

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

August 8, 2014

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

Hawai'i

Deny Lessee's Request for an Extension of Lease Term Pursuant to Act 219, SLH 2011, General Lease No. 3029, Reed's Bay Resort Hotel, Ltd., Lessee, Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-1-05:22.

APPLICANT AND REQUEST:

Reed's Bay Resort Hotel, Ltd. is requesting an extension of General Lease No. 3029 pursuant to Act 219 SLH 2011 (S.B. 1530) which authorizes the extension of hotel and resort leases along the Banyan Drive area of Hilo Hawaii.

LEGAL REFERENCE:

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

LOCATION:

Portion of Government lands situated at Waiakea, South Hilo, Hawaii, identified by Tax Map Key: 3rd/2-1-05:22, as shown on the attached map labeled Exhibit A.

AREA:

1.19 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:

Resort-hotel purposes and uses accessory or incidental thereto and customarily conducted within resort-hotel areas.

TERM OF LEASE:

Original term of 21 years, commencing on September 13, 1945 and expiring on September 12, 1966

Extension of lease dated November 16, 1962 extended the term changing the expiration of lease to March 14, 2015. Last rental reopening for remaining lease period occurred on December 17, 2005.

ANNUAL RENTAL:

Current rent is \$23,860.00, due in semi-annual installments of \$11,930.00 on March 14 and September 14 of each year.

RENTAL REOPENINGS:

Reopenings established by the agreement for extension of lease were at the end of the 20th and 40th years of the term, on March 14. The last rental reopening occurred on December 17, 2005.

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>

BACKGROUND:

On 6/30/1944, General Lease No. 3029 was sold at public auction to John and Charlotte Smith for residential purposes. The initial lease term was for 21 years commencing 9/13/1945 and expiring 9/12/1966. The lease was then assigned from John and Charlotte Smith to Juliette and Richard Furtado and Phoebe and George Gedge on 12/31/1946. The lease was again assigned from Juliette Furtado, et al. to Juliette and Richard Furtado on 7/05/1956.

Lessees Juliette and Richard Furtado qualified as disaster victims under Section 87 of Act 32, Sessions Laws of Hawaii 1962. The lease was subsequently extended on 11/14/1962 for a period of fifty-three (53) years terminating on 3/14/2015 with rental reopening twenty (20) and forty (40) years from the most current lease agreement. The last rent re-opening will be for the duration of the lease. However, in the event the Lessees shall prior to 9/12/1966, decide to put the demised premises to a use other than residential, there shall be an immediate re-negotiation of the rental for a twenty year period with the new rent to be established by an appraisal based on the proposed new use.

At its meeting of 12/17/1965, the Board consented to the assignment of lease from Juliette and Richard Furtado, Assignee, to Nalei, Incorporated, Assignee and the use of the lease was changed from residential to hotel/resort.¹ This resulted in a change in the rental amount from \$280.00 per annum to \$8,112.00 per annum.

¹ No building plans on file.

On 2/27/1970 the Lessee was served a notice of default for delinquent rent, allowing 60 days to cure said default. The Lessee subsequently filed bankruptcy and a trustee was appointed to operate the hotel and to find a buyer(s) for the lease. Then, at its meeting of 9/08/1972 under agenda item F-20, the Board consented to the assignment of lease from Ralph S. Aoki, Trustee in Reorganization of Nalei, Inc., a Hawaii Corporation, in bankruptcy No. 70-26, U.S. District Court, as Assignor and James G. Y. Ho, husband of Florence J. Ho and Dr. Shinkichi Shimabukuro, husband of Betty Z. Shimabukuro, General Partners doing business as Polynesian Pacific Resorts, as Assignee.

Further, at its meeting of 9/28/1979 and as a result of foreclosure proceedings, the Board, under agenda item F-1-e, consented to the assignment of lease from James G. Y. Ho, Florence J. Ho, Dr. Shinkichi Shimabukuro and Betty Z. Shimabukuro, Assignor to Yorkwood Savings and Loan Association, a New Jersey Corporation, Assignee. At the same meeting, the Board, under agenda item F-1-f, consented to the assignment of lease from Yorkwood Savings and Loan Association, to David De Luz unmarried; Ronald Carl Robertson, husband of Joann Robertson; John Tolmie and Linda Ann Tolmie, husband and wife and Puna Shores, Incorporated, Assignees.

At its meeting of 9/24/1982 the Board approved the following assignments: 1) F-1-c, assignment of lease with assumption of mortgage from Ronald C. Robertson and Puna Shores, Inc., Assignors (1/8 undivided interest, respectively) to David De Luz, Assignee: 2) F-1-d Ronald C. Robertson and Puna Shores, Inc., Assignors (1/8 undivided interest, respectively) to John Tolmie, Assignee: 3) F-1-e, John and Linda Tolmie, Assignors (1/4 undivided interest) to John Tolmie, Assignee. Thereafter the lease was managed by David De Luz and John Tolmie doing business as Polynesian Pacific Hotel.

During 1982, the Board approved various commercial subleases including Spencer Enterprises, Inc. (health & fitness spa), Canton Gardens, Inc. (restaurant), Doris Nakayama Realty and Teruo Morigaki Realty.

At its meeting of 2/27/1998 under agenda item D-2 as amended, the Board approved the after-the-fact agreement of sale and subsequent assignment of lease from David De Luz and John Tolmie, Assignor to Reeds Bay Resort Hotel, Ltd. The amendment included provisions for an increase in liability insurance and the requirement of a performance bond.

The leasehold property has been utilized as a condominium apartment since the 1980's. The Lessee had requested a change in use for the property from hotel to condominium use similar to General Lease No. 3269 (Country Club-Hawaii, Inc.).² At its meeting of 2/27/1998, agenda item D-3, the Board deferred a request for the conversion of GL 3029 to a condominium property regime or a limited equity housing cooperative due to outstanding issues regarding rent and insurance compliance. Currently, most of the units are being subleased for long-term residential use.³

² At its meeting of February 13, 1987 under agenda item F-2, the Board consented to the assignment of lease from Richard M. Jitchaku, as Assignor to Country Club Hawaii, Inc. (Herb Arata, principal) as Assignee. The submittal also included a provision for the formation of a Horizontal Property Regime allowing the individual units on the property to be converted into condominium apartments and created the Association of Apartment Owners of Country Club Hawaii, Inc. (AOAO).

³ No record of Board consent for residential apartment subleases on file.

REQUEST:

The Lessee, Reed's Bay Resort Hotel, Ltd. (Lessee) operates an apartment/hotel business on the premises in 2 separate cinder block buildings of one and three stories. The apartment/hotel units are located in the three story structure on the Hamakua side of the property and to the left of the entrance/lobby. Approximately 22 of the sixty-three rooms are currently available for transient accommodations. There is a small front desk for the hotel operation. A restaurant once operated above the single story building on the Puna side, however it burned down in 1983 and was never rebuilt. The layout includes a small swimming pool located between the two structures (Exhibit B).

Lessee is requesting a 54-year extension from the end of the current lease set to expire on March 15, 2015 for an aggregate term of 55 years (1 year remaining on lease plus 54-year extension) in order to amortize the cost of the improvements necessary to upgrade the hotel. In compliance with the terms and conditions of Act 219, the Lessee plans to restore the property to 100% transient accommodation. None of the sixty-three units currently being subleased will be renewed or extended.

Act 219, Session Laws of Hawaii 2011, authorizes the Board of Land and Natural Resources to extend hotel or 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.⁴

Lessee Reed's Bay Resort Hotel, Ltd. has submitted a cost proposal for improvements and renovations in excess of \$1,171,000, and has also provided staff with a Summary Appraisal Report dated October 16, 2013 indicating the value of the existing improvements at approximately \$1,297,000. (Exhibit C)

The proposed renovations consist of electrical upgrades, ADA upgrades, roof repairs as well as improvements to the lobby, swimming pool, guest rooms and corridors, restoration of the restaurant and repairs to the parking lot. Under the proposal, all the existing structures, originally constructed in 1960's, will be retained, and no new

⁴ The preamble to Act 219 indicates that the purpose of the act is to authorize extensions of hotel or resort leases that have not been sold or assigned within the last five years.

construction of buildings is planned. A draft engineering report for this property estimated the remaining useful life of the improvements at 12 to 15 years. The informal Banyan Drive Task Force established at the request of area legislators and with the Governor's concurrence, wants to see the Banyan Drive area revitalized. Allowing the lessee to continue operations at the premises for 54 years will likely not facilitate the revitalization of the area that the task force and other community members are looking for.

Unfortunately, staff is unable to recommend a lease extension in this case. Although the Lessee appears to satisfy the basic requirements set forth in Act 219 Session Laws of Hawaii 2011, the low valuation of the property as determined by the Summary Appraisal Report and the proposed renovations submitted by the Lessee do not warrant a 54-year lease extension continuing the use of the existing buildings. Staff believes the site has greater potential.

Staff would be willing to recommend a one-year holdover of the lease under HRS Section 171-40, and a month-to-month revocable permit thereafter, be issued to Lessee if Lessee is interested in this alternative. If so, staff will bring the matter back to the Board at a later meeting.

RECOMMENDATION:

That the Board, deny the Lessee's request for extension of lease pursuant to Act 219 SLH 2011 for General Lease No. 3029.

Respectfully Submitted,



for Gordon C. Heit
District Land Agent

APPROVED FOR SUBMITTAL:



William J. Aila, Jr., Chairperson


GL-3029 REED'S BAY RESORT HOTEL, LTD.

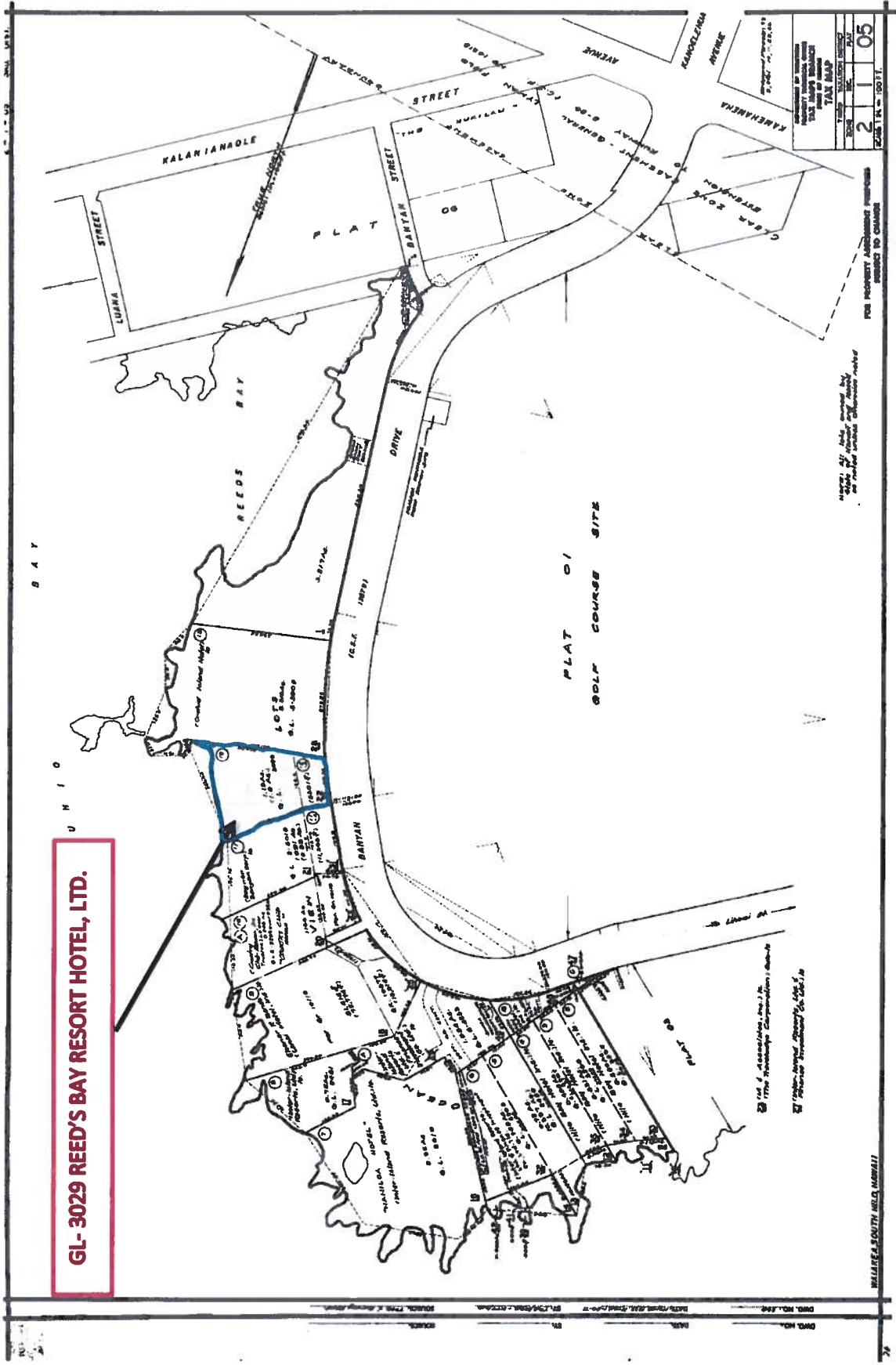
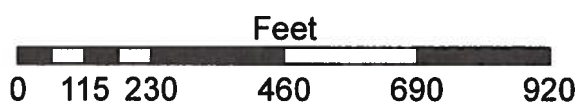


EXHIBIT A

Banyan Drive Leases



REED'S BAY RESORT HOTEL

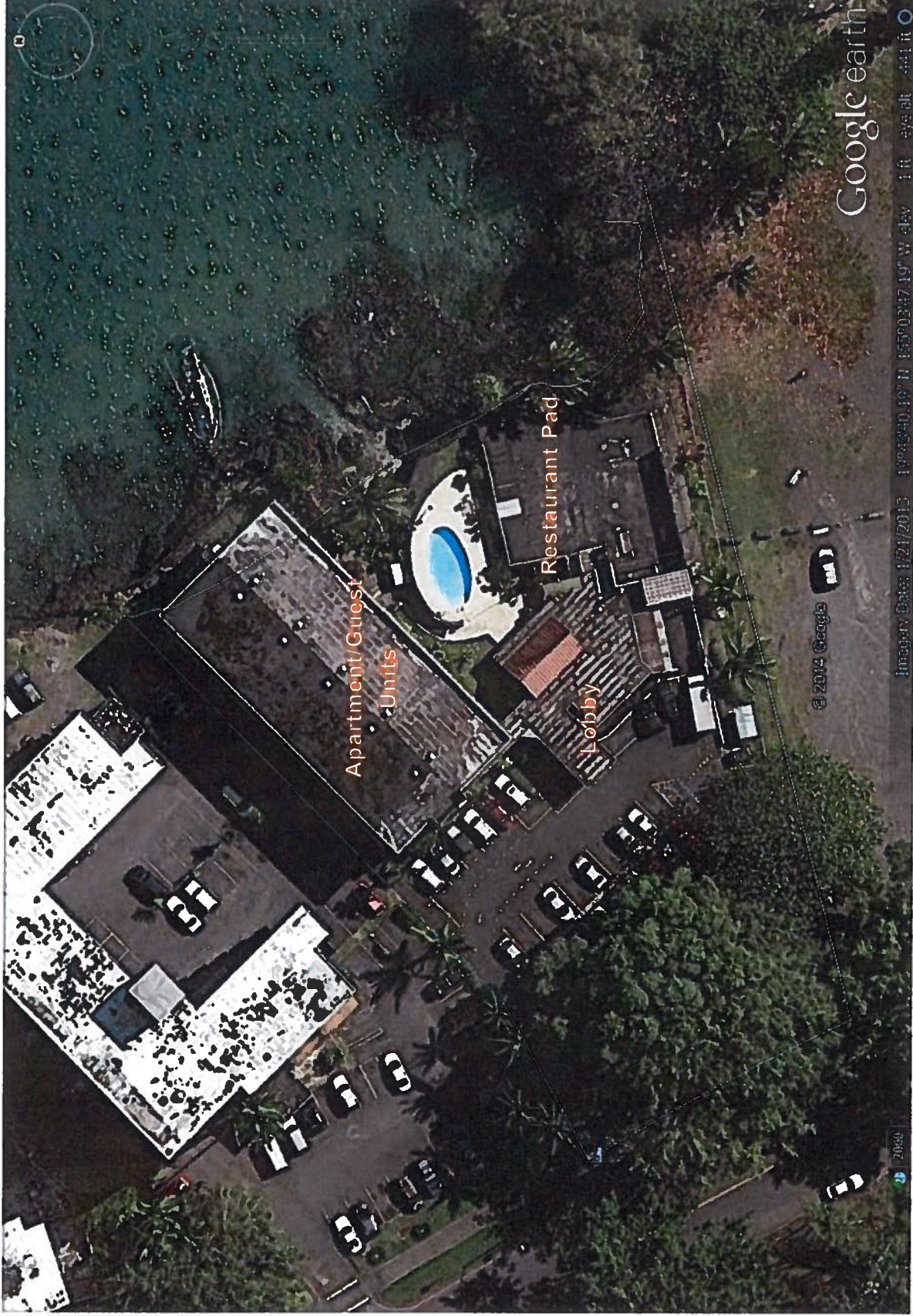


EXHIBIT B

Alan S. Konishi

Hilo, Hawaii 96721

Facsimile: 888-425-5161

2013 OCT 24 P 1:14

RECEIVED
LAND DIVISION
HILO, HAWAII

October 23, 2013

Board of Land and Natural Resources
c/o Mr. Gordon Heit
District Land Agent
Department of Land and Natural Resources
State of Hawaii
75 Aupuni Street, Suite 204
Hilo, Hawaii 96720

RE: General Lease No. 3029
Lot 12, Ocean View Lots
Waiakea, Hilo City, Hawaii

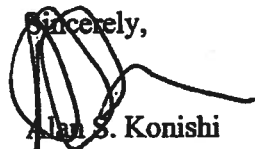
Dear Mr. Heit:

The purpose of this communication is respond to your August 7, 2013 request for further information to support our request for a sixty year extension of General Lease No. 3029, pursuant to Act 219, Session Laws of Hawaii, 2011; specifically, a request for an independent appraisal to verify that the lessee will meet the requirement that it make improvements to the subject property in excess of 50% of the appraised value.

Transmitted with this letter is a letter of explanation from Mr. Donald T. Inouye, President of Reed's Bay Resort Hotel, LTD and the Appraisal Summary Report prepared by Mr. Richard J. Taber.

We look forward to timely Board consideration of our request. It is important for financing purposes for the improvements, to receive approval by the end of the year. Please let us know if you require further information.


Sincerely,



Alan S. Konishi
Legal Counsel
Reed's Bay Resort Hotel, Ltd.

Mr. Don Inouye, President

EXHIBIT C



Reeds Bay Resort Hotel, LTD
175 Banyan Drive Hilo, Hawaii 96720
Toll Free: 1-866-924-7274 Office: 934-7277
Fax: 934-7264

2013 OCT 24 P 1:15

OCTOBER 21, 2013

RECEIVED
LAND DIVISION
HILO, HAWAII

Mr. Gordon Heit
Department of Land & Natural Resources
State of Hawaii
75 Aupuni Street Suite 204
Hilo, Hawaii 96720

RE: Request for Lease Extension of General Lease No. 3029 Reeds Bay Resort Hotel, Ltd. Hilo, Hawaii Tax Map Key 2-1-005-0222.

Dear Mr. Heit:

The purpose of this communication is to request a fifty three (53) year extension of the General Lease No. 3029. This General Lease No. 3029 (originally entered into in 1944) was extended in 1962 and expires in 2015. Extension of the present lease will allow the present lessee, Reeds Bay Resort Hotel, Ltd., to make substantial improvements which will advance the State's goal of helping Banyan Drive realize its potential to meet the needs of both tourists and residents.

In order to amortize the money that will be spent to upgrade Reeds Bay Resort Hotel, Ltd. property, we are requesting a fifty three (53) year lease extension from the end of the current lease set to expire on March 14, 2015 for the aggregate term of 55 years (Less than 2 years plus 53-year extension). This extension is pursuant to Act 219 (S.B. 1530) effective July 1, 2011, expires on March 14, 2015 after a total of 71 yrs. Pursuant to that Act, the value of the improvements must be a minimum of 50% of the market value of the existing improvements. The new assessments for July 1, 2013, by the County of Hawaii Real Property Tax office assessed the improvements on the property at \$1,276,500.

This lease extension is definitely in order for the reasons put forth by the passing of S.B. 1530 for the benefit of three hotels on Banyan drive whose leases are expiring on March 14, 2015. Reeds Bay Resort Hotel, Ltd., upon the approval of the lease extension, will also agree to complete improvements of \$1,171,000 (see attachment A). It is hopeful that if and when the new lease extension is granted these improvements could be scheduled to begin this year, 2013 and be authorized to be completed over the next three (3) year period.

Please see the attached general contractors appointment letter approving the proposed scope of work.

Reeds Bay Resort Hotel Ltd. has attached an appraisal report for the leased property which has recently been completed by Mr. Richard Taber Appraisals as being required in your latest letter to this corporation. Reeds Bay Resort Hotel, Ltd. will agree to make improvements on the property at a cost of \$1,171,000. This amount far exceeds the requirement of the 50% per this submitted appraisal report as well as the County of Hawaii Real Property Tax Office current assessed values for this year.

It would be greatly appreciated if we could be informed as soon as possible if there is any other information required. We are prepared to move ahead this year as soon as the lease extension is granted in starting our electrical upgrade of \$612,000 plus the solar cost installation of the 60 Kw system for \$190,000 (total cost of \$802,000). This will take up to one year to complete and we would like to embark on this endeavor as soon as possible.

Reeds Bay Resort Hotel Ltd. on Banyan Drive must be fully prepared to fill the void of the existing economical accommodations that will be lost for the tourist and Hawaii residents when all the leases expire on March 14, 2015, which is only 17 months away.

Respectfully Submitted,



Donald T. Inouye
President

Enclosures (3)
Attachment A - Proposal Scope of Work
General Contractors appointment letter
Appraisal of existing improvements

Attachment A – Proposed Scope of work

October 21, 2013

(1) Electrical upgrade...	
Section 1 One main of 2000 amp new service requirement...	\$235,000
Section 2 Two 400 amp sub-metering new service requirement ...	\$ 77,000
Section 3 Three 400 amp sub-metering each floor with 60 amp new requirement per room...	\$300,000
Section 4 Solar installation of 60 KW electrical systems...	
\$190,000	
(2) ADA upgrades...	\$ 33,000
Installation of ADA compliant railings for all stairways	
Construction of ADA compliant ramp from lobby to first floor rooms	
Install ADA lift from parking lot level to main lobby	
Upgrade two (2) first floor guest rooms to become ADA compliant	
(3) Renovations of lobby area...	\$ 17,000
Renovation of Lobby	
Restrooms renovations to become ADA compliant	
Upgrading of lobby lighting	
(4) Parking lot renovations...	\$ 16,000
Repair some areas of the driveway	
Slurry entire parking lot	
Reconfigure and repaint parking lines for additional parking spaces	
Upgrading of parking lot lighting	
(5) Swimming Pool Renovations...	\$ 4,000
Repaint Pool Deck area	
New controls and plumbing for water filtering system	
Replace building used for pool filter system and pool supplies	
(6) Renovation of hotel rooms and corridors...	\$131,000
Carpeting	
Painting	
Plumbing fixtures (toilet, shower, sink etc.)	
New lighting in rooms and hallways	
Installations of air conditioning or ceiling fans in rooms	
(7) Roofing repair as required using "GACO" product...	\$ 38,000
(8) Restore Restaurant to leasable condition...	\$130,000
framing of walls	
Roofing	
Painting	
Restaurant hood system	
Flooring, railings and restrooms	
Install ADA lift from lobby area to Restaurant	
TOTAL COST OF PROPOSED SCOPE OF WORK...	\$1,171,000

John W. Potter
General Contractor, BC26939

Kamuela, Hawaii 96743

October 19, 2013

Donald T. Inouye, President
Reeds Bay Resort Hotel, Ltd.
175 Banyan Drive (Office)
Hilo, Hawaii 96720

Subject: Reeds Bay Resort Hotel Renovations

Dear Mr. Inouye,

John W. Potter, the appointed General Contractor proposes to furnish all labor, materials, tools and equipment necessary to complete the work as detailed and outlined in the attached schedule, up to the lump sum bid agreement of \$1,171,000. Please refer to the attachment for our proposed scope of work.

Should you have any questions, please feel free to call Mr. John W. Potter at (808) 885-5089.

Sincerely,

John W. Potter

RICHARD TABER APPRAISALS

82 MAIKAI STREET
HILO, HI 96720
WWW.RTABER.COM
rtaber@rtaber.com
(808) 959-3887

October 16, 2013

Client: Reeds Bay Resort Hotel, Ltd.
Donald T. Inouye, President

I have provided a cost approach to value on the project " Reeds Bay Resort Hotel, Ltd.", prepared for the purpose of obtaining an extension of the lease. General Lease No. S-3029, Reeds Bay Resort Hotel, Ltd., Waiakea, South Hilo, Hawaii, Tax Map Key (3) 2-1-5-22.

My final reconciliation of the value via Cost Approach in "as is" condition, is \$1,296,962 rounded to \$1,297,000. This value is based on the 2012 National Building Cost Manual, adjusted on 10/14/2013. My exterior inspection of the property was performed on 10/10/2013.

In the Cost approach to value, there is no land value estimate for leasehold property. The land remains with the State of Hawaii, Department of Land and Natural Resources, Land Division.

I am a licensed certified general appraiser in the State of Hawaii and am qualified to prepared this report



Richard Taber
Certified General Appraiser, License #7
State of Hawaii