

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

March 13, 2015

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

Hawaii

Consent to Extension of Lease Term, General Lease No. S-4306, Sears, Roebuck and Co., Lessee, Lot 2, Hilo Industrial Development, Pohaku Street Section, Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-2-58:04.

APPLICANT AND REQUEST:

Improvements financed by the Lessee, Sears, Roebuck and Co., pursuant to Hawaii Revised Statutes, Section 171-36(b), in the amount of \$59,161.00. In order for Lessee to amortize these expenditures, the Lessee is requesting an extension of General Lease No. S-4306 of 5 years, commencing on June 30, 2015 and expiring on June 29, 2020 for an aggregate term (initial term of 40 years plus two 5-year extensions) of 50 years.

LEGAL REFERENCE:

Sections 171-22 and 36(b), Hawaii Revised Statutes, as amended.

LOCATION:

Portion of Government lands of Waiakea situated at Lot 2, Hilo Industrial Development, Pohaku Street Section, Waiakea, South Hilo, Hawaii, identified by Tax Map Key: (3) 2-2-58:04, as shown on the attached map labeled Exhibit A.

AREA:

14,421 square feet, 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:

General industrial purposes.

TERM OF LEASE:

Original term of 40 years, commencing on June 30, 1970 and expiring on June 29, 2010.

The Board previously consented to a 5 year extension commencing on June 30, 2010, and expiring on June 29, 2015.

Current request is for an extension of an additional 5 years commencing on June 30, 2015, and expiring on June 29, 2020.

ANNUAL RENTAL:

Current rent is \$16,100, due in quarterly installments of \$4,025 on the 30th day of March, June, September and December of each year.

RENTAL REOPENINGS:

Reopenings in the original term were at the end of the 20th and 30th years of the term, or on June 30, 1990 and June 30, 2000. The last rental reopening occurred on May 13, 2010 (immediate reopening)¹.

The reopening for the extended term shall be on March 13, 2015 (immediate reopening).

SELF-FINANCED IMPROVEMENTS:

Applicant has submitted a quote from a licensed contractor to replace the air-conditioning system in the building on the lease premises in 2014 at a cost of \$39,661. See Exhibit B attached. In addition, Applicant has obtained a quote to replace the sliding door entrance to the building at a cost of \$19,500. See Exhibit C attached.

Staff has reviewed Applicant's specifications for the air-conditioning system replacement and sliding door replacement, as well as other documentation submitted by Applicant in support of its request for a lease extension, including Forms 10-K filed for Sears Holding Corporation, which is the parent company of Applicant, with the Securities and Exchange Commission for the last three years, a consulting letter from a certified appraiser regarding the improvements on the premises, and also conducted a site inspection of the premises.

¹ Previous lease extension required the Applicant to pay for an appraisal for the immediate rental reopening effective from the date of the Board approval.

DCCA VERIFICATION:

Place of business registration confirmed: YES X NO ___
Registered business name confirmed: YES X NO ___
Applicant in good standing confirmed: YES X NO ___

APPLICANT REQUIREMENTS:

Applicant shall be required to:

- 1) Pay for an appraisal for the immediate rental reopening.
- 2) Complete its replacement of the air-conditioning system and sliding door and submit to Land Division staff receipts verifying payment for the work by August 31, 2015.

REMARKS:

On June 30, 1970, a 40-year lease covering the subject land was sold at public auction to Hacker and Scheiderich, a partnership, as the highest bidder. The partnership and the State executed General Lease No. S-4306 in September 1970, and the partnership thereafter constructed a 4,512 sf warehouse building on the property in accordance with plans approved by the Chairperson of the Board of Land and Natural Resources. Land Division files show that construction of the warehouse was completed as of January 1973.

Through mesne assignments with Land Board consent, the lease was assigned to Applicant pursuant to an assignment of lease dated May 10, 1993, and approved by the Board at its meeting of May 28, 1993, Item F-1-b. The Chairperson executed the consent to assignment on June 22, 1993. In accordance with plans approved by the Chairperson, Applicant renovated the interior of the building to meet its needs, and added a covered carport with an area of 1,702 feet. Since 1993, Applicant has occupied and used the premises as Sears Service Center, which provides small engine repair services and parts.

At its meeting of May 13, 2010, under agenda item D-6, the Board approved Applicant's request a 5-year extension of the lease to allow it to amortize the cost of the roof replacement completed in 2008 at a cost of \$26,200, and the proposed painting of the exterior of the warehouse and the addition of striping to the parking lot at a cost of \$12,500.

The Applicant is now requesting an additional 5-year extension to allow it to amortize the cost of the replacement of the air-conditioning system for \$39,661, and the replacement of the sliding door entrance at a cost of \$19,500, for an aggregate amount of \$59,161. Although Applicant is eligible for an extension of up to 20 years, Applicant's normal business practice is to limit lease commitments to 5 years. Applicant may seek additional extensions in the future should business circumstances warrant such action.

Applicant submitted a quote for the air-conditioning replacement from a licensed contractor at a total cost of \$39,661 (Exhibit B), as well as a quote for the installation of a new sliding entrance door at a cost of \$19,500 (Exhibit C). Applicant also submitted a consulting letter from a certified real estate appraiser, Patrick Y. Taketa, dated November 24, 2014, which estimated that the remaining economic life of the improvements is between 50 to 85 years.

Applicant's rent, performance bond (\$32,500), liability insurance and fire insurance are current.

In the past six years, one notice of default was issued to Applicant on January 30, 2009 for failure to post required liability insurance. The default was timely cured.

During a site inspection conducted on February 23, 2015, staff noted that the premises are generally in good to average condition, which would be complemented by the work Applicant proposes as part of its lease extension request.

No agency comments were solicited on the request because it involves a lease extension, and not a new disposition.

Staff recommends the extension be granted based on the materials Applicant has submitted for the air-conditioning replacement, installation of a new sliding door and the remaining economic life of the improvements. Although Applicant is seeking a 5-year extension at present, it is possible Applicant will seek additional extensions not to exceed an aggregate lease term of 65 years. Parcels in the vicinity of the subject parcel are encumbered by DLNR leases that expire in 2025 and 2030, and staff believes that having all the leases in the area expire at or around the same time will facilitate comprehensive long-range planning for all the parcels in the area.

RECOMMENDATION:

That the Board, subject to the Applicant fulfilling the Applicant requirements listed above:

1. Authorize the extension of General Lease No. S-4306 under the terms and conditions cited above, which are by this reference incorporated herein and further subject to the following:
 - A. Applicant shall complete its replacement of the air-conditioning system and installation of a new sliding door in the amount of at least \$59,161 and submit to Land Division staff receipts verifying payment for this work by August 31, 2015, or the lease extension shall be subject to cancellation;
 - B. The standard terms and conditions of the most current lease extension

form, as may be amended from time to time;

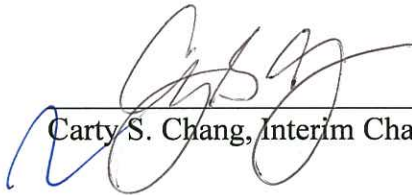
- C. Review and approval by the Department of the Attorney General; and
- D. Such other conditions as may be prescribed by the Chairperson, which are in the best interests of the State.

Respectfully Submitted,



Gordon C. Heit
District Land Agent

APPROVED FOR SUBMITTAL:



Carty S. Chang, Interim Chairperson

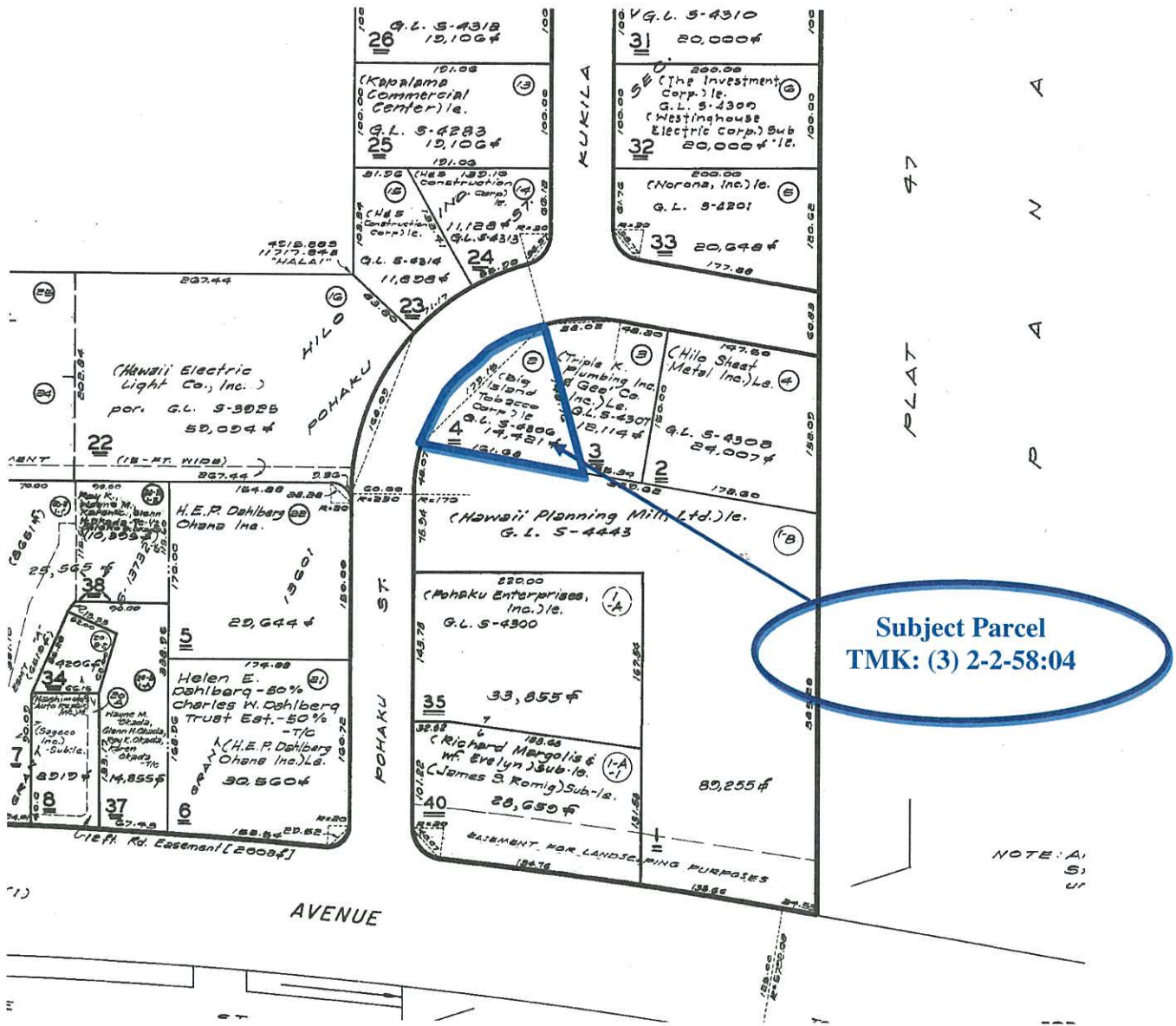


EXHIBIT A

OAHU AIR CONDITIONING SERVICE, INC.

We service and repair all makes and models

938 Kohou St., P.O. Box 17010, Honolulu, Hawaii 96817, Telephone (808) 848-0156, Fax (808) 848-0259

QUOTATION 14-09-145HQ

Prepared by Scot Minemoto

To: Sears Service Center 2886 Paa Street Honolulu, Hawaii 96819	Date: September 22, 2014 Project: Sears Service Ctr #8049 - Hilo Job Type: replace split system Unit to Svc: Carrier 15 ton Split System Machine Loc.: Sears Service Center Hilo
Attn: Manager	

We are pleased to submit our quotation for the labor and materials listed below. We call your attention to the terms and conditions under which this quotation is submitted and which are shown on the reverse side of this quotation. These may be modified only by specific written exception on the face of this quotation.

This QUOTE includes labor and materials to:

1. Recover refrigerant and dispose of existing 15 ton split system within EPA Regulations.
2. Furnish and install new Carrier 15 ton split unit and replace line set.
3. Tie into existing air ducts and electrical.
4. Pressure test, pull vacuum, start up and check operations.

<u>Qty.</u>	<u>Units</u>	<u>Job includes:</u>
1	lot	Labor
1	ea	38AUZA16A0A5-0A0A1 Carrier Condensing Unit
1	ea	40RUAA16A2A6-0A1A0 Carrier Air Handler
1	lot	Freight
1	lot	Piping Materials
1	lot	Electrical Materials
1	lot	Disposal Fees
1	lot	Boom Truck
1	lot	Trucking Fees
1	lot	Sheet Metal Sub
1	lot	Misc. Materials
1	lot	Refrigerant R-401a

All for the sum of tax included.....	\$39,661.00
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NOTES:

- 1) Quotation is based on normal working hours 7:30 am - 4:00 pm Monday through Friday, excluding holidays
- 2) Permits and Bonds, Painting and Patching by others.
- 3) Quotation is based on reusing the existing air ducts and electrical, if any changes required it will be at an additional cost.
- 4) Customer to clear area under air handler to access the unit.
- 5) Warranty will be the standard warranty offered by the manufacturer. No Freight, No Labor to replace defective parts.
- 6) **TERMS: Prepayment upon acceptance of this proposal. COD**

IF THIS QUOTATION IS ACCEPTABLE, PLEASE SIGN THE ORIGINAL AND ONE COPY AND RETURN FOR FURTHER PROCESSING. AN EXECUTED COPY WILL BE FORWARDED FOR YOUR RECORD. THE FULLY EXECUTED COPY WILL CONSTITUTE THE CONTRACT.

EXHIBIT B



SEARS, HILO
Magie Valderama
Engineering Coordinator

July 15th, 2014

Aloha Magie,

Here are the numbers for the replacement doors and frame for the retro fit entrance. The Boss sent me higher numbers for this job because of logistics.

SEARS HILO PROPOSAL

Remove and save existing doors and hardware.

Prepare opening to accept Bifold or sliding door system from Gildor in anodized dark bronze.

Install new automated header system and doors, then test and fine tune.

Install ADA RC switch inside and out.

Install beam system to egress.

Program for lockdown feature

Crew accommodations, travel & vehicle

\$19,500

We're ready to get things moving as soon as you are ready to say go.

A deposit check made out to Island Door Supply in the amount of \$9,750 will start the process.

Installation will be 6 to 8 weeks from purchase.

An additional \$2,000 for quick ship – 4 weeks delivery and installation.

MAHALO!
Stevan

EXHIBIT C