

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

September 25, 2015

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

PSF No.: 15HD-120

Hawaii

Sale of Lease at Public Auction for Business and/or Commercial Purposes, Waiakea,
South Hilo, Hawaii, Tax Map Key: (3) 2-2-032:064.

REQUEST:

Sale of lease at public auction for business and/or commercial purposes as allowed under
County zoning.

LEGAL REFERENCE:

Sections 171-6, -13, -14, -14.5, -16, -17 and other applicable sections of Chapter 171,
Hawaii Revised Statutes, as amended.

LOCATION:

Government Lot C-1 situated on south side of Kamehameha Avenue between Kalanikoa and
Kanoelehua Avenues, Waiakea, South Hilo, Hawaii, identified by Tax Map Key: (3) 2-2-
032:064, as shown on the attached map labeled Exhibit A.

AREA:

14,753 square feet, more or less, subject to confirmation by the Department of Accounting
and General Services, Survey Division.

ZONING:

State Land Use District: Urban
County of Hawaii CZO: Neighborhood-Commercial (CN-10)

TRUST LAND STATUS:

Section 5(b) lands of the Hawaii Admission Act
DHHL 30% entitlement lands pursuant to the Hawaii State Constitution: No

CURRENT USE STATUS:

Vacant. Formerly encumbered under GL S-3597, Sure Save Supermarket, Ltd., for retail liquor and fountain service purposes.

CHARACTER OF USE:

Business and/or commercial purposes as allowed under County zoning.

LEASE TERM:

Thirty (30) years from the commencement date of the lease.

COMMENCEMENT DATE:

Sixty (60) days after the date of sale; provided that if such date is not on the first day of any month, the commencement date shall be the first day of the month following such date; and further provided that the Chairperson may amend the commencement date for good cause.

MINIMUM UPSET ANNUAL RENT:

To be determined by staff or independent appraisal, subject to review and approval by the Chairperson. The appraisal shall determine the upset rent for land and improvements for the first 10 years of the lease, as well as an appropriate stepped increase (as a percentage of the base rent) for the second 10-year period of the lease to provide the successful bidder with rent certainty for the first 20 years of the lease. Rent for the third 10-year period of the lease shall be determined by independent appraisal. The appraiser procured to determine the upset rent shall also separately determine the fair market value of the existing improvements on the land.

METHOD OF PAYMENT:

Semi-annual payments, in advance.

RENTAL REOPENINGS:

At the end of the 20th year of the lease term, by staff or independent appraisal.

PERFORMANCE BOND:

Twice the annual rental amount.

RENT WAIVER:

The rent may be waived for a maximum period of twelve (12) calendar months upon a completion of substantial improvements to the subject parcel. "Substantial improvements" for purposes of the lease will mean renovations or new construction with a value equal to at least 50% of the appraised value of the existing improvements.

IMPROVEMENT BOND:

Amount of improvements.

PROPERTY CHARACTERISTICS:

Utilities – Water, electricity, phone, sewer

Existing improvements - A convenience store/food service building comprising an area of some 1,755 square feet along with a paved parking lot fronting the building.

Legal access to property – Staff has verified that there is legal access to the property off of Kamehameha Avenue.

Subdivision – Staff has verified that the subject property to be auctioned is a legally subdivided lot.

Encumbrances – Staff has verified that the property is currently unencumbered.

CHAPTER 343 - ENVIRONMENTAL ASSESSMENT:

In accordance with the "Exemption List for the Department of Land and Natural Resources", approved by the Environmental Council and dated June 5, 2015, the subject request is exempt from the preparation of an environmental assessment pursuant to Exemption Class No. 1, Item No. 47 that states "Leases of State land involving negligible or no expansion or change of use beyond that previously existing." Once the lease is acquired, should the successful bidder desire to change the use materially from the use made by the prior lessee under General Lease No. S-3597, the successful bidder will be responsible for compliance with Chapter 343, HRS, with respect to any increased development or change in use of the property from the previously existing use. Similarly, the successful bidder will be required to

comply with any SMA requirements applicable to any increased development or change in use.

A. BACKGROUND:

The subject property was initially encumbered under General Lease No. S-3597 and issued to William Aiona, Jr. dba Family Liquor Store for a term of fifty-five (55) years pursuant to Act 4, First Special Session of 1960, which authorized the direct issuance of leases to victims of a natural disaster (tsunami).

The lease, which began on January 16, 1961 and was set to expire on January 15, 2016, restricted the use of the 14,753 square foot property to retail liquor/fountain service purposes.

A convenience store building comprising an area of some 1,755 square feet along with a paved parking lot was constructed in compliance with the building requirements of the lease in 1961.

At its meeting of December 10, 1976 the Board under agenda item F-1-b, consented to the assignment of lease from William Aiona, Jr. dba Family Liquor Store, as Assignor to Alberta Aiona, as Assignee.

At its meeting of March 28, 1980 the Board under agenda item F-1-a, consented to the assignment of lease from Alberta Dela Cruz, formerly Alberta Aiona, as Assignor to Josephine N. K. Kunewa as Assignee.

At its meeting of May 12, 1989 the Board under agenda item F-1-d, consented to the assignment of lease from Josephine N. K. Kunewa, wife of Joseph H. Kunewa as Assignor to Josephine N. K. Kunewa, Trustee under that certain unrecorded Revocable Trust of Josephine N. K. Kunewa dated February 3, 1987 as Assignee and, to Josephine N. K. Kunewa, Trustee under that certain unrecorded Revocable Trust of Josephine N. K. Kunewa, dated February 3, 1987 as Assignor to from Josephine N. K. Kunewa, wife of Joseph H. Kunewa as Assignee and, from Josephine N. K. Kunewa, wife of Joseph H. Kunewa as Assignor to Sure Save Supermarket, Ltd., a Hawaii corporation, as Assignee.

The former Lessee, Sure Save Supermarkets, Ltd. ceased operations of their convenience store on the subject property prior to the end of the lease term. At its meeting of July 24, 2015, under agenda item D-5, the Board cancelled General Lease No. S-3597 effective August 24, 2015

B. PROPOSED USE:

Staff is recommending that the Board authorize the auction of a new 30-year commercial lease covering the subject parcel and improvements. County zoning for this area is "Neighborhood Commercial" (CN-10) and is consistent with the intended purpose of this lease auction proposal. The subject property consists of a 14,753 square foot lot with a 1,755 square foot commercial structure on it. Current Real Property tax assessment values the

building at \$162,100. The most recent use for the building was as a convenience store and a small take out lunch shop. There has been significant interest in leasing the subject parcel for the same purpose including inquiries from several businesses looking for long term leasing. The structure is in fair to good condition. The interior contains built in cabinets along with a checkout counter, a free standing counter and food service counter. The store also includes a walk-in refrigerator with beverage racks and display/access doors. Adjacent to the store, there is a small take-out kitchen that includes a stainless steel range hood and built in stainless steel sink. The air conditioning units were functioning at the time the lease was terminated. Electrical power to the property has since been disconnected.

Request for comments were distributed to various government agencies and their responses are included below.

County of Hawaii Agencies	Comments
Environmental Management	No Response
Fire Department	No Comments
Planning	No Objection
Police Department	No Comments
Public Works	No Response
Water Department	No Response
State of Hawaii Agencies	Comments
DLNR-Historic Preservation	No Objection
DHHL	No Comments
DOH-Environmental Management	No Objection
DOT-Highways Division	No Objection
Other Agencies	Comments
Office of Hawaiian Affairs	No Response
Corps of Engineers	No Response

According to the County of Hawaii Planning Department, the subject property is located within their Special Management Area (SMA). Any development proposed in the SMA must be reviewed against the SMA guidelines set forth in Section 205 A-26, HRS and the SMA guidelines contained in the Planning Commission Rule 9. Lessee shall comply with all applicable SMA laws, ordinances, rules and regulations, and shall apply for a special management area permit (SMP), at Lessee's sole expense, as may be required by the County of Hawaii for the development and/or use of the subject lands.

As a result of researching the various underwriting policies of local banking institutions, staff has found that the rent structure can significantly impact the terms and conditions of available financing. The most limiting policy is that both the amortization period and term of the loan will be restricted to the fixed rental period of the lease. As a result, staff is recommending that the appraisal to determine the upset rent for the first 10 years of the lease also determine an appropriate stepped increase (as a percentage of the base rent) for the second 10 years of the lease, thereby giving the successful bidder known rent for the first 20

years of the lease. The banks have indicated that the fixed increase is much more manageable in their lending policies since it is a known number and can be incorporated into the borrower's business plan. This would allow the bank to offer a more typical 20-year amortization loan with a balloon in 10 to 15 years which would result in a realistic financing package.

If the successful bidder elects to make substantial improvements¹ to the premises, then it will be entitled to a rent waiver for the first 12 months of the lease. However, staff recognizes that the lessee should not be charged rent on the increased value of the improvements attributed to its investment in the property. Accordingly, the lease will contain a provision that the rental reopening at the end of the 20th year of the lease term shall exclude the value of any improvements made to the premises by the lessee.

RECOMMENDATION: That the Board:

1. Declare that, after considering the potential effects of the proposed disposition as provided by Chapter 343, HRS, and Chapter 11-200, HAR, this project will probably have minimal or no significant effect on the environment and is therefore exempt from the preparation of an environmental assessment.
2. Find the area to be an economic unit in terms of the intended use.
3. Find that the subject area is not suitable for hunting, nor will it become so during the term of the lease.
4. Authorize the sale of a lease at public auction covering the subject area for business and/or commercial purposes 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 business and/or commercial use general lease form, as may be amended from time to time;
 - b. The rent may be waived for a maximum period of twelve (12) calendar months upon a completion of substantial improvements to the subject parcel. "Substantial improvements" for purposes of the lease shall mean renovations or new construction with a value equal to at least 50% of the appraised value of the existing improvements;
 - c. Review and approval by the Department of the Attorney General; and

¹ "Substantial improvements," for the purposes of this submittal, means renovations or new construction with a value equal to at least 50% of the appraised value of the existing improvements.


- d. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,



Gordon C. Heit
District Land Agent

APPROVED FOR SUBMITTAL:

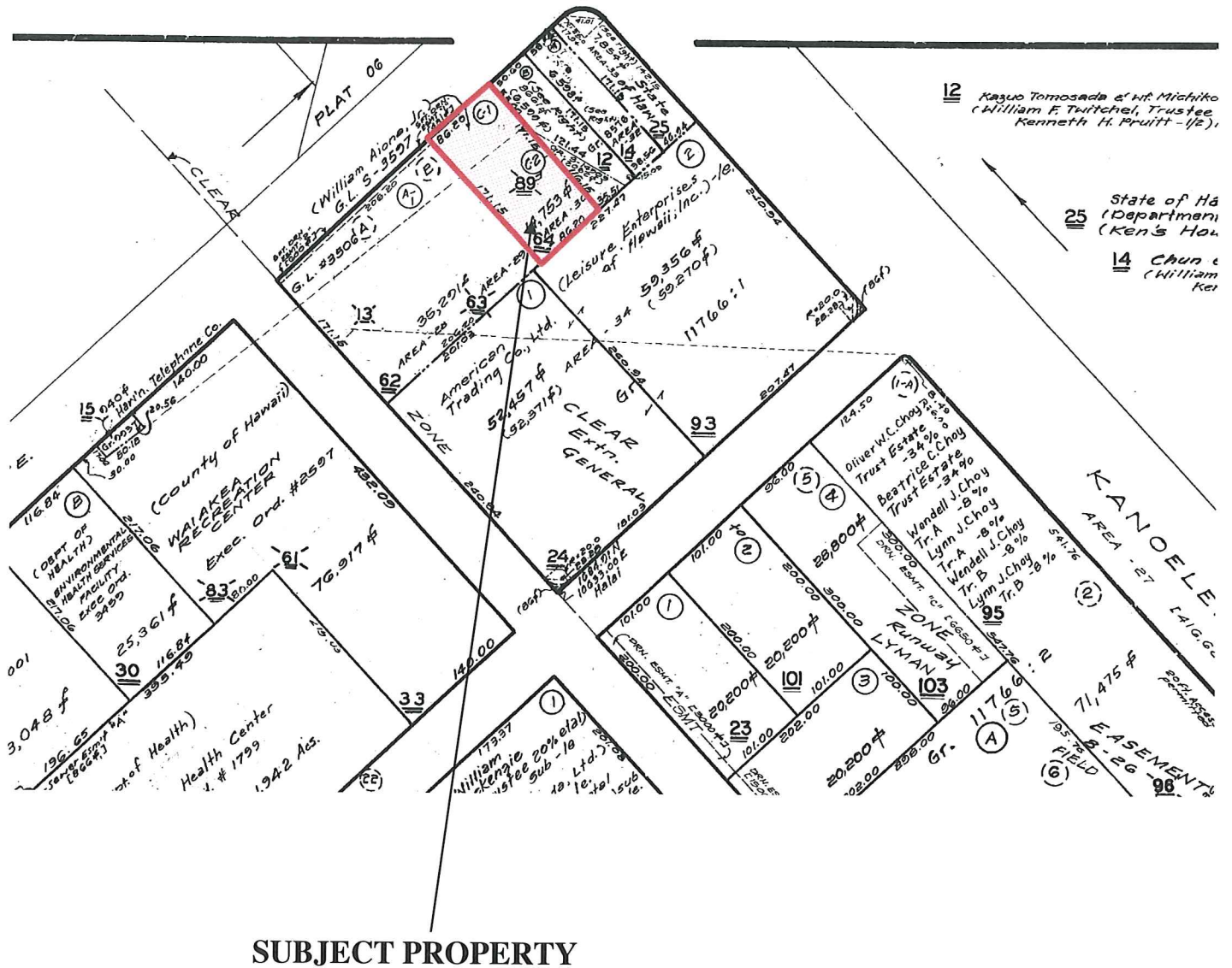


Suzanne D. Case, Chairperson



EXHIBIT A

TMK: 3RD/2-2-32:64



- 12 Kazuo Tomosada & Mt. Michiko (William F. Twitchel, Trustee, Kenneth H. Pruitt - 1/2)
- 25 State of Hawaii (Department of Ken's Hou)
- 14 Chun (William Ken)

SUBJECT PROPERTY

Auction Parcel

EXHIBIT A

