



HAWAIIAN BUSINESS COMPASS

by Yamaguchi & Yamaguchi, Inc.

**Yamaguchi &
Yamaguchi, Inc.**

Real Estate
Appraisers &
Consultants

Since 1967

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PROTECT YOUR ASSETS

Did you know that real estate appraisal services can help you reduce taxes, avoid penalties, transfer ownership and support business valuations? **Yamaguchi & Yamaguchi, Inc.** has been in business for over 40 years and has successfully helped thousands of clients over the years. This first edition of our **Hawaiian Business Compass Newsletter** highlights those areas that most benefit our clients and may be of interest to you.

Most of us associate an appraisal with a requirement for mortgage lending purposes, purchase/selling of a home, PMI removal or relocation. However, real estate appraisals are utilized for many important and diverse purposes, including, but not limited to the following:

- estate planning and trust valuation,
- date of death valuation,
- partial interest valuation and
- leased fee and leasehold valuations.

In addition, estates consisting of residential, industrial, commercial and resort real estate may need valuations for various forms of legal ownership, including fractional interests.

Estate Planning and Trust Valuation - Act Now Before the Bush Tax Cuts Expire

Gifts of real estate assets require documentation of value by a real estate appraisal in order to establish a basis for gift tax purposes. If you have highly appreciated real estate assets, 2012 may be the last year for you to take advantage of liberalized gift tax exemptions. Until the end of 2012 when the Bush Tax Cuts are set to expire, individuals may make one-time gifts of just over \$5.0 million tax free. At the end of this year, these limits are scheduled to drop back to \$1.0 million. With an election year in place, you never know where these gifting limits are going to end up. As such, this is an excellent time to consider gifting given the liberal tax exemptions coupled with the somewhat lower property

valuations we have experienced in the Islands over the last few years. Yamaguchi & Yamaguchi Inc. along with our alliance wealth advisors can engineer a tax efficient gifting strategy for you to take advantage of these expiring provisions.

Date of Death Valuations - Get Them Done Timely

As an executor or administrator of an estate, you have a legal requirement to obtain a real estate appraisal for estate planning purposes that is completed as close to the date of the death as possible. It is important to initiate this process as soon as possible after the personal matters of the decedent have been handled. Executors who wait long periods of time to complete these required valuations expose themselves to potential claims from creditors, beneficiaries and governmental authorities due to the inability to accurately estimate value as a result of changing market conditions, physical deterioration of the underlying assets and possible environmental factors. Delays in performing these types of valuations increase the margin of error which potentially exposes the valuation to challenge or audit from the IRS or other interested parties and ultimately to possible penalties, disputes or worse yet, litigation.

For example, we recently had a request to perform a date of death appraisal where the owner had died 5 years ago. While this may not seem like a long period of time, the home had undergone a complete renovation since the date of death. Fortunately, the owner had excellent before and after pictures of the home for us to utilize. Without this information, it would have been very difficult to determine the condition of the home at the date of death.

If you are an executor or administrator of an estate, be sure to contact one of our valuation analysts so that we can perform this task in a timely manner and eliminate it from your list of responsibilities.

Continued on Page 3

IN THIS ISSUE

- 1 **Protect Your Assets**
- Jon Yamaguchi
- 2 **Hawaii Residential Outlook**
- Ricky Cassiday
- 3 **Simply ... Stephanie**
- Stephanie Yamaguchi
- 4 **Upcoming Articles**
- Yamaguchi & Yamaguchi, Inc.



HAWAII RESIDENTIAL OUTLOOK

by P. Ricky Cassiday

The residential market, circa 2009-2011 has been forming a bottom, at least in terms of sales counts. As the chart shows, the last couple years (and this the coming year) sales have hovered around the 13,000 to 14,000 level. Given that this has gone on for several years, it would be normal for prices to start rising soon - as soon as sales rise on a consistent basis. Thus, this year or the next is when prices should start bottoming out (and thereafter rising).

Looking back, last year set a record for being the second lowest over the last 30 years, in terms of residential sales, state wide. Again, this was for newly built (new) and existing (resales) units. The all-time record for lowest sales was set two years ago, in 2009. In 2011, residential sales fell by 1%, after growing by 8% in 2010. This ended a string of 4 years where sales (closings) declined by double digits.

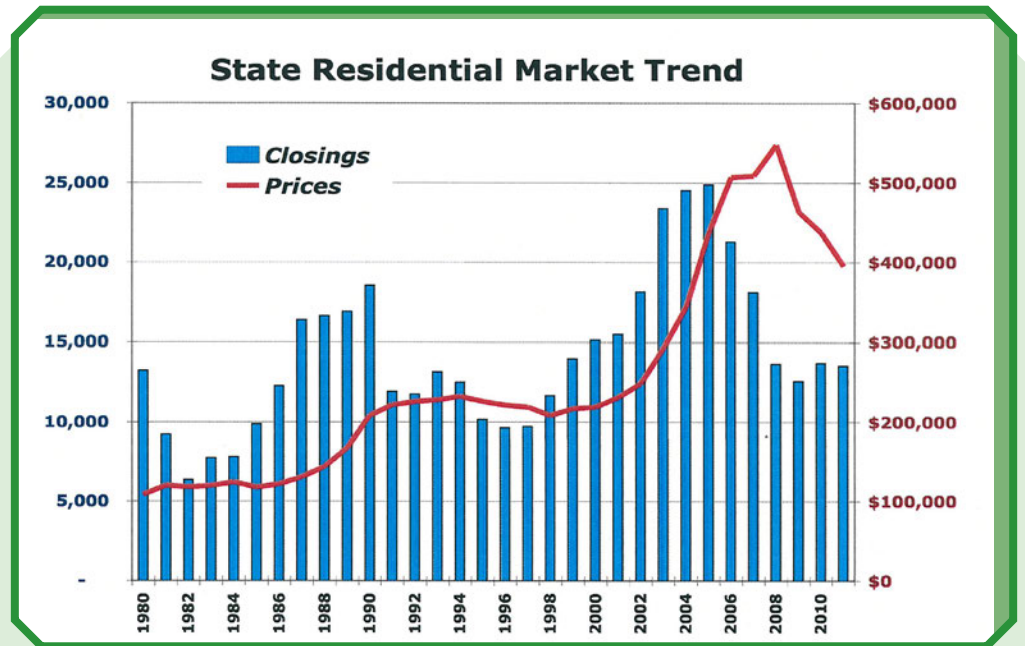
Contrast this with the top of the market, which was set in 2005 at 25,000 closings. Since then, sales declined on average by 7% per annum, or 46% overall - 2005 to 2010 cumulatively, this

was the worst decline of sales over the last 30 years. We note that the second worst was 1980-81, when the total market declined 52% peak to bottom (but done within 2 years). This trend has gone on sufficiently long to allow for the excesses of the up-cycle, particularly high prices, to dissipate, and let the market move to a better balance between sales and prices.

Prices in 2010 fell at an accelerated pace statewide, off almost 10%, versus 5.6% in 2009. The major force behind this was Oahu selling lower prices overall (thanks to a drop in the number of developer closings in the higher end condo market - Trump, Allure). Looking forward, prices for homes have been stable on Oahu and are expected to continue to the end of the year. In my next article, I will be exploring the resort condominium market in more detail. Each Island has its own market and is affected by various economic variables unique to the area.



Ricky Cassiday of Data@Work has developed the most functional database of real estate transactions for analyzing the residential market across the state of Hawaii. The data draws upon both public and private data sources and goes back to 1985, covering 2 major market cycles. It includes all islands and all resort and residential property types, including leasehold. He has produced numerous types of studies (project feasibility, pricing programs, absorption projections, marketing strategy, product development, market entry and positioning) as well as long-term demand forecasts and models for specific markets and master planned developments. His work has helped to inform every major Hawaiian developer,



financing institution, residential design firms, most landowners and construction companies. He has been a featured public speaker at the Hawaii Developer's Council, the ULI Hawaii Chapter, the Society of Corporate Planners, Hawaii State Association of Counties, the Hawaii Association of Mortgage Brokers, the BIA Hawaii chapter, Association of Realtors for all the islands, numerous private groups, and the MBA Income Property, Investment Committee. He has been quoted in the Wall Street Journal, New York Times, San Francisco Chronicle, and Inman News.



Partial Interest Valuation

Real estate assets can be held under various forms of ownership such as fee simple, leasehold, undivided fractional interests, partnerships, corporations and trusts. The type and proportion of ownership is a very important factor in determining a fair market value appraisal.

Consideration of the willing buyer/willing seller test, methods of closely held entities, trends of valuation discounts, discount for lack of marketability, and discount for lack of control are some of the items that must be considered in the valuation of partial interests. Our valuation team are experts at determining partial interest valuations which present some unique opportunities when applied in an estate planning case.

Leased Fee and Leasehold Valuation

Both leased fee and leasehold interests represent an allocation of value based on the bundle of rights of real estate ownership. Although the sum of the parts normally equals the whole this principle is not necessarily true in all cases. The lease terms, amount of the lease, renegotiation clauses and restrictions of a lease directly affect the market value of a property. For example, a short fixed lease with an unreasonable renegotiation clause will most likely negatively impact the land value toward the end of the lease. Since no two properties are exactly alike, each portion of interest must be carefully analyzed.

Our consulting team can assist you with lease negotiation and drafting so that you maximize the value of your property and do not inadvertently lose value due to a poorly drafted document.

*Simply ...
Stephanie*

Work Hard + Play Hard

That's my philosophy of the balance in life; my yin yang, so to speak. In reality though, the fulcrum is rarely centered and the scale repeatedly slants away from play. So I have decided for my column to focus only on fun things . . .

One subject that arises in many of my social conversations is food. Yes, we all have to eat. My problem is that I might enjoy it a little too much. Of course it doesn't help when your friends are great cooks, foodies and libation experts and that sharing a meal with them is not just about eating, rather, it is all about the whole experience. So let me share a few food favorites.

Favorite Restaurants

One of my favorite restaurants is **Le Bistro** located in the Niu Valley Shopping Center on the east side of Honolulu. Don't let the location deceive you. Once you walk through the doors you get a very French-like feel in this intimate and elegant bistro, which I consider one of our best kept dining secrets. Owner/Chef Alan Takasaki, his wife Debbie and their staff take great pride in serving exceptional French cuisine and have a talent for making each and every guest feel very special.

My must have appetizers are the Fois Gras with red currants and quince, and when available the Steak Tartar or the Ahi Tartar. Entrée selections we have tasted (no, not at one visit) include fresh island fish, scallops, duck breast, juicy lamb and veal chops, slow braised short ribs, just to name a few. Their desserts are to die for, so don't leave without a taste of the crème brûlée, tarte tatin or gelato!

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Find reviews and photos on www.yelp.com

Favorite Hole-in-the-Wall Restaurants

❖ These are usually no-frills, smaller, owner-operated establishments that build their clientele mostly through word of mouth. The quest for discovering and experiencing the best hole-in-the-walls is shared by many of my foodie friends. One group calls themselves the *Hole-in-the-Wall Gang* and dine monthly at a different eatery. Here are two on my list of favorites. *Only two you ask?* Well, I can't give it all away at once. Stay tuned for more in an upcoming issue ...

❖ **Anytime Café**
❖ 2919 Kapiolani Blvd
❖ Honolulu, HI 96826
❖ Neighborhood: Kapiolani/University
❖ (808) 735-3888
❖ Italian/American/Chinese cuisine
❖ Must try: Risotto, Shrimp won ton noodle

Han Yang Restaurant
1311 N King Street
Honolulu, HI 96817
Neighborhood: Kalihi
(808) 845-3513
Korean cuisine
Must try: All you can eat Korean yakiniku

Steph's Baked Salmon (or Mahimahi)

Six 3-oz pieces of salmon
Garlic powder
Black pepper
1/2 cup Best Food mayonnaise
1/4 cup minced celery
1 T. minced sweet round onion

2 T. minced green onion
1/2 cup chopped imitation crabmeat
2 medium shiitake mushrooms, soak in water 15 minutes, mince
1 tsp paprika

Season fish to taste with garlic powder and black pepper. Place in baking dish. Combine all other ingredients in a bowl and spread evenly all over the fish. Sprinkle with paprika and bake at 350 degrees F for 25 minutes (cooking time may vary).

Note: I buy the half salmon from Costco and serve it on a platter whole.

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*"I've learned that
people will forget what you said,
people will forget what you did,
but people will never forget
how you made them feel."*

~~ Maya Angelou

UPCOMING ARTICLES

Real estate appraisals are used for a variety of purposes throughout the real estate industry. We have highlighted a few unique uses of this tool and its importance to the protection of your assets.

Our newsletter has been designed to provide clients and affiliated professional associates with pertinent market related information to increase their knowledge and to raise awareness. Future articles will include quarterly residential and commercial market updates, trade articles written by people from our network of professionals and personal interviews of current business owners on topics of interest.

Jon and Stephanie Yamaguchi, Managing Partners

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Real Estate Appraisal and Consulting Experts

Hawaiian Capital Partners Group
Real Estate and Business Investments Firm