

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

September 27, 2013

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

Hawaii

Consent to Extension of Lease Term Pursuant to Act 207, Session Laws of Hawaii 2011, General Lease No. S-3624, 69 Railroad, LLC, Lessee, Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-1-12:26.

APPLICANT AND REQUEST:

Improvements to leasehold property financed by Lessee, 69 Railroad, LLC, pursuant to Act 207, Session Laws of Hawaii 2011 and Hawaii Revised Statutes Section 171-36(b) in the amount of approximately \$165,000.00.

In order for Lessee to amortize this expenditure, the Lessee is requesting an extension of General Lease No. S-3624 of 10 years, commencing on February 24, 2016 and expiring on February 23, 2026 for an aggregate term (initial 55-year term plus extension) of 65 years.

LEGAL REFERENCE:

Act 207, Session Laws of Hawaii 2011
Section 171-36(b)(3), Hawaii Revised Statutes, as amended.

LOCATION:

Portion of Government lands of Kanoelehua Industrial Lots situated at Waiakea, South Hilo, Hawaii, identified by Tax Map Key: (3) 2-1-12:26, as shown on the attached map labeled Exhibit A.

AREA:

4.499 acres, more or less.

TRUST LAND STATUS:

Section 5(b) lands of the Hawaii Admission Act

DHHL 30% entitlement lands pursuant to the Hawaii State Constitution: NO

CHARACTER OF USE:

Industrial purposes.

TERM OF LEASE:

Original term of 55 years, commencing on March 6, 1961 and expiring on March 5, 2016.

Requested extension of 10 years commencing on March 6, 2016 and expiring on March 5, 2026.

ANNUAL RENTAL:

Current rent is \$74,500.00, due in semi-annual installments of \$37,250.00 on March 6 and September 6 of each year.

RENTAL REOPENINGS:

Reopenings in the original term were at the end of the 15th, 25th, 35th and 45th years of the term. The last rental reopening occurred on March 6, 2006.

Rent for the extended term shall be determined by an immediate appraisal that will project rent for the period of March 6, 2016 through March 5, 2026. The appraiser shall be selected by the State but paid for by Lessee. As a condition of the Board's discretionary approval of the lease extension, the appraised rent for the extension period shall be determinative and not subject to arbitration.

PROPOSED IMPROVEMENTS:

The Lessee will be making substantial improvements to the property. These improvements include major repairs to the roof of the warehouse and renovations to the adjacent building. The cost of these improvements is estimated to be \$165,000.00.

DCCA VERIFICATION:

Place of business registration confirmed:	YES <u>X</u>	NO <u>__</u>
Registered business name confirmed:	YES <u>X</u>	NO <u>__</u>
Applicant in good standing confirmed:	YES <u>X</u>	NO <u>__</u>

APPLICANT REQUIREMENTS:

Applicant shall be required to pay for an immediate appraisal that will project rent for the period March 6, 2016 through March 5, 2026. The appraisal shall not be subject to arbitration.

REMARKS:

General Lease No. S-3624 was first sold at public auction to Hawaii Equipment Co., Ltd. on March 6, 1961. The lease was assigned from Hawaii Equipment Co., Ltd. to Castle &

Cooke, Inc. on March 25, 1964. The lease was subsequently assigned from Castle & Cooke, Inc. to E. J. Mahoney, III, Leon Stocksdale and Eliot Merk on November 7, 1986. On April 24, 1987, the lease was assigned from E. J. Mahoney, III, Leon Stocksdale and Eliot Merk to Railroad Avenue Partners.

As the result of a rental delinquency, Railroad Avenue Partners entered into a Special Installment Agreement (SIA) on February 3, 1999 in the amount of \$40,755.00 to be paid in 48 monthly-amortized installments of \$1,037.62. This account was paid off on July 15, 2002.

On August 10, 2001, GE Capital Hawaii, Inc. filed a motion for Summary Judgment and for Interlocutory Decree of Foreclosure. The appointed commissioner held a public auction on March 19, 2002. On June 7, 2002 the court approved and confirmed the Order Approving Report of Commissioner, Confirming Commissioner's Sale of Property at Public Sale, Directing Distribution of Proceeds, Granting Writ of Possession, Private Sale of Personal Property and for Deficiency Judgment. The commissioner, as assignor was ordered and directed to make good and sufficient conveyance of the subject property. GE Capital Hawaii, Inc., the Mortgagee, paid \$733,000.00 at auction for the lease.

At its meeting of September 13, 2002, under agenda item D-10, the Board consented to the assignment of lease from Jerel Yamamoto, Commissioner, to GE Capital Hawaii, Inc. In a letter dated January 16, 2003, GE Capital Hawaii informed HDLO staff that due to an oversight, they had been incorrectly named the Assignee for GL S-3624. The correct name for the lease should have been GECH Holding, Inc., the real estate holding company for GE Capital Hawaii, Inc. To correct this oversight, the Board at its meeting of February 14, 2003, agenda item D-1, consented to the assignment of lease from GE Capital Hawaii, Inc., as Assignor to GECH Holdings, Inc., as Assignee.

Then at its meeting of July 25, 2003, under agenda item D-4, the Board consented to an assignment of lease from GECH Holdings, Inc., Assignor to 69 Railroad, LLC, as Assignee.

The Lessee's current 55-year lease is set to expire on March 6, 2016 and it is requesting a 10-year extension pursuant to Act 207, Session Laws of Hawaii 2011,¹ to amortize the cost of planned improvements to the property, including extensive repairs to the roof along with exterior wall renovations at a cost in excess of \$165,000.00. An appraisal evaluation performed by a certified appraiser (Exhibit B) has determined that the economic life of the proposed improvements will exceed the twelve-plus year period necessary to amortize the refurbishments.

The subject parcel is located in an area served by aging but well-maintained infrastructure. The area also includes numerous other DLNR parcels currently encumbered by long term leases that are scheduled to expire around 2025 and 2035.

Staff additionally notes that 69 Railroad, LLC has made substantial repairs or improvements to the premises in the course of the lease. The warehouse structures are

¹ Act 207, Session Laws of Hawaii 2011 amends Section 171-36(b) of the Hawaii Revised Statutes by allowing the Lessee to: Extend or modify the fixed rental period of the lease: provided that the aggregate of the initial term and any extension granted shall not exceed sixty-five years.

well maintained and are in good condition. Such maintenance demonstrates the Lessee's continuing efforts to keep the building in good order and repair.

The Lessee is in compliance with the terms and conditions of the lease. The Lessee is current with rent, insurance and performance bond. A recent inspection showed improvements to the property and existing structures.

The leased premises have been used substantially for the purpose for which they were leased. There are no outstanding rental reopening issues.

No agency comments were solicited on the request because it involves sublease approvals and a lease extension, and not a new disposition.

RECOMMENDATION:

That the Board, subject to the Applicant fulfilling the Applicant requirement listed above:

1. Authorize the extension of General Lease No. S-3624 under the terms and conditions cited above, which are by this reference incorporated herein and further subject to the following:
 - A. The standard terms and conditions of the most current lease extension form, as may be amended from time to time;
 - B. 69 Railroad, LLC shall complete its repairs to the warehouse roof and renovations to the warehouse walls and submit to Land Division staff receipts verifying payment for the improvements by June 30, 2014, or the lease extension shall be subject to cancellation.
 - C. Review and approval by the Department of the Attorney General; and
 - D. Such other conditions as may be prescribed by the Chairperson, which are in the best interests of the State.

Respectfully Submitted,



Gordon C. Heit
District Land Agent

APPROVED FOR SUBMITTAL:



William J. Aila, Jr., Chairperson

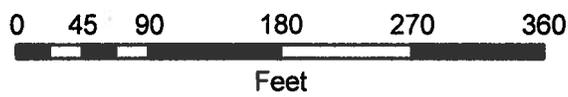
GL S-3624



69 Railroad, LLC
(3) 2-1-12:26

Railroad Ave

E Lanikaula St



Inter-Island Appraisal Co.

Real Estate Appraisers & Consultants
P. O. Box 813 • Kamuela, Hawaii 96743
Telephone/Facsimile (808) 885-7742
E-mail: grylox@aol.com

May 15, 2013

Michael B. Shewmaker, Manager

Hilo, Hawaii 96720

Dear Mr. Shewmaker:

Re: Consulting Letter – Estimated Remaining Economic Life of Improvements as contained on 069 Railroad Avenue, Hilo, Hawaii (TMK: 2-1-12-26), further identified as Parcel C, Portion of the Government (Crown) Land of Waiakea, Waiakea, South Hilo, Hawaii.

Pursuant to your request and our agreement for a consulting letter relating to an opinion of the remaining economic life of the improvements on the above-referenced property, I herein, present my findings and conclusion. The purpose of this consulting assignment is for your (Lessee) use in obtaining a 10-year term extension to the existing ground lease from the State of Hawaii, Department of Land and Natural Resources (Lessor), General Lease No. S-3624. The current 55-year lease commenced on March 6, 1961 and is due to expire on March 5, 2016.

The Lessee is proposing a self-financed capital expenditure of some \$158,000 for reroofing, per bid by Hilo Roof Coating, Inc. Thus, the proposed 10-year extension, from March 6, 2016 through March 5, 2026, would further allow the Lessee to amortize this self-absorbed cost. It is also appropriate to note that a review of the lease indicates that all improvements revert back to Lessor, upon expiration; hence, the Lessee does not have any salvage value interest.

Based on public record information and a physical inspection of the subject property, conducted on May 8, 2013, the 4.499-acre site is improved with two primary warehouse structures, occupied by a variety of tenants, built in 1962. Both steel-frame warehouse structures comprise a total area of some 44,000 SF, including mezzanines. Both have

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EXHIBIT B

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metal roofs and canopies, along with a variety of metal, wood and CMU perimeter walls. There are also various temporary/portable structures (mini-storage) that reflect occupancy by *yard space* tenants, situated along the subject site's easterly and southerly peripheries. Site improvements include asphalt paving, gravel basecourse open yard areas, chain-link perimeter fencing and interior cross-fencing, as well as landscaping. In all, the improvements appear structurally sound and a regular maintenance schedule is evident.

Therefore, upon assumed completion of the Lessee's proposed \$158,000 reroofing expenditure, as of the May 8, 2013 effective date of this consulting letter, the subject's improvements are estimated to have a remaining economic life in excess of 30 years. It is also appropriate to note that new metal roofs have a life expectancy of 20 to 60 years, per National Building Cost Manual – 2013 Edition, Marshall & Swift Cost Handbook and numerous online sources.

The client is identified as Michael B. Shewmaker, principal and manager, 69 Railroad, LLC. Intended users of this consulting letter include the Lessee, 69 Railroad, LLC, as well as its officers and stockholders. Other intended users include the Lessor, State of Hawaii, Department of Land and Natural Resources. The undersigned appraiser discloses that he has not performed any appraisals or other services on the subject property over the three (3) years, prior to the April 19, 2013 date of acceptance for this assignment.

Mahalo for the opportunity to be of service. Please contact me as any questions arise.

INTER-ISLAND APPRAISAL CO.


Robert K. Kurlansky, CGA, CRA

