

NEIL ABERCROMBIE GOVERNOR

> BRIAN SCHATZ LT. GOVERNOR

# STATE OF HAWAII OFFICE OF THE DIRECTOR DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

KEALI'I S. LOPEZ DIRECTOR

335 MERCHANT STREET, ROOM 310 P.O. Box 541 HONOLULU, HAWAII 96809 Phone Number: 586-2850 Fax Number: 586-2856 www.hawaii.gov/dcca

## PRESENTATION OF THE PROFESSIONAL AND VOCATIONAL LICENSING DIVISION

TO THE HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE AND TO THE HOUSE COMMITTEE ON JUDICIARY

TWENTY-SIXTH LEGISLATURE
Regular Session of 2012

Monday, February 13, 2012 2:15 p.m.

## TESTIMONY ON HOUSE BILL NO. 1830, H.D. 1, RELATING TO ARBITRATION.

TO THE HONORABLE ROBERT N. HERKES, CHAIR, TO THE HONORABLE GILBERT KEITH-AGARAN, CHAIR, AND MEMBERS OF THE COMMITTEES:

My name is Alan Taniguchi, Executive Officer for the Real Estate Appraiser

Program, Professional and Vocational Licensing Division ("PVLD") of the Department of

Commerce and Consumer Affairs ("Department"). Thank you for the opportunity to

present testimony on House Bill No. 1830, H.D. 1, Relating to Arbitration. The

Department opposes this bill.

This bill seeks to establish a process to select unbiased real estate appraisers for arbitration proceedings and requires the Department to provide a list of these appraisers. Chapter 658A, Hawaii Revised Statutes ("HRS"), also known as the

Testimony on House Bill No. 1830, H.D. 1 Tuesday, February 13, 2012 Page 2

"Uniform Arbitration Act" already addresses the issues this bill seeks to resolve. Section 658A-11 delineates the arbitrator selection process and Section 658A-12 outlines the disclosure requirements which will ensure the arbitrator's impartiality. Finally, the courts have jurisdiction over Chapter 658A and the authority to appoint an arbitrator (§658A-11), grant immunity to arbitrators (§658A-14), and vacate awards (§658A-23). For these reasons, issues regarding the selection of an arbitrator are more appropriately the function of the court rather than the Department.

The Department believes these issues are addressed in Chapter 658A and thus these amendments are not necessary.

Thank you for the opportunity to testify and we ask that this bill be held.



Representative Robert N. Herkes, Chair Representative Ryan I. Yamane, Vice Chair Committee on Consumer Protection and Commerce

Representative Gilbert S.C. Keith-Agaran, Chair Representative Karl Rhoads, Vice Chair Committee on Judiciary

<u>Opposition</u> to HB 1830, H.D. 1, Relating to Arbitration; Appraisers. (Establishes a process by which real estate appraisers are used for arbitration proceedings to determine fair market value, rental, or reasonable rent of real property. Effective July 1, 2112.)

#### Monday, February 13, 2012 at 2:15 p.m. in House Conference Room 325

My name is David Arakawa, Executive Director of the Land Use Research Foundation of Hawaii (LURF), a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. One of LURF's missions is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources and public health and safety.

<u>HB 1830</u>, H.D. 1. This bill proposes to establish a process by which licensed or certified, unbiased real estate appraisers are used for arbitration proceedings to determine the fair market value, fair market rental, or fair and reasonable rent of real property. The measure also requires the State Department of Commerce and Consumer Affairs (DCCA) to provide a list of appraisers meeting certain criteria.

**LURF's Position.** LURF **strongly opposes** this bill based on the following:

## There is No Justification For, or Example of Necessity to Support this Measure.

Proponents of HB 1830, H.D. 1, fail to cite any necessity for, or examples of existing problems or issues which would necessitate state-wide legislation such as this bill. In fact, just last year, in an effort to address similar concerns raised by the same proponents, this Legislature passed Act 227 (2011) which mandates that real estate appraisers, when acting as arbitrators in lease renegotiation arbitration proceedings, comply with the Uniform Standards of Professional Appraisal Practice (USPAP) when acting as arbitrators. Rather than allowing Act 227 the time and opportunity needed to address and resolve the concerns that reportedly underlie both Act 227 and the current bill, those same proponents now prematurely seek to go even further with this bill, to attempt to require that only appraisers be allowed to serve as arbitrators in lease renegotiation proceedings.

Allowing Only Appraisers to Serve as Arbitrators in Proceedings to Determine Fair Market Value or Rental of Real Property is Unwarranted and Contrary to the Intent of the State's Arbitration Law (Hawaii Revised Statutes Chapter 658A).

There is no rational or legal reason to limit the group of qualified arbitrators in proceedings to determine fair market value or rental of real property strictly to appraisers, regardless of whether such appraisers are certified, licensed, or otherwise.

> Limiting Arbitrators to Appraisers Would Restrict the Parties' Will, Further Delays, and Increase Costs, Thereby Violating the Intent and Purpose of Arbitration.

The Hawaii Arbitration Law (HRS Chapter 658A), premised upon the national Uniform Arbitration Act, is the law governing arbitration proceedings, which are not appraisals, but alternative dispute resolution proceedings entered into voluntarily by parties who agree to submit their cases to an impartial person or panel for a binding decision.

The intent underlying the Hawaii Arbitration Law, and the arbitration process in general, is primarily to provide an alternative to judicial proceedings by which the parties involved may ideally secure more control over the outcome of any dispute resolution proceeding which may arise from their relationship, and also save time and expenses by avoiding litigation.

The establishment of a process which commands the use of real estate appraisers (qualified by the DCCA) in arbitration proceedings is therefore directly contrary to the intent of the law, as it disallows the parties themselves to appoint the individual or panel which will make the final decision. Moreover, potential challenges to the procedures proposed, and appeals of the decisions generated by HB 1830, H.D. 1, would negate the advantages of arbitration altogether, as there would arguably be no cost or time saving

benefits to gain by electing the dispute resolution alternative for property valuation matters.

> There is No Logical Basis to Allow Only Appraisers to Serve as Arbitrators in Proceedings to Determine Fair Market Value or Rental of Real Property.

The passage last year of Act 227 (2011) was, in the opinion of the bill's opponents, misdirected and contrary to case law in view of the fact that appraisers who serve as arbitrators are **not**, in such capacity, engaging in the practice of real estate appraisal.

There may, nevertheless, have arguably been some logic behind the passage of Act 227 in that the requirement applies only to appraisers, and only when acting as arbitrators, purportedly to ensure their professionalism particularly while acting in a decision making capacity. It appears, however, that proponents of HB 1830, H.D. 1 now seek to take legally questionable Act 227 yet a step further to direct that ONLY appraisers are allowed to serve as arbitrators in real property valuation proceedings, as though no other individual or profession could possibly be qualified to serve as a competent decision maker in such proceedings. If this line of reasoning is followed, decisions in all different types of arbitration proceedings, and in all different types of cases in all courts and tribunals would rightly need to be made by judges and juries who are qualified experts or specialists in each specific subject matter involved in each different proceeding or case.

Arbitrations and appraisals are quite different and distinct. "Arbitration" is an alternative dispute resolution process used to reach a compromise solution — it is NOT an "appraisal," which is the process of estimating value. As such, while familiarity with appraisals may be one beneficial qualification for real property valuation proceedings, the proficiencies even more valuable and ideally applicable are impartiality, good judgment, and the ability to fairly evaluate information and come to a sound and just decision.

As such, there is a number of other equally, if not perhaps better qualified individuals who are competent in their own right, including attorneys, economists, and realtors, who are also able to serve well as arbitrators and render fair decisions. It is therefore unwarranted and unreasonable to disqualify these people from being allowed to serve as arbitrators, even in proceedings which relate to the valuation of real property.

Lessee proponents of another bill pending this session, SB 2938, in fact take a completely contradictory position in support of that that measure which requires unresolved questions of law in arbitrations to be submitted for judicial relief (i.e., by attorneys), when under the current bill (HB 1830, H.D. 1), said lessee proponents refuse to allow anyone except appraisers to serve as arbitrators. The direct inconsistency in positions taken by the lessee proponents on the respective bills is irreconcilable, and would appear to undermine the credibility of the proponents' stance.

## > There are a Number of Legal and Practical Issues and Consequences Relating to the Proposed Bill.

One significant legal concern relating to the implementation of HB 1830, H.D. 1, is the effect of the bill on existing agreements such as leases in which the parties have already mutually agreed upon an arbitration process which does not conform to the new process set out in the bill. To now require these parties to comply with the new arbitration process prescribed by the bill is in effect, forcing the parties to modify the terms of their original agreement, which raises serious legal issues affecting the validity of the amendment, as well as the underlying agreement.

From a practical perspective, a consequence of limiting the pool of qualified arbitrators only to licensed or certified appraisers, especially in a small community like Hawaii which already houses a limited number of appraisers, is the likely need to go outside of the state to retain appraisers due to the shortage of qualified local candidates, or as a result of the disclosure of prior dealings or conflicts of interest between an appraiser and parties to the proceeding or transaction. While these out-of-state appraisers may well be qualified professionally, they will not likely have extensive experience dealing with local real property and real property transactions, or knowledge relating to unique underlying and/or intangible factors which may affect their assessment of Hawaii property values. Given these potential shortcomings and concerns, it makes even less sense to limit the group of qualified arbitrators just to appraisers.

The process set out in HB 1830, H.D. 1 relating to the selection/appointment of the appraiser-arbitrators is also impractical and suspect. According to the process described in the bill, the appraiser-arbitrators respectively appointed by the lessor and lessee, then select the third appraiser-arbitrator from the list provided by the DCCA). That third appraiser-arbitrator then becomes the "supreme" arbitrator who may alone review the valuations of the two other arbitrators and prepare a report setting forth the final valuation. Such a process is contrary to the process generally followed in an arbitration involving more than one arbitrator, in which the final decision is usually mutually agreed upon by all of the arbitrators. A lone decision also lends itself to scrutiny by the other arbitrators and challenge or appeal by the parties, and leads to cost considerations and delays as discussed above.

Finally, there are also many questions and issues relating to the process by which the DCCA will qualify appraisers. Despite inclusion of a definition of the term "unbiased" in this H.D. 1, subjective criteria such as "material interest" and "substantial relationship" as used in the definition will still be subject to dispute. Moreover, once placed on the list and/or selected in a proceeding, could the appraiser be challenged or rejected by the parties, and what would that process entail?

<u>Conclusion</u>. For all of the reasons set forth above, LURF believes that the intent and application of HB 1830, H.D. 1 is unreasonable, unwarranted, and anti-business, and should therefore **be held in this Committee**.

Thank you for the opportunity to express our strong opposition to HB 1830, H.D. 1.

## Darryl P. Wong 1836 Punahou Street, Honolulu, Hi 96822

February 10, 2012

#### VIA FACSIMILE 586-8404

Honorable Representative Robert N. Herkes, Chair Honorable Representative Ryan I. Yamane, Vice Chair House Members of Committee on Consumer Protection & Commerce

Honorable Representative Gilbert S. C. Keith-Agaran, Chair Honorable Representative Karl Rhoads, Vice Chair House Members of Committee on Judiciary

RE: TESTIMONY IN SUPPORT OF HOUSE BILL HB1830 HD1 - RELATING TO ARBITRATION – HEARING SCHEDULED FOR MONDAY, 02/13/2012, AT 2:15PM, STATE CAPITOL, CONFERENCE ROOM 325

Dear Honorable Chair Robert Herkes, Honorable Chair Gilbert Keith-Agaran, Vice Chair Ryan Yamane, Vice Chair Karl Rhoads, and Members of the House Committee on Consumer Protection & Commerce and Members of the House Committee on Judiciary:

I support passage of House Bill HB1830 HD1 which provides for the establishment of a process in which the third licensed or certified, unbiased real estate appraisers appointed in arbitration proceedings to determine the fair market value, fair market rental or fair and reasonable rent of real property is selected from a list of appraisers provided by the DCCA and which allows for out of state appraisers to be utilized as long as such appraisers meets statutory and other requirements.

Hawaii has historically had a small number of real estate appraisers that have been involved in rent arbitration proceedings. In many cases, the appointed appraisers were advocates of either the lessor and/or the lessee. This inevitably led to possible conflicts of interest or bias resulting in very disparate values. This bill if passed would bring equity and fairness to the process of determining fair market value or fair and reasonable rent of real property.

Aloha,	



Hawaii Chapter

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February 10, 2012

Representative Robert N. Herkes, Chair Representative Ryan I. Yamane, Vice-Chair Committee on Consumer Protection & Commerce

Representative Gilbert S.C. Keith-Agaran, Chair Representative Karl Rhoads, Vice-Chair Committee on Judiciary

Ted Yamamura, Government Relations Chair The Hawaii Chapter of the Appraisal Institute (808) 270-0604 Monday, February 13, 2012

#### Testimony against HB 1830, HD 1, Relating to Arbitration

The Hawaii Chapter of the Appraisal Institute is part of an international organization of professional real estate appraisers with nearly 26,000 members and 91 chapters throughout the world. Its mission is to advance professionalism and ethics, global standards, methodologies, and practices through the professional development of property economics worldwide.

We speak against HB 1830, HD 1, Relating to Arbitration, which proposes to amend Chapter 658A, Hawaii Revised Statutes, by adding a new section regarding real property appraisals. Leases are bonafide contracts between Lessor and Lessee and lease documents typically provide provisions for establishment of rents, appraisal and the selection of appraisers to act as arbitrators.

Regarding the proposed language under §658A- Real property appraisals.

- (a) requiring that the appraiser-arbitrators selected by the lessor and lessee to select a third appraiser-arbitrator from a list provided by the Department of Commerce and Consumer Affairs <u>usurps the contractual provisions already contained in leases.</u>
- (b) Requiring the third appraiser-arbitrator to review appraisal valuations prepared by the arbitrators, and prepare a separate appraisal setting forth the final valuation. Clearly there is misunderstanding regarding the process of arbitrators and arbitrations. **Arbitrators typically do not prepare appraisal reports, and arbitrators may or may not be appraisers.**

(d)(3) Legislation passed last year (Act 227) requires appraiser-arbitrators to comply with the current edition of the Uniform Standards of Professional Appraisal Practice (USPAP). <a href="http://www.appraisalfoundation.org/">http://www.appraisalfoundation.org/</a>.

In the **Ethics Rule, Conduct section, USPAP** mandates that an appraiser "must not perform an assignment with bias", and "must not advocate the cause or interest of any party or issue".

The language in this Bill requires the Department of Commerce and Consumer Affairs to maintain and provide a list of "unbiased" appraisers. Regardless of definition, an opinion of "unbiased" is subjective at best. The fact that HRS 466K already provides objective qualification and licensing requirements for appraisers, there is no need to maintain an additional subjective list of "unbiased" appraisers.

In conclusion, there is no necessity for government intervention in a process with contractual provisions and ample precedence. We urge the Committee to deny the passage of HB 1830, HD 1.

Thank you for this opportunity to testify.

Ted Yamamura

Government Relations Chair

## **JAMES W. Y. WONG**

HONOLULU OFFICE

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411 West 4th Avenue, Ste 200 Anchorage, Alaska 99501 Phone: (907) 278-3263 FAX: (907) 222-4852

February 10, 2012

#### VIA FACSIMILE 586-8404

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Dear Honorable Chair Robert Herkes, Honorable Chair Gilbert Keith-Agaran, Vice Chair Ryan Yamane, Vice Chair Karl Rhoads, and Members of the House Committee on Consumer Protection & Commerce and Members of the House Committee on Judiciary:

I support passage of House Bill HB1830 which provides for the establishment of a process in which the third licensed or certified, unbiased real estate appraisers appointed in arbitration proceedings to determine the fair market value, fair market rental or fair and reasonable rent of real property is selected from a list of appraisers provided by the DCCA and which allows for out of state appraisers to be utilized as long as such appraisers meets statutory and other requirements.

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Please approve HB1830.

Aloha,

COLIN LAU 47-695 Hui Ulili St., . Kaneohe, HI 96744

February 10, 2012

VIA FACSIMILE 586-8404

VIA EMAIL

Honorable Representative Robert N. Herkes, Chair Honorable Representative Ryan I. Yamane, Vice Chair House Members of Consumer Protection & Commerce Committee

RE: TESTIMONY IN SUPPORT OF HOUSE BILL HB1830 - RELATING TO ARBITRATION
HEARING DATE: Monday, February 13, 2012 – 2:15pm, Conference Room #325

Dear Honorable Chair Robert N. Herkes, Vice Chair Ryan I. Yamane, and Members of the House Consumer Protection & Commerce Committee:

I support passage of House Bill HB1830 which provides for the establishment of a process in which the third licensed or certified, unbiased real estate appraisers appointed in arbitration proceedings to determine the fair market value, fair market rental or fair and reasonable rent of real property is selected from a list of appraisers provided by the DCCA and which allows for out of state appraisers to be utilized as long as such appraisers meets statutory and other requirements.

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I urge your approval of this bill.

Please approve HB1830.

Thank you,

Colin Laŭ

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February 10, 2012

VIA FACSIMILE 586-8404

VIA EMAIL

Honorable Representative Gilbert S.C. Keith-Agaran, Chair Honorable Representative Karl Rhoads, Vice Chair House Members of Judiciary Committee

RE: TESTIMONY IN SUPPORT OF HOUSE BILL HB1830 - RELATING TO ARBITRATION
HEARING DATE: Monday, February 13, 2012 - 2:15pm, Conference Room #325

Dear Honorable Chair Gilbert S.C. Keith-Agaran, Vice Chair Karl Rhoads, and Members of the House Judiciary Committee:

I support passage of House Bill HB1830 which provides for the establishment of a process in which the third licensed or certified, unbiased real estate appraisers appointed in arbitration proceedings to determine the fair market value, fair market rental or fair and reasonable rent of real property is selected from a list of appraisers provided by the DCCA and which allows for out of state appraisers to be utilized as long as such appraisers meets statutory and other requirements.

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I urge your approval of this bill.

Please approve HB1830.

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Olin Lau

VIA FACSIMILE 586-8404

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Please approve HB1830 HD1.

Aloha,

Donald Lau. 535 Paikau Street, Honolulu, Hawaii 96816

## VIA FACSIMILE 586-8404

Honorable Representative Gilbert S. C. Keith-Agaran, Chair Honorable Representative Karl Rhoads, Vice Chair House Members of Committee on Judiciary

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I urge your approval of this bill.

Please approve HB1830 HD1.

phald Lam, 535 Paikau Street, Honolulu, Hawaii 96816

## VIA FACSIMILE 586-8404

Honorable Representative Robert N. Herkes, Chair Honorable Representative Ryan I. Yamane, Vice Chair House Members of Committee on Consumer Protection & Commerce

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Dear Honorable Chair Robert Herkes, Vice Chair Ryan Yamane, and Members of the House Committee on Consumer Protection & Commerce:

#### PETITION:

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We urge your approval of this bill.

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Please approve HB1830 HD1.

Aloha,

Roy Aakagawa, P. O. Box 235790, Honolulu, Hawaii 96823

## VIA FACSIMILE 586-8404

Honorable Representative Gilbert S.C. Keith-Agaran, Chair Honorable Representative Karl Rhoads, Vice Chair House Members of Committee on Judiciary

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Aloha,

Roy Makagawa, P.

Box 235790, Honolulu, Hawaii 96823

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Aloha,

Dail Rhee, 1729 Nalulu Place, Honolulu, Hawaii 96821

#### VIA FACSIMILE 586-8404

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## VIA FACSIMILE 586-8404

Honorable Representative Gilbert S.C. Keith-Agaran, Chair Honorable Representative Karl Rhoads, Vice Chair House Members of Committee on Judiciary

RE: TESTIMONY IN SUPPORT OF HOUSE BILL HB1830 HD1 - RELATING TO ARBITRATION - HEARING SCHEDULED FOR MONDAY, 02/13/2012, AT 2:15PM, STATE CAPITOL, CONFERENCE ROOM 325

Dear Chair Gilbert Keith-Agaran, Vice Chair Karl Rhoads, and Members of the House Committee on Judiciary:

I support passage of House Bill HB1830 HD1 which provides for the establishment of a process in which the third licensed or certified, unbiased real estate appraisers appointed in arbitration proceedings to determine the fair market value, fair market rental or fair and reasonable rent of real property is selected from a list of appraisers provided by the DCCA and which allows for out of state appraisers to be utilized as long as such appraisers meets statutory and other requirements.

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Please approve HB1830 HD1.

Aloha,

Dail Rhee, 1729 Nalulu Place, Honolulu, Hawaii 96821

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Honorable Representative Gilbert S.C. Keith-Agaran, Chair Honorable Representative Karl Rhoads, Vice Chair House Members of Committee on Judiciary

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I urge your approval of this bill.

Please approve HB1830 HD1.

Aloh<u>a,</u>

Anthony Martya , 520 Lunalilo Home Road, Honolulu, Hawaii 96825

## VIA FACSIMILE 586-8404

Honorable Representative Robert N. Herkes, Chair Honorable Representative Ryan I. Yamane, Vice Chair House Members of Committee on Consumer Protection & Commerce

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## MARTIN LEE

2206 University Avenue, Honolulu, Hawaii 95822

February 10, 2012

#### VIA FACSIMILE 586-8404

Honorable Representative Robert N. Herkes, Chair Honorable Representative Ryan I. Yamane, Vice Chair House Members of Committee on Consumer Protection & Commerce

Honorable Representative Gilbert S. C. Keith-Agaran, Chair Honorable Representative Karl Rhoads, Vice Chair House Members of Committee on Judiciary

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Mustin Lee

Aloha,

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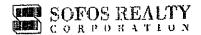
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Gunneread Brokerage + Property Management

February 10, 2012

VIA FACSIMILE 586-8404

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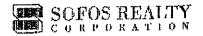
Please approve HB1830 HD1.

S. Steven Sofos (B) President/CEO

■ 600 KAPIOLANI BUYD, SUITE 200 HONOLIJAI, HAWAH 96013

Aloha

\* PHONE: (808) 522-5999 FAX: (808) 522-5969



Commercial Brokerage + Property Management

February 10, 2012

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<sup>## 600</sup> KAPIOLATERADE COO # HOWOLDER, DAWAIT 96813

<sup>\*</sup> PHONE: (200) 522 5009 FAX; (803) 522-59a9

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## NAPUALANI V. WONG

1577 Nehoa Street, Honolulu, Hawaii 96822

February 10, 2012

## VIA FACSIMILE 586-8404

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Aloha,