

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

July 12, 2019

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

19HD-039

Hawaii

**Authorize the Department of Land and Natural Resources, Land Division, to Negotiate a Development Agreement for a 30-Year Extension of Lease Term of General Lease No. S-3621, Crescent City Properties, Inc., Lessee, Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-2-049:006.**

APPLICANT AND REQUEST:

Crescent City Properties, Inc., a Hawaii corporation, is requesting an extension of General Lease No. S-3621 of 30 years, commencing on February 24, 2026 and expiring on February 23, 2056 for an aggregate term of 95 years pursuant to Act 149 of Hawaii Session Laws of 2018.

LEGAL REFERENCE:

Sections 171-191 and -192, Hawaii Revised Statutes (HRS), as amended.  
Act 149, Session Laws of Hawaii 2018 (Act 149)

LOCATION:

Portion of Government lands of Lot 32, Kanoelehua Industrial Lots, situated at Waiakea, South Hilo, Hawaii, identified by Tax Map Key: (3) 2-2-049:006, as shown on the attached map labeled Exhibit A.

AREA:

39,000 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:

Light Industrial purposes as permitted under County of Hawaii zoning code.

TERM OF LEASE:

Original term of 55 years, commencing on February 24, 1961 and expiring on February 23, 2016. Board approved<sup>1</sup> a 10-year extension, commencing on February 24, 2016 and expiring on February 23, 2026.

Requested extension of 30 years commencing on February 24, 2026 and expiring on February 23, 2056.

ANNUAL RENTAL:

Current rent is \$34,100.00, due in semi-annual installments of \$17,050.00 on the 24<sup>th</sup> of February and August each year for the remaining term of the 10-year extension period.

Annual rent for the requested 30-year extension term to be determined by independent appraisal and included in the negotiated development agreement that Staff will bring back to the Board for approval at a later date.

RENTAL REOPENINGS:

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 original term. A rental reopening for the extended term was determined by an appraisal that projected rent for the extension period commencing February 24, 2016 and expiring February 23, 2026.

Reopenings for the 30-year extension will be addressed in the negotiated development agreement.

DCCA VERIFICATION:

Place of business registration confirmed:	YES
Registered business name confirmed:	YES
Applicant in good standing confirmed:	YES

APPLICANT REQUIREMENTS:

Applicant shall be required to comply with the requirements of Act 149, including but not limited to: provide complete plans and specifications for the total development, 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.

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<sup>1</sup> December 14, 2012, agenda item D-5

## BACKGROUND:

General Lease No. S-3621 (GL3621) was issued to Hawaiian Grocery Stores, Ltd. pursuant to Act 4, First Special Session of 1960, which authorized the direct issuance of leases to victims of natural disaster (tsunami). The lease was for a term of fifty-five (55) years, commencing on February 24, 1961 and expiring February 23, 2016. The character of use was restricted to wholesale grocery use. A warehouse building comprising an area of some 7,680 square feet was constructed in compliance with the building requirements of the lease.

At its meeting of November 20, 1970, the Board consented to the assignment of the lease from Hawaiian Grocery Stores, Ltd. to Seair Corporation. Seair agreed, as part of the transaction, to expand the existing warehouse by an additional 10,000 square feet.

In a September 29, 1995 letter, the Lessee requested that the Character of Use for General Lease No. S- 3621 be changed from Wholesale Grocery to Light Industrial to allow the Lessee a greater range of use for the property. The Board approved this request at its meeting of October 27, 1995, Item F-1-b.

At its meeting of March 10, 2000, under item D-22, the Board, approved the Assignment of Lease from Seair Corporation to the current Lessee, Crescent City Properties, Inc.

In July 2012, Crescent City Properties, Inc. (CCP) requested a 10-year extension of GL3621 to amortize self-financed improvements of \$53,700.00 pursuant to Act 207, Session Laws of Hawaii 2011.<sup>2</sup> The Board approved the 10-year extension of the lease at its meeting of December 14, 2012, agenda item D-5. The improvements were completed in January 2013 and consisted of replacement of the warehouse roof and complete renovation of the restrooms.

## EXTENSION:

CCP intends to increase its current production and distribution of dried fish products into a larger market, including the mainland US. To accommodate this expanded market, it is necessary to increase its operational capacity. Therefore, CCP is planning to make substantial improvements to the property. A detailed list of the improvements is attached as Exhibit B and the improvements are estimated to take 24 months to complete.

The proposed improvements require an investment of at least \$1,067,445; total final cost will invariably exceed this amount due to increasing building costs and associated soft costs not included on the improvements list. CCP has been pre-qualified for a commercial real estate mortgage loan of \$1,500,000-\$2,000,000 from the Bank of Hawaii. As a condition of the loan, the bank is requesting the Lessee obtain an extension of the current lease including a known fixed annual rent for a minimum of 10 years beyond the 25-year amortization period.

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<sup>2</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.

Act 149:

CCP is requesting a 30-year extension of the lease pursuant to Act 149 in order to amortize the cost of the proposed improvements to the property. Act 149 provides the opportunity for lessees located within the Hilo Community Economic District (HCED) to acquire a lease extension of up to 40 years beyond the initial lease term provided they make “substantial improvements” to the leased premises and the length of the extended term be based on the economic life of those improvements, as determined by the board or an independent appraiser.

The subject lease is located within the HCED as defined in Act 149. Lessee’s proposed improvements include the replacement of warehouse exterior siding and roll-up doors, major renovations of interior warehouse space and remediation of on-site drainage issues at a cost in excess of \$1,067,445 (Exhibit B).

The appraiser, contracted by the Lessee, determined the market value of the current improvements to be \$920,000. Lessee’s proposed expenditure of \$1,067,445 represents 116% of the value of the existing improvements. Lessee’s proposed expenditure exceeds the required 30% under Act 149.

In order to grant an extension of lease term pursuant to Act 149, the Board must approve a development agreement proposed by the lessee to make substantial improvements to the existing improvements or to construct new substantial improvements.

Act 149 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; and
- 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.

The Lessee has submitted a proposed development agreement outlining the terms and conditions required in compliance with Act 149 and Section 171-192(a), HRS, as amended. Staff is requesting authority to negotiate the terms and conditions of the development agreement with Lessee and present it to the Board for approval at a later date.

Staff is also requesting authorization to contract appraisal services at Lessee’s expense to determine the minimum revised annual rent in accordance with Act 149.

The Lessee is in compliance with the terms and conditions of the lease. The Lessee is current with rent, insurance and performance bond. The current use of leased premises is in agreement with the character of use designated in the lease.

RECOMMENDATION:

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

1. Authorize the Department of Land and Natural Resources, Land Division, to negotiate a development agreement with Crescent City Properties, Inc. for a 30-year extension of General Lease No. S-3621, covering the State-owned parcel identified by Tax Map Key: (3) 2-2-049:006 pursuant to Act 149 Session Laws of Hawaii 2018 and Section 171-192, Hawaii Revised Statutes, as amended, with the understanding that the authorization 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.
2. Authorize the Department of Land and Natural Resources, Land Division, to contract appraisal services at Lessee's expense to determine the minimum revised annual rent of the subject leased premises in accordance with Act 149.

Respectfully Submitted,

  
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Candace M. Martin  
Land Agent

APPROVED FOR SUBMITTAL:

  
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Suzanne D. Case, Chairperson



## EXHIBIT B

Proposed Improvements by Crescent City Properties, Inc. for GL S-3621

1.	Repaint rafters and exposed structural framing on exterior	\$ 10,400
2.	Remove and replace 2 roll-up doors (\$15,000 each)	\$ 30,000
3.	Install a shallow drywell 7'9" deep by 8' in diameter with 10" thick Concrete grated inlet cover	\$ 16,000
4.	Remove approximately 4,500 sf. of existing asphalt pavement, regrade for proper drainage flow to sump and repave with 2" thick asphalt pavement.	\$ 23,000
5.	Remove 6,000 sf. of asphalt pavement in building. Demo existing offices to shell. Dispose of all waste.	\$ 32,000
6.	Construct concrete pads for 1,500 sf. of freezer space, 1,000 sf. of chiller space and 500 sf. of commercial kitchen space. Provide proper insulation, thermal break and rebar as per specs provided by owner.	\$ 72,000
7.	Remove and replace steel wall siding with pre-finished 24 ga. material Use stainless steel fasteners. Remove and re-install existing gutters.	\$ 78,400
8.	Electrical engineered drawings and electrical permits.	\$ 15,000
9.	Pad mount transformer and consolidated electrical service.	\$150,000
10.	Power and control wiring for new freezer, chill, processing, kitchen, and office additions.	\$ 65,000

### Refrigeration Upgrades:

11.	1,500 sf. freezer room w/5" wall & ceiling panels and 2-8'x10' auto sliding doors. LED lighting & air conditioning.	\$245,147
12.	1,000 sf. chill/processing room w/4" wall & ceiling panels, 3-6'x8' manual sliding doors and 2-2'x5' windows. LED lighting & air conditioning.	\$123,486
13.	500 sf. packing room w/4" wall & ceiling panels, 2-6'x8' manual sliding doors and 2-4'x3' windows. LED lighting & air conditioning.	\$ 74,490
14.	500 sf. office/lab w/4" wall & ceiling panels, 2-6'x8' manual sliding doors and 2-4'x3' windows. LED lighting & air conditioning.	\$ 68,168
15.	500 sf. R&D cooler room w/bi-swing "Chase door", 4" wall & ceiling panels, 2-4'x3' windows and 2-6'x8' manual slider doors. LED lighting & air conditioning.	\$ 64,354

TOTAL \$1,067,445