

METRO METRICS, INC.

5272 RIVER ROAD, SUITE 755

WASHINGTON, D. C. 20016

(301) 854-2291

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September 20, 1974

Mr. James R. Leonard
James R. Leonard and Associates
1601 Connecticut Avenue
Washington, D.C. 20009

Dear Jim,

Transmitted herewith are copies of previously submitted draft and outline material to which has been added a sketchy draft of the summary and conclusions. These are working documents designed to communicate to you and the clients a preview of the character of the report together with an indication of the findings.

This preliminary material is in no sense to be construed as final. The indicated values are especially subject to revision depending on the outcome of the analyses which lead up to the final formation of an opinion.

We are proceeding as discussed in our Monday meeting and will continue to press for as early a completion date as possible.

Sincerely,

Maury Seldin

MS:bu.

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VALUE ANALYSES OF SELECTED PARCELS OF LAND FOR
MARIANAS POLITICAL STATUS COMMISSION:

PRELIMINARY DRAFT OF PART I AND
PRELIMINARY OUTLINE OF PARTS II AND III

PART I

INTRODUCTION AND SUMMARY

Introduction

Situation

The Marianas Political Status Commission and a delegation representing the United States are in negotiations aimed at achieving a political union between the present Mariana Islands District of the Trust Territory of the Pacific Islands and the United States of America. Among the items of negotiation are arrangements under which certain land will be made available to the U.S. for defense purposes.

The land which has been under discussion consists of

1. The Island of Farallon de Medinilla, a 229 acre parcel which has been made available as a target area.
2. Approximately 197 acres of land in the Tanapag Harbor, Saipan area now under military retention.
3. Approximately 482 acres in the Isley Field area of Saipan.
4. Approximately 17,475 acres of the Island of Tinian.

A Joint Land Committee has been appointed by the Marianas Political Status Commission and the President's Personal Representative to consider the exact details of specific requirements and means, procedures and terms for acquisition of land by the U.S. Government. It is in the interest of

all parties to the negotiations that the price under which the use of the land is made available to the U.S. Government be a fair price and that the record will show that such price together with its associated terms and conditions was arrived at in a reasonable and prudent manner.

Ordinarily the acquisition procedure utilized by the U.S. Government includes an appraisal of the land to be acquired. Typically one would expect that the parties making land available to the U.S. Government would also have an opinion of value to guide them in negotiations. The usual reasonable and prudent procedure of appraisal has been somewhat impeded because of technical difficulties in the application of the traditional techniques of appraisal.

The position of the U.S. representative appears to be that their valuation procedures are not readily applicable to the parcels under discussion and that they are prepared to negotiate price without the use of the usual appraisal process. The position of the representatives of the Marianas appears to be that it would not be reasonable to proceed to negotiate price without the benefit of expert counsel on the subject of a fair price based upon the value of the land. The function of this study is to provide analyses which will assist in the provision of such expert counsel on the subject of land value.

Purpose of Report

This report provides the basis of forming a professional opinion of the value of certain land on the islands of Saipan and Tinian, Marianas Islands District, Trust Territory of the Pacific Islands.

On the basis of the various analyses an informed opinion may be developed as to reasonable potential use of the subject parcels. That reasonable potential use may, if economically advantageous, become the highest and best use.

Highest and best use may be simply defined as use of land to the greatest economic advantage. That definition may be elaborated to include constraints imposed by societal and legal regulations. Additionally it may be elaborated to specify greatest economic advantage as the present value of future benefits.

The present value of future benefits involves a stream of income earned by the land through its use. The beginning of that stream of income may be imminent as under immediate development. Under these circumstances the element of immediate development is present.

The element of future development may also be present. Planners are plagued with the difficulty of land developed to the wrong use because the development comes too early. For example, commercial or high density development may be the highest and best use of a parcel of land but its time may not have arrived yet because the highway interchange or rapid transit stop has not been built yet. Sometimes the land which is best suited for these more intense uses is developed with low density housing which is a misuse of the land. That misuse, later corrected by demolition of good structures, is testimony to the fact that highest and best use considers a time dimension

Value is predicated on expectations. Some expectations are "speculative" in that the events permitting certain uses may or may not occur. While the

presence of uncertainty affects value it is normal to have some speculative aspect. The only difficulty with these uncertainties is that they are difficult to measure as they affect value.

One method of analyses, reasonably suitable when development to a specified use is imminent is to determine the value of land and buildings together and deduct out the cost of buildings together with the other costs of development of the land including the time value of money with an allowance in the rate for the uncertainties. This method is sensitive to error and not highly regarded in court proceedings involving condemnation. It can be very useful in conjunction with market comparison techniques and evaluation of investment alternatives.

The other technique for valuing land is by comparing a subject parcel with other parcels which have sold in the market. The sales prices of the comparable parcels are indicators of value. Thus, by analyzing the indicators and evaluating the differences there is a substantial evidence of value.

The expectations of future use, speculative as it may be or distant as it may be, are reflected in prices paid by the buyers. Markets are based upon expectations and it is simply a matter of finding out what people reasonably expect. That may be done by examining the transactions, by evaluating expectations, or by both. The techniques are logically connected.

The analyses of this report examine these expectations and evaluate indicators of value. The report presents analyses of forces which affect values and depending upon the level of detail to which each parcel is pursued provides indications of value.

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The report is organized in three parts. The first part contains this introduction and a summary of findings together with a report on methodology. The second part contains the location analyses which provide the basis for judgments on potential uses of land because of economic activity extant or emerging. The third part of the study contains analyses dealing with the ability of the land to be used for the purposes being demanded in the economy and the prices that are being paid for land with such uses and potential uses.

Preparatory to the summary of findings, the reader will find a general methodology statement helpful.

Methodology

Statement of the Problem. The statement of the problem varies by the parcel in that the level of detail and degree to which analyses have proceeded for the various parcels differ.

As to the approximately 17,475 acres on the Island of Tinian, the objective of the analyses is to get an estimate of value and/or an indicated value range of the fee simple rights to the land as of September 1, 1974 for the purpose of long term investment and development potential.

The purpose of long term investment and development potential is an assumed purpose as an alternate to the proposed military purpose. What is desired is a market value concept with potential buyers having various segments of a market to serve. The logic then is to assume that the property were available as an investment to appropriate purchasers with an understanding of the potential.

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A parcel of 17,475 if available for sale, might in fact not be offered as a single unit. The value of the land would relate to the intended use and since there are various potential uses the parcel might be offered as a series of smaller parcels each of which would be of substantial size. The completion of analyses of land plans indicating exactly which land would be suitable for which uses together with the information relevant to a development program would make this aggregate more valuable. Indeed, a prudent seller wishing to dispose of his land would develop such plans so that the maximum price could be received for the potential which exists. The assumption here is that such plans have not been made but that there is an implicit judgement of such a breakdown and the analyses would be done subsequent to acquisition.

The objective therefore is to arrive at some average per acre price of land which would be reasonable in a market giving consideration to the markets which might be served and the general capability of the land to serve such markets.

As to the approximately 482 acres of land in the Isley Field area of Saipan the objective is to get an estimate of value and/or an indicated value range for the fee simple rights to the land as of September 1, 1974 for the purpose of long term investment and development potential.

The statement of the problem is similar to that of the analyses of the Tinian parcel except for the diversity of uses. An average acreage price is sought to be developed from analyses as a reasonable price to be expected in a market where the purchase would be flexible to such opportunities or would develop without a specific development program. An indicated development program will influence the value as will the expected timing

but the statement of the problem is not to develop a feasibility analysis for the potential, proposed or intended uses. The results then desired would be a range in price which might be expected as a fair price for a sale to a purchaser where the purchaser did not have his feasibility analysis at a stage of assessing the extent of profitability.

The statement of the problem of analysis for the approximately 197 acres of land in the Tanapag Harbor area does not pursue the analysis to a level of detail which will necessarily indicate value or a value range. The preliminary analysis indicated that the time to development which would be acceptable in a market was so close that on a realistic basis, potential investors/purchasers would use an analysis of value of land and improvements less improvement costs. Thus, a seller of the 197 acres would ordinarily plan the parcel and sell it off by land use category or combinations of categories. Certainly the valuations would be broken down by intended uses.

Considering the time and resources allocated to this array of complicated value analyses the problem for analysis of the 197 acres is a determination of the various types of uses to which the land might have on allocation. While a range of prices has been inferred from such an analysis the data for a residual value approach has not developed for such an inference. It might be noted that if data for that approach were developed it might be under a joint scope of work statement prepared with the concurrence of the Marianas Political Status Commission and the U.S. Government representative. The objective of this analysis is thus to provide the basis for a scope of work statement should the usual government appraisal procedure be in order and to give a preliminary indication of value.

Finally, as to Farallon de Medinilla, the 229 acre island, the objective of the analysis is to give some background relevant to the locational developments in the area within which it is located. The general indicated values from the other analyses and/or the indicated development potential will be of use in understanding the limited nature of the uses to which the parcel might be put.

Assumptions.

1. The U.S.'s closed door policy may have delayed the beginning of the development of Guam so that the natural demand forces have been deferred; similarly, the closed door policy for the subject islands delayed growth so that historical development is not a valid indication of demand.
2. The Northern Mariana Islands will become a territory of the U.S. with a Commonwealth form of government. There will be no formal political union in the northern Marianas and Guam.
3. Economic development on subject islands will essentially take the form envisioned by James Leonard Associates.
4. There is a correlation between historical patterns of development on Guam and Saipan for the political, cultural, and geographic sectors.
5. Valuation of land does not include potential military usage of Tinian or the subject parcels on Saipan.

Analytical Techniques. The analytical techniques used were mainly a series of connected analyses oriented to the thread of reasoning necessary to forming the opinions on value and value forces. There were, however, some improvisations necessary in developing a comparative view because there were not available a series of comparable sales amenable to

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traditional techniques of analysis. The underlying traditional logic was, however, applied.

The first location analysis was of the Pacific Islands economy of Micronesia and Guam. The objective of that analysis was to identify the relationship of the area economy to the markets it serves insofar as it would affect the economic base of the same local economies in which the subject parcels are located.

The second locational analysis was of Guam. The development of Guam as the current economic center of the Guam-Micronesia economy is bound to generate an impact on the surrounding areas. The intent of the analysis is to deal with the spatial relationships and linkages which make it the hub of the area. Beyond that the analysis deals with an evaluation of the changing economic base of Guam. As it grows the components of its economic base change. Patterns in these components repeat in the outlying areas much in the same way as patterns repeat in metropolitan growth where nodal points are separated by land rather than by water. Understanding the basis of changing value of land in Guam is a preview to changing land values in Saipan and to a lesser degree on Tinian.

The next location analysis is of Saipan. Again linkages and changing economic base is explored. These changes in economic activity generate changes in the demand for land. Projections which have been developed by others are utilized to provide the basis for forecasting potential levels of activity which will require land of the character which is being analyzed.

The same types of analyses are conducted for Tinian to the extent that available data permit. These traditional type of analyses when

extended to fine level of detail provide the basis of forecasting the requirements for land. Part II is composed of these locational analyses.

The methodology continues with an examination of the physical character of the sites. The intent is to evaluate the types of uses to which the land might be put. The expectations with regard to such uses are prime determinants of value.

The values rise as the sites come closer to development. There are of course different values of land according to the type of development, its intensity and location. The next series of analyses provides indications of forces of value coming to bear as events occur over time.

The first in this series of analyses is a set of overviews of how land has increased in value as development occurred. This overview is based upon events in Guam. It may be supported by other areas but the essential character is clear. Land values may rise slowly in a use until the timing of development is seen on the horizon. Then it begins an upward climb with an increasing slope reflecting not only the shortening of time but also the increasing confidence in the development. Once the pattern for a type of land is seen one can get a basis for comparison with other land not so far up on the curve.

The next component analysis places the subject land some place on this rising curve by a level at which such land may have been sold and by looking at the relative position of the local economy in development. A judgment on the place in the scale of economic development affects the judgment of where land values are in the scale of rising values. These holistic views of markets can with trends and points give a range of indicated value.

There are only two basic methods of valuing land and they are related to each other. One is capitalizing its income producing potential and the other is to evaluate what it is worth by what people have paid (and what they have paid is based upon how they have evaluated the income potential). In the market, the investors usually do not use sophisticated techniques of evaluating the potential. They look to see where the land is in the trend of events which is a hybrid of the two techniques. The methodology used here is also a hybrid but it is obviously focused on a comparison of expectations.

Summary and Major Findings

The Pacific Islands economy has only recently begun to be opened for development to its economic potential. Historically it was impeded by

The lands of Micronesia are indeed lands of small size. The Guam, with approximately 213 square miles of land has become the hub of the area.

The distribution of economic activity indicates the character of the focal points....

The tourism of the area is heavily dependent upon a Japanese market

Guam, as the spearhead in the development of the area, was closed until 1960.

Its early development as a transportation link received a great impetus with the advent of tourism....

It is currently undergoing a transition in its economic base.... The tourism segment is destined to become but one of a number of components of an economic base....

Saipan shows signs of repeating some of the story of Guam although there are some substantial differences.

Some differences are in the political history. Some are in the timing of development which could build on the experiences of Guam. Related is the tourism aspect stemming from a differential attitude of the Japanese to Saipan vis a vis Guam....

Cultural and historical differences between Saipan (and the northern Marianas in general) cannot be ignored in perceptive analogies between Saipan and Guam....

Yet, the growth of Saipan as a water enveloped suburb of metropolitan Guam cannot be ignored....

....The relationships of the activities are partially indicated by

The role of Tinian is seen in this process as

In brief, Guam has gone through a period of rapid development. Saipan is beginning a similar pattern. Before the 1980's are over it is reasonable to expect that Tinian will also have begun an era of rapid development.

The character of that development on Tinian, as anywhere, will be influenced by the physical character of the land and its environment. Preliminarily our analyses indicate that the following is a reasonable allocation of land among various uses:

<u>Classification</u>	<u>Total Island Acreage</u>	<u>Acreage under Consideration</u>
Residential	2,800	1,500
Commercial	501	400
Industrial	500	500
Resort	700	300
Public	3,225	3,125
Conservation	2,033	1,150
Agriculture	<u>15,307</u>	<u>10,500</u>
TOTAL	<u><u>25,066</u></u>	<u><u>17,475</u></u>

A review of the development of Saipan and the character of the Isley Field parcel indicates the land as potential industrial.

The preliminary analysis of the Tanapag Harbor parcel indicates multi-uses for the 197 acre parcel. The preliminary analysis using a 200 acre basis for allocation is as follows:

<u>Classification</u>	<u>Acreage</u>
Residential	130 (127)
Hotel	20
Industrial	20
Commercial	10
Marina	<u>20</u>
	<u><u>200 (197)</u></u>

Value indicators are derived from historical patterns at Guam and recent activity on Saipan and Tinian

On the basis of work completed as of the writing of this draft and subject to review the values that are most likely to result upon completion of the analyses are seen as follows:

	<u>Acres</u>	<u>Per Acre</u>	<u>Total</u>
Tanapag Harbor			
Low density	70	\$ 12,000	\$ 840,000
Higher density	60	15,000	900,000
Hotel	20	100,000	200,000
Industrial	20	25,000	500,000
Commercial	10	20,000	200,000
Marina	20	40,000	800,000
	<u>200</u>		<u>\$5,240,000</u>
		say	<u>\$5,000,000</u>

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The Isley Field parcel of 482 acres is at about \$12,000 per acre worth about \$5,784,000 or say \$6,000,000.

The Tinian property is preliminarily (subject to revision) summarized as follows:

<u>Classification</u>	<u>Acreage</u>	<u>Per Acre</u>	<u>Total</u>
Industrial			
Harbor	50	\$100,000	\$ 500,000
Airfield	250	10,000	250,000
Prime	100	10,000	100,000
Secondary	100	5,000	50,000
			<u>\$ 9,000,000</u>
Resort	300	\$ 10,000	\$ 3,000,000
Residential	1,500	\$ 2,000	\$ 3,000,000
Commercial			
Prime	300	\$ 10,000	\$ 2,000,000
Secondary	200	5,000	1,000,000

<u>Classification</u>	<u>Acreage</u>	<u>Per Acre</u>	<u>Total</u>
Agriculture			
Primary	3,000	\$ 800	\$ 2,400,000
Secondary	3,000	500	1,500,000
Tertiary	4,500	300	<u>1,350,000</u>
			<u>\$23,250,000</u>
		say	<u>\$23,000,000</u>

Briefly by parcel

Tanapag Harbor	\$ 5,000,000
Isley Field	6,000,000
Tinian	<u>23,000,000</u>
TOTAL	<u>\$34,000,000</u>

The total of \$34,000,000 may be looked at as a point in a range. That range most likely is about \$30,000,000 to \$36,000,000 but, the opinion of a point and range resulting from this analysis will have to await completion of the work in process.

PART II

LOCATION ANALYSES

- A. Pacific Islands (PI) Economy: Micronesia plus Guam
 - 1. Introduction and rationale for discussion of PI economy.
 - 2. Background Analyses
 - a. Political Status
 - (1) Historical and current
 - b. Physical
 - (1) Land and water masses
 - (a) Rank size comparisons
 - (b) Topographic comparisons
 - (c) Other
 - (2) Climatic comparisons
 - (a) Mean temperature
 - (b) Rainfalls
 - (3) Spatial Relationships
 - (a) Distances and linkages within islands of PI
 - (b) Distances and linkages to the Orient
 - c. Cultural and ethnic comparisons
 - (1) Language
 - (2) Religions
 - d. Demographic distributions and comparisons
 - 3. Income level distribution and comparisons
- 3. PI Economic Analysis (not including Tourism)
 - a. Employment distributions and comparisons
 - (1) Government (districts and terretorial)
 - (2) Military
 - (3) International trade
 - (4) Agricultural
 - (5) Other

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4. Tourism Analysis: Japanese Market vs. Total Tourist Market

- a. Scope of market
- b. Share of market
- c. Distribution and comparison amongst islands
- d. Trends

B. Guam

1. Background

a. Political Status of island

- (1) Closed until 1960
- (2) Organic Act
- (3) Current Status

b. Physical

- (1) Climate
 - (a) Mean temperature - by month
 - (b) Rainfall - by month
- (2) Overall Topography
 - (a) Land mass - structure - size
 - (b) Soil

c. Spatial Relationships

- (1) Physical distances
- (2) Activity linkages
 - (a) Air
 - (b) Sea
 - (c) Communication

2. Economic Base

- a. Introduction - historical
- b. Current economic base (except tourism)
 - (1) Basic and service industries

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- (a) Employment distribution
 - (b) Government
 - (c) International trade and balance of trade
 - (d) Retail
 - (e) Other
 - (f) Projections - problems and prospects
- c. Structure of the Tourist Industry: Japanese vs Total Market
- (1) Scope of market
 - (2) Market differentials
 - (3) Projections: problems and prospects
3. Demographic
- a. Historical Growth Patterns
 - b. Current Demographic Differentials
 - (1) Distribution - native/military/alien and migrant
 - (2) Natural increase and immigration
 - (3) Age distribution
 - (4) School enrollments
 - (5) Number of households
 - (6) Number of persons/household
 - (7) Income distribution and differentials
 - c. Projections: problems and prospects
4. Island Land Use Development Potential
- a. Current Distribution of Land Uses
 - (1) Residential (single family and multifamily)
 - (2) Commercial
 - (3) Public lands
 - (4) Military lands
 - (5) Industrial
 - (6) Hotel and resort
 - (7) Agricultural uses

- b. Amount of Potentially Developable Land Available
- c. Analysis of Quality of Infrastructure
- d. Market Activity and Construction Levels
 - (1) Building permits
 - (2) Vacancy rates and absorption rates

C. Saipan (see B above)

D. Tinian (see B above)

PART III
PROPERTY ANALYSES

A. Land Evaluation

1. Tinian Parcel

a. Physical description of land

- (1) Size, shape, and location
- (2) Topography
- (3) Geology
- (4) Land cover (ecology)

b. Natural Environment

- (1) Climate
- (2) Water

c. Built Environment

- (1) Infrastructure
- (2) Buildings
- (3) Access to transport facilities

d. Conclusions on Physical Suitability

- (1) Residential
- (2) Commercial
- (3) Industrial
- (4) Agriculture
- (5) Hotel and resort

2. Isley Field Parcel

(see 1 above)

3. Tanapag Harbor

(see 1 above)

4. Farallon de Medinilla

(see 1 above)

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B. Rights Evaluated**1. Social System**

- a. Land Tenure
- b. Alienation of Land (historical)
- c. Desire to protect indigenous population

2. Legal System

- a. Rights classification
- b. Use of sales
- c. Use of leaseholds

3. Rights to Be Divested

- a. Development Rights Granted (received)
- b. Rights Retained/Rights Limited
- c. Rights Foregone (in contrast to rights reserved)

4. Rights for which Values Indicated

- a. Fee simple
- b. Assumption of local government action

C. Value Patterns**1. Agricultural Land****2. Beach Front Hotel Sites**

- a. Guam
- b. Other

3. Other Land Uses**D. Market Indicators**

- 1. Sales
- 2. Leases
- 3. Opinions

E. Value Indicators

1. Tinian
2. Isley Field
3. Tanapag Harbor
4. Farallon de Medinilla