RE 300 Principles of Real Estate

Spring 2019

Instructor: Nicholas Ordway, J.D., Ph.D.
            Professor of Financial Economics and Institutions

Office Hours: Wednesday and Friday 12:00-1:00 PM and by appointment

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Telephone: 956-7892

E-Mail: olgierd@hawaii.edu

Classroom meetings and times and place: Classes will be held at 9:00-10:15 in Rm D-203.

Catalog Description: Principles, including legal, physical, economic elements, valuation, market analysis, finance, investments, and public and private externalities affecting the allocation and utilization of real estate resources.

Prerequisites: None

Course Objectives:

1. To provide you with a broad background in real estate principles that will make you more effective in making home purchase decisions. Particular attention will be placed on personal finance and other consumer decisions.

2. To familiarize you with various real estate professions.

3. To help you understand the cyclical nature of real estate markets and the risks associated with the timing of real estate investments.

4. To understand the fundamentals of successful real estate investing.

5. To understand mortgage financing basics.

6. To give you local knowledge about the unique aspects of Hawai‘i’s aina and respect for local culture and traditions.

7. To use Internet tools.

NOTE: This course is NOT designed to prepare you for the real estate license exam. For information on course for pre-licensing preparation that qualifies you for the exam please see the Hawai‘i Real Estate Commission Website: http://www.hawaii.gov/hirec/ and click on “Real Estate Education” and then “Prelicensing Schedule.”
Relation to “Institutional Learning Objectives for Undergraduate Students” (ILOs):

ILO 2a. Think critically and creatively: Elements applied in this course include – “being information literate – knowledge, procedures, processes, or products to discern bias and arrive at reasoned conclusions”; “reasoning with numbers and other mathematical concepts (numeracy)”, and “developing financial literacy.”

ILO 2b. Conduct research: Elements applied in this course include - “using library and information systems.” (Instructor’s note: particularly the Internet)

ILO 2c. Communicate and report: Elements applied in this course include – “written and oral communication”. (Instructor’s note: short reports)

ILO 3a. Continuous learning and personal growth: Elements applied in this course include – “ethical behaviors and judgments” and “habits of scholarly inquiry.”


Internet websites will be suggested.

Grading:

1. Class Projects 30 points (it is possible to gain 36 points with the bonuses)

You must turn in all homework projects on date indicated in the schedule; Each project is worth up to 12 points (up to 2 bonus points if you are called on and present your answer in class): Excellent = 10 points; A = 9 points; B= 8 points; C=7 points, & D = 6 points; Failing to turn in project = (- 5 points). Late submissions will carry a penalty of one (1) point for each day the submission is late.

2. Test #1 25 points

3. Test #2 25 points

4. Final Exam 20 points

Grade-Score Equivalents:

A+ = 97 points +
A  = 93 points +
A-  = 90 points +
B+  = 87 points +
B  = 83 points +
B- = 80 points +
C+ = 77 points +
C = 73 points +
C- = 70 points +
D = 60 points +
F = below 60 points

Class Policies:

1. You have a limited license to tape record lectures for your own personal use.

2. Generally any open time/date is available for appointments. Probably the best way to make appointments is by e-mail.

3. You are encouraged to use e-mail to ask questions. However, e-mail is not acceptable for turning in assignments. Grades will NOT be provided by e-mail or telephone. However this information is always available to you if you personally come to my office.

4. I tend not to answer my phone calls until a sufficient number of messages have group up (Time management). If you make a phone call – make sure you leave a message.

5. You are encouraged to meet with the professor outside of class if you need additional help understanding the concepts. Let me know by e-mail if you plan to come in so that the outer door can be opened (if necessary).

6. All assignments must be typed.

7. Unexcused late paper will suffer a penalty. Any excuses must be documented.

8. There are many handouts in class. If you are not present when these handout are given, you will need to make an appointment with the instructor to obtain the handout.

9. Try not to come to class late – Often the instructor provides valuable test tips during the first five minutes of class. These tips are not provided again during the test reviews which also start at the beginning of a class period.

10. If you are more than fifteen minutes late for a test, you may be required to take a make-up test at a later time or date which is likely to be more difficult.

11. Academic Honesty: Because UHM is an academic community with high professional standards, its teaching, research, and service purposes are seriously disrupted and subverted by academic dishonesty. Such dishonesty includes cheating and plagiarism as defined below. Ignorance of these definitions will not provide an excuse for acts of academic dishonesty.

A. Cheating includes but is not limited to giving or receiving unauthorized assistance during an examination; obtaining unauthorized information about an examination before it is given; submitting another’s work as one’s own; using prohibited sources of information during an
examination; fabricating or falsifying data in experiments and other research; altering the record of any grade; altering answers after an examination has been submitted; falsifying any official University record; or misrepresenting of facts in order to obtain exemptions from course requirements.

B. Plagiarism includes but is not limited to submitting, in fulfillment of an academic requirement, any work that has been copied in whole or in part from another individual’s work without attributing that borrowed portion to the individual; neglecting to identify as a quotation another’s idea and particular phrasing that was not assimilated into the student’s language and style or paraphrasing a passage so that the reader is misled as to the source; or submitting the same written or oral or artistic material in more than one course without obtaining authorization from the instructor involved.

12. Service to Students with Disabilities: If you are a students with a physical and/or mental disability, you are encouraged to contact the Kokua Program (956-7511) on the ground floor of the new Student Services Center.

13. Title IX: Students who need information about the University’s policy on equal protection rights regarding sex and gender issues consult the following website – https://manoa.hawaii.edu/titleix/.

SCHEDULE
(Caveat: Minor changes may be made in the schedule as the semester progresses.)

January

Tuesday  8    Introductions/ Class Policies/ Objectives; Real estate and career planning (no reading assignment).

Thursday 10    Ch. 1 - Nature of real estate and real estate markets.

Tuesday 15    Ch. 12 – Real estate brokerage and listing contracts. HOMEWORK PROJECT ONE: On a Sunday, go to at least three open houses. Write a description of the experience. You may do this assignment as a group with up to 2 other students (only one paper needs to be turned in for the group. Due February 12.

September

Thursday 17    Ch. 13 – Contracts for sale and closing.

Tuesday 22    Ch. 21 – Enhancing value through ongoing management.

Thursday 24    Ch. 22 – Leases and property types.
Tuesday 29  Ch. 23 – Development: The dynamics of creating value.
Thursday 31  Ch. 2 – Legal foundations to value.

February
Tuesday  5  Ch. 3 – Conveying real property interests. **Review for test 1.**
Thursday 7  **TEST NUMBER ONE**

Tuesday 12  Ch. 4 – Government controls and real estate markets. **Project One is due.**
Thursday 14  Ch. 5 – Market determinants of value. **HOMEWORK PROJECT TWO**
(individual project but you can discuss issues with other students): Go to any shopping center, draw a general site plan (can be hand done). Indicate its strengths and weaknesses. Indicate how you think the shopping center can be improved. **Due March 5.**

Tuesday 19  Ch. 6 – Forecasting ownership benefits and value: Market research. **Discussion of Project One.**
Thursday 21  Ch. 7 – Valuation using the sales comparison and cost approaches.

Tuesday 26  Continued
Thursday 28  Ch. 8 – Valuation using the income approach.

March
Tuesday  5  Ch. 9 – Real estate finance: The laws and contracts. **Project Two is due.**
Thursday  7  Real estate finance continue. **Discussion of Project Two.**

Tuesday 12  Ch. 10 – Residential mortgage types and borrower decisions
Thursday 14  Ch. 11 – Sources of funds for residential mortgages.

Spring Break (March 18 -19)

Tuesday 26  Prince Kuhio Day – No class
Thursday  28  Ch. 14 – The effects of time and risk on value. **HOMEWORK**
**PROJECT THREE** (individual project but you can discuss issues with other students):
Investment case for analysis is passed out. **Due April 25.**

<table>
<thead>
<tr>
<th>April</th>
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<tbody>
<tr>
<td>Tuesday  2</td>
</tr>
<tr>
<td>Tuesday  9</td>
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<tr>
<td>Thursday  11</td>
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</tbody>
</table>

| Tuesday  16  | **TEST NUMBER TWO** |
| Thursday  18  | Ch. 16 – Commercial mortgage types and decisions and Ch. 17 – Sources of commercial debt and equity capital. |

| Tuesday  23  | Ch. 18 – Investment decisions: Ratios. |
| Thursday  25  | Ch. 19 – Investment Decisions NPV and IRR. Ch. 20 – Income Taxation and Value. **Project Three is due.** |

| Tuesday  30  | Special topics and **Discussion of Project Three.** |

**May**

| Thursday  2  | **Review for Final Exam** |

| Tuesday  7  | **FINAL EXAM (9:45-11:45 am)** |
Figure 3.2
Land Division System of Native Hawaiians

Island (moku-puni)

Ahupuaʻas

Moku

ʻIli, also ʻelele if several ʻili are part of same property interest
Figure 3.3  
Distribution of Land After the Mahele

<table>
<thead>
<tr>
<th>Government Lands&lt;sup&gt;1&lt;/sup&gt;</th>
<th>King's Lands&lt;sup&gt;1&lt;/sup&gt; or Crown Lands&lt;sup&gt;3&lt;/sup&gt;</th>
<th>Konohiki Lands&lt;sup&gt;1&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.5 million acres &lt;br&gt;Public Sales: Royal Patent (1846-1893) Land Patents (1893 and after)</td>
<td>1 million acres &lt;br&gt;Private Sales: Kamehameha Deeds (1848-1865)</td>
<td>1.6 million acres &lt;br&gt;Land Commission Awards and Royal Patents on the Awards (1845-1855) Mahele Awards (1860-1862)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ceded Lands&lt;sup&gt;4&lt;/sup&gt;</th>
<th>Hawaiian Home Lands&lt;sup&gt;5&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.75 million acres</td>
<td>188,000 acres &lt;br&gt;Leases to native Hawaiians for 99 years</td>
</tr>
</tbody>
</table>

Kuleana lands 28,600 acres<sup>2</sup>

1 Mahele – January 27, 1848  
2 Kuleana Act of August 6, 1850  
3 Act of Legislature, January 3, 1865 made lands inalienable  
4 Joint Resolution of Annexation (1898)  
5 Hawaiian Homes Commission Act (1921); in 1994 the State of Hawaii added 16,518 acres to the trust.
## Table 3.1: How Property Rights in Hawai‘i Became Fully Assigned

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>Economic or Social Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>1795-1819</td>
<td>Kamehameha Reign Over Hawai‘i</td>
<td>Changing expectations regarding property rights due to sandalwood trade and other foreign commerce</td>
</tr>
<tr>
<td>1819</td>
<td>Destruction of Kapu System</td>
<td>Separation of land rights from religious/social relationships defined by Kapu System</td>
</tr>
<tr>
<td>1825</td>
<td>Law of 1825</td>
<td>Allowing ali‘i to retain lands on death of King</td>
</tr>
<tr>
<td>1839</td>
<td>Bill of Rights</td>
<td>Protection against arbitrary dispossession</td>
</tr>
<tr>
<td>1840</td>
<td>First Constitution</td>
<td>Vested title of land in ali‘i and people in common with King retaining right of management</td>
</tr>
<tr>
<td>1841</td>
<td>Legislature Gives Leasing Authority</td>
<td>Gave Governors right to issue 50-year land leases to foreigners</td>
</tr>
<tr>
<td>1845</td>
<td>Creation of Land Commission</td>
<td>Established principles for allocation of land title among King, ali‘i, and tenants</td>
</tr>
<tr>
<td>1848</td>
<td>Mahele</td>
<td>Actual division of land between King and ali‘i allocation of King’s share between King’s land and government land</td>
</tr>
<tr>
<td>1850</td>
<td>Act of 1850</td>
<td>Provided for allocation of kuleana’s to tenants</td>
</tr>
<tr>
<td>1858</td>
<td>Oni v. John Meek Case</td>
<td>Clarification by court that Mahele vested fee simple title and severed tenant’s duties to ali‘i</td>
</tr>
</tbody>
</table>
Below are some samples of Legal Land Descriptions in Hawaii:

FIRST, a complicated Metes and Bounds description:

The site, a fee simple commercial improved property containing a land area of 9,204 square feet with a street address of 1177 Alakea Street, Honolulu, Hawaii, is identified on Hawaii Tax Maps as First Division Tax Map Key 2-1-17, Parcel 05.

**Legal Description**

All of that certain parcel of land (being portion(s) of the land(s) described in and covered by Deed of Kamehameha III to B. Pitman, dated June 17, 1852, recorded in Liber 5 at Page 310, and Royal Patent Number 108, Land Commission Award Number 4883 to William French) situate, lying and being at the south corner of Beretania and Alakea streets at Honolulu, City and County of Honolulu, State of Hawaii, and thus bounded and described:

Beginning at the north corner of this piece of land, being also the south corner of Beretania and Alakea Streets, and running by true azimuths:
1. 328° 39' 91.08 feet along the southwest side of Beretania Street;
2. 58° 20' 46.80 feet along Land Court Application 395;
3. 59° 02' 39.60 feet along same;
4. 326° 57' 11.00 feet along same;
5. 52° 04' 64.00 feet along same;
6. 143° 18' 83.80 feet along same;
7. 229° 17' 159.58 feet along the southeast side of Alakea Street to the point of beginning and containing an area of 13,055 square feet, more or less.

Excepting and reserving therefrom that certain parcel of land acquired by the CITY AND COUNTY OF HONOLULU by FINAL ORDER OF CONDEMNATION (Civil No. 4391) dated May 7, 1962, recorded in Liber 4272 at Page 383, being PARCEL 8 ( Portions of the land described in and covered by Deed of Kamehameha III to B. Pitman, dated June 17, 1852, recorded in Liber 5 at Page 310, and Royal Patent Number 108, Land Commission Award Number 4883 to William French) situate, lying and being at the south corner of Beretania and Alakea Streets at Honolulu, City and County of Honolulu, State of Hawaii, and being more particularly described as follows:

Beginning at the southerly corner of this parcel of land and on the proposed southeast side of Alakea Street, the coordinates of said point of beginning referred to Government Survey Triangulation Station "PUNCHBOWL" being 991.88 feet south and 3,193.14 feet west, and running by azimuths measured clockwise from true south:

1. 143° 18' 18.01 feet along Lot A-1 (Map 3) of Land Court Application 395;
2. 229° 17' 159.58 feet along the present southeast side of Alakea Street;
3. 328° 39' 91.08 feet along the present southwest side of Beretania Street;
4. 58° 20' 10.00 feet along a jog on same;
5. 148° 39' 35.93 feet along the proposed southwest side of Beretania Street along the remainder of the Deed of Kamehameha III to B. Pitman, dated June 17, 1852 and recorded in Liber 5, Page 310 in the Bureau of Conveyances at Honolulu, Hawaii;
6. Thence along the proposed south corner of Beretania and Alakea Streets along the remainder of Deed of Kamehameha III to B. Pitman, dated June 17, 1852 and recorded in Liber 5, Page 310 in the Bureau of Conveyances at Honolulu, Hawaii, on a curve to the left with a radius of 30.00 feet, the chord azimuth and distance being 98° 58' 45.75 feet;

7. 49° 17' 112.41 feet along the proposed southeast side of Alakea Street along the remainders of Deed of Kamehameha III to B. Pitman, dated June 17, 1852 and recorded in Liber 5, Page 310 in the Bureau of Conveyances at Honolulu, Hawaii, and R. P. 108, L.C. Aw. 4883 to William French to the point of beginning an area of 3,852 square feet.

SUBJECT, HOWEVER, to the following:
1. Reservation in favor of the State of Hawaii of all mineral and metallic mines.
2. Terms, agreements, reservations, covenants, conditions and provisions contained in said Lease, as amended, referred to herein.

A careful reader might note that subtracting 3,852 square feet from 13,055 square feet would ordinarily leave a balance of 9,203 square feet instead of 9,204 square feet. These discrepancies occur.

Sometimes, as in the first description above, the point of beginning is a street intersection "Beginning at the north corner of this piece of land, being also the south corner of Beretania and Alakea Streets." Sometimes, as in the second description above, it is a Government Survey Triangulation Station.

Sometimes, as in the first description above, they simply say "running by true azimuths." Sometimes, as in the second description above, they say "running by azimuths measured clockwise from true south." All Hawaiian azimuths are measured clockwise from true south whether so stated or not.

A Hawaii Tax Map showing the subject property is attached.
SECOND, a legal description by Land Court Map:

The site, containing a total land area of about 54,808 square feet, is a
fee industrial improved property with a street address of 2278 Honee Place,
Honolulu, Hawaii, identified on Hawaii Tax Maps as First Division Tax Map
Key 1-2-21, Parcel 29.

Legal Description:

All of that certain parcel of land situate at Kalihi, Honolulu, City
and County of Honolulu, State of Hawaii, described as follows:

Lot 57, area 54,808 square feet, more or less, as shown on Map 70,
filed in the Office of the Assistant Registrar of the Land Court of the
State of Hawaii with Land Court Application No. 258 of Elizabeth
Kalilikulani Meyer;

Together with an easement for road and utility purposes to be used in
common with Dillingham Corporation and others thereunto entitled across
Lots 3-B-1-A-1-C AND 3-B-1-A-2-D, as shown on Map 38, of said application;

Together also with an appurtenant, nonexclusive right and easement for
the installation, laying, maintaining, repairing, replacing and removing
underground pipe lines and other conduits for water purposes and for
manholes and other operational facilities in connection therewith, in,
along, across, through and under Easement "K" within Lot 56, as shown on
said Map 70, together, also with the right of ingress and egress to and
from said easement area over that portion of said Lot 56 adjacent thereto
for purposes of exercising said easement rights, being the easement
reserved in Document No. 1048587;

Together also with an appurtenant, nonexclusive right and easement for
the installation, laying, maintaining, repairing, replacing and removing
underground pipe lines and other conduits for sewer purposes, and for
manholes and other operational facilities in connection therewith, in,
along, across, through and under Easement "L", as shown on said Map 70,
being within Lots 58, 59 and 63, together, also with the right of ingress
to and egress from said easement area over those portions of said Lots 58
and 59 adjacent thereto for purposes of exercising the easement rights;
provided, however, that said right and easement shall terminate, upon the
conveyance thereof to or condemnation thereof by City and County of
Honolulu or State of Hawaii, and said easement having been reserved as to
said Lots 58 and 59 in Deeds, dated October 10, 1979, May 7, 1979 and June
6, 1979, filed as Document Nos. 975068, 937330 and 1011824, respectively;

Together also with an appurtenant, nonexclusive right and easement for
road and utility purposes over, across, along, upon and under Easement "Q"
as shown on said Map 70, being within Lot 58 having been reserved in Deed
dated October 10, 1979, filed as Document No. 975068;

Being land(s) described in Transfer Certificate of Title No. 287,699
issued to OAHU BINDERY, INC., a Hawaii corporation.
THIRD, a Legal Description by Subdivision Plan:

The site, containing a total land area of about 5,000 square feet, is an improved fee simple industrial property with a street address of 1814 Colburn Street, Honolulu, Hawaii, identified on Hawaii Tax Maps as First Division Tax Map Key 1-2-03, Parcel 09.

Legal Description:

All of that certain lot, piece or parcel of land situate at Mokaua, Kalihi in Honolulu, and being a part of those premises known as Apana I, described in Land Commission Award 6450 to Kaunuohua for Moehonua, and known as Lot 10, Block 10, of the Kapiolani Tract, as delineated and designated upon that certain map or "Plan of the Kapiolani Tract", made by S. M. Kanakanui, Surveyor, and recorded in Hawaiian Registry of Deeds in Book 245, Page 409, containing an area of 5,000 square feet.

Being all the property conveyed to THOMAS K. T. LEONG and ROSE M. LEONG, husband and wife, as tenants by the entirety, by Deed dated July 30, 1955, recorded in the Bureau of Conveyances of the State of Hawaii ("Bureau") in Book 2998, Page 114.

TOGETHER with the following described fixtures and/or personal property presently situated in or about the property hereinbefore described, to wit: all built-in furniture, attached fixtures and built-in appliances, water heater, electrical and/or gas and plumbing fixtures, attached carpeting and existing drapes.

SUBJECT, HOWEVER, to the title to all minerals and metallic mines reserved to the State of Hawaii.
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5. \( 52^\circ \) 04' 64.00 feet along same;
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3. \( 328^\circ \) 39' 91.08 feet along the present southwest side of Beretania Street;
4. \( 58^\circ \) 20' 10.00 feet along a jog on same;
5. \( 148^\circ \) 39' 35.93 feet along the proposed southwest side of Beretania Street along the remainder of the Deed of Kamehameha III to B. Pitman, dated June 17, 1852 and recorded in Liber 5, Page 310 in the Bureau of Conveyances at Honolulu, Hawaii;