

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

January 22, 2016

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

PSF No.: 15HD-087

Hawai'i

Request for Extension of Lease Term Pursuant to Act 207, Session Laws of Hawaii 2011, General Lease No. S-3596, Lesley Hill, Lessee, Waiakea, South Hilo, Hawaii
Tax Map Key: (3) 2-2-049:011.

REQUEST:

Proposed improvements to leasehold property financed by Lessee, pursuant to Act 207, Session Laws of Hawaii and Sections 171 36(b) in the amount of approximately \$55,000.00.

In order for Lessee to amortize this expenditure, the Lessee is requesting an extension of General Lease No. S-3596 for 10 years, commencing on January 16, 2016 and expiring on January 15, 2026 for an aggregate term (initial 55 year term plus extension) of 65 years.

LEGAL REFERENCE:

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

LOCATION:

Portion of Government lands of Lot 37, Kanoelehua Industrial Lots, situated at Waiakea, South Hilo, Hawaii, identified by Tax Map Key: (3) 2-2-049:011, as shown on the attached map labeled Exhibit A.

AREA:

16,634 square feet, more or less.

ZONING:

State Land Use District: Urban
County of Hawaii CZO: ML-20 Limited Industrial Use

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:

Proposed uses allowed under the County of Hawaii zoning code, ML-20, limited industrial.

LEASE TERM:

Original term of 55 years, commencing on January 16, 1961 and expiring on January 15, 2016.

Requested extension of 10 years commencing on January 16, 2016 and expiring on January 15, 2026.

ANNUAL RENT:

Current rent is \$17,940.00, due in semi-annual installments of \$8,970.00 on January 16 and July 16 of each year.

RENTAL REOPENINGS:

Reopenings in the original term were at the end of the 20th, 30th, 40th and 50th years of the term. The last rental reopening occurred on January 16, 2011.

Staff is recommending the rent for the extended term be determined by an appraisal that will cover the period from January 16, 2016 through January 15, 2026.

IMPROVEMENTS:

In the past six years, the Lessee has made substantial improvements to the property. These improvements include replacement of the roof, improvements to the interior office space and renovations to the warehouse. In addition to these improvements, the Lessee is also planning to upgrade the electrical wiring in the warehouse and replace the gutters with industrial strength materials within the next six months. The overall cost of these improvements is estimated to be in excess of \$55,000.00.

DCCA VERIFICATION:

Applicant is sole proprietorship and, as such, is not required to register with DCCA.

APPLICANT REQUIREMENTS:

Provide documentation (paid invoice) upon completion of the rewiring of the warehouse and replacement of the gutters.

BACKGROUND:

Under the provisions of the special disaster legislation (Act 4, First Session Laws of Hawaii 1960), the Department of Land and Natural Resources was authorized to enter into direct negotiation, leases of public lands to victims of natural disasters. General Lease No. S-3596 was issued to Isao Morimoto dba Mori's Paint Shop of Hilo, Hawaii. This lease with the option to purchase was approved by the Board at its meeting of November 18, 1960 under agenda item C-6.

At its meeting of January 9, 1976 under agenda item D-1-y, the Board consented to the agreement of sale of GL S-3596 from Isao Morimoto, Seller to Body & Fender Repair, Inc., Purchaser. The purchase amount of \$100,000 was to be paid in monthly installments over a period of 96 months at a rate of 10% interest.

The Board, at its meeting of December 4, 1981 under agenda item F-1-c, consented to the assignment of agreement of sale from Body & Fender Repair, Inc., Assignor, to Laupahoehoe Transportation Company, Inc., Assignee. Further, at its meeting of November 11, 1985 under agenda item F-1-a, the Board consented to the assignment of lease from First Hawaiian Bank, Trustee under the Will of Isao Morimoto, Assignor, to Laupahoehoe Transportation Company, Inc., Assignee.

At its meeting of August 8, 1996 under agenda item D-1, the Board consented to the assignment of lease from Laupahoehoe Transportation Company, Inc., Assignor to D. L. Downing, General Contractor, Inc. Assignee.

At its meeting of January 27, 2011, under agenda item D-2, the Board consented to the assignment of lease from D. L. Downing, General Contractor, Inc., Assignor to Lesley Hill, Assignee. In addition to the assignment of lease, the Board also consented to the change in character of use to the current County of Hawaii zoning, ML (limited industrial).

The Lessee is the owner of Paradise Plants and occupies the property adjacent to GL S-3596. Paradise Plants is a garden supply and import business and has operated in the Hilo area for over thirty-eight years. The subject property is currently used for warehouse storage and bulk sales purposes. This use is consistent with the current county zoning, industrial use.

The Applicant has not had a lease, permit, easement or other disposition of State lands terminated within the last five years due to non-compliance with such terms and conditions. The proposed use is allowable in the county zoning. The Applicant is in compliance with all the lease terms and conditions.

LEASE EXTENSION:

The Lessee's current 55 year lease is set to expire on January 15, 2016 and she is requesting a 10 year extension pursuant to Act 207, Session Laws of Hawaii 2011¹ in order to amortize the cost of improvements to the property. These improvements involved major renovations to the exterior and interior of the building including the replacement of the roof along with interior office renovations. The Lessee has also committed to upgrade the electrical wiring and install of industrial grade gutters, all at a cost in excess of \$55,000.00. An appraisal evaluation performed by a certified appraiser has determined that the economic life of the improvements will exceed the ten-plus year period necessary to amortize the refurbishments.

Staff additionally notes that the Lessee has made substantial repairs and improvements to the premises in the course of the lease. The warehouse structures are well maintained and in better than average condition. Such maintenance demonstrates the Lessee's continuing efforts to keep the property in good order and repair.

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.

The subject parcel is located in an area served by aging and/or substandard infrastructure. The area also includes numerous other DLNR parcels currently encumbered by long term leases that are also scheduled to expire between 2016 and 2021. Most of the DLNR leases in this area were established pursuant to Act 4, First Special Session of 1960 resulting from the destruction of the Hilo bay front caused by the 1960 tsunami.

Businesses that were severely impacted by the tsunami were given the opportunity to relocate to the newly created industrial area of Kanoelehua. The act provided lessees with an option to purchase the land within two years. Several businesses exercised this option creating an industrial area of mixed DLNR leases and fee simple properties.²

Since the implementation of Act 207, SLH 2011, a number of leases within the Kanoelehua Industrial area have been granted ten year extensions. Several of these leases are in the immediate vicinity of GL S-3596 and are direct leases awarded as a result of Act 4. The other lease, although in the Kanoelehua Industrial Area, is located along Railroad Ave. and were initially awarded through the public auction process.

The East Hawaii economic region is unique in that a majority of the available land suitable for commercial and/or industrial use is under the management of a government agency.³ As one of the largest stakeholders of commercial/industrial land in the Hilo area, the Department of Land and Natural Resources understands the need for a comprehensive analysis of the area in order to develop an economic strategy that will encourage new enterprises in addition to supporting the established businesses.

With this concept in mind, the Land Division has retained the services of the consulting firm Munekiyo & Hiraga, Inc. for the purpose of providing a feasibility study and analysis of the Kanoelehua Industrial Area in order to determine the future direction of this very important economic area of East Hawaii.

Key elements of the study/analysis will be:

- Determine the market demand for the KIA properties, particularly the demand for industrial-commercial use or some other use for long-term leasing (30 years or more)
- Determine whether some properties should be consolidated and reconfigured to maximize the utility of the land in view of the results from the above findings.
- Assess the feasibility and desirability of placing management of the leasehold properties (or clusters of properties) under a master lease (or multiple master leases for each cluster) from the State for industrial, commercial or other uses permitted by the applicable zoning.

The results of this study and public comments thereon will be used to assist the department and the Board in determining the future of the Kanoelehua Industrial Area and create an economic region that will benefit not only the people of East Hawaii, but the State as well.

² There are currently twenty six (26) leases and fifteen (15) fee simple properties within the area set aside as a result of Act 4 First Special Session 1960. The area borders are Kawili St., Makaala St., Pookela St. (both sides) and Wiwoole St.

³ The Department of Land and Natural Resources (DLNR) and the Department of Hawaiian Home Lands (DHHL) are the two major land holders in the industrial area of East Hawaii.

Staff is recommending that the rent payable for the remaining term of the lease, with extension, be determined by an independent appraisal.

No agency comments were solicited on the request because it involves the extension of an existing lease rather than a new disposition.

RECOMMENDATION: That the Board:

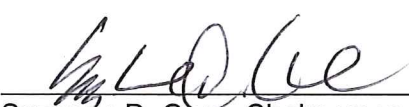
1. Authorize the extension of General Lease No. S-3596 under the terms and conditions cited above, which are by this reference incorporated herein and further subject to the following:
 - A. The standard terms and conditions of the most current lease extension form, as may be amended from time to time;
 - B. The Lessee, Lesley Hill shall complete the remaining renovations and improvements to the warehouse and submit to Land Division staff receipts verifying payment for the improvements by July 31, 2016;
 - 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:



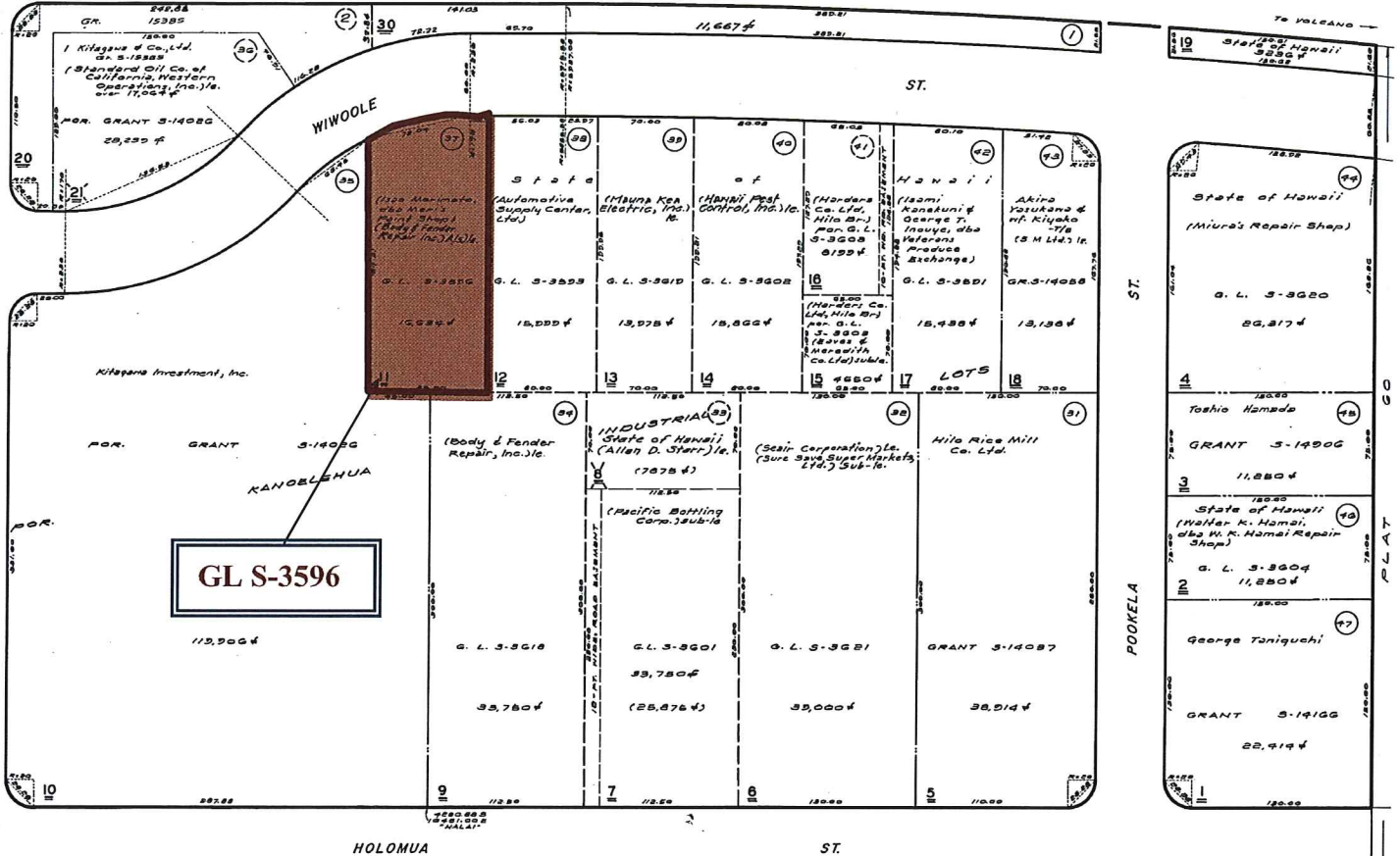
Suzanne D. Case, Chairperson

TMK: 3RD/2-2-49:11

KANOELEHUA

KASP 5-18(1)
(Volcano Rd.)

AVENUE



GL S-3596

PLAT 50

Dropped Parcels: 0, 51

FOR REAL PROPERTY TAXATION PURPOSES
SUBJECT TO CHANGE

DEPARTMENT OF TAXATION PROPERTY ASSESSMENT DIVISION TAX MAPS BRANCH STATE OF HAWAII TAX MAP		
THIRD TAXATION DIVISION		
ZONE	SEC.	PLAT
2	2	49
SCALE: 1 IN. = 50 FT.		

Kanoelehua Industrial Leases



EXHIBIT A