

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

July 13, 2018

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

Hawaii

**Approve a 10-Year Term Extension of General Lease No. S-3999, MS Auto, Inc., Lessee, Pursuant to Act 207, Session Laws of Hawaii 2011; Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-2-058:029 & 030.**

APPLICANT AND REQUEST:

MS Auto, Inc., lessee, a Hawaii for-profit corporation.

Improvements to the leasehold property financed by the lessee pursuant to Act 207, Session Laws of Hawaii 2011 and Section 171-36, Hawaii Revised Statutes in an amount of approximately \$115,677.00.

In order for the Lessee to fully amortize its expenditures, Lessee is requesting an extension of General Lease No. S-3999 for a period of 10 years, commencing on August 16, 2021 and expiring on August 15, 2031 for an aggregate term of 65 years (initial 55 year term plus the 10 year extension).

LEGAL REFERENCE:

Sections 171-36, Hawaii Revised Statutes (HRS), as amended.

LOCATION:

Portion of Government lands situated at Waiakea, South Hilo, Hawaii, identified by Tax Map Key: (3) 2-2-058:029 & 030, as shown on the attached map labeled Exhibit A.

AREA:

40,000 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:

Industrial purposes

TERM OF LEASE:

Original term of 55 years, commencing on August 16, 1966 and expiring on August 15, 2021.

Request for an extension of 10 years commencing on August 16, 2021 and expiring on August 15, 2031.

ANNUAL RENTAL:

Current rent is \$31,200. Due in equal quarterly installments of \$7,800 in February, May, August and November.

RENTAL REOPENINGS:

Rental reopenings in the original term were at the end of the 20<sup>th</sup>, 30<sup>th</sup>, 40<sup>th</sup> and 50<sup>th</sup> years of the term. The last rental reopening occurred on August 16, 2016.

The rent for the extended term shall be determined by appraisal on August 16, 2021 to establish the rent for the extension period of August 16, 2021 through August 15, 2031.

PROPOSED IMPROVEMENTS:

Lessee proposes to replace the roof on the body shop and replace the eave panels of the roof of the office/paint building at a cost of approximately \$76,787. Both buildings will be rust-treated, prepped and painted at a cost of approximately \$38,890.

CHAPTER 343 - ENVIRONMENTAL ASSESSMENT:

In accordance with the “Exemption List for the Department of Land and Natural Resources, reviewed and concurred upon by the Environmental Council on June 5, 2015,” the subject request is exempt from the preparation of an environmental assessment pursuant to Exemption Class No. 1, Item No. 47, which states “Leases of State land involving negligible or no expansion or change of use beyond that previously existing.” Refer to attached Exhibit B.

DCCA VERIFICATION:

Place of business registration confirmed: YES  
Registered business name confirmed: YES  
Good standing confirmed: YES

BACKGROUND:

General Lease No. S-3999 (GL3999) was sold at public auction on August 16, 1966 to DIVACO COOPERATIVE. One of the conditions of the lease was that the new lessee must complete construction of a warehouse and improvements on the property at a cost of at least \$85,000 within 2 years of the date of sale. A 9,180 sf warehouse was built in 1968 and a second warehouse of 6,000 sf was completed in 1976.

On May 28, 1996, the Chairperson gave consent to a \$200,000 mortgage. Subsequently, GL3999 was foreclosed and assigned by the court appointed commissioner to the mortgagee, Bank of America, N.A. by way of Commissioner's Assignment of Lease dated July 11, 2002.

At its meeting of June 27, 2003, agenda item D-5, the Board consented to the Foreclosure Commissioner's Assignment of Lease to Bank of America, N.A. and to an assignment of lease from Bank of America, N.A., assignor, to MS Auto, Inc., assignee (current lessee).

DISCUSSION:

The current 55-year lease is set to expire on August 15, 2021 and the lessee is requesting a 10 year extension pursuant to Act 207, Session Laws of Hawaii 2011<sup>1</sup> to amortize the cost of improvements to the property of \$115,677.00.

A site inspection on February 5, 2018 (inspection photos attached as Exhibit C) revealed the property is well maintained and in good condition. The lessee has shown marked due diligence regarding maintenance of the premises which has contributed to the overall value of the property. Lessee proposes to replace the roof on the body shop and replace the eave panels of the roof of the office/paint building at a cost of approximately \$76,787. Both buildings will be rust-treated, prepped and painted at a cost of approximately \$38,890.

In April 2018, Paradise Appraisals, LLC, lessee consultant, tendered its report regarding the economic life of the proposed improvements to the leasehold premises. The report assesses that the remaining economic life of the improved property will exceed 25 years (refer to Exhibit D).

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<sup>1</sup> 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.

The Lessee is in compliance with the terms and conditions of the lease and is current with rent, insurance and performance bond.

Staff is recommending that the rent payable for the 10-year extension period commencing August 16, 2021 be determined by appraisal at that time.

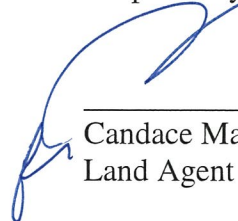
The County of Hawaii Planning Department and the State of Hawaii Office of Environmental Quality Control were consulted and had no comments or objections to the proposed action.

RECOMMENDATION:

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

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. Authorize the extension of General Lease No. S-3999 to MS Auto, Inc. 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;
  - B. Review and approval by the Department of the Attorney General; and
  - C. Such other conditions as may be prescribed by the Chairperson which are in the best interests of the State.

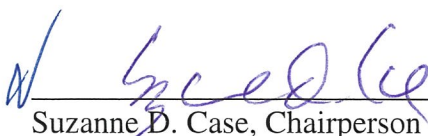
Respectfully Submitted,



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Candace Martin  
Land Agent

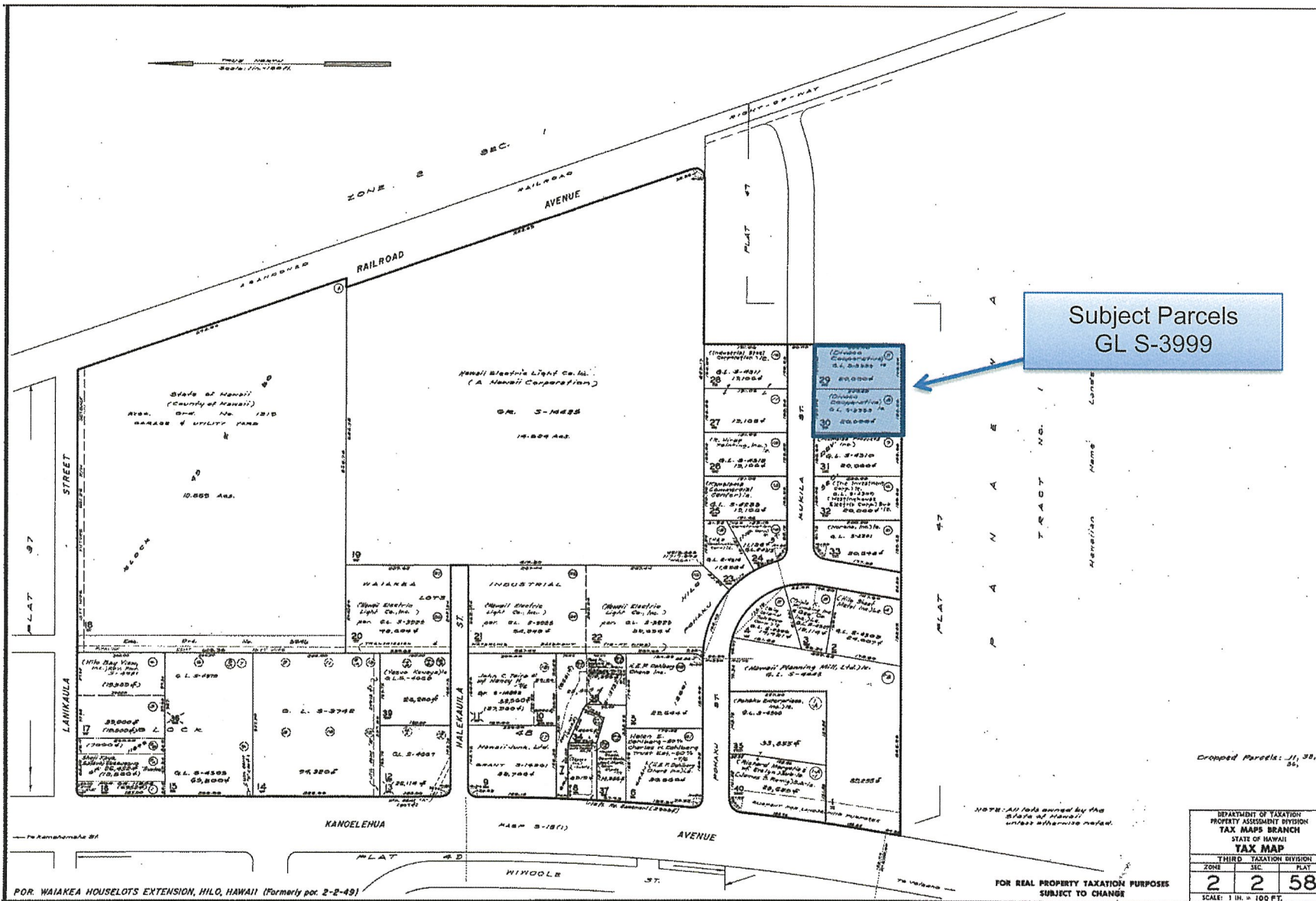
APPROVED FOR SUBMITTAL:



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Suzanne D. Case, Chairperson

EXHIBIT A



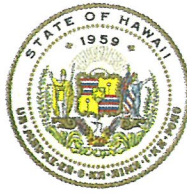
Subject Parcels  
GL S-3999

Dropped Parcels: 11, 38, 39

DEPARTMENT OF TAXATION PROPERTY ASSESSMENT DIVISION TAX MAP		
THIRD TAXATION DIVISION		
ZONE	SEC	PLAT
2	2	58
SCALE: 1 in. = 100 FT.		

NOTE: All lots owned by the State of Hawaii unless otherwise noted.

DAVID Y. IGE  
GOVERNOR OF HAWAII



## EXHIBIT B

SUZANNE D. CASE  
CHAIRPERSON  
BOARD OF LAND AND NATURAL RESOURCES  
COMMISSION ON WATER RESOURCE MANAGEMENT

ROBERT K. MASUDA  
FIRST DEPUTY

JEFFREY. T. PEARSON, P.E.  
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES  
BOATING AND OCEAN RECREATION  
BUREAU OF CONVEYANCES  
COMMISSION ON WATER RESOURCE MANAGEMENT  
CONSERVATION AND COASTAL LANDS  
CONSERVATION AND RESOURCES ENFORCEMENT  
ENGINEERING  
FORESTRY AND WILDLIFE  
HISTORIC PRESERVATION  
KAHOOLAWE ISLAND RESERVE COMMISSION  
LAND  
STATE PARKS

### STATE OF HAWAII DEPARTMENT OF LAND AND NATURAL RESOURCES

POST OFFICE BOX 621  
HONOLULU, HAWAII 96809

June 19, 2018

#### EXEMPTION NOTIFICATION

regarding the preparation of an environmental assessment pursuant to Chapter 343, HRS and Chapter 11-200, HAR

Project Title: Approve a 10-Year Term Extension of General Lease No. S-3999, MS Auto, Inc., Lessee, Pursuant to Act 207, Session Laws of Hawaii 2011.

Project / Reference No.: GL S-3999

Project Location: Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-2-058:029 & 030.

Project Description: Extension of an existing industrial lease to allow time for the lessee to amortize the costs of proposed improvements, (i.e., roof replacement on one building, roof eave replacement and rafter repair on the second building and exterior painting of both buildings) on the leased premises.

Chap. 343 Trigger(s): Use of State Land.

Exemption Class No.: In accordance with Hawaii Administrative Rule Section 11-200-8 and the Exemption List for the Department of Land and Natural Resources concurred with 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 47, "Leases of State land involving negligible or no expansion or change of use beyond that previously existing."

Cumulative Impact of Planned Successive Actions in Same Place Significant?: No. The Lessee is requesting a 10-year extension of an existing industrial lease. The planned improvements will not increase the the existing footprint, height or density nor change the existing use of the leased premises. Staff believes that the cumulative impact of the planned improvements are not significant.

Action may have Significant Impact on Particularly Sensitive: No. The leased premises is located in an established industrial area. This is a request to continue the existing industrial use of the land for another 10 years. The planned improvements will not change

Environment?: the use of the leased premises. Staff believes there will not be a significant impact upon the environment beyond that previously existing.

Analysis: This action is a request for a 10-year extension of an existing industrial lease. The subject land has been leased for industrial purposes since 1966 and is located in a well-developed industrial area surrounded by various industrial uses. Approval of an extension of the lease would involve no expansion or change or use beyond that previously existing. Therefore, staff believes the results of the subject action will not have a significant impact on the natural, environmental and/or cultural resources in the area, and as such should be found to be exempt from the preparation of an environmental assessment.

Consulted Parties: State of Hawaii: Office of Environmental Control  
County of Hawaii: Planning Department

Recommendation: That the Board find this project will probably have minimal or no significant effect on the environment and is presumed to be exempt from the preparation of an environmental assessment.

## EXHIBIT C

Inspection Photos from inspection date February 5, 2018  
for GL S-3999 MS Auto, Inc.; 30 Kukila St., Hilo, HI



Aerial view of GL S-3999. Body shop is smaller building on the right. The larger building on the left is the Paint shop, parts, storage and office area.



**Front of Larger  
Office/Paint Bldg**



**Landscaping at  
front of bldg**

**New fencing across  
front of property  
and parking area**





**Side of larger bldg.  
- front to back**



**Side of larger bldg.  
- back to front**



**Rear of larger bldg.  
and back parking area**



**Town side of larger bldg. – back to front**

**Office entry doorway**



**Office/Reception area to right of entry**

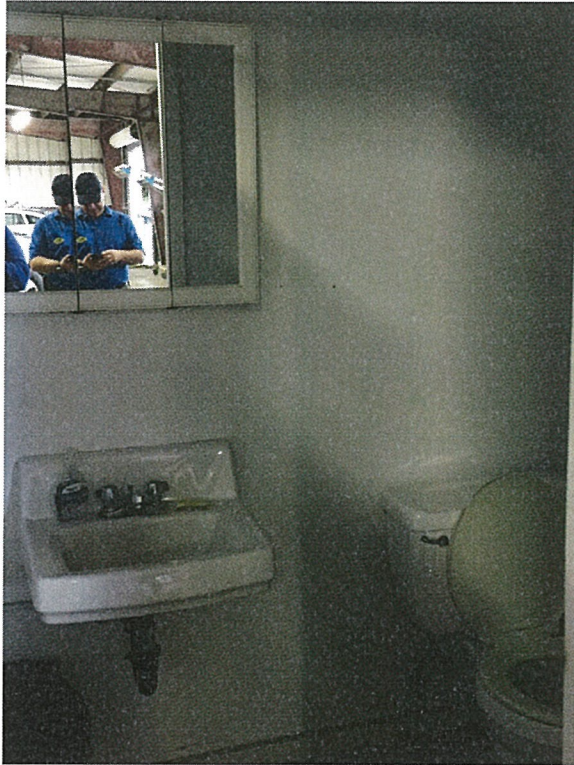


**Waiting area to left of entry**

**Refreshment area**



**Typical office (1 of 3)**



**Typical restroom – 2 in each bldg**



**Parts storage area**



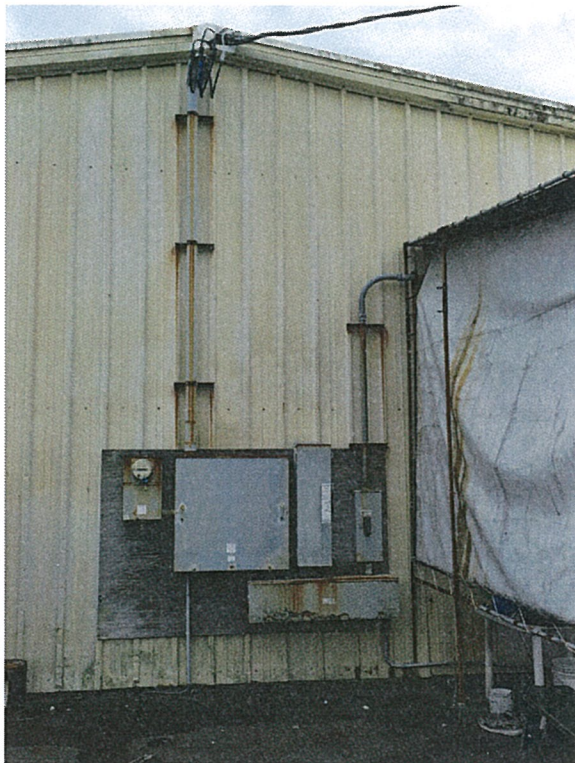
**Paint booths**



**Far side of smaller bldg. – front to back**



**Town side of smaller bldg. – front to back**



**Electrical drop to property – 3 phase**



**Electrical load center inside smaller bldg**



**Roof inside smaller bldg. – active leaks**



**Roof at exterior wall  
of smaller bldg.**



# EXHIBIT D

75-7265 Māmalaha Highway, #9  
 Kāhala, HI 96753  
 Kono@paradiseappr.com  
 Phone 808-322-0999 Fax 808-322-0975

## Summary of Value Conclusions:

The following is a summary of the value conclusions and indicated remaining economic life of the subject property's improvements by each approach:

Approach	Market Value	Weighting	Product	Indicated Remaining Economic life
Cost Approach	\$ 1,375,000.00	25%	\$ 343,750.00	40 Yrs
Income Approach	\$ 1,550,000.00	75%	\$ 1,162,500.00	>25 Years
			\$ 1,506,250.00	
Concluded			\$ 1,515,000.00	30 Years

In 25 years major investments will be needed to continue the live of the building. Many older buildings have reached this point and investors have seen reason to make that investment and continue the building's life.

The income approach best reflects the motivations of buyers and sellers in the market and has been weighted the most. As of March 15, 2018 the market value of the as if fee simple and as if renovated value of the subject was estimated at:

ONE MILLION FIVE HUNDRED FIFTEEN THOUSAND DOLLARS  
 (\$1,515,000.00)

The estimated remaining economic life as renovated and in fee simple is estimated to exceed 25 years.

Both the marketing and exposure times related to this valuation are estimated at 6 to 9 months.