

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-190

Hawai'i

Request for Extension of Lease Term Pursuant to Act 207, Session Laws of Hawaii 2011, General Lease No. S-3593, Automotive Supply Center, Ltd., Waiakea, South Hilo, Hawaii Tax Map Key: (3) 2-2-049:012.

REQUEST:

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 \$12,700.00.

In order for Lessee to amortize this expenditure, the Lessee is requesting an extension of General Lease No. S-3593 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 38, Kanoelehua Industrial Lots, situated at Waiakea, South Hilo, Hawaii, identified by Tax Map Key: (3) 2-2-049:012, as shown on the attached map labeled Exhibit A.

AREA:

15,999 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:

Commercial use purposes. (amended 1/23/1997, D-9)

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 \$16,320, due in semi-annual installments of \$8,160.00 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 the date of this Board action through January 15, 2026.

IMPROVEMENTS:

The Lessee has made substantial improvements to the property. These improvements include major repairs and renovations to the warehouse. The cost of these improvements is estimated to be in excess of \$50,000.00.

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:

Complete improvements to the subject property by July 31, 2016.

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-3593 was issued to Automotive Supply Center, Ltd. 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 23, 1997 under agenda item D-9, the Board consented to the sublease under GL S-3593 between Automotive Supply Center, Ltd., Sublessor, and Lesley

Hill, Sublessee. In addition to the sublease agreement, the Board also consented to the change in character of use to commercial use purposes.

The Sublessee is the owner of Paradise Plants and, in addition to leasing this property, occupies the property adjacent to GL S-3593. Paradise Plants is a garden supply and import business and has operated in the Hilo area for over thirty years. The subject property is currently used for showroom and retail sales of garden supplies and plants 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 Lessee 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 building's existing front canopy, removal and replacement of approximately 15 linear feet of interior wood support beams; as well as clean, prime and finish paint approximately 100 linear feet of building side and rear at a cost in excess of \$12,700.00. An appraisal evaluation performed by a certified appraiser (Exhibit B) has determined that the economic life of the proposed 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 good condition. Such maintenance demonstrates the Lessee's continuing efforts to keep the buildings in good order and repair.

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 properties².

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.

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.

Since the implementation of Act 207, SLH 2011, a number of leases within the Kanoelehua Industrial Area have been granted ten year extensions. Seven of these leases are in the immediate vicinity of GL S-3593 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 was 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.

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

RECOMMENDATION: That the Board:

1. Authorize the extension of General Lease No. S-3593 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;

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.

- B. Automotive Supply, Ltd. 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

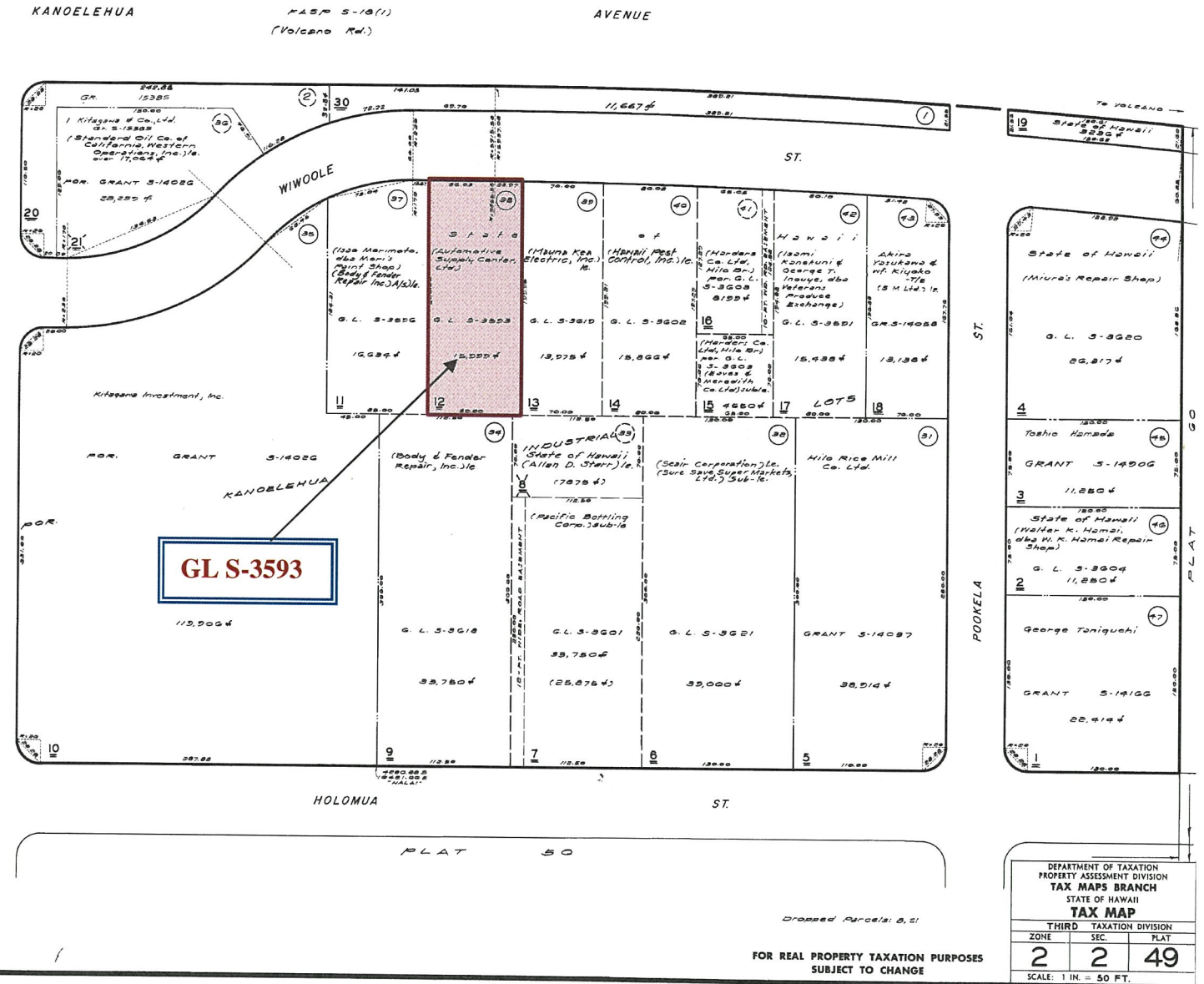
APPROVED FOR SUBMITTAL:



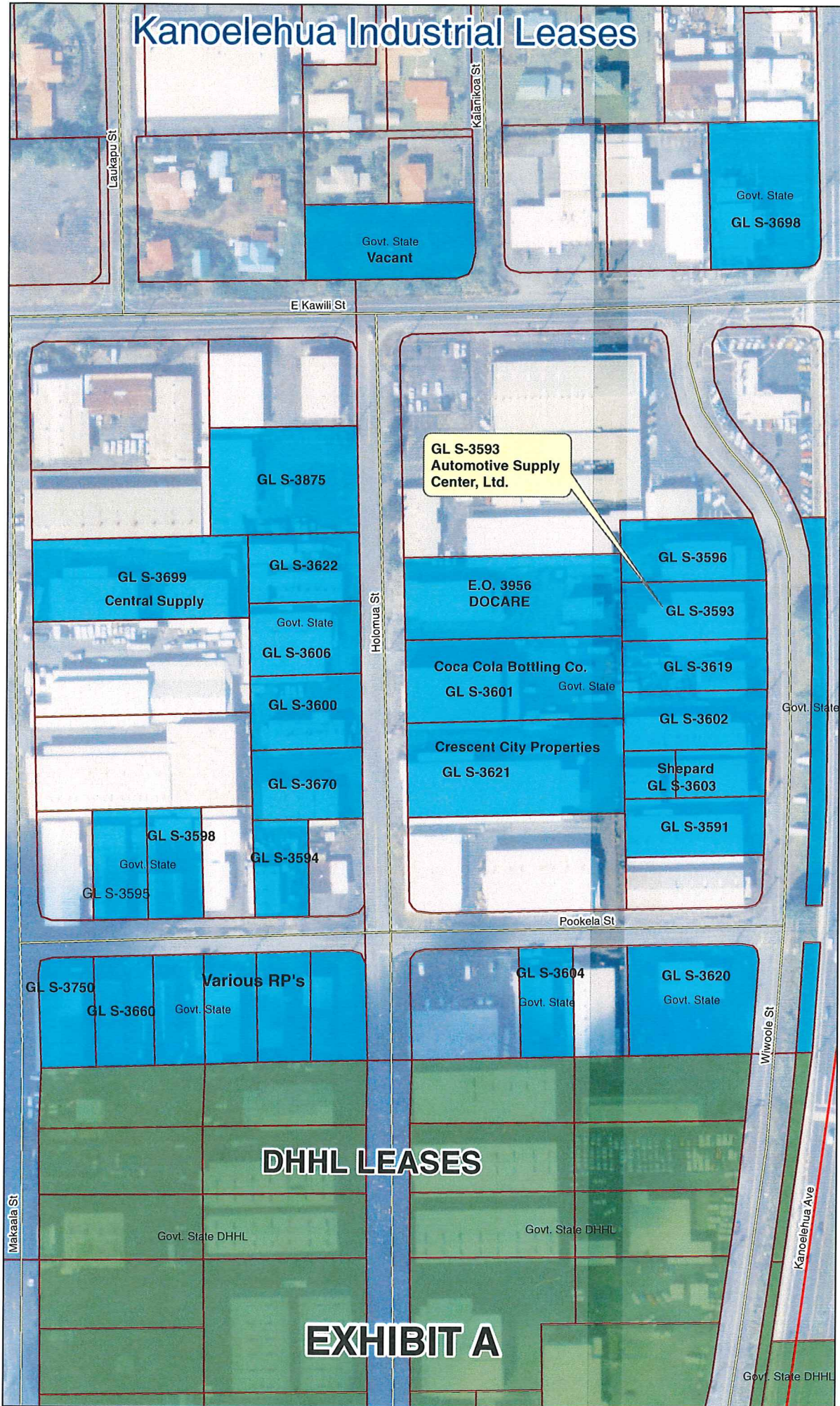
Suzanne D. Case, Chairperson

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TMK: (3) 2-2-049:012



Kanoelehua Industrial Leases



Inter-Island Appraisal Co.

Real Estate Appraisers & Consultants
P. O. Box 813 • Kamuela, Hawaii 96743
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E-mail: grylox@aol.com

October 15, 2015

Peter Okino, President
Automotive Supply Center, Ltd.

Hilo, Hawaii 96720

Dear Mr. Okino:

Re: Consulting Letter – Estimated Remaining Economic Life of Improvements
as contained on Hilo, Hawaii (TMK: 2-2-49-12), and
further identified as Lot 38, Portion of Kanoelehua Industrial Lots, Waiakea
Houselots Extension, 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-3593. The current 55-year lease commenced on January 16, 1961 and is due to expire on January 15, 2016.

The Lessee is proposing self-financed capital improvements for new replacement of the building's existing front canopy, removal and replacement of approximately 86 linear feet of security/ventilation wire screening, replacement of approximately 15 linear feet of interior wood support beams; as well as clean, prime and finish paint approximately 100 linear feet of building side and rear, per N. Rego Contracting, Inc. for use in obtaining a 10-year ground lease extension from the Lessor (State of Hawaii, Department of Land and Natural Resources, General Lease S-3593). Thus, the proposed 10-year extension, from January 16, 2016, through January 15, 2026, would further allow the Lessee to amortize these, and previous, self-financed capital improvements. 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.

EXHIBIT B

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er Okino, President
Automotive Supply Center, Ltd.
October 15, 2015

Based on public record information and a physical inspection of the subject property, conducted on October 14, 2015, the 15,999 square foot site is improved with one primary metal warehouse structure, built in 1961. Said steel-frame warehouse structure comprises a total area of some 5,200 SF plus adjoining canopies. In addition, there are mezzanine areas totaling some 2,300 SF of office and storage space. The building comprises metal roofing, perimeter walls and canopies, along with a variety of metal doors on a poured concrete slab foundation. Approximately 1,200 SF of the building's 5,200 SF total floor area represents a rear addition that was constructed in 1978 (37 years old).

Site improvements include asphalt surface-paving with six (6) parking stalls in front and an additional two (2) stalls at the building's northerly side. The site is perimeter fenced (primarily chain-link, as well as a variety of other materials) from the building's southwest corner, along its rear and side boundaries. Chain-link security gates provided access at both sides of the property's Wiwoole Street (westerly) frontage. In all, the improvements appear structurally sound, in good overall condition and a regular maintenance schedule is evident.

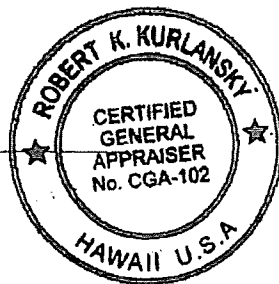
Therefore, as of the October 14, 2015 *effective date* of this consulting letter, the subject's improvements are estimated to have a remaining economic life in excess of 25 years, as is. Completion of the Lessee's proposed self-financed capital improvements are deemed normal ongoing maintenance and, again, will allow the Lessee to further amortize this and previous self-absorbed costs.

The client is identified as Automotive Supply Center, Ltd. Intended users of this consulting letter include the Lessee, Automotive Supply Center, Ltd., as well as its officers, board members 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 September 25, 2015 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



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