

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

April 25, 2014

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

Kauai

Request for Approval in Concept of an Extension of Lease Term, General Lease No. S-3832, and General Lease No. S-5578, Pixar Development, LLC, Lessee, por. of Kapaa Town Lots, Kapaa, Kawaihau, Kauai, Tax Map Keys: (4) 4-5-011:046 and (4) 4-5-012:005.

APPLICANT AND REQUEST:

Pixar Development, LLC is requesting an extension of General Lease No. S-3832 and General Lease No. S-5578, pursuant to Act 219, SLH 2011, which authorizes the extension of hotel and resort leases.

LEGAL REFERENCE:

Sections 171-36(b), Hawaii Revised Statutes, as amended, and Act 219 SLH 2011.

LOCATION:

Portion of Government lands of Kapaa Town Lots, situated at Kapaa, Kawaihau, Kauai, identified by Tax Map Keys: (4) 4-5-011:046 and (4) 4-5-012:005, as shown on the attached map labeled Exhibit A.

AREA:

GL S-3832 – 0.5930 acres, more or less.  
GL S-5578 – 0.2210 acres, more or less.  
TOTAL: - 0.8140 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:

GL S-3832: Hotel purposes.

GL S-5578: Hotel parking purposes.

TERM OF LEASE:

GL S-3832: Original term of 55 years, commencing on May 18, 1964, and expiring on May 17, 2019.

GL S-5578: Original term of 20 years, commencing on May 18, 1999, and expiring on May 17, 2019.

ANNUAL RENTAL:

GL S-3832 - current rent is \$122,360.00 annually, due in quarterly installments of \$30,590.00 on February, May, August and November of each year.

GL S-5578 - current rent is \$26,910.00 annually, due in quarterly installments of \$6,727.50 on February, May, August and November of each year.

RENTAL REOPENINGS:

GL S-3832:

Reopenings in the original term were at the end of the 15<sup>th</sup>, 25<sup>th</sup>, 35<sup>th</sup> and 45<sup>th</sup> years of the term. The last rental reopening occurred on May 18, 2009.

GL S-5578:

Reopenings in the original term were at the end of the 10<sup>th</sup> year of the term. The last rental reopening occurred on May 18, 2009.

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 comply with the requirements of Act 210 SLH 2011, negotiate a development agreement with department staff, and return to the Board at a later date for review and approval of the development agreement and requested lease extension.

REMARKS:

In 1962, Ichiji and Masako Matsumura built a small hotel on their private lands at Kapaa, Kauai designated as TMK: (4) 4-5-012:006 (Parcel 6). After acquiring a lease of the adjoining State land designated as TMK: (4) 4-5-011:046 (Parcel 46), they built an additional wing of the hotel of masonry construction containing 16 guest rooms. It was renovated in 2006. Abutting Parcel 46 is TMK: (4) 4-5-012:005 (Parcel 5), which is improved with a parking lot for the hotel. Photos of the hotel and parking area are included as Exhibits B-1 and B-2, respectively.

Land Division's files show the following lease history for the two State parcels:

General Lease No. S-3832 (covering Parcel 46) was sold at public auction on May 18, 1964 to Mr. and Mrs. Matsumura for a term of fifty-five (55) years expiring on May 17, 2019.

General Lease No. S-4648 (covering Parcel 5) was sold at public auction on May 16, 1980 to Dale M. Matsumura for a term of fifteen (15) years expiring on June 14, 1995.

On September 24, 1985, the Matsumuras notified Land Division that they were in the process of selling the entire hotel operation, which included General Lease No. S-3832 and General Lease No. S-4648. At its meeting of October 11, 1985, Item F-14, the Board of Land and Natural Resources approved the consent to sale of General Lease No. S-3832 and General Lease No. S-4648 from the Matsumuras to Michael Wayne Warriner and Linda J. H. Warriner, husband and wife, via agreement of sale. At its meeting of March 13, 1987, Item F-1-c, the Board approved the Consent to Assignment of General Lease No. S-3832 and General Lease No. S-4648 to the Warriners upon satisfaction of the agreement of sale.

In 1997 the Warriners filed for divorce. The decree of divorce specified that Michael Wayne Warriner's interest in General Lease No. S-3832 was awarded to Linda J. H. Warriner.

At its meeting on October 8, 1993, Item F-5, the Board approved a request for extension of General Lease No. S-4648 for a term of five (5) years ending on June 13, 2000. Due to the lack of follow through, it expired on June 14, 1995.

At its meeting on July 24, 1998, Item D-17, the Board approved authorization to sell a lease at public auction for the premises formerly covered by General Lease No. S-4648, and also approved the issuance of an interim revocable permit. Revocable Permit No. S-7145 was thereafter issued to Linda J.H. Warriner for hotel parking lot use only. In May, 1999, Linda J.H. Warriner became the lessee under General Lease No. S-5578 for hotel parking purposes after she bid successfully at auction.

At its meeting on October 26, 2001, Item D-10, the Board approved the Consent to Assignment of General Lease No. S-3832 and General Lease No. S-5578, Linda J.H. Warriner, Assignor, to Pixar Development, LLC, Assignee.

Pixar Development, LLC (Pixar) is in compliance with lease terms and conditions regarding rent and insurance.

Pixar is requesting a 50-year extension from the end of the current lease set to expire on May 17, 2019 for an aggregate term of 55 years (5 years remaining on lease plus 50-year extension) in order to amortize the cost of the improvements necessary to upgrade the hotel and parking lot.

Act 219, Session Laws of Hawaii 2011, authorizes the Board of Land and Natural Resources to extend hotel and resort leases (that have not been sold or assigned within the past five years) up to an additional fifty-five (55) years. As a condition to the extension, the Lessee must commit to substantial upgrades to the existing improvements. "Substantial improvements" means any renovation, rehabilitation, reconstruction or construction of the existing improvements, including minimum requirements for off-site and on-site improvements, the cost of which equals or exceeds fifty per cent (50%) of the market value of the existing improvements that the Lessee or the Lessee and developer install, construct, and complete by the date of completion of the total development."

The act also stipulates that prior to entering into a development agreement, the lessee shall submit to the Board the plans and specifications for the total development being proposed. The Board shall review the plans and specifications and determine: 1) Whether the development proposed is of sufficient worth and value to justify the extension; 2) The estimated time to complete the improvements and expected date of completion; 3) The minimum revised annual rent based on the fair market value of the lands to be developed, as determined by an appraiser for the Board, and the percentage rent where gross receipts exceed a specified amount.

Pixar is estimating new improvement costs for the premises under General Lease No. S-3832 in the amount of approximately \$662,000 and has submitted a critical path and plans that include elevator, and a new third floor to existing building with six new guest rooms. (See Exhibits C and D)

Pixar has provided staff with a Summary Appraisal Report dated November 1, 2013 for General Lease No. S-3832 that indicates the market value of the existing improvements on TMK: (4) 4-5-011:046 was \$644,000 as of that date. (See Exhibit E). As noted above, the proposed new improvements for this parcel amount to \$662,000, which exceeds the 50% threshold of Act 219.

Pixar has also provided a Summary Appraisal Report dated March 1, 2014 for General Lease No. S-5578 that indicates the market value of the existing improvements (parking lot) on TMK: (4) 4-5-012:005 was \$38,000 as of that date. (See Exhibit F). The proposed improvements for this parcel, including removing the asphalt parking lot,

replacing with stamped concrete, and restriping, amount to \$30,104, which exceeds the 50% threshold of Act 219. (See Exhibit G).

Although Act 219 indicates in its preamble that the intention of the act is to help rehabilitate the Banyan Drive area of Hilo, Hawaii, there is nothing in the operative provisions of the act to limit its effect to Hilo or Hawaii Island. Staff is therefore requesting that the Board consent to an agreement in concept for the extension of General Lease Nos. S-3832 and S-5578 so that Pixar can prepare plans and specifications for the improvements and submit to staff for review and ultimately to the Board for approval. Additionally, staff is requesting authority to negotiate a development agreement with Pixar and return to the Board for approval of the development agreement and lease extension.

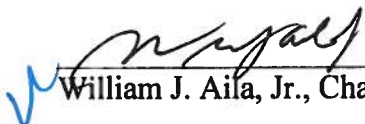
RECOMMENDATION:

That the Board, subject to the Applicant fulfilling the Applicant requirements listed above, approve in concept the request to extend General Lease No. S-3832, and General Lease No. S-5578, Pixar Development, LLC, Lessee, covering the State owned parcels identified by Tax Map Keys: (4) 4-5-011:046 and (4) 4-5-012:005 pursuant to Act 219 Session Laws of Hawaii 2011 and Section 171-36(b), Hawaii Revised Statutes, as amended, with the understanding that the approval in concept shall not be deemed to be an approval of the development proposal or lease extension at this time, as staff shall return to the Board at a later date for review and approval of development agreement and lease extension, including plans and specifications for improvements submitted by the Lessee. Land Division staff is authorized to negotiate a development agreement with the Lessee, subject to review and approval by the Board.

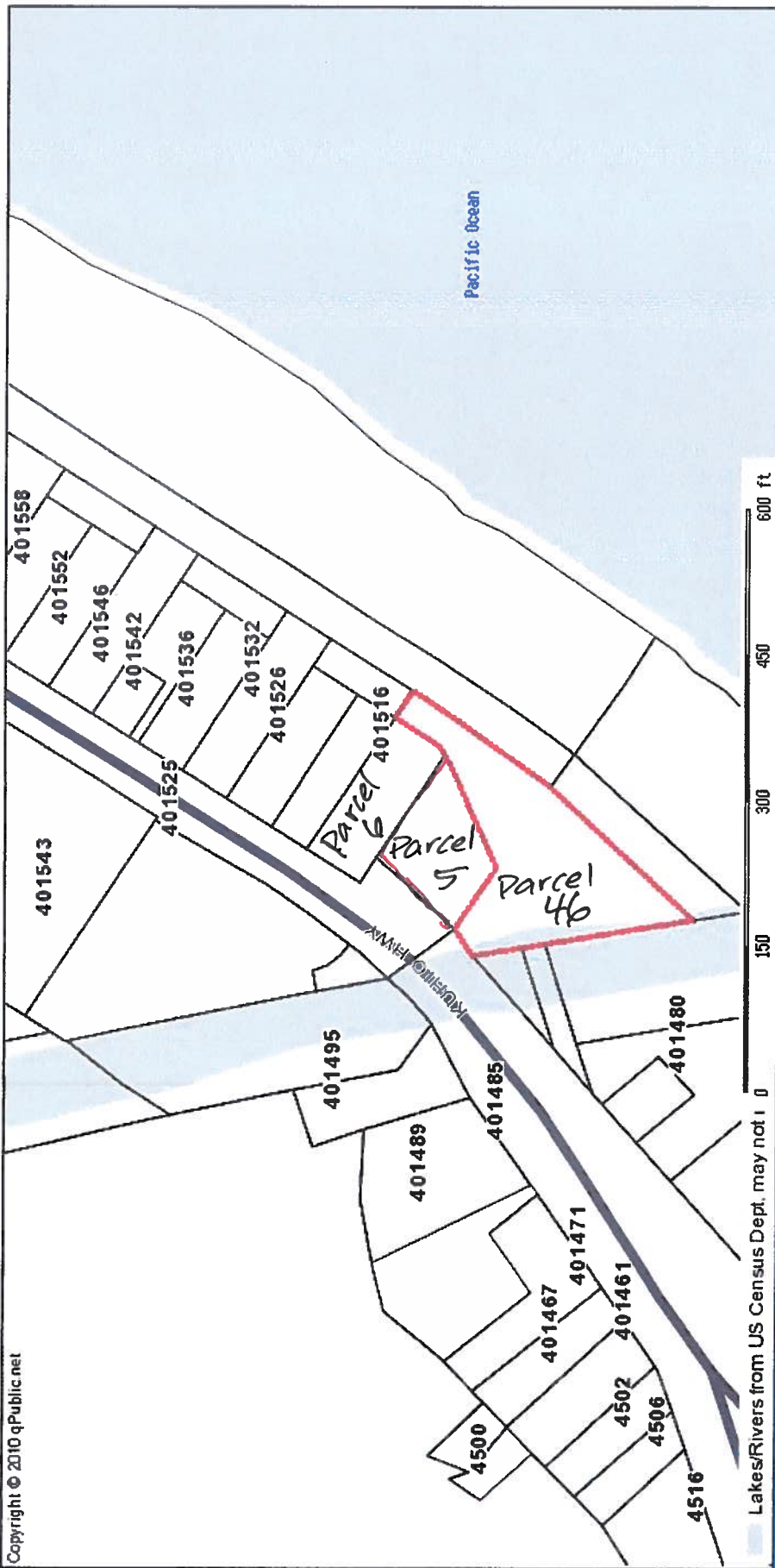
Respectfully Submitted,

  
\_\_\_\_\_  
Marvin Mikasa  
Acting District Land Agent

APPROVED FOR SUBMITTAL:

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

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Lakes/Rivers from US Census Dept. may not i 0 150 300 450 600 ft

Kauai County Assessor

Parcel: 450110460000 Acres: 0.593	
Name:	STATE OF HAWAII
Site:	
Sale:	\$821,600 on 2003-07-23 Reason= Qual=
Mail:	
Land Value	
Building Value	
Misc Value	
Just Value	
Assessed Value	0
Exempt Value	0
Taxable Value	0

The Kauai County Assessor's Office makes every effort to produce the most accurate information possible. No warranties, expressed or implied, are provided for the data herein, its use or interpretation. The assessment information is from the last certified taxroll. All data is subject to change before the next certified taxroll. PLEASE NOTE THAT THE PROPERTY APPRAISER MAPS ARE FOR ASSESSMENT PURPOSES ONLY NEITHER KAUAI COUNTY NOR ITS EMPLOYEES ASSUME RESPONSIBILITY FOR ERRORS OR OMISSIONS ---THIS IS NOT A SURVEY---

Date printed: 04/11/14 : 21:11:54



104TH COAST REEF

PARCEL 46

PARCEL 46

NORTH VIEW

EXHIBIT B-1



HOTEL ON PARCEL 6

PARKING SURFACE COVERING SUBJECT PARCEL 5

SOUTH VIEW

**EXHIBIT B-2**



CRITICAL PATH

Summary Construction Chart

Estimated Construction Start Date July 1, 2014

Estimated Completion Date Jan. 31, 2015

General Contractor:  
Caribou Industries, Inc. Lic. #309638

(Line#)	Reference # / Description	[HS Lng]	July 1-31	August 1-31	September 1-30	October 1-31	November 1-30	December 1-31	January 1-31	Line Totals	HS Lng
(1)	Work Drawings/Start-up Permits	[6720]	●							16,500	[6720]
(2)	Demolition Existing Roof Top	[2030]	●	●						14,250	2030
(3)	Core Repairs To Existing 16 rooms	[4195]	●	●	●					9,540	4195
(4)	Continuous Clean Up Hotel to Remain in Operations	[4900]	●	●	●	●	●	●	●	12,000	4900
(5)	Remove and Replace Existing Roof Membrane	[4412]	●	●	●					27,410	4412
(6)	Framing-Rough - Wood and Steel Stud.	[4185]	●	●	●	●	●	●	●	41,915	4185
(7)	Plumbing-Rough - Use Existing D.W.V // Water	[4040]	●	●	●	●	●	●	●	26,409	4040
(8)	Electrical / Phone-Rough - with WIFI	[4120]	●	●	●	●	●	●	●	33,190	4120
(9)	HVAC-Rough - F.A.U HVAC Units	[4240]	●	●	●	●	●	●	●	26,110	4240
(10)	Rough Out Inspections	[None]								2,900	None
(11)	One-Side Drywall	[4410]	●	●	●	●	●	●	●	16,111	4410
(12)	Door / Window Rough Out (Hardware Included)	[4425]	●	●	●	●	●	●	●	19,200	4425
(13)	Insulation - Walls and Ceilings	[4370]	●	●	●	●	●	●	●	6,420	4370
(14)	Soleled Ceiling and Lights	[4412]	●	●	●	●	●	●	●	17,500	4412
(15)	Back-side Drywall / Tape, Texture	[4410]	●	●	●	●	●	●	●	16,111	4410
(16)	Paint	[4410]	●	●	●	●	●	●	●	17,290	4470
(17)	Plugs, Switches / Sub Panel Make-Up - install Elevator	[4410]	●	●	●	●	●	●	●	18,441	4419
(18)	Plumbing-Finish	[4050]	●	●	●	●	●	●	●	15,412	4050
(19)	Ceramic Tile	[4620]	●	●	●	●	●	●	●	10,850	4820
(20)	Start Millwork	[4425]	●	●	●	●	●	●	●	18,100	4425
(21)	Carpentry / Labor, Materials-Finish	[4425]	●	●	●	●	●	●	●	26,153	4425
(22)	HVAC Finish	[4242]	●	●	●	●	●	●	●	18,109	4242
(23)	Door Casings, Trim, Hardware / Labor, Mat'l	[4425]	●	●	●	●	●	●	●	16,493	4425
(24)	Suite #, Mag lock entrance, changing tables etc. Room Card Key	[4120]	●	●	●	●	●	●	●	8,900	4120
(25)	Flooring & Carpet	[4850]	●	●	●	●	●	●	●	15,956	4850
(26)	Window Coverings	[4780]	●	●	●	●	●	●	●	17,200	4780
(27)	Test All Systems	[4655]	●	●	●	●	●	●	●	2,100	4655
(28)	Interior Furniture	[4955]	●	●	●	●	●	●	●	66,143	4955
(29)	All Power, Phones & Internal Energized	[4910]	●	●	●	●	●	●	●	1,200	4910
(30)	Final Clean Up	[4310]	●	●	●	●	●	●	●	3,500	4310
(31)	Touch Up	[4470]	●	●	●	●	●	●	●	2,200	4470

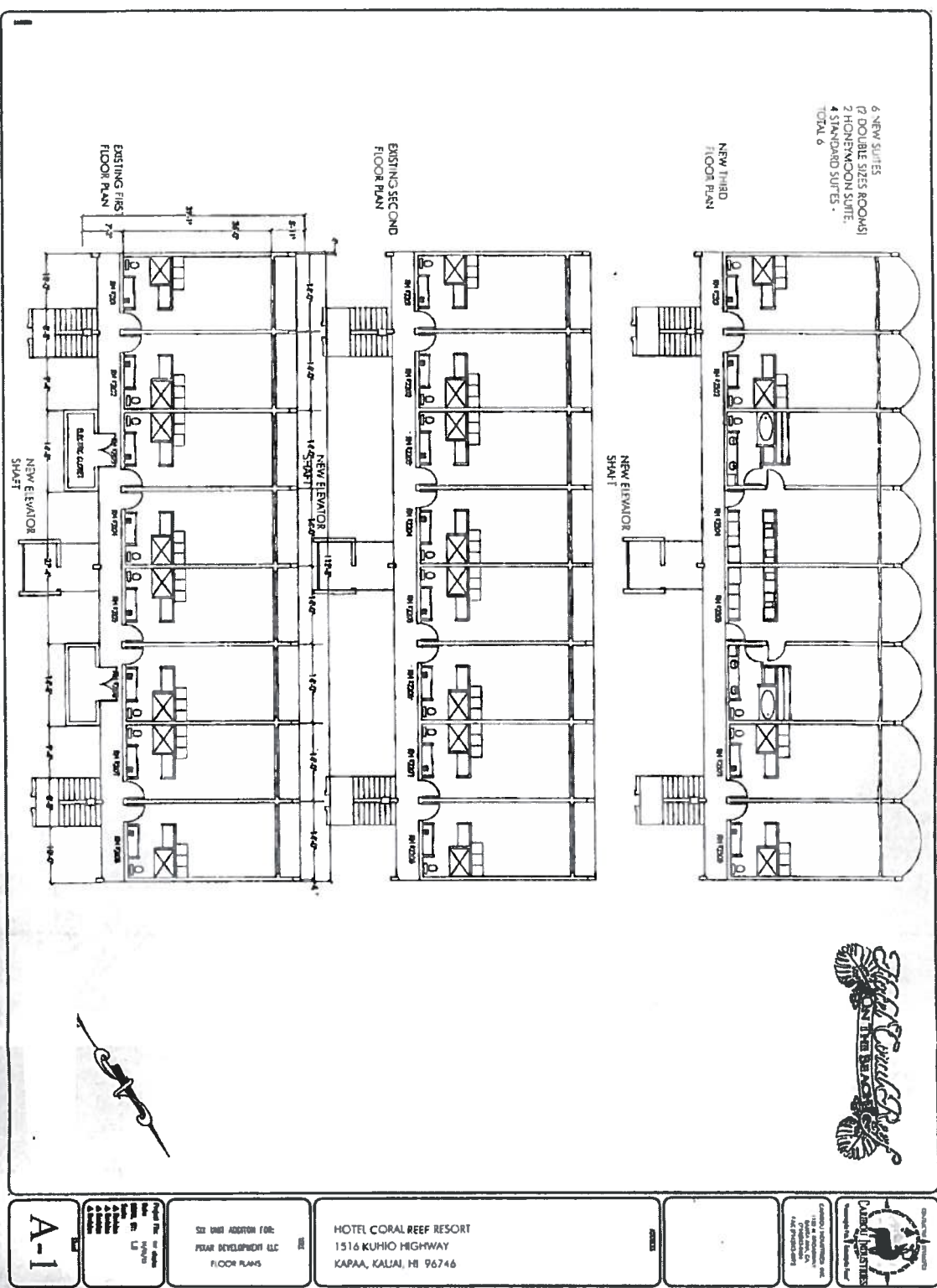
Date: 11/19/13

1560 Kuhio Hwy Hotel Coral Reef Guest Room Expansion  
 CRITICAL PATH  
 Summary Construction Chart  
 Estimated Construction Start Date July 1, 2014  
 Estimated Completion Date Jan. 31, 2015

General Contractor:  
 Caribou Industries, Inc. Lic. #309638

(Lines)	Reference # / Description	(MS List)	July 1-31	August 1-31	September 1-30	October 1-31	November 1-30	December 1-31	January 1-31	Line Items	HS List
(33)	Site Labor - Test Elevators / State Sign Off	(5500)								12,250	8000
(34)	Supervision - Construction Project Manager	(5700)								21,000	5700
(35)	General Contractor	(10,500)								60,000	10,500
(36)	Overhead	(57.50)								12,250	5750
(37)	Contingency	(4500)								12,500	4950
Total										662,213	

Caribou Industries, Inc. 1103 N. Broadway  
 Santa Ana 92701



**ASSESSED VALUATION**

According to the County of Kauai, Real Property Tax Division, subject tax map key Parcel 46 was assigned the following assessed values, as of January 1, 2013:

**SUBJECT ASSESSED VALUATION SUMMARY**

<u>Assessed Value Component Category</u>	<u>(4) 4-5-11-46</u>
Assessed Land Value:	\$568,300
Assessed Improvement Value (Hotel):	\$600,100
Assessed Improvement Value (Pool):	\$42,500
Total Assessed Value:	\$1,210,900

See a following Kauai Real Property Tax Office Aerial Photograph, with the subject property denoted by tax map key.

**TITLE/OWNERSHIP SUMMARY**

**DATE OF VALUATION, SUBJECT GROUND LEASE ENCUMBRANCE**

**GENERAL LEASE S-3832**

Tax Map Key: (4) 4-5-11-46

Parcel Area: 25,831 square feet

Fee Simple Interest Owner/Ground Lessor: State of Hawaii Board of Land and Natural Resources ("Land Board")

Ground Lessee: Hotel Coral Reef, LLC

Ground Lease Commencement Date: 5-18-64

Ground Lease Expiration Date: 5-17-09

Date of Valuation, Remaining Years on the Ground Lease: 10 years

**Summary of Lease Rent Schedule**

<u>Lease Period</u>	<u>Years</u>	<u>From</u>	<u>To</u>	<u>Annual Rent</u>	<u>Quarterly Rent [1]</u>
1	15	5-18-64	7-17-79	\$1,890	\$472.50
2	10	7-18-79	7-17-89	[2] n/a	[2] n/a

**VALUATION METHODOLOGY**

**Estimation of Building Reproduction Cost New**

**Minus Accrued Depreciation\***

**Equals The Market Value of the Parking Lot**

\*Based on any physical deterioration, if any.

**Reproduction Cost New:** The appraiser consulted with Mr. William Beaubeaux, licensed architect (States of Hawaii and California), with contractor Caribou Industries (License No. 309638, States of Hawaii and California), regarding a cost to replace the 8,710 square foot subject asphalt paved parking lot.

In a March 6, 2014 email to the appraiser, Mr. Beaubeaux estimated a \$40,455.80 cost for the removal and replacement of the subject parking lot asphalt (\$5.18 per square foot for 8,710 square feet). The estimate includes all material and labor, as well as the disposal costs for the existing asphalt.

Mr. Beaubeaux's construction cost estimate was considered reasonable by the appraiser, based on the appraiser's knowledge of the development costs of other Island of Kauai properties/projects similar to the subject parking lot. To come up with a final reproduction cost new, the appraiser added a 10% contingency fee to the estimate by Mr. Beaubeaux. This resulted in a final estimate of reproduction cost new, of \$44,501.38, which was rounded, to \$45,000, as of the March 1, 2014, date of valuation ( $\$40,455.80 \times .15 = 44,501.38$ )

**Accrued Depreciation/Depreciated Cost/Depreciated Value:** An estimation of 15% accrued depreciation was estimated on parking lot physical deterioration only. No other kind of accrued depreciation was considered to be relevant. Depreciation calculations: \$45,000 reproduction cost new x 15% accrued depreciation = \$6,750 accrued depreciation. Depreciated cost of parking lot: \$45,000 - \$6,750 = \$38,250. Estimated date of valuation, value of the parking lot = Say, \$38,000.

**FINAL CONCLUSION OF FEE SIMPLE  
MARKET VALUE FOR THE SUBJECT BUILDING**

Based on the forgoing, as of a March 1, 2014, date of valuation, the fee simple market value of the subject parking lot was estimated to be \$38,000.

The subject parking lot value reported foregoing, is contingent upon and limited by all of the *Definitions and Terminology* that were provided at the beginning of Section I of this report, and the *Assumptions and Limiting Conditions* contained in *Exhibit A* in the following Addenda of this report. The market value indicated, is the most probable price in terms of cash or financing arrangements equivalent to cash.



Mr. William Beaubeaux  
Architect  
Caribou Industries, Inc.  
Hotel Coral Reef

04/03/14


**RE: Parking Lot Removal & Replacement Restripe Bid**

Parking lot removal and replace with 4" stamped concrete approximately 7,456 sqft including restriping to existing configuration. (See attached layout) located at 4-1516 Kuhio Hwy., Kapa, Hawaii. Total cost includes all materials and labor with appropriate City building permits. Estimated construction build out time 10-12 days subject to the weather conditions.

\$30,104

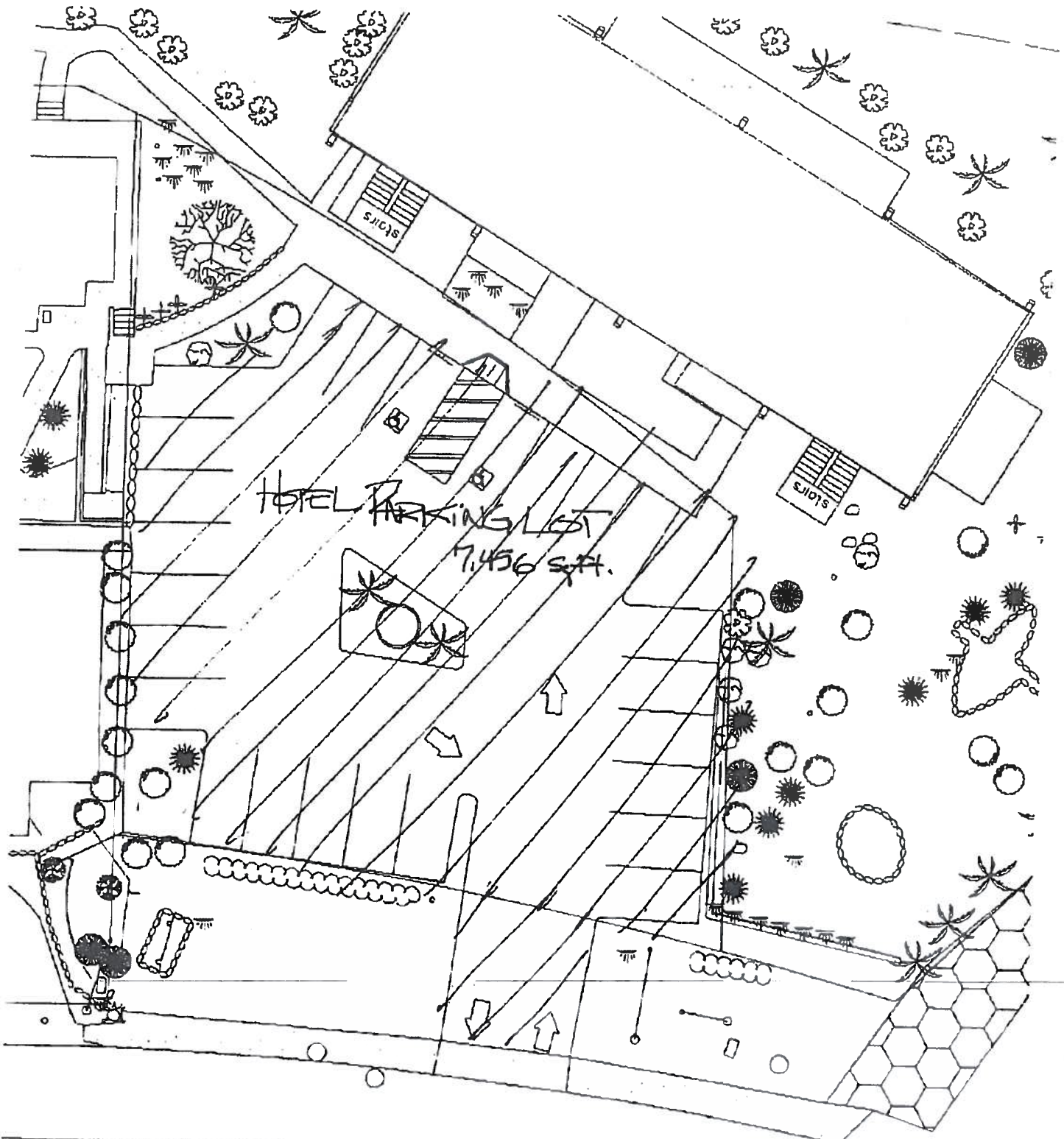
Payable terms: 50% down, 50% upon completion.

Accepted:

  
\_\_\_\_\_  
Accepted

\_\_\_\_\_  
Date

**EXHIBIT G**



HOTEL PARKING LOT  
7,456 SQ. FT.

STAIRS

STAIRS

KUHIO HIGHWAY

MOIKEHA BRIDGE