

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

July 10, 2026

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

Hawaii

After-the-Fact Consent to Sublease under General Lease No. S-4333,
Kawika Ohana, LLC, Lessee, to Phase 4 Ventures, Inc & Steve Royston,
Sublessee, Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-2-037:056.

APPLICANT:

Kawika Ohana, LLC, a Hawaii limited liability company.

LEGAL REFERENCE:

Section 171-36(a)(6), Hawaii Revised Statutes, as amended.

LOCATION:

Portion of Government lands situated at Waiakea, South Hilo, Hawaii, identified by
Tax Map Keys: (3) 2-2-037:056, and can be viewed at:
<https://qpublic.schneidercorp.com/Application.aspx?AppID=1048&LayerID=23618&PageTypeID=1&PageID=9875&Q=1847693210&KeyValue=220370560000>

AREA:

19,500 square feet, more or less.

ZONING:

State Land Use District: Urban
County of Hawaii CZO: MG-1a General Industrial-1 acre minimum¹

¹ Note parcel square footage is 19,500 square feet while current zoning requires minimum one acre. Boundaries of the subject parcel were determined prior to the current county zoning and are accepted as a non-conforming size by the County.

TRUST LAND STATUS:

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

CHAPTER 343 – ENVIRONMENTAL ASSESSMENT:

In accordance with Section 11-200.1-15 of the Hawaii Administrative Rules and the Exemption List for the Department of Land and Natural Resources reviewed and concurred in by the environmental Council on June 2, 2026, staff proposes the subject request is exempt from the preparation of an environmental assessment pursuant to:

General Exemption Type 1: 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.

Part 1, Item No. 40: Leases of State land involving negligible or no expansion or change of use beyond that previously existing.

The property is located within the existing and established Hilo Industrial area which is zoned urban and industrial and is currently used for those purposes. Given that the property and surrounding areas are already disturbed and heavily developed, the area is not considered to be located within a sensitive environment. Further, no new uses that are inconsistent with current and past uses will occur as a result of the sublease approval and no significant adverse or cumulative impacts are anticipated. Therefore, staff believes that any impact from this action can be considered de minimis and should be declared exempt from the preparation of an environmental assessment and the requirements of §11-200.1-17, HAR.

Staff notes that the following agencies were notified of the proposed action:
Hawaii State Department of Health and Hawaii County Planning Department.

LEASE CHARACTER OF USE:

Light industrial purposes.

SUBLEASE CHARACTER OF USE:

Sublessee operates a small equipment and repair business, which is compliant with county zoning code.

TERM OF LEASE:

40 years, commencing on July 15, 1971 and expiring on July 14, 2011. A lease extension of 15 years was granted by Board at its meeting of January 23, 2009, extending the expiration date of the lease to July 14, 2026.

Last rental reopening occurred on July 15, 2018 for the final 8 years of the lease.

ANNUAL RENTAL:

\$24,600.00 Payable in semi-annual installments of \$12,300.00 due on the 15th day of January and July.

ANNUAL SUBLEASE RENTAL INCOME:

2024 = \$113,100.24
2025 = \$113,100.24
2026 = \$ 56,550.12

Rent includes GE Tax and CAM (Care & Maintenance charge). Refer to attached Exhibit A and B for further analysis.

RECOMMENDED ADJUSTMENT TO LEASE RENTAL:

\$ 15,847.19 for retroactive rent for the period 01/01/2024 through 06/30/2026.
(Refer to attached Exhibit A and B for analysis of lease rental adjustment.)

DCCA VERIFICATION:

SUBLESSOR:

Kawika Ohana, LLC is registered and in good standing with the Business Registration Division of the DCCA.

SUBLESSEE:

Phase 4 Ventures, Inc. is registered and in good standing with the Business Registration Division of the DCCA.

Steve Royston as an individual is not required to register with the DCCA

BACKGROUND:

General Lease No. S-4333 (GLS-4333), a 40-year lease for light industrial purposes was issued to Hawaiian Fruit Flavors, Inc. (HFFI), as the highest bidder through public auction held on April 16, 1971.

At its meeting of April 9, 1998, under agenda item D-7, the Board consented to the sublease agreements between HFFI, as sublessor and Panaewa Distribution Center and Papaya Orchards of Hawaii, Inc., as sublessees on a month-to-month basis. There is no documentation of when the subleases were cancelled.

On June 22, 2007 the Chairperson consented to the sublease agreement between HFFI, as sublessor, and Matsuyama Roofing & Co, Inc., as sublessee.

At its meeting of June 13, 2008, under agenda item D-2, the Board approved a consent to mortgage and a 15-year extension of lease commencing on July 15, 2011 and expiring on July 14, 2026.

On September 25, 2009, the Board, under agenda item D-3, consented to the assignment of GLS-4333 from HFFI to Kawika Ohana, LLC (Kawika Ohana), a local contracting company that would use a portion of the property for its contracting business and negotiate new sublease agreements with the existing sublessees. There is not any documentation of these agreements in the lease file.

Kawika Ohana continued its business onsite until 2020, during which time the principal passed away. His family has been managing the lease since that time.

At some unknown point, Phase 4 Ventures, Inc. and Steve Royston became joint sublessees of the property². The managing parties of Kawika Ohana were unaware of the lease provision requiring Board approval of a sublease. The provision reads:

“Subletting. That the Lessee shall not rent or sublet the whole or any portion of the demised premises, without the prior written approval of the Board; provided, however, that prior to such approval, the Board shall have the right to review and approve the rent to be charged to the proposed sublessee and, if necessary, revise the rent of the demised premises based upon the rental rate charged to the said sublessee; provided, further, that the rent may not be revised downward.”

Pursuant to the “Revision to Sublease Rent Participation Policy” adopted by the Board at its meeting of May 26, 2000, agenda item D-24, the Board authorized the Chairperson to consent to subleases where no sandwich profits exist in two situations: 1) the lease has no provision which allows for sandwich profits or 2) the sublease involves improved property, the Board shall not receive any portion of sublease rents obtained from subleasing improved space unless that right and method of calculation are specifically stated in the lease.

² Steve Royston is vice-president of Phase 4 Ventures, Inc.

Further, pursuant to the “Amendment to the Sublease Rent Participation Policy” approved as amended by the Board on January 26, 2001, for lessees paying fair market rent, “If the lessee subleases improvements not owned by the State, the Board shall not receive any portion of sublease rents from subleasing improved space unless that right and method of calculation are specifically stated in the lease.”

Subsequently, at its meeting of August 24, 2012, agenda item D-14, the Board revised the “Rent Participation Policy” by revising policy 1.(c) of the policy to read (revised material is underlined):

“If the lessee subleases improvements not owned by the State, the Board shall not receive any portion of sublease rents from subleasing improved space unless: (i) that right and method of calculation are specifically stated in the lease, or (ii) participation in sublease rents is warranted considering the age of the improvements (including but not limited to the extent to which the improvements have been depreciated or amortized), lessee’s expenditures to maintain the same in relation to sublease revenues, and the extent to which the lessee actually occupies and uses the lease premises for its own business.”

DISCUSSION:

Prior Board policy is clear in stating that if the lessee subleases improvements not owned by the State, then the State does not share in the sublease revenues unless participation is warranted due to factors such as age, depreciated value and/or full amortization.

Kawika Ohana purchased the lease in 2009. Allowing for a 15-year amortization/depreciation would result in the State not sharing in sublease revenues during that period. This does not indicate that the lessee did not have to seek Board approval for the subleases; only that the State would not have shared in the profits.

The lessee has provided Staff with copies of the subleases for 2024 and 2025. The sublessee is currently on a month-to-month holdover basis as GLS-4333 expires on July 14, 2026. The lessee is applying for an extension of GLS-4333 which is also on this meeting’s agenda for Board consideration. If the Board approves the extension, Staff will return to Board with a request for sublease approval after the new annual lease rent has been determined and a new sublease is proposed.

Given the above, Staff has reviewed the subleases provided and analyzed the income and expenses for the periods. Staff has calculated income and expenses based on January through December of each year. The income and expenses for 2026 is calculated through June. Refer to attached Exhibit A and B for the full

analysis.

Staff is recommending that the Board approve a retroactive adjustment to the lease rent of an additional \$15,847.19 for the period of January 1, 2024 through June 30, 2026. This represents a 10% annual share of the sublease profits.

The Lessee is in compliance with all other lease terms and conditions. Hawaii County real property taxes are current.

RECOMMENDATION:

That the Board:

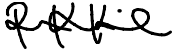
1. Declare that, after considering the potential effects of the proposed disposition as provided by Chapter 343, HRS, and Chapter 11-200.1, Hawaii Administrative Rules, the proposed action is a de minimis action that will probably have minimal or no significant impact on the environment and should be declared exempt from the preparation of an environmental assessment and the requirements of § 11-200.1-17, HAR.
2. Approve an After-the-Fact Consent to Sublease under General Lease No. S-4333, Kawika Ohana, LLC, Lessee, to Phase 4 Ventures, Inc. and Steve Royston, as Sublessees, subject to any applicable conditions cited above which are by this reference incorporated herein and further subject to the following terms and conditions:
 - a. The standard terms and conditions of the most current consent to sublease form, as may be amended from time to time;
 - b. The lessee is charged a one-time retroactive amount of \$15,847.19 representing a share of sublease profits for the period of January 1, 2024 through June 30, 2026;
 - c. Review and approval by the Department of the Attorney General; and
 - d. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,

Candace Martin

Candace Martin
Hawaii District Land Agent

APPROVED FOR SUBMITTAL:



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Ryan K.P. Kanakaole, Chairperson

JOSH GREEN, M.D.
GOVERNOR | KE KIA'ĀINA

SYLVIA LUKE
LIEUTENANT GOVERNOR | KA HOPE KIA'ĀINA



DAWN N. S. CHANG
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE
MANAGEMENT

STATE OF HAWAI'I | KA MOKU'ĀINA 'O HAWAI'I
DEPARTMENT OF LAND AND NATURAL RESOURCES
KA 'OIHANA KUMUWAIWAI 'ĀINA
LAND DIVISION

P.O. BOX 621
HONOLULU, HAWAII 96809

June 18, 2026

MEMORANDUM

TO: Ryan K.P. Kanakaole, Acting Chairperson

THROUGH: Seiji Ogawa, State Lands Administrator

FROM: Candace Martin, Hawaii District Land Agent *Candace Martin*

SUBJECT: In-House Recommendation – Sublease Participation Calculation

GL No.:	S-4333
Lessee/Sublessor:	Kawika Ohana, LLC
Sublessees:	Phase 4 Ventures, Inc. & Steve Royston
Location:	Waiakea, South Hilo, Hawai'i
Lease area:	19,500 sf. more or less
Sublease Area:	19,500 sf.
Tax Map Key:	(3) 2-2-037:056
Character of Use:	Light Industrial purposes

We have been asked to provide an in-house evaluation of a potential ground rent increase due to subleasing of General Lease No. S-4333 (GLS-4333), Kawika Ohana, LLC, lessee. The sublease documents and information provided by Lessee were analyzed and staff was guided by the formula approved by the Land Board on January 26, 2001, agenda item D-8, and modified by the Board at its meeting on August 24, 2012, agenda item D-14, comprising of the Rent Participation Policy.

The commencement date of GLS-4333 was July 15, 1971 for a term of 40 years and expiring on July 14, 2011. A 15-year extension was granted in 2009, extending the expiration date to July 14, 2026.

The subleasing provision of GL S-4333 states as follows:

“Subletting. That the Lessee shall not rent or sublet the whole or any portion of the demised premises, without the prior written approval of the Board; provided, however, that prior to such approval, the Board shall have the right to review and

approve the rent to be charged to the proposed sublessee and, if necessary, revise the rent of the demised premises based upon the rental rate charged to the said sublessee; provided, further, that the rent may not be revised downward.”

The final rent reopening occurred in July 2018 with new annual rent determined to be \$24,600.

Improvements to the property include two storage warehouses, one of 4,270 sf and one of 4,960 sf., and a 2,030 sf service garage. All buildings have roll-up doors facing onto Leilani Street with an asphalt paved parking area between the buildings and the street. It is to be noted that there are no permanent bathroom facilities on the property. The lessee provides portable toilets onsite for use of the sublessee and its customers. We have included these associated costs in the allowable expenses. No substantial improvements to the premises have been made in the last 10 years. Water and electric utilities service the property. Improvements are owned by the lessee until expiration of the lease in 2026.

The lessee is requesting an after-the-fact consent on its sublease in effect from January 1, 2024 to the present. The sublease encumbers the entire property.

The monthly rent charged to the sublessee is \$9,425.02 and includes the CAM (costs and maintenance) and GE Tax. The sublessee is responsible for water and electric charges.

AGGREGATE ANNUAL CALCULATIONS: GL No. S-4333

For more detailed analysis see sublease profit calculation worksheet attached as Exhibit B-1.

	<u>2024</u>	<u>2025</u>	<u>2026</u>
Annual Sublease Income	\$113,100.24	\$113,100.24	\$ 56,550.12
LESS Annual Expenses	<u>\$ 49,877.11</u>	<u>\$ 49,601.05</u>	<u>\$ 24,800.53</u>
Annual Net Sublease Profit:	<u>\$ 63,223.13</u>	<u>\$ 63,499.19</u>	<u>\$ 31,749.59</u>

Staff was guided by the approved Rent Participation Policy item 1(c) for lessees paying fair market rent which states:

“If the lessee subleases improvements not owned by the State, the Board shall not receive any portion of sublease rents from subleasing improved space unless: (i) that right and method of calculation are specifically stated in the lease, or (ii) participation in sublease rents is warranted considering the age of the improvements (including but not limited to the extent to which the improvements have been depreciated or amortized), lessee’s expenditures to maintain the same in relation to sublease revenues, and the extent to which the lessee actually occupies and uses the lease premises for its own business.”

The lessee pays fair market rent and the improvements are not owned by the State. The lease does not specifically layout a method for calculating a share of the sublease rents. However, the sublease is occurring in the last three years of the lease and no substantial improvements have been made in the previous 10 years, so the associated building costs have been fully amortized/depreciated. The Lessee does not use the improvements for their own business.

The commencement date for the sublease was January 1, 2024. Lease rent for GLS-4333 is charged semi-annually on July 15th and January 15th each year. Staff has calculated income and expenses based on January 1st through December 31st of each year, with 2026 being for January 1st through June 30th. The base sublease rent includes GE Tax, so it has been included in the annual expenses. No vacancy allowance has been allowed as this is an after-the-fact request with actual income and expense figures. Staff has allowed a 4% rate of return on investment per year which is calculated on a \$455,000.00 value of the improvements as determined by appraisal in 2026.

Based on the analysis above and the attached sublease profit calculation worksheet, staff is recommending that DLNR receive a 10% share of the profits as a retroactive increase to the annual lease rent as follows:

Annual Retroactive Lease Rent Adjustment for GLS-4333

01/2024 – 12/31/2024	+\$ 6,322.31
01/2025 – 12/31/2025	+\$ 6,349.92
01/2026 – 06/30/2026	<u>+\$ 3,174.96</u>
Total Retroactive Lease Rent Adjustment	+\$15,847.19

EXHIBIT B

GLS-4333 Kawika Ohana LLC

	2024	2025	2026*
Base Rent Income	\$113,100.24	\$113,100.24	\$56,550.12
CAM Income	\$0.00	\$0.00	\$0.00
GE Tax	\$0.00	\$0.00	\$0.00
Total Sublease Income			
LESS 4% Return on Investment**	\$18,200.00	\$18,200.00	\$9,100.00
LESS Annual Lease Rent	\$24,600.00	\$24,600.00	\$12,300.00
LESS Property Tax	\$9,455.59	\$9,179.53	\$4,589.77
LESS Insurance & Bond	\$3,778.00	\$3,778.00	\$1,889.00
LESS GE Tax	\$5,089.52	\$5,089.52	\$2,544.76
LESS R&M & Waste	\$6,954.00	\$6,954.00	\$3,477.00
Total Allowable Expenses			
Sublease Profit			
Recommended 10% Rent Increase			

Total Rent Increase for 2024-June 2026

\$15,847.19

* The 2026 column is calculated for January thru June.

**2026 Appraised Value of Improvements = \$455,000.00