

STATE OF HAWAII  
 DEPARTMENT OF LAND AND NATURAL RESOURCES  
 Land Division  
 Honolulu, Hawaii 96813

July 12, 2013

Board of Land and Natural Resources  
 State of Hawaii  
 Honolulu, Hawaii

PSF 13HD-091

Hawaii

**Consent to Sublease General Lease No. S-3961, Hilo-Hawaiian Associates, Inc., Lessee, to The Travel Professionals, Inc., Jama Enterprises, LLC, Aaron and Vinel Sugino dba Blue Kalo and Lorna Karvas dba Jaymielee's Styling Salon, Sublessees, Waiakea, South Hilo, Hawaii; Tax Map Key: (3) 2-1-003:005.**

APPLICANT:

Hilo-Hawaiian Associates, Inc., a Hawaii corporation, as Sublessor, to:

1. The Travel Professionals, Inc., a Hawaii corporation;
2. Jama Enterprises, LLC, a Hawaii Limited Liability corporation;
3. Aaron and Vinel Sugino dba Blue Kalo;
4. Lorna Karvas dba Jaymielee's Styling Salon; as Sublessees.

LEGAL REFERENCE:

Section 171-36(a)(6), Hawaii Revised Statutes, as amended.

LOCATION:

Portion of Government lands of Waiakea situated at Waiakea, South Hilo, Hawaii, identified by Tax Map Key: (3) 2-1-003:005, as shown on the attached map labeled Exhibit A.

TRUST LAND STATUS:

Section 5(b) lands of the Hawaii Admission Act  
 DHHL 30% entitlement lands pursuant to the Hawaii State Constitution: NO

LEASE CHARACTER OF USE:

Resort-hotel purposes and uses accessory or incidental thereto and customarily conducted within resort-hotel areas.

SUBLEASE CHARACTER OF USE:

1. The Travel Professionals, Inc. operates a travel agency
2. Jama Enterprises, LLC operates a specialty coffee retailer & gift shop
3. Blue Kalo operates a Snack/Gift shop
4. Jaymielee's Styling Salon operates a beauty salon

LEASE AREA:

5.00 acres, more or less.

SUBLEASE AREA:

- |                                   |            |                 |
|-----------------------------------|------------|-----------------|
| 1. The Travel Professionals, Inc. | cabana #1  | 768 square feet |
| 2. Jama Enterprises, LLC          | cabana #2  | 768 square feet |
| 3. Blue Kalo                      | building D | 618 square feet |
| 4. Jaymielee's Styling Salon      | cabana #4b | 150 square feet |

TERM OF LEASE:

65 years, commencing on April 15, 1966 and expiring on April 14, 2031. Last rental reopening occurred on April 15, 2011; next rental reopening is scheduled for April 15, 2021.

TERM OF SUBLEASE:

- |                                    | <u>Begin Date</u> | <u>End Date</u> |
|------------------------------------|-------------------|-----------------|
| 1. The Travel Professionals, Inc.. | 10/01/2012        | 09/30/2014      |
| 2. Jama Enterprises, LLC           | 01/01/2013        | 12/31/2014      |
| 3. Blue Kalo                       | 02/15/2012        | 02/14/2014      |
| 4. Jaymielee's Styling Salon       | 07/01/2012        | 06/30/2014      |

ANNUAL RENTAL:

\$133,200

ANNUAL SUBLEASE RENTAL:

- |                                   |             |                    |
|-----------------------------------|-------------|--------------------|
| 1. The Travel Professionals, Inc. | 10/12-09/13 | \$17,640 base rent |
|                                   | 10/13-09/14 | \$18,522 base rent |

2. Jama Enterprises, LLC	01/13-12/13	\$15,183 base rent
	01/14-12/14	\$15,942 base rent
3. Blue Kalo	02/12-01/13	\$13,200 base rent
	02/13-02/14	\$13,860 base rent
4. Jaymielee's Styling Salon	07/12-06/13	\$ 3,864 base rent
	07/12-06/14	\$ 4,057 base rent

RECOMMENDED ADJUSTMENT TO LEASE RENTAL:

In accordance with item 1c of the current Rent Participation Policy as approved by the Board of Land and Natural Resources at its meeting of August 24, 2012, agenda item D-14, the State will not receive any portion of the sublease rents for the following reasons:

- A. The Lessee pays fair market rent.
- B. The subject subleases are for improved property owned by the Lessee.
- C. The lease does not specifically state a method of calculation.

DCCA VERIFICATION:

SUBLESSOR: Hilo-Hawaiian Associates, Inc.

Place of business registration confirmed: YES X NO \_\_\_  
Registered business name confirmed: YES X NO \_\_\_  
Good standing confirmed: YES X NO \_\_\_

SUBLEESSEE: The Travel Professionals, Inc.

Place of business registration confirmed: YES X NO \_\_\_  
Registered business name confirmed: YES X NO \_\_\_  
Good standing confirmed: YES X NO \_\_\_

SUBLEESSEE: Jama Enterprises, LLC

Place of business registration confirmed: YES X NO \_\_\_  
Registered business name confirmed: YES X NO \_\_\_  
Good standing confirmed: YES X NO \_\_\_

SUBLEESSEE: Aaron and Vinel Sugino dba Blue Kalo

Individuals operating as sole proprietors and/or under a trade name are not required to register with the DCCA.

SUBLEESSEE: Lorna Karvas dba Jaymielee's Styling Salon

Individuals operating as sole proprietors and/or under a trade name are not required to register with the DCCA.

REMARKS:

At its meeting of February 11, 1966, agenda item F-8, the Board of Land and Natural Resources (Board) authorized the sale of a lease of the subject land at public auction for resort-hotel purposes and accessory uses customarily associated with resort-hotel operations. Melsan, Ltd. was the successful bidder for this sixty-five (65) year lease. The hotel opened for business in October 1975.

At its meeting of June 13, 1986, agenda item F-1-c, the Board consented to the assignment of the lease with assumption of mortgage from Melsan, Ltd. to Hilo Hawaiian Associates, a Hawaii Limited Partnership.

At its meeting of July 8, 2010, under agenda item D-3, the Board consented to a 100% transfer of stock ownership of the parent company of Hilo Hawaiian Associates to HH Associates, LLC.

Effective January 1, 2012, Hilo Hawaiian Associates, together with its general and limited partners, merged with and into the common parent of these companies, TN Group Hawaii, Inc. Effective September 10, 2012, TN Group Hawaii, Inc. changed its name to Hilo-Hawaiian Associates, Inc.

At its meeting of October 26, 2012, agenda item D-11, the Board approved in concept an extension of General Lease No. S-3961 pursuant to Act 219, 2011 Session Laws of Hawaii, which allows hotel/resort leases to be extended up to 55 years provided there is a commitment to substantial upgrades to the existing improvements. Lessee and Land Division staff are currently negotiating a development agreement regarding these upgrades for review by the Board.

All four sublessees operate businesses that are customarily accessory to hotel/resort operations. They occupy existing improvements and any alterations to their respective units will be minor. Any major alterations planned by the lessee will be included in the pending development plan.

The most recent rent participation policy approved by the Board at its meeting of August 24, 2012, agenda item D-14 does not indicate that sandwich profits are expected in this situation. The lessee pays fair market rent, owns the improvements and the lease does not specifically state a method for calculating the rent participation. Further, the lessee operates a full-scale resort hotel on the premises and is committing to a substantial investment to upgrade the existing improvements.

The lessee is compliant with all terms and conditions of the lease including rent, insurance and performance bond. The lessee has had two notices of default for insurance in the last 5 years; both incidents were cured in a timely fashion.

The last rental reopening occurred on April 15, 2011; the next reopening is scheduled for April 15, 2021. There are no outstanding rental reopening issues.

RECOMMENDATION:


That the Board consent to the subleases under General Lease No. S-3961 between Hilo-Hawaiian Associates, Inc., as Sublessor, and The Travel Professionals, Inc., Jama Enterprises, LLC, Aaron and Vinel Sugino dba Blue Kalo and Lorna Karvas dba Jaymielee's Styling Salon, as Sublessees, subject to any applicable conditions cited above which are by this reference incorporated herein and further subject to the following terms and conditions:

1. The standard terms and conditions of the most current consent to sublease form, as may be amended from time to time;
2. Review and approval by the Department of the Attorney General; and
3. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,

  
Candace Martin  
Land Agent

APPROVED FOR SUBMITTAL:

  
William J. Aila, Jr., Chairperson

# EXHIBIT A

