

**VOLUNTEERED AGAIN SEP 24, 2025, BUT THE  
GET IT DONE AGENDA WAS NOT INTERESTED. (Pg 5)**

**RG hawaiianbeachrealty.com**

**From:** Craig S Steinberg, O.D., J.D. <craig@csteinberglaw.com>  
**Sent:** Wednesday, October 15, 2025 10:30 AM  
**To:** rg@flpropertylawyers.com; RG hawaiianbeachrealty.com  
**Subject:** RE: Leasehold status 24A  
**Attachments:** Leasehold Canterbury Place - Master Lease.pdf; Leasehold Canterbury Place - Master Lease Amend.pdf

**WHATEVER APPRAISAL COURSES CRAIG ATTENDED,  
IT WAS CLEARLY NOT THE SAME ONES AS I ATTENDED.**

Rick,

I am told that this concept is a non-starter and would not prevail in an arbitration, it would just cause delay and a huge expense for nothing. First, it is not allowed for under the contract (see below). Second, Hawaii does not adjust for a minority interest in leasehold renegotiations. Third, The Kong's own 100% of the land that each leasehold unit is on and they are redetermining the rent of each such unit. Their minority interest of the whole is just not relevant.

The concept was rejected by both our agent and our attorney and (to my knowledge) is not followed anywhere. The certain outcome of making that demand on the Kong's was arbitration, incurring a cost of several hundred thousand dollars, and I am told, a near 100% chance of losing.

I think there are many distinctions here. First, while the Kong's own < 50% of the total land, they own FAR more than anyone else and they own 100% of the land subject to a lease. This is not a case of two owners, one with more and one with less than 50%. Second, marketability is irrelevant. Not a factor here. Third, lack of control is irrelevant. Whether they have 60% or 40%, they exercise no "control" over the management of the property. There is a Horizontal Property Regime and control is governed by that document.

The situations and cases in your paper deal with IRS valuation/taxation issues and shareholders that own less than half a company. Those are entirely different than a Lease Agreement with a formula for establishing the value of the lease rent every 10 years. None of the citations appear even remotely akin to that. If you have a published Hawaii case that is similar to our situation, where the issue is determining if a Master Lease that has a formula for revaluation of the lease rent at fixed intervals impliedly allows (or requires) a "minority" discount if the Master lease holder owns less than 100% of the TOTAL real estate, I'll certainly look at it. But the people that do this all the time say that is not a thing.

Here is a cut/paste of the Master Lease language that we are working with. The key point is that there is no place in there for inferring that any of the numbers can be reduced for "minority interest" or anything else. The land is valued as a whole. Then 6% of that. Then 46.1754% of that.

3. RENT. Lessees shall pay to Lessors in legal tender of the United States, in equal monthly installments, in advance, and without deduction or demand, the following rentals:

From date of commencement until June 30, 1972, \$33,600

July 1, 1972-June 30, 1985, 54,000

July 1, 1985-June 30, 1995, 62,100

July 1, 1995-June 30, 2010, 75,400

July 1, 2010-June 30, 2025, 90,500

July 1, 2025-June 30, 2035, renegotiated

July 1, 2035-June 30, 2045, renegotiated

July 1, 2045-June 30, 2055, renegotiated

July 1, 2055-end of lease renegotiated

The annual rent for and during each of the periods of the lease term which must be renegotiated shall be 6% of the fair market value of the parcel, exclusive of improvements, at its highest and best use (the highest and best use of the premises, for all purposes herein, shall be deemed to be the design and size of the improvements constructed by Lessees), as shall be determined for each of said periods by written agreement of Lessors and Lessees, and if they fail to reach agreement as to the fair market value of the parcel at least ninety (90) days before the commencement of any such period, the said fair market value for the property, exclusive of improvements, at its highest and best use shall be determined by arbitration set forth in paragraph 23 of this lease.

**Craig S Steinberg, O.D., J.D.**

[craig@CSteinbergLaw.com](mailto:craig@CSteinbergLaw.com)

[www.CSteinbergLaw.com](http://www.CSteinbergLaw.com)

(818) 879-7919 Voice

(818) 879-7950 Fax

5737 Kanan Road, #540  
Agoura Hills, CA 91301

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**From:** rg flpropertylawyers.com <rg@flpropertylawyers.com>

**Sent:** Wednesday, October 15, 2025 12:48 PM

**To:** Craig S Steinberg, O.D., J.D. <craig@csteinberglaw.com>; 'RG hawaiianbeachrealty.com' <rg@hawaiianbeachrealty.com>

**Subject:** RE: Leasehold status 24A

Thanks for the President's update yesterday. I have several concerns about the computation methodology described. My most significant issue is that it does not appear that the land value discount concept we discussed a few months ago has been utilized. The discounted land value of the minority interest must be determined and agreed before applying the 6.0% lease rate. The methodology described in your update appears to result in an inflated leasehold payment which further acts as a disincentive to the land lessor to part with the fee. I have attached a more detailed analysis, description, and lengthy citations regarding this discount concept, which may be summarized as follows:

The attached document analyzes the valuation of a 46.1754% minority ownership interest in leasehold estates, emphasizing the necessity of applying a discount due to lack of control and marketability. It draws on valuation principles, court cases, industry standards, and IRS guidelines to support the use of a discount range when valuing such fractional interests.

• **Minority interests require discounts:** Interests below 50% ownership lack control and must be discounted to reflect economic realities such as limited decision-making and marketability. [1] [2]

- **Fair market value definition:** Fractional interests are worth less than their proportional share since buyers would not pay full value for non-controlling interests. [3] [4]
- **Factors influencing discounts:** Number of owners, size of interest, tract size, land use, financing availability, and partition costs affect discount magnitude. [5] [6]
- **Characteristics reducing value:** Lack of marketability, longer marketing time, lack of control, limited refinancing ability, and restricted influence on management decrease fractional interest value. [7] [8]
- **Court-recognized discount ranges:** Courts have approved discounts from about 20% to 60% for minority interests, with specific cases illustrating discounts for interests near 25% to 50%. [9] [10]
- **Industry standards and empirical data:** Valuation firms report discounts ranging from 15% to 67%, commonly 20%-35%, reflecting lack of control and marketability components. [11] [12]
- **Discount components:** Discounts generally combine a Discount for Lack of Control (20%-40%) and a Discount for Lack of Marketability (10%-33%), applied sequentially. [13] [14]
- **Valuation methodology for 46.1754% interest:** The minority interest should be valued by applying a minimum 20%-35% combined discount to the proportional share of total land value, accounting for leasehold complexities and partition costs, BEFORE applying the 6.0% lease rate. [15] [16]

If you have any questions, feel free to give me a call.

Mahalo!

**Rick Green**  
**1910 Ala Moana Blvd. Apt. 24A**  
**Honolulu, HI 96815**  
**954-298-2771**  
**808-753-6336**

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**From:** Craig S Steinberg, O.D., J.D. <[craig@csteinberglaw.com](mailto:craig@csteinberglaw.com)>  
**Sent:** Wednesday, September 24, 2025 11:47 AM  
**To:** rg flpropertylawyers.com <[rg@flpropertylawyers.com](mailto:rg@flpropertylawyers.com)>; 'RG hawaiianbeachrealty.com' <[rg@hawaiianbeachrealty.com](mailto:rg@hawaiianbeachrealty.com)>  
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Assuming it finalizes, we're pretty happy with the outcome. Without having to incur the substantial costs of an arbitration we have a valuation that's quite reasonable given the 2019 starting position. I don't have the exact %, but its about a 3% per year increase, which is well below what our agent said it could be (he estimated it could appraise as much as 4% or even 4.5% annual increase).

**Craig S Steinberg, O.D., J.D.**  
[craig@CSteinbergLaw.com](mailto:craig@CSteinbergLaw.com)  
[www.CSteinbergLaw.com](http://www.CSteinbergLaw.com)  
 (818) 879-7919 Voice  
 (818) 879-7950 Fax

5737 Kanan Road, #540  
 Agoura Hills, CA 91301

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**From:** rg flpropertylawyers.com <[rg@flpropertylawyers.com](mailto:rg@flpropertylawyers.com)>  
**Sent:** Wednesday, September 24, 2025 2:37 PM  
**To:** Craig S Steinberg, O.D., J.D. <[craig@csteinberglaw.com](mailto:craig@csteinberglaw.com)>; 'RG hawaiianbeachrealty.com' <[rg@hawaiianbeachrealty.com](mailto:rg@hawaiianbeachrealty.com)>  
**Subject:** Re: Leasehold status 24A

Gulp....Mahalo!

Sent via the Samsung Galaxy S24 Ultra, an AT&T 5G smartphone  
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**From:** Craig S Steinberg, O.D., J.D. <[craig@csteinberglaw.com](mailto:craig@csteinberglaw.com)>  
**Sent:** Wednesday, September 24, 2025 11:23:22 AM  
**To:** 'RG hawaiianbeachrealty.com' <[rg@hawaiianbeachrealty.com](mailto:rg@hawaiianbeachrealty.com)>  
**Cc:** rg flpropertylawyers.com <[rg@flpropertylawyers.com](mailto:rg@flpropertylawyers.com)>  
**Subject:** RE: Leasehold status 24A

Aloha Rick,

We have an agreement in principle with the Lessor's on the land value and are awaiting their attorney's draft of the agreement. There is nothing written for the Board to approve or vote on yet, right now the agreement is only verbal. We were supposed to have the draft by last Friday with a goal of execution by Sept. 26, but their attorney has not drafted it yet. We reminded him that we're not paying interest so the longer he takes the more it's costing his clients.

Once we have it fully signed we'll have a specific plan in place for the "catch up" payments. Our calculation is that your ground lease will be about \$883 under the agreement (don't hold me to that because that's not official or final yet) so you can work off of that to estimate pretty closely what you'll owe once everything is finalized and what your ongoing lease will be.

Its moved slowly largely because the other side is VERY slow to respond to anything.

Craig

**Craig S Steinberg, O.D., J.D.**  
[craig@CSteinbergLaw.com](mailto:craig@CSteinbergLaw.com)  
[www.CSteinbergLaw.com](http://www.CSteinbergLaw.com)  
(818) 879-7919 Voice  
(818) 879-7950 Fax

5737 Kanan Road, #540  
Agoura Hills, CA 91301

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**From:** RG hawaiianbeachrealty.com <[rg@hawaiianbeachrealty.com](mailto:rg@hawaiianbeachrealty.com)>

**Sent:** Wednesday, September 24, 2025 1:12 PM

**To:** Craig S Steinberg, O.D., J.D. <[craig@csteinberglaw.com](mailto:craig@csteinberglaw.com)>

**Cc:** [rg@flpropertylawyers.com](mailto:rg@flpropertylawyers.com)

**Subject:** Leasehold status 24A

Can you provide any kind of progress update on the overdue leasehold renewal? If there is any kind of committee work needed, let me know and I would be happy to help.

Mahalo!

**Rick Green**  
**1910 Ala Moana Blvd. Apt. 24A**  
**Honolulu, HI 96815**  
**954-298-2771**  
**808-753-6336**