground lease, the home ownership would operate more like an occupancy expense.

Chair Pavlicek restated her understanding that there would be a 65-year discounted ground lease that would be paid in advance as a single payment and any proceeds from retail, sale of the fractional interest, and payment of the hotel operator would be for the private development. She further sought clarification that the developer is not seeking any joint venture with the State.

Mr. Hughes responded in the affirmative.

Chair Pavlicek asked if the determination of price and the selection process would be the developer's responsibility.

Mr. Hughes stated affirmatively.

Chair Pavlicek reported that the Board had established an Investigative Committee to review the project in detail and that Mr. Hughes was scheduled to meet with the committee.

Director Liu asked if the study to be performed by Mr. Ragatz would be focused on the mix between whole ownership and fractional units and when would the study be completed.

Mr. Ragatz answered affirmatively and informed the Board that the study was expected to take eight weeks.

Director Liu asked whether fractionals are a strong consideration for this project.

Mr. Ragatz stated that his company has done several hundred studies on fractional projects in the past four years and that with his experience being in the building industry for 30 years he could tell whether or not a proposed property would be marketable to fractionals. He noted that at this stage he was comfortable in recommending fractionals for this project and that the exact unit mix of product types would be a focus of the study.

Director Liu asked Mr. Hughes whether the recommended mix was of primary concern to the developer as opposed to ATDC because ATDC would receive a ground lease payment lump sum regardless of the mix.

Mr. Hughes replied affirmatively. He also stated that the developer has to account for substantial development risk as the result of not having fee ownership.

Chair Pavlicek stated that the project would have to make economic sense and also meet public acceptance for the State. She mentioned that other issues like demographics, environment and culture needed to be addressed by the Board.

Chair Pavlicek then ask if there were any more questions.

Director Liu and Chair Pavlicek asked for a written detailed proposal and sought Mr. Hughes' expectations of the next steps.

Mr. Hughes requested the Board to render a decision at the next meeting of the Board.

Mr. Fukunaga wanted the review process to be thorough and include time for public input.

Chair Pavlicek concurred with Mr. Fukunaga and stated affirmatively that while the Board needed to move forward to review the plan and refine it, she didn't feel a month was sufficient to accomplish everything the Board needed to review.

Mr. Hughes indicated that the Investigative Committee would be able to flush out any questions and as for the public input, there would be the rulemaking process.

Chair Pavlicek stated that the Board has begun the process to review the rules and that public input would take place; however, public input into the project would also be necessary. She mentioned that more answers were needed regarding the concept of the project, but that knowing who the contributing consultants are is a major step. Chair Pavlicek thanked Mr. Hughes and all his consultants.

VI. EXECUTIVE SESSION

Director Quintal moved and Director Otani seconded a motion to enter into Executive Session. The motion passed unanimously.

Mr. Kinkley, Ms. Pfund, Mr. Yoshimura and Ms. Tomokiyo were asked to remain for the Executive Session.

A. Discussion and Deliberation Regarding ATDC’s Rights and Responsibilities Under the Development Agreement Relative to the Proposed UC Urban Project, Pursuant to Section 92-5(a)(4), Hawaii Revised Statutes

B. Discussion and Deliberation Regarding the Status of Negotiations Under the Mediation Proceedings with AHI Aloha Associates, LLC Pursuant to Section 92-5(a)(3) and 92-5(a)(4), Hawaii Revised Statutes

The Board entered into Executive Session at 1:20 p.m. and reconvened at 1:55 p.m.

VII. ADJOURNMENT

There being no further business, Chair Pavlicek asked for a motion to adjourn the meeting. Director Quintal moved and Director Otani seconded the motion for adjournment. The motion passed unanimously and the meeting was adjourned at 1:56 p.m.

Respectfully submitted,

 /Sandra Pfund/
Recorder