

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

January 10, 2025

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

24HD-142  
Hawaii

Issuance of Revocable Permits to DWE, Inc., Wesco Distribution, Inc., Fastenal Company and John Tavares, for General Industrial Uses Allowed Under the Current County of Hawaii Zoning Code Purposes, Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-2-058:025.

Non-Action Item: First Public Hearing on Potential Issuance of New Direct Lease to DWE, Inc. for General Industrial Uses Allowed Under the Current County of Hawaii Zoning Code Purposes, Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-2-058:025.

APPLICANTS:

DWE, Inc., a Hawaii corporation;  
Wesco Distribution, Inc., a Delaware corporation;  
Fastenal Company, a Minnesota corporation;  
John Tavares, a sole proprietor.

LEGAL REFERENCE:

Sections 171-13, -55, and -59 Hawaii Revised Statutes (HRS), as amended and Act 114, Session Laws of Hawaii (SLH) 2024.

LOCATION:

Portion of Government lands of Waiakea, South Hilo, Hawaii, identified by Tax Map Key: (3) 2-2-058:025, as shown on the attached map labeled Exhibit A.

AREA:

19,106 square feet, more or less.

ZONING:

State Land Use District: Urban  
County of Hawaii CZO: MG-1a; general industrial – 1 acre minimum

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:

Encumbered by General Lease No. S-4283, Kapalama Commercial Center,  
Lessee, for industrial purposes. Lease to expire on 01/19/2025.

CHARACTER OF USE FOR REVOCABLE PERMITS AND DIRECT LEASE:

General industrial uses allowed under the current County of Hawaii Zoning Code,  
MG-1a purposes.

REVOCABLE PERMIT COMMENCEMENT DATE:

The first day of the month to be determined by the Chairperson.

REVOCABLE PERMIT MONTHLY RENTAL:

As an interim measure staff is recommending charging the same monthly rate  
the tenants have been paying, which includes land and improvements.

|                          |                      |          |                      |
|--------------------------|----------------------|----------|----------------------|
| DWE, Inc.                | \$2,390/month*       | =        | \$28,680/year        |
| Wesco Distribution, Inc. | \$1,500/month        | =        | \$18,000/year        |
| Fastenal Company         | \$3,000/month        | =        | \$36,000/year        |
| <u>John Tavares</u>      | <u>\$1,500/month</u> | <u>=</u> | <u>\$18,000/year</u> |
| Total Rent               | \$8,390/month        | =        | \$100,680/year       |

\*This amount reflects a \$100 discount for assumption of the water account.

COLLATERAL SECURITY DEPOSIT:

Twice the monthly rental for each tenant

DCCA VERIFICATION:

DWE, Inc., Wesco Distribution, Inc., and Fastenal Company are in good standing with the Business Registration Division. John Tavares as a sole proprietor is not required to register.

JUSTIFICATION FOR REVOCABLE PERMIT:

Use of revocable permits in this instance is appropriate. The lease is expiring on 01/19/2025. These revocable permits are an interim measure to serve the time between the expiration of the existing lease and issuance of a new direct lease to DWE, Inc., if approved. DWE, Inc. is one of the existing tenants. Staff finds it imperative to keep the building occupied to prevent vandalism and as not to displace four local businesses. To date, staff has received no inquiries from third parties as to the availability of the site for leasing.

LEASE TERM:

Thirty-five (35) years.

LEASE COMMENCEMENT DATE:

As determined by the Chairperson.

LEASE ANNUAL RENT:

Fair market rent for land and improvements, excluding trade fixtures, to be determined by independent appraiser, subject to review and approval by the Chairperson.

LEASE METHOD OF PAYMENT:

Semi-annual payments, in advance.

LEASE RENTAL REOPENINGS:

At the 10<sup>th</sup> and 20<sup>th</sup> years of the lease term, by staff or independent appraiser.

LEASE PERFORMANCE BOND:

Twice the annual fair market rent determined by appraisal in accordance with HRS 171-17. Performance bond to be posted upon execution of lease.

PROPERTY CHARACTERISTICS:

Utilities – Electric, water, telephone and internet.  
Slope – 2-20%  
Elevation – 60 feet  
Rainfall – 135 inches per year  
Legal access – Staff has verified legal access from Kukila Street.  
Subdivision – Staff has verified the subject property is a legally subdivided lot.  
Encumbrances – Currently encumbered by GLS-4283; expires 01/19/2025.

CHAPTER 343 - ENVIRONMENTAL ASSESSMENT:

In accordance with Hawaii Administrative Rules (HAR) § 11-200.1-15 and the Exemption List for the Department of Land and Natural Resources reviewed and concurred on 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 that states, "Operations, repairs or maintenance of existing structures, facilities, equipment, or topographical features, involving negligible or no expansion or change of use beyond that previously existing," and Item 51 that states, "Permits, licenses, registrations, and rights-of-entry issued by the Department that are routine in nature, involving negligible impacts beyond that previously existing." The proposed revocable permits are a de minimis action that will probably have minimal or no significant effect on the environment and should be declared exempt from the preparation of an environmental assessment and the requirements of § 11-200.1-17, HAR.

APPLICANT REQUIREMENTS:

Applicant DWE, Inc. shall be required to:

- 1) Assume the water account and be responsible for costs associated with the account. A \$100 rent credit will be given to cover the estimated monthly costs;
- 2) Assume the real property tax account and be responsible for costs associated with the account.

All applicants shall be required to:

- 1) Maintain the common areas of the property;
- 2) Share in the real property tax bill on their proportional share as follows:  
DWE, Inc. and Fastenal Company each pay 33% of the tax billed;  
Wesco Distribution, Inc. and John Tavares each pay 17%.

BACKGROUND:

General Lease No. S-4283 was sold at public auction on 01/20/1970 to Kapalama Commercial Center, Inc. (KCCI) as unimproved land for industrial purposes. KCCI constructed a steel-framed warehouse of approximately 9,000 square feet in 1975. KCCI used the warehouse for storage of items from an affiliated hotel operation.

The lease was for a term of 40 years, expiring 01/19/2010. At its meeting of 01/08/2010, agenda item D-7, the Board approved a 15-year extension of the lease subject to lessee making improvements of at least \$36,624.77 consisting of painting the building, replacement of roll-up doors, parking lot striping and landscaping work.

During the processing of this request, staff became aware of two subleases on the property and at that meeting the Board also granted after-the-fact consents to these subleases without sandwich profits in accordance with the Rent Participation Policy approved on 01/26/2001, which at that time did not allow sandwich profits if the lease does not indicate a specific method of calculation and the improvements were owned by the lessee.

In August and September 2024, the lessee was working on trying to get an extension of the lease pursuant to Act 149, SLH 2018, but timing was short and the lessee was not sure it wanted to make the required improvements. Ultimately it decided not to extend the lease and notified sublessees they would have to move out at the end of the year as the lease expires on 01/19/2025.

REMARKS:

A pre-exit inspection was performed on 09/25/2024 and the building and grounds were found to be in good condition with signs of normal wear and tear as to be expected (refer to attached Exhibit B for photos). It is noted that there are four existing sublessees; only one has been consented to by the Board. A final inspection is scheduled for 01/15/2025.

In early October 2024, the Hawaii District Land Office was approached by the principals of DWE, Inc., an existing sublessee, regarding applying for a new lease on the premises and is prepared to make the necessary investments/improvements to qualify for a direct lease pursuant to Act 114, SLH 2024.

Staff spoke with the other three sublessees and they were concerned about losing the warehouse space; noting that securing new space is very difficult and the short timeline has made it virtually impossible for them to relocate by the end

of the year. The sublessees are pleased that DWE, Inc. is proposing a new lease and are more than willing to stay on in the current space. DWE, Inc. desires to keep the existing sublessees in place.

DWE, Inc. has agreed to take on the water account for the entire property as only one meter services the property. The monthly estimate for the water bill is between \$75-\$100. The current rents from sublessees included water. Staff is recommending a \$100 per month rent credit to DWE, Inc. for water costs.

Staff is also recommending that DWE, Inc. be responsible for the real property taxes with the other sublessees reimbursing their proportional share (DWE, Inc. and Fastenal Company 33% each; Wesco Distribution, Inc. and John Tavares 17% each). Real property taxes are currently charged in addition to the monthly rent.

Staff strongly recommends these dispositions as a solution for the current situation. It is not in the best interest of the public trust to have this warehouse sitting vacant during the extensive public auction process. Currently vacant warehouses in the Hilo industrial area are being heavily vandalized. Securing such properties is costly and not very effective, resulting in reduced value of the property.

Further, with the instability of the economy, the existing four businesses would suffer severe losses if required to relocate in the current market; potentially resulting in failure of one or more of the businesses.

No agency or community comments were solicited as this request would be a continuation of the prior use.

The applicants have not had a lease, permit, easement or other disposition of State lands terminated within the last five years due to non-compliance with such terms and conditions.

The proposed use has continued since 1970 and will continue throughout the revocable permits. Such use has resulted in no known significant impacts, whether immediate or cumulative, to the natural, environmental and/or cultural resources in the area. As such, staff believes that the proposed use would involve negligible or no expansion or change in use of the subject area beyond that previously existing.

Non-Action Item: First Public Hearing on Potential New Direct Lease to DWE, Inc.:

Pursuant to Act 114, SLH 2024 (Act 114), the Board now has authority to issue leases by direct negotiation for commercial and industrial uses (along with other

uses allowed under Section 171-59, HRS prior to the adoption of Act 114), if the parcel proposed for lease has an area of 5 acres or less. Here, the subject parcel has an area of 19,106 square feet, more or less, and DWE, Inc. is proposing industrial uses in compliance with County of Hawaii zoning code for general industrial use.

Act 114 also requires a showing that issuance of the direct lease would encourage competition within the relevant industry. DWE, Inc.'s proposal allows its continued industrial use, but also allows the continuance of three other business' industrial use. DWE, Inc. is an electrical contracting firm. The three other current tenants are a wholesale electrical products distributor; an industrial and construction material supply distributor; and a swimming pool service and supply business. A new direct lease will allow all four businesses to continue current operations, resulting in continued competition within the local industrial community. Without a new direct lease, all four existing businesses would be subject to possible relocation or closure.

Another requirement for issuing a lease under Act 114 is that two public hearings must be held before the Board can approve the disposition. Staff has prepared this submittal to serve as the basis for the first public hearing at today's meeting, making consideration of the lease issuance a non-action item. Depending on input from the Board and the public at the hearing, staff intends to return to the Board at a later meeting for a second public hearing prior to the Board's action on DWE, Inc.'s request for final lease approval. Although not required by Act 114 or Section 171-59, HRS, staff will also prepare a public notice regarding the proposed disposition and publish it in the newspaper and post it on Land Division's webpage prior to the second meeting.

Finally, DWE, Inc. is proposing to make significant improvements to the premises. It is currently gathering the necessary information and cost estimates. This information shall be provided in the next board submittal for issuance of the direct lease pursuant to Act 114.

**RECOMMENDATION:** That the Board:

1. Declare that, after considering the potential effects of the proposed disposition as provided by Chapter 343, HRS, and Chapter 11-200.1-16, 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 as a de minimis activity.
2. Authorize the issuance of revocable permits to DWE, Inc., Wesco Distribution, Inc., Fastenal Company and John Tavares covering the subject area for uses allowed under the current County of Hawaii Zoning

Code, MG-1a 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 revocable permit form, as may be amended from time to time;
- b. Review and approval by the Department of the Attorney General; and
- c. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,

*Candace Martin*

*KEM*

\_\_\_\_\_  
Candace Martin

*GCH*

Land Agent

APPROVED FOR SUBMITTAL:



*RT*

\_\_\_\_\_  
Dawn N. S. Chang, Chairperson



# EXHIBIT A

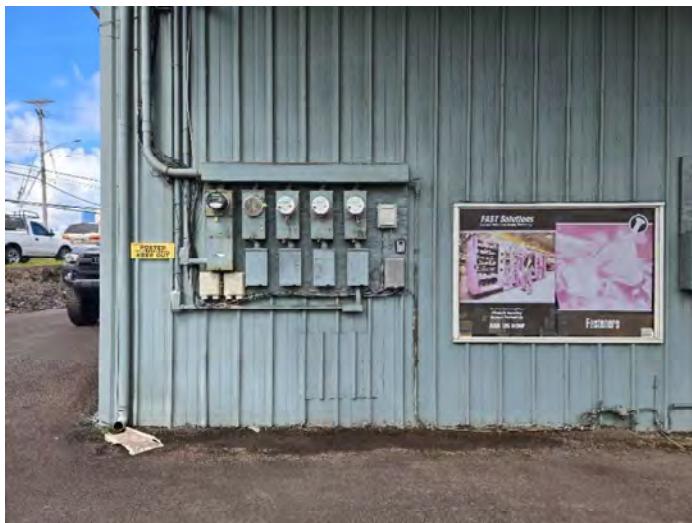


## **EXHIBIT B**

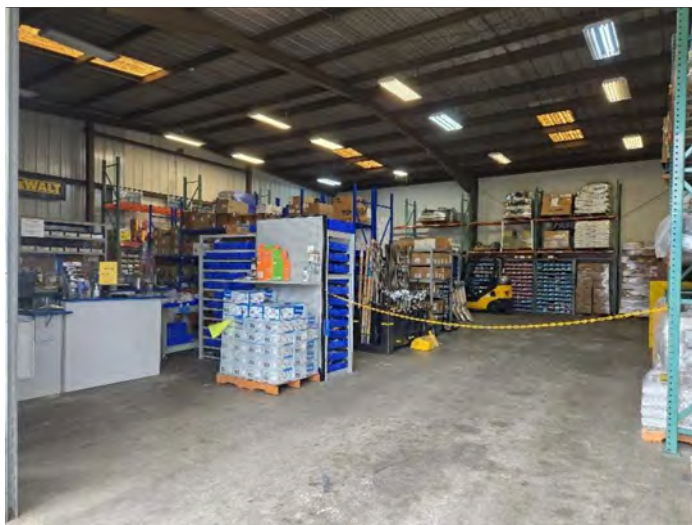
### **Kukila Street Photos – 9/25/2024**



**View of building from Street**



**Gang of electric meters.  
One main and one for each  
tenant.**



**Typical representation  
of interior of bays.**



**EXHIBIT B**



One of the middle bays.

Common area restroom.

Last two bays at rear of building.

