

New Lease Knotty Issue in Hotel Talks

By EDWARD GREANEY
Negotiations between Sheraton Corp. and the Bishop Estate for a 60-year lease on 16 acres of Royal Hawaiian Hotel property broke down last week.

Estate and hotel negotiators had conflicting statements on the point where talks were called off.

The Matson Navigation Co. lease runs from 1926 to 1976 for an annual rental of \$25,000. This was increased to \$26,300 recently. The property includes 1,200 feet of frontage on Kalakaua Ave.

The lease negotiators for the estate in 1926 set the value of the land at about \$300,000—a \$25,000 rental would give a 5 per cent return on the property.

TODAY the property's land value is \$7.5 million according to the tax assessors, Richards said. The hotel, built at a cost of \$3.5 million, and the other buildings on the land have a total value of \$5.5 million, he added.

(The estate estimates the hotel would cost \$8 million to be built today.)

According to Atherton Richards, estate trustee, Sheraton negotiators said that the value of both land and buildings today is "not in excess of \$6 million." (The hotel chain is buying the Royal, the Moana-Surf-Rider, the Princess Kaiulani, and other miscellaneous leasehold and leasehold real estate from Matson Navigation Co. for a total of \$17.6 million.)

ON FEB. 15, Sheraton offered in writing to construct at least \$3 million worth of improvements on the 16 acres. Sheraton wants a 60 year lease beginning this June with reopening periods for renegotiating the rent in 1975 and every 10 years thereafter—or three additional periods.

Sheraton would pay \$100,000 a year until 1975—or \$75,000 more than the present lease.

In 1975 a new rental would be negotiated for not less than \$300,000 annually. But how this new rental would be determined is what the chain and the estate can't agree upon.

Sheraton offered in writing the idea of paying 4 per cent on the value of all the land and buildings, including the improvements that Sheraton will build.

The estate has never considered the value of improvements built by the tenant arriving at a rental in the past, Richards said. (An exception to this rule: where the ownership of the improvements has reverted to the estate under an expired lease.)

HOWEVER, the chain said it would not include the value of any further improvements made after 1975 in the last three negotiating periods of the lease.

If all this isn't complicated enough, let's go a step further. The Royal Hawaiian property has both hotel property and commercial property.

Richards quotes the Sheraton people as agreeing to a value of \$24 a foot on the Kalakaua Ave. frontage of \$3.6 million for 150,000 square feet and \$800,000 for the commercial buildings on this frontage (depreciated value in 1975).

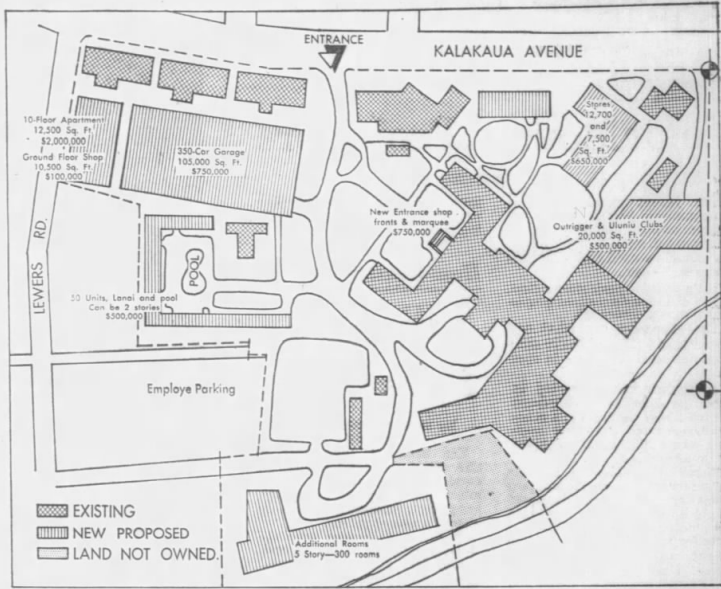
This means that Sheraton considers the commercial property worth \$4.2 million and the other 550,000 square feet plus the hotel building as worth \$1.8 million, according to Richards.

The trustee quotes a Bank of Hawaii report last November that Waikiki real estate values have increased almost four and a half times since 1950. They have increased 15 times in 1975, he says. He is determined not to make the mistake of 1926 over again.

J. J. Schubert, senior vice president of the chain and chief negotiator for the company, said that negotiations with the estate—represented by Richards—collapsed when Richards threw in a last minute proposal that would have cost Sheraton \$100,000 a year more on the rental after 1975.

THE VALUE of the \$5 million worth of improvements would be about fifty-five times the commercial and hotel expansion.

Richards proposed that the 4 per cent rate be based on the \$2.5 million worth of hotel improvements only—or \$100,000 annually—and that the \$2.5 million worth of commercial property be exempt from the calculations. (The present commercial buildings, reverting to the estate under the present lease in



Map shows Sheraton plans for development of Royal Hawaiian grounds.

1975, would be included in arriving at a rental at 4 per cent in 1975, however," he says. The trustee said Friday he believes this is what

Sheraton meant by an extra \$100,000, but he points out that the Sheraton executive previously had offered to include the whole \$5 mil-

lion worth of improvements in the calculations. So he argues that actually the estate is shaving \$100,000 from the offer Sheraton al-

ready had made. Schubert left for the Mainland Wednesday and as things stand now, the chain has a lease until 1975.

Mid-Pacific Gas Session Will Open Here Tuesday

Local gas appliance dealers and distributors will meet and hear some of the outstanding men in the gas industry next Tuesday when the first Mid-Pacific Gas Merchandising Co. n conference opens at the Hawaii Village Hotel.

SPONSORED BY the Gas Appliance Society of Hawaii and the Pacific Coast Gas Assn., it will be attended by members of the industry from all over the world. Robert D. Scott, who was vice president of the Naup-

Scott are at the Rosalei.

HENRY J. KAISER will welcome the delegates Tuesday morning at 10. First speaker will be G.S. Stackpole, managing director of the American Gas Assn. His topic will be "Have Gas—Will Travel."

Appliance dealers and utility men from all parts of the Territory will attend.

Plant Engineers

E. W. Beimes of the 14th Naval District public works unit was selected president of

Bishop Estate Would Save 2 Beach Clubs

If the Sheraton Corp. builds facilities for the Outrigger and Ulumu clubs on the Royal Hawaiian Hotel grounds the Bishop Estate will buy them back from Sheraton when the chain's lease expires in 1975, according to Atherton Richards, estate trustee.

Richards said he feels it is to the chain's interest to keep the two institutions at Waikiki as places where tourists can meet islanders.

They are the only places left for residents on Waikiki beach, the trustee observed.

These Plans Affected By Lease Fight

Here's a run-down on Sheraton Corp.'s \$5.2 million development plan for the Bishop Estate portion of the Royal Hawaiian Hotel grounds:

1. A 10-story, 100-unit, \$25 million apartment building with ground floor shops fronting on Levers St.
2. A 350-car, \$750,000 garage for hotel, store and beach club patrons.
3. A \$500,000 cabana of 80 units built around a pool. The Cabana could go two stories.

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