

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

March 28, 2014

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

PSF No. 14OD-035

OAHU

Consent to Sublease General Lease No. S-5805, Waikiki Community Center, Lessee, to Healthy Mothers Healthy Babies Coalition of Hawaii, Sublessee, Waikiki, Honolulu, Oahu, Tax Map Key: (1) 2-6-025:008.

APPLICANT:

Waikiki Community Center, as Sublessor, to Healthy Mothers Healthy Babies Coalition of Hawaii, as Sublessee, both entities are domestic non-profit corporations.

LEGAL REFERENCE:

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

LOCATION:

Portion of Government lands situated at Waikiki, Honolulu, Oahu, identified by Tax Map Key: (1) 2-6-025:008, as shown on the map attached as **Exhibit A**.

AREA:

1.56 acres, more or less.

SUBLEASE AREA:

343 square feet.

TRUST LAND STATUS:

Non-ceded; acquired after Statehood.

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

LEASE CHARACTER OF USE:

Youth, education and multi-service community center to house human services and community activities purposes.

SUBLEASE CHARACTER OF USE:

Health clinic related purposes.

TERM OF LEASE:

30 years, commencing on April 1, 2007 and expiring on March 31, 2037. Next rental reopening is scheduled for April 1, 2017.

TERM OF SUBLEASE:

2 years, commencing on March 1, 2014 and expiring on February 28, 2016.

ANNUAL RENTAL:

\$156.00

SUBLEASE RENTAL:

\$477.76 per month.

RECOMMENDED ADJUSTMENT TO LEASE RENTAL:

None.

CHAPTER 343 - ENVIRONMENTAL ASSESSMENT:

In accordance with Hawaii Administrative Rule Sections 11-200-8(a)(1) and the Exemption List for the Department of Land and Natural Resources approved by the Environmental Council and dated December 4, 1991, the subject request is exempt from the preparation of an environmental assessment pursuant to Exemption Class No. 1, that states "Operations, repairs or maintenance of existing structures, facilities, equipment, or topographical features, involving negligible or no expansion or change of use beyond that previously existing". See Exemption Notification attached as **EXHIBIT B**.

DCCA VERIFICATION:

SUBLESSOR:

Place of business registration confirmed: YES  NO

Registered business name confirmed: YES  x  NO  \_\_\_   
Good standing confirmed: YES  x  NO  \_\_\_

SUBLESSEE:

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

REMARKS:

The Waikiki Community Center (WCC) is requesting the Board's consent to allow for a sublease agreement to be completed with Healthy Mothers Healthy Babies Coalition of Hawaii (HMHBC), as its sublessee. According to WCC, the proposed sublessee, HMHBC, needs to expedite the subject sublease request as the result of having received a short term notice to vacate from its current premises.

Since 1982, Waikiki Community Center (WCC) has been the lessee for the subject property for community service purposes. In 2007, the Board authorized the issuance of a new 30-year lease to WCC for the purposes cited above.

On October 28, 2010, under agenda item D-7, the Board gave its consent to five (5) subleases under the subject lease. Pursuant to the "In-House Valuation Recommendation-Waikiki Community Center Sublease Rent Calculation", as attached to the year 2010 submittal, the staff appraiser opined that there was no sandwich rent involved. Staff understands that the subject request is similar to those subleases in the year 2010 because the rental income collected from the proposed subject sublease will also be applied towards the operating expenses associated with the other subleased areas. Similarly, staff does not believe that a sandwich rent component currently exists within the subject request. For the Board's reference, a copy of the previously cited memorandum is attached as Exhibit C.

WCC is in compliance with the terms and conditions of the subject master lease. The proposed use would involve negligible or no expansion or change in use of the subject area beyond that previously existing.

There are no issues regarding any rental reopening, as the next reopening will not occur until 2017. Staff did not solicit comments on the subject request as it is for housekeeping purposes only. Staff has no objection to the request.

Staff now brings this request to the Board for its approval.

RECOMMENDATION: That the Board

1. Declare that, after considering the potential effects of the proposed disposition as provided by Chapter 343, HRS, and Chapter 11-200, HAR, this project will probably

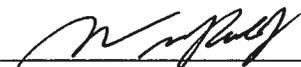
have minimal or no significant effect on the environment and is therefore exempt from the preparation of an environmental assessment.

2. Consent to the sublease under General Lease No. S-5805 between Waikiki Community Center, as Sublessor, to Healthy Mothers Healthy Babies Coalition of Hawaii, as the Sublessee, subject to any applicable conditions cited above which are by this reference incorporated herein and further subject to the following terms and conditions:
  - A. The standard terms and conditions of the most current consent to sublease form, as may be amended from time to time;
  - B. Review and approval by the Department of the Attorney General; and
  - C. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

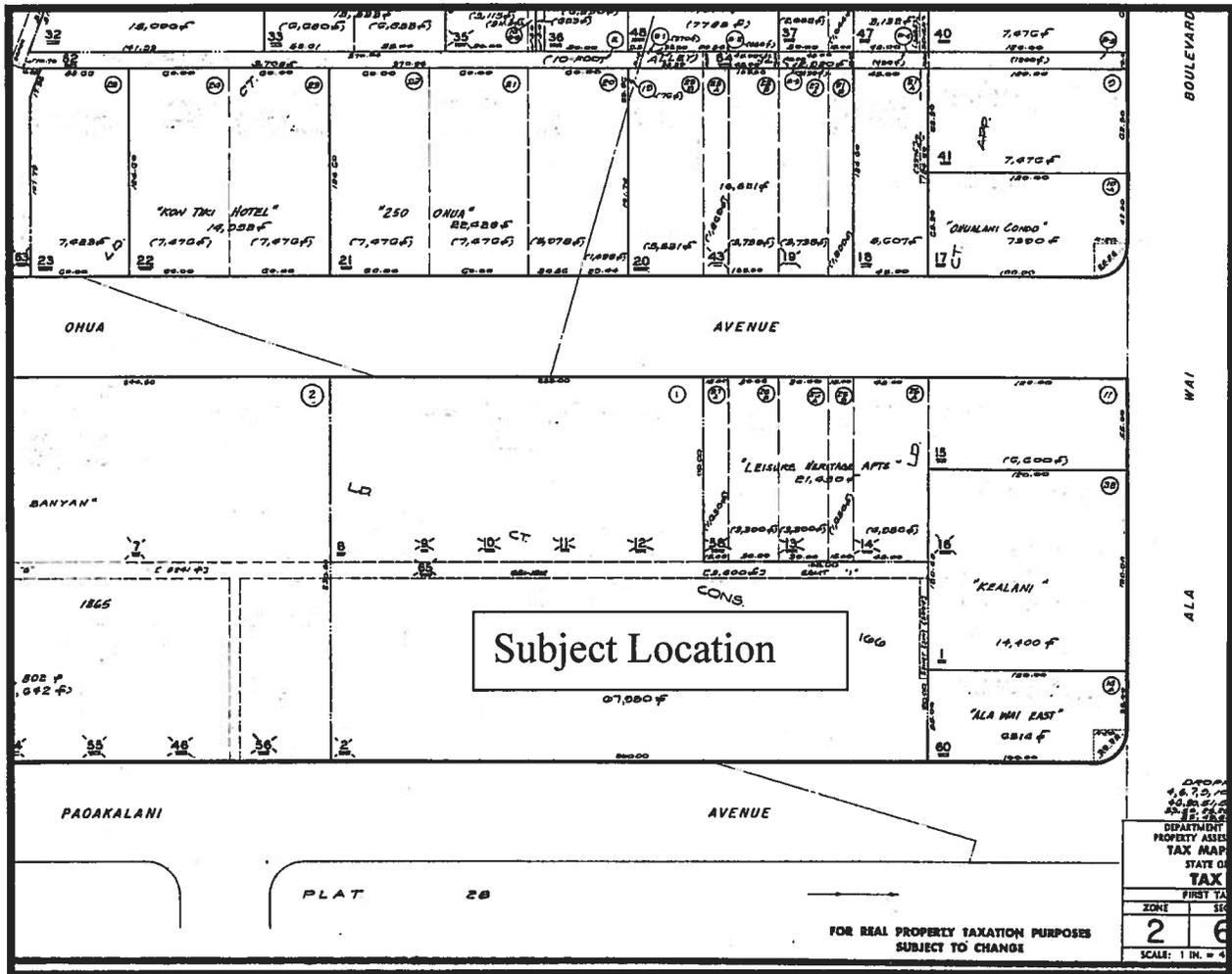
Respectfully Submitted,

  
\_\_\_\_\_  
Timmy Chee  
Land Agent

APPROVED FOR SUBMITTAL:

  
\_\_\_\_\_  
William J. Aila, Jr., Chairperson





TMK (1) 2-6-025:008

EXHIBIT A

**EXEMPTION NOTIFICATION**

Regarding the preparation of an environmental assessment pursuant to Chapter 343, HRS and Chapter 11-200, HAR

Project Title: Consent to Sublease to Healthy Mothers Healthy Babies Coalition of Hawaii

Project / Reference No.: GL 5805

Project Location: Honolulu, Oahu, TMK (1) 2-6-025:008

Project Description: Consent to sublease to Healthy Mothers Healthy Babies Coalition of Hawaii

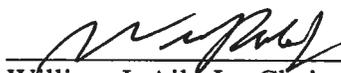
Chap. 343 Trigger(s): Use of State Land

Exemption Class No.: In accordance with Hawaii Administrative Rule Section 11-200-8(a)(1), the subject request is exempt from the preparation of an environmental assessment pursuant to Exemption Class No. 1, that states "Operations, repairs or maintenance of existing structures, facilities, equipment, or topographical features, involving negligible or no expansion or change of use beyond that previously existing".

The subject request pertains to the use of the existing leased premises to Waikiki Community Center for community services purposes. As such, staff believes that the proposed use would involve negligible or no expansion or change in use of the subject area beyond that previously existing.

Consulted Parties: Not applicable.

Recommendation: It is recommended that the Board find this project will probably have minimal or no significant effect on the environment and is presumed to be exempt from the preparation of an environmental assessment.

  
\_\_\_\_\_  
William J. Aila Jr., Chairperson

 3/14/14  
\_\_\_\_\_  
Date

**EXHIBIT B**



STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
LAND DIVISION

POST OFFICE BOX 621  
HONOLULU, HAWAII 96809

October 4, 2010

MEMORANDUM

TO: Laura H. Thielen, Chairperson *LT*

THROUGH: Russell Y. Tsuji, Land Division Administrator

FROM: Cyrus C. Chen, Real Estate Appraisal Manager *Cyrus Chen*

SUBJECT: In-House Valuation Recommendation – Waikiki Community Center Sublease Rent Calculation

PSF No.: 100D-144 (GL 5805)  
Applicant: Waikiki Community Center  
Location: Waikiki, Honolulu, Oahu, Hawaii  
Land Area: 64,350 sq. ft.  
Building Area: 34,018 sq. ft. (Total)  
Tax Map Key: (1) 2-6-25: 8  
Char. of Use: Community center purposes

The applicant has been subleasing a portion of their building to the Waikiki Health Center (WHC) via sublease effective January 1, 2010. There are also four smaller subtenants renting spaces of various sizes. These smaller subtenants have subleases, which all commenced between March 1, 2010 and June 1, 2010. The Waikiki Community Center (WCC) is a Hawaii nonprofit corporation, which leases the property from the State for a nominal rent of \$156 per annum. The particulars of these subleases are summarized in Table 1 attached.

The applicant has been subleasing 5,752 square feet of space in the building to Waikiki Health Center (WHC) for \$4,458 per month since January 1, 2010. Four smaller sublessees have also committed to short-term subleases within WCC for three-year terms in spaces ranging from 229 to 991 square feet. The rents typically step up in one-year intervals by an average of approximately 3%.

Nonprofit corporations which are leasing land and improvements from the State are required to share in sublease rents with the State according to the sublease rent participation policy approved by the Board on May 26, 2000, Item D-24, and amended January 26, 2001, Item D-8. According to the policy, if the lessee is paying any amount less than fair market value on

subleases of improvements owned by the State, the Board shall revise the rent to include as additional rent, 100% of that portion of the sublease rent in excess of the original ground rent paid to the State. The formula approved by the Board reflects the intent of the Board regarding the calculation of sublease sandwich profit and shall serve as a guideline in Staff's calculation. Specifically, the formula allows the deduction of management and vacancy loss, repair and maintenance, real property tax, insurance and ground rent before the additional annual rent is assessed. Furthermore, the Board authorizes staff to use their discretion in representing the State's interest in applying the formula to address the varying sublease arrangements that may not fit neatly into the formula.

A previous sublease calculation was performed by Staff dated December 21, 2004, which was based on information supplied by the WCC. This analysis was reviewed and approved by the Chairperson. The analysis recommended no sublease rent due the State due to the negative net income figure derived. A similar method and analysis is the basis for this current analysis based on updated information provided by WCC. When WCC commenced occupancy of the building, no plans were available. In order to begin renovation and upgrade work on the building, plans needed to be prepared after the fact. The WCC contracted an engineering firm to derive more accurate estimates of building areas and served as the basis for their current subleases and data provided to staff. Staff analysis of the subject revenue and expenses pertaining to the subject subleases are summarized in Table 2.

According to WCC, WHC is responsible for 30% of the total common area expenses associated with the center and 60% of the utility costs. The four other subtenants combined are responsible for approximately 9% of the common area expenses.

WCC provided the operating budget for 2009, estimates of operating revenues and expenses. Also provided were replacement and reserve estimates in the near term along with some historical operating expense data for utility, water and sewer charges. Other data submitted included a table displaying facilities square footage derived from an engineering firm. This table indicates individual demised area square footage and common area square footage. These figures were used for calculation of years 2010 to 2013 revenues and expenses and the allocation of these expenses between the subtenants.

Expenses listed were considered regular periodic expenditures necessary to facilitate operation of the building and grounds. Most of the expenses were accounted for in their 2009 property management budget. WCC staff indicates the 2009 property management budget figures are the most recent data available and suggested these figures are the most accurate. For the purposes of this analysis, expenses were allowed to grow at an industry average of 3% per annum, similar to the annual escalation in the sublease rents.

Therefore, based on the foregoing analysis as shown on Table 2, the rent due DLNR for sublease rents from the WHC and the four other subtenants as of the date of this document is \$0 due to the negative \$138,369 net operating income figure calculated.

Approved/Disapproved:

*MT*   
\_\_\_\_\_  
Laura H. Thielen, Chairperson

*10/11/10*  
\_\_\_\_\_  
Date

cc: District Branch Files  
Central Files

**OCT 14 2010**