



HAWAIIAN BUSINESS COMPASS

by Yamaguchi & Yamaguchi, Inc.

**Yamaguchi &
Yamaguchi, Inc.**

Real Estate
Appraisers &
Consultants

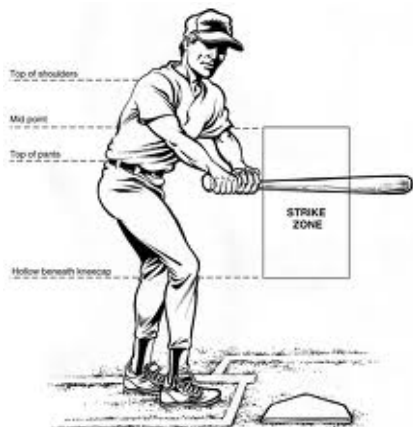
Since 1967

Volume 4, Winter-Spring 2013

THE STRIKE ZONE OF APPRAISAL MARKET VALUE

There are variations in definitions of the Strike Zone in Major League Baseball but I have found the definition from Wikipedia to be the easiest to understand:

"The top of the strike zone is defined in the official rules as a horizontal line at the midpoint between the top of the batter's shoulders and the top of the uniform pants. The bottom of the strike zone is a line at the hollow beneath the kneecap. The right and left boundaries of the strike zone correspond to the edges of home plate. A pitch that touches the outer boundary of the zone is as much a strike as a pitch that is thrown right down the center. A pitch at which the batter does not swing and which does not pass through the strike zone is called a ball."



This is better illustrated by the Major League Baseball Strike Zone diagram on the left.

Needless to say the physical stature and stance of the batter have a lot to do in the determination of the strike zone. The umpire is tasked with the responsibility of using his judgment in determining the strike

zone and for making fair and consistent calls. However, whenever humans are involved there will always be some margin for error and possibly controversy.

With the age of technology there have been some suggestions to replace the umpire with an electronic mechanism. However, the

popularity of the traditional sport of baseball remains strong due to a rich heritage, the human intrigue, psychology, and players' varying skill sets and diverse personalities. In addition, there is the coach's game strategy and the strife of every ball player working towards perfection. That's Baseball!

Now you are probably wondering, "What the heck does baseball have to do with appraising?" Absolutely nothing --- except my analogy of the pitcher as the appraiser and the umpire as the appraisal reviewer/user.

Before we continue it is imperative that the reader understands the difference between Price and Market Value. Let's look at the definition of both terms as defined in The Dictionary of Real Estate Appraisal by the Appraisal Institute.

Price vs. Market Value

Price- The amount a particular purchaser agrees to pay and a particular seller agrees to accept under the circumstances surrounding their transaction.

Market Value- The most probable price that the specified property interest should sell for in a competitive market after a reasonable exposure time, as of a specified date, in cash, or in terms equivalent to cash, under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, for self-interest, and assuming that neither is under duress.

Player Analogy

The pitcher's job is to utilize his/her professional skills to avoid a walk by throwing the ball

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In this issue of the Hawaii Business Compass we explore the true meaning of market value, the Hawaii resort market, a quick summary of the fiscal cliff and the popular Simply... Stephanie.

Our objective for the newsletter is for it to be easy reading, informative, fun and unique.

If we made you smile, laugh or shake your head in disbelief, then we succeeded.

Life is precious, so enjoy yourselves and **Work Hard-Play Hard**. Surround yourselves with happy and positive people and this year will be a great one!



Happy New Year, Jon & Stephanie

HAWAII'S RESORT RESIDENTIAL MARKET

by P. Ricky Cassiday

OVERALL STATE RESORT MARKET

OVERVIEW: The trend within 2012 has been higher sales and prices, but the 3rd quarter changed directions for the worse: the 3Q of 2012 showed lower sales and prices.

This is consistent with the bigger trend, the year-to-year one. However, if one was to look at the last 4 quarters, 2011 4Q to 2012 3Q, the trend shows that prices are returning, while sales are still down.

Looking back, this third quarter of 2012 and the last quarter of 2011 were very low in terms of sales, but only the 3Q 2012 was low in terms of prices.

The resort residential market differs from the local resident market involving local affordable economies and the health of the tourism, military employment and service industries. Our resort market analysis deals directly with the global market and the reaction of investors and/or developers to the Hawaii Residential Resort Market.

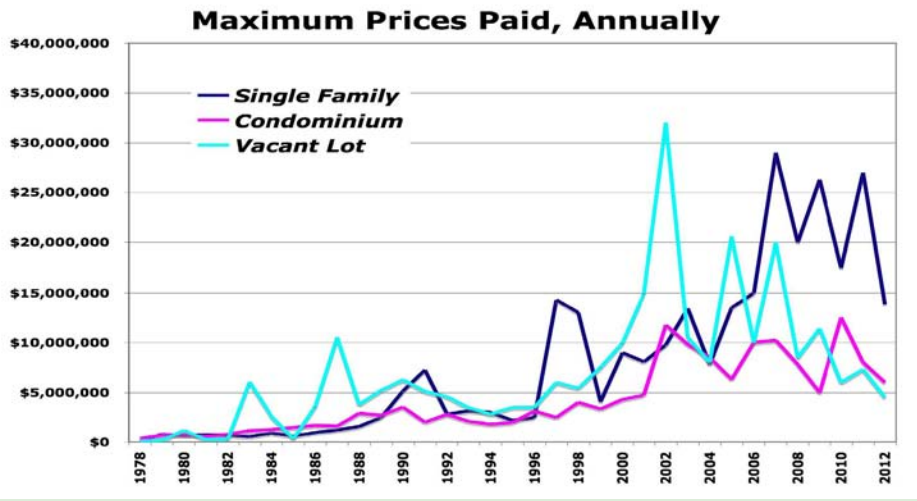
In our next newsletter we will explore the differences between the local and resort residential markets in the Hawaiian Real Estate Market.



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.

For a better understanding of this specialized market please go to our website: www.yamaguchiinc.com and more specifically to the Hawaiian Business Compass Article titled "Resort Residential Market" for Ricky Cassiday's complete 19 page article.

Further isolating the market's performance on a quarterly basis, the table (bottom right) shows the 2Q 2012 relative to 1Q 2011. As seen the 2Q 2012 had about the same sales activity and about the same prices.



The table below shows the data through 3Q 2012, as well as the last projection made for 2Q 2012, and the last four quarters (pink bar in chart above).

Looking back, this third quarter of 2012 and the last quarter of 2011 were very low in terms of sales, but only the 3Q 2012 was low in terms of prices.

This can be seen in the chart below, looking at just the quarterly performances.

OVERALL RESORT MARKET TRENDS

	2010	2011	2012*	Last Projection (YTD thru 2Q 2012)	Last 4 Quarters 4Q 11-3Q 12
Closed	1,496	1,293	1,257	1,336	1,202
Ave Price	\$1,111,514	\$1,074,330	\$940,744	\$992,081	\$972,582
Top Price	\$17,500,000	\$27,000,000	\$13,850,000	\$13,850,000	\$19,375,000
Gross Revs	\$1,662,825,354	\$1,389,108,301	\$1,182,828,216	\$1,325,420,296	\$1,169,043,780
% Change	2010	2011	2012	2012	Last 4Qs
Closed	43.40%	-13.60%	-2.80%	3.30%	-4.40%
Ave Price	-13.40%	-3.30%	-12.40%	-7.70%	3.40%
Gross Revs	24.20%	-16.50%	-14.80%		

*In this and all subsequent tables & charts, the 2012 data is extrapolated using data thru 3Q only

OVERALL RESORT MARKET TRENDS, 2009-2012, 3Q ONLY

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THE AMERICAN TAXPAYER RELIEF ACT OF 2012

Provided by Westley N. Yamasaki, Vice-President- Investments Wells Fargo Advisors, LLC

1001 Bishop St. ASB Tower Suite 1900 Honolulu, HI 96813 Phone 808 547-5219 westley.yamasaki@wellsfargoadvisors.com

The following summary is from a professional publication from Wells Fargo Advisors and is intended to be a guide for our friends and clients. We recommend that you contact Westley, your current financial advisor, CPA or attorney to discuss your unique tax implications.

Summary of new tax law changes

Income taxes	The legislation retains the current ordinary income tax rates, and adds a new tax rate of 39.6% for taxable income over \$400,000 (single) and \$450,000 (married filing jointly).
Payroll taxes	The 2% reduction in Social Security payroll tax rates expires. Withholding amounts will be adjusted accordingly, generally resulting in less take-home pay.
Capital gains taxes	<ul style="list-style-type: none">• The Act retains the 0% long-term capital gains rate for those in the 10% and 15% tax brackets.• Taxpayers in the 25% through 35% tax brackets will have a 15% long-term capital gain tax rate.• Taxpayers in the 39.6% tax bracket will pay 20% on long-term capital gains.
Qualified dividend tax rates	The act preserves the favorable tax treatment for qualified dividend at the following rates: <ul style="list-style-type: none">• 0% for those in the 10% and 15% tax brackets.• 15% for taxpayers in the 25% through 35% tax brackets• 20% for taxpayers in the 39.6% tax bracket.• Nonqualified dividends will continue to be taxed at the taxpayer's ordinary income tax rate.
Itemized deduction limits	Taxpayers with adjusted gross income (AGI) above a \$250,000 (single) and \$300,000 (married filing jointly) threshold will lose a portion of their itemized deductions. The "haircut" will equal 3% of the amount by which income exceeds these thresholds, but cannot exceed 80% of itemized deductions.
Personal exemption limits	Taxpayers with AGI above a \$250,000 (single) or \$300,000 (married filing jointly) threshold will lose a portion of their personal exemptions. Available personal exemptions will be reduced 2% for each \$2,500 (or portion thereof) of income above the threshold.
Alternative minimum tax	The alternative minimum tax (AMT) income levels were raised to \$50,600 (single) and \$78,750 (married filing jointly) for 2012 and indexed for inflation, thus removing the year-by-year uncertainty.
Child tax credit	The child tax credit remains at \$1,000.
Education Savings Accounts (ESAs)	Contribution amounts will remain at \$2,000, the contribution deadline remains April 15 following the applicable contribution year, and qualified expenses continue to include those related to enrollment in elementary and secondary education.
American Opportunity Tax Credit	The Act preserves the American Opportunity Tax Credit through Dec. 31, 2017, providing a tax credit up to \$2,500 per student for the first four years of qualified higher education expenses paid.
Qualified charitable distributions (QCDs) from IRAs	The Act reinstates tax-free QCDs for tax years 2012 and 2013. Eligible IRA owners may make a QCD before Feb. 1, 2013 and treat it as though it were made on Dec. 31, 2012. Additionally, for IRA distributions made after Nov. 30, 2012 and before Jan. 1, 2013 taxpayers may transfer the distributed funds in cash to charity during January 2013 and retroactively elect to treat the distribution as a QCD.
Estate, gift and GST tax exclusions	The estate tax applicable exclusion, gift tax lifetime exclusion, and generation-skipping tax ("GST") exemption all remain at \$5 million, adjusted for inflation. According to unofficial estimates, the adjusted amount for 2013 should be \$5,220,000.
Estate and gift tax rates	Estate and gift tax rates increase from 35% to 40%.
Exclusion portability	The Act preserves the concept of exclusion portability. This provision allows a surviving spouse to elect to receive the unused applicable exclusion of a deceased spouse.
Annual gifts	The annual exclusion gift amount increases to \$14,000 (from 2012's \$13,000).
Business provisions	The act extends a variety of business tax breaks and changes, including an accelerated "bonus" depreciation of business investments in new property and equipment, tax credits for research and development as well as renewable energy. If you own or manage a business, consult with your firm's tax advisor for details.

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THE STRIKE ZONE OF APPRAISAL MARKET VALUE *Continued from Page 1*

consistently within the strike zone.

The appraiser's job is to utilize his/her professional skills to arrive at the market value of a property on a consistent basis within the strike zone.

To explain further, the likelihood of three professional appraisers arriving at exactly the same value (if appraising the exact same property) is very slim. Why? The appraisal profession, unlike the accounting profession is "not an exact science". As professional appraisers, we analyze varying characteristics of the subject property that results in computations and opinions that are rarely identical.

If the analyses are completed by experienced professional appraisers, this variance or "range" of value should be narrow. This range I identify as the Strike Zone of Market Value.

The umpire determines strikes are not too high, too low, inside or outside of the strike zone. The umpire needs to make his strike calls consistently within the strike zone.

The reviewer/user considers whether the market value estimate is within the strike zone, not too high and not too low. In order to do this, the reviewer/user needs to consider the market analysis and determine if it is within the strike zone.

Technology

When it comes to technology, appraisal is similar to baseball since there are advocates who claim that technology in the form of automated umpires or valuation systems are the answers to all of our real estate problems. However, how soon we forget that the Wall Street problems and the Sub Prime lending implosion were masked

and manipulated by misused technology and the result has been an economic catastrophe second only to the Great Depression in the 1930's. Technology has actually been part of a larger problem today with identity theft, cyber theft, computer viruses and con artists preying on the seniors and disadvantaged.

Further, technology has always been a threat to our traditional way of doing things and admittedly it has helped to increase efficiencies for all of us and this is good. However, we need to beware of total dependency on technology when human judgment is involved because technology is only as good as its maker and its user. I do not believe the human race is ready to have their lives manipulated by computers alone. Could we actually live in a world without judgment and relationships? That's a pretty scary thought because we are not machines or computers. We are human beings who live in an imperfect world and we do not necessarily always agree with each other,

In conclusion, it is my opinion that the sport of baseball and the art of appraising will withstand the test of time due to the need for sound human judgment and consistency. And please, "Stay within the Strike Zone!"



Jon Yamaguchi CRE, FRICS, SRPA, SRA is the President of Yamaguchi & Yamaguchi, Inc., a real estate appraisal and consulting company established since 1967. He is a graduate of Iolani School and Colorado State University and holds professional designations in the Counselors of Real Estate, the Royal Institution of Chartered Surveyors and the Appraisal Institute. He has been in the business for 38 years and actively participates in national and global professional organizations, as well as a volunteer with various civic and charitable organizations.

THE AMERICAN TAXPAYER RELIEF ACT OF 2012 *Continued from Page 3*

Other tax laws effective starting January 1, 2013

Medicare surtax	For taxpayers with modified adjusted gross income above \$200,000 (single) or \$250,000 (joint filers), a new 3.8% tax will apply to net investment income. For taxpayers with compensation or self-employment income above \$200,000 (single) or \$250,000 (joint filers), an additional 0.9% tax will apply to compensation or self-employment income above these thresholds.
Medical expense deduction	For medical expenses to be deductible, the amount of the medical expenses must first exceed a 10% of AGI floor (compared to a 7.5% threshold in 2012).

The above are only highlights of this extensive legislation. Certain other provisions and changes may affect your situation. Talk with your Financial Advisor about the potential effects of this new tax environment on your portfolio and investment strategies. You should also consult with your tax advisor and perhaps estate attorney to assess whether any adjustments are needed in your tax and estate strategies.

Wells Fargo Advisors is not a tax or legal advisor. Although this summary is not intended to replace discussions with your tax advisor, it may help you to comprehend the tax implications of your investments and plan efficiently going forward.

Investment and Insurance Products: ► NOT FDIC Insured ► NO Bank Guarantee ► MAY Lose Value

Wells Fargo Advisors is the trade name used by two separate registered broker-dealers: Wells Fargo Advisors, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC,

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 to focus my column only on fun things...

Due to overwhelming requests, I have dedicated this issue to Favorite Hole-in-the-Wall Restaurants and of course... more Simply... Easy recipes!

I would also like to take this opportunity to thank our many friends who will be attending our upcoming “Best of the Best Culinary Showcase” on March 16th in support of sending Team Hawaii 2013 to the American Culinary Federation Regional Competition in Coeur D’Alene, Idaho this spring. Coached by Chef Grant Sato, the team of five up-and-coming student chefs from Kapiolani Community College’s Culinary Arts Program will be working side by side with Executive Chef Eric Leterc and his chefs at The Pacific Club!

Favorite Hole-in-the-Wall Restaurants



These no-frills, smaller, owner-operated establishments build their clientele mostly through word of mouth. The following two have what I consider comfort food and are places we visit as often as we can.

Uncle Sim's Restaurant

Samsung Plaza
655 Keeaumoku Street
Honolulu, HI 96814
(808) 947-7272
Neighborhood: Kapiolani/Ala Moana
Korean Cuisine
Must try: Bosam (sliced boiled pork), meat juhn, mandoo, any of the soups, broiled squid, kal bi and fried rice.

Manago Hotel Restaurant

Big Island
82-6155 Mamalahoa Hwy
Captain Cook, HI 96704
(808) 323-2642
<http://www.managohotel.com>
Local Cuisine
Must try: Pork chop w/ grilled onions and gravy, butterfish, fried opelu, liver with bacon and onions.

BREAKFAST 7 TO 9 AM	
PAPAYA OR JUICE, TOAST OR RICE, EGGS, BREAKFAST MEAT & COFFEE	\$6.00
PANCAKE	4.50
FRENCH TOAST	4.50
COFFEE 1.50 CEREAL	2.75
LUNCH & DINNER	
NY STEAK OR BUTTERFISH	\$14.50
OPAKAPAKA	12.75
SHRIMP SAUTE	12.00
OPELU OR AHI	11.00
ONO	9.75
PORK CHOP	9.75
TERI CHICKEN	9.25
TERIYAKI BEEF	9.25
LIVER	9.00
HAMBURGER STEAK SANDWICHES	8.50
HAMBURGER	5.50
BLT	6.00
ONO AHI	6.75
	7.50

Chef Alan Wong's Favorite Thursday 19th Hole Pupu (prepared tableside)

Stack in the following order:

- One Diamond Bakery soda cracker
- One generous scoop of tuna salad
- 3-5 shakes of Tabasco sauce
- One slice of pickled onion approximately 1" square

Chef Grant Sato's Speed Scratch Char Siu Pork

- 1# pork shoulder strips (no more than 1" thick)
- 1 cup of your favorite teriyaki sauce
- 1 Tbsp red food color
- 1 tsp Chinese 5 Spice powder

- 1- Combine the teriyaki sauce, red food color and Chinese 5 spice in a bowl and mix well.
- 2- Place the pork shoulder strips and marinade in a zip lock bag and marinate for 2 days.
- 3- Drain the pork from the marinade and roast in a 350 degree oven for 15 minutes.

“Best of the Best Culinary Showcase”

Saturday, March 16, 2013

The Pacific Club

1451 Queen Emma Street
Honolulu, Hawaii 96813

5:30 pm - Appetizers & Wine

6:30 pm - Dinner & Wine

\$150 per person

\$1,500 for tables of 10

(a portion will be tax-deductible)

A fundraising event for UH- KCC
ACF Team Hawaii 2013

**You must try this recipe (right),
but don't tell your guests what it is!**

On a recent trip to Kona, my “Sista” Lynn made this dessert for us. At first I was like... what? Tofu pie? Are you kidding? Ugh... doesn't sound too good. Because she is an awesome cook... and of course I didn't want to hurt her feelings, I reluctantly tried it. OMG slap me silly, was I ever wrong! As they say on the Big Island and Maui,

“Was some good!”

Tofu Pie

- 1 Keebler Read Crust (butter pie crust or graham)
- 1 package lemon Jell-O (3 oz)
- 1 cup boiling water
- 1-2 tablespoons lemon juice
- 1/2 teaspoon lemon extract
- 1/2 of 20-oz tofu, smooth/soft type
- 1/2 container Cool Whip (half of 8 oz)

Mix together Jell-O, boiling water, lemon juice and lemon extract. Refrigerate until slightly firm. Drain tofu. Blend tofu and Cool Whip in Osterizer or use electric mixer. Mix in Jell-O mixture. Pour into crust. Refrigerate. When firm, garnish with kiwi fruit or any canned fruit.

Variation: Substitute strawberry Jell-O for lemon Jell-O. Garnish with sliced fresh strawberries.

The tofu is blended, mixed and transformed into a smooth refreshing dessert. No one will know it's tofu.

**YAMAGUCHI &
YAMAGUCHI, INC.**

One Kapiolani Building
600 Kapiolani Blvd. #405
Honolulu, Hawaii 96813

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Phone: 808-533-8849
www.yamaguchiinc.com

***"Your time is limited, so don't waste it living
someone else's life. Don't be trapped by dogma
~ which is living with the results of other
people's thinking. Don't let the noise of other's
opinions drown out your own inner voice.
And most important, have the courage to
follow your heart and intuition. They some-
how already know what you truly want to
become. Everything else is secondary."***

~~ Steve Jobs

ABOUT HAWAIIAN BUSINESS COMPASS

Our Hawaiian Business Compass newsletter was created to provide our friends and clients with informational topics that could possibly benefit them in their business and personal lives.

We author and feature articles that pertain to:

- Real estate trends and valuation
- Business issues
- Positive motivational content
- Human interest stories, and
- Varying topics provided by guest writer

As relationships are very important to us, our HBC newsletter gives us an opportunity to keep in touch, share our information and create something that is interesting and fun.

Jon and Stephanie Yamaguchi

Yamaguchi & Yamaguchi, Inc.
Residential and Commercial
Real Estate Appraisal and Consulting

OUR NEW ADDRESS:

**ONE KAPIOLANI BUILDING
600 KAPIOLANI BLVD. SUITE 405
HONOLULU, HAWAII 96813**