

STATE OF HAWAII

DEPARTMENT OF HAWAIIAN HOME LANDS

September 19-20, 2022

To: Chairman and Members, Hawaiian Homes Commission

From: Peter “Kahana” Albinio Jr., Acting Administrator
Land Management Division *KA*

Subject: For Information Only – Implementation of Act 236 SLH 2021 and request for extension of General Lease No. 202, Prince Kuhio Plaza, LLC, Waiakea, Hawaii Island, TMK No. (3) 2-2-047:006: 066: & :073

RECOMMENDED MOTIO/ACTION:

None; For Information Only

BACKGROUND INFORMATION

The purpose of this informational briefing is to provide the Hawaiian Homes Commission (“HHC”) with 1) background regarding the departments implementation of Act 236, SLH 2021 and 2) GL 202 request for lease extension.

The following is a chronology of the significant events to date:

July 6, 2021	Became law on July 6, 2021, without the Governor’s signature, pursuant to Art. III, §16, State Constitution.). (See Exhibit “A”)
September 6, 2022	Prince Kuhio Plaza Ground Lease Extension Application. (See Exhibit “B”)
	Power Point Presentation by Mr. Daniel Kea, General Manager, PKP (See Exhibit “C”)

CURRENT STATUS:

General Lessee: Prince Kuhio Plaza, LLC

Location: Hilo, Hawaii Island

TMK No./Land Area: (3) 2-2-047:006, :066, & :076

Land Area: 38.975 Acres (1,697,765 sq.ft.)

September 2022

Term: Sixty-five (65) years; 10/1/1977 – 09/30/2042

Rent: Annual Rent \$713,660.47 = \$292,792.50 (base rent) +
\$420,867.97 (additional
ground rent)

Zoning Designation: Industrial-Commercial Mixed Use (MCX)

Character of Use Shopping Mall

Exhibit "A"
Item No. F-5

ACT 236

H.B. NO. 499

A Bill for an Act Relating to Lease Extensions on Public Land.

Be It Enacted by the Legislature of the State of Hawaii:

SECTION 1. The legislature finds that many of the leases for commercial, industrial, resort, mixed-use, and government properties on public land

statewide may be nearing the end of the lease term. Faced with the uncertainty of continued tenancy, lessees have little incentive to make major investments in infrastructural improvements and ensure the long-term maintenance of the facilities. As a result, the infrastructure on these properties has been deteriorating.

The legislature finds that business lessees typically sell or assign their leases that are nearing the end of the lease terms at a discount. The legislature further finds that it would be unfair to the prior assignors of the leases if the State granted extensions of leases that previously could not be extended under existing law or lease terms to the newly assigned lessees who acquired their leases at a discount due to short remaining lease terms.

The purpose of this Act is to authorize the board of land and natural resources to extend commercial, industrial, resort, mixed-use, or government leases, other than those to which the University of Hawaii is a party, that have not been sold or assigned within the last ten years, for lessees who commit to substantial improvement to the existing improvements.

SECTION 2. Chapter 171, Hawaii Revised Statutes, is amended by adding a new section to part II to be appropriately designated and to read as follows:

“§171- Commercial, industrial, resort, mixed-use, or government leases; extension of term. (a) Notwithstanding section 171-36, for leases that have not been assigned or transferred within ten years prior to receipt of an application for a lease extension submitted pursuant to this section, the board may extend the rental period of a lease of public lands for commercial use, industrial use, resort use, mixed-use, or government use upon the board’s approval of a development agreement proposed by the lessee or by the lessee and developer to make substantial improvements to the existing improvements. For the purposes of this subsection, “assigned or transferred” shall not include:

- (1) A sale or change in ownership of a lessee that is a company or entity; or
 - (2) A collateral assignment of lease or other security granted to a leasehold mortgagee in connection with leasehold financing by a lessee.
- (b) Before entering into a development agreement, the lessee or the lessee and developer shall submit to the board the plans and specifications for the total development proposed. The board shall review the plans and specifications and determine:

- (1) Whether the development proposed in the development agreement is of sufficient worth and value to justify the extension of the lease;
- (2) The estimated period of time necessary to complete the improvements and expected date of completion of the improvements; 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, if deemed appropriate by an appraiser, the appropriate percentage of rent where gross receipts exceed a specified amount.

No lease extension shall be approved until the board and the lessee or the lessee and developer mutually agree to the terms and conditions of the development agreement.

(c) No construction shall commence until the lessee or the lessee and developer have filed with the board a sufficient bond conditioned upon the full and faithful performance of all the terms and conditions of the development agreement.

(d) Any extension of a lease pursuant to this section shall be based upon the substantial improvements to be made and shall be for a period no longer than forty years. No lease shall be transferable or assignable throughout the first

ten years of the extended term, except by devise, bequest, intestate succession, a collateral assignment of lease or other security granted to a leasehold mortgagee in connection with leasehold financing by a lessee, a change in direct ownership of less than fifty per cent of a lessee that is a company or entity, a change in indirect ownership of a lessee that is a company or entity, or by operation of law. The prohibition on assignments and transfer of leases shall include a prohibition on conveyances of leases. During subsequent periods of the extended term of the lease, the lease may be assigned or transferred, subject to approval by the board.

(e) The applicant for a lease extension shall pay all costs and expenses incurred by the department in connection with processing, analyzing, or negotiating any lease extension request, lease document, or development agreement under this section.

(f) As used in this section:

“Government use” means a development undertaken under a lease held by any agency or department of the State or its political subdivisions other than the University of Hawaii or any department, agency, or administratively attached entity of the University of Hawaii system.

“Mixed-use” means a development that combines two or more of the following uses in a single project: commercial use, resort use, multifamily residential use, or government use.

“Resort use” means a development that:

- (1) Provides transient accommodations as defined in section 237D-1 and related services, which may include a front desk, housekeeping, food and beverage, room service, and other services customarily associated with transient accommodations; and
- (2) Where at least seventy-five per cent of the living or sleeping quarters are used solely for transient accommodations for the term of any lease extension.

“Substantial improvements” means any renovation, rehabilitation, reconstruction, or construction of existing improvements, including minimum requirements for off-site and on-site improvements, the cost of which equals or exceeds thirty per cent of the market value of the existing improvements, that the lessee or the lessee and developer installs, constructs, and completes by the date of completion of the total development.”

SECTION 3. New statutory material is underscored.¹

SECTION 4. This Act shall take effect upon its approval.

(Became law on July 6, 2021, without the Governor’s signature, pursuant to Art. III, §16, State Constitution.)

Note

1. Edited pursuant to HRS §23G-16.5.

A BILL FOR AN ACT

RELATING TO LEASE EXTENSIONS ON PUBLIC LAND.

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6 in infrastructural improvements and ensure the long-term
7 maintenance of the facilities. As a result, the infrastructure
8 on these properties has been deteriorating.

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14 extended under existing law or lease terms to the newly assigned
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16 improvements; and

17 (3) The minimum revised annual rent based on the fair
18 market value of the lands to be developed, as
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20 deemed appropriate by an appraiser, the appropriate



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20 or by operation of law. The prohibition on assignments and
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H.B. NO. 499

H.D. 2

S.D. 2

C.D. 1

Report Title:

Public Lands; Lease Extension; Development Agreement

Description:

Authorizes the board of land and natural resources to extend certain leases of public lands for commercial, industrial, resort, mixed-use, or government use upon approval of a proposed development agreement to make substantial improvements to the existing improvements. (CD1)

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.



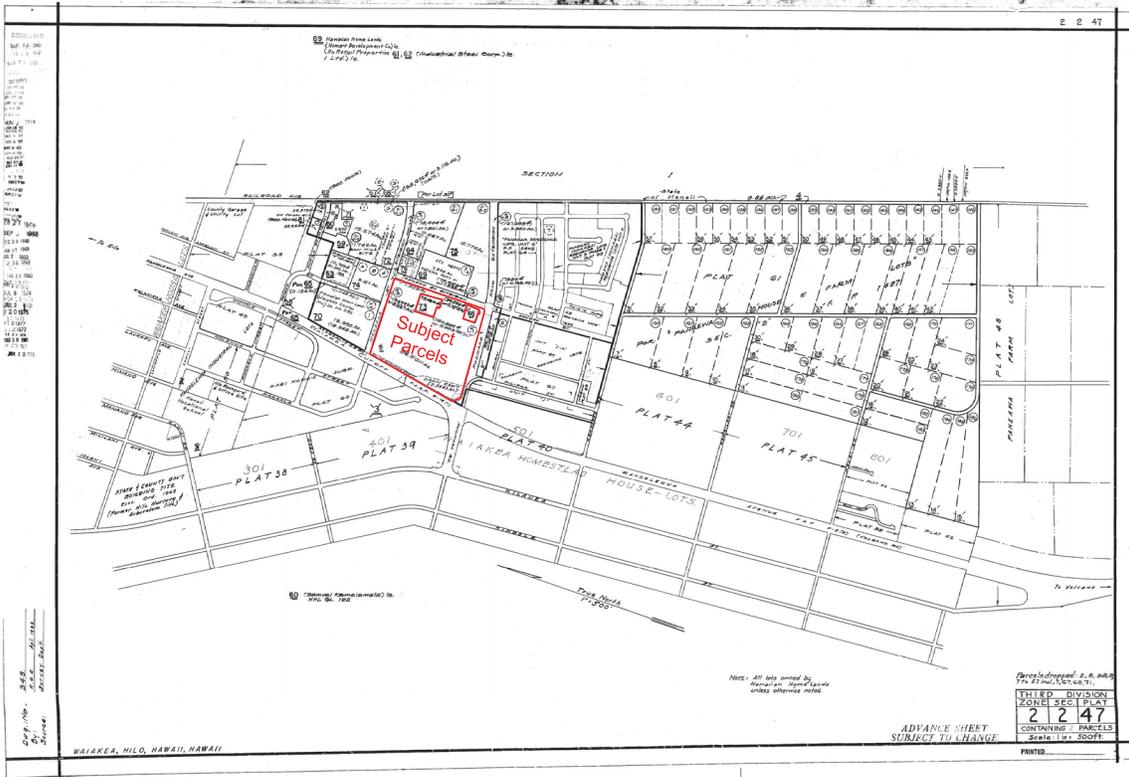


Exhibit "B"

Item No. F-5

PKP Ground Lease Extension Application

Applicant/Lessee	Prince Kuhio Plaza, LLC, ultimate successor-in-interest to Orchid Isle Group								
Request	<p>An extension of General Lease No. 202, and related Parking Easement No. 01, for 40 years, commencing on October 1, 2042 and expiring on September 30, 2082, year for an aggregate term (initial term plus all extensions) of 105 years.</p> <p>Lessee is requesting this ground lease extension to satisfy lender requirements. Current mortgage expires July 6, 2023, at which time only 19 years will remain on the ground lease term. Lessee will be unable to obtain replacement financing without a longer ground lease term.</p>								
Location	<p>Leasehold: That certain parcel of land situated on the east side of Kanoelehua Avenue at Waiakea, South Hilo, Hawaii, being a portion of the Hawaiian Home Land of Panaewa, Tract I.</p> <p>Parking Easement: That certain parcel of land being a portion of Lot 3-A situated on the east side of Ohuohu Street at Waiakea, South Hilo, Hawaii, being a portion of the Hawaiian Home Land of Panaewa.</p>								
Area	38.9753 acres + 5.25 acre parking easement								
Character of Use	Enclosed shopping mall								
Term of Lease	<p>Original Ground Lease Term 53 years; October 1, 1977 through September 30, 2030.</p> <p>On September 30, 1992 the term was extended by 12 years through September 30, 2042</p> <p>Lessee is requesting further 40-year extension through September 30, 2082</p>								
Current Annual Rental (YE 9/30/2021)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Base Ground Rent</td> <td style="text-align: right;">\$292,792.50</td> </tr> <tr> <td>Additional Ground Rent</td> <td style="text-align: right;">\$420,867.97</td> </tr> <tr> <td>Parking Ground Rent</td> <td style="text-align: right;">\$127,440.00</td> </tr> <tr> <td>Total Ground Rent Paid</td> <td style="text-align: right;">\$841,100.47</td> </tr> </table>	Base Ground Rent	\$292,792.50	Additional Ground Rent	\$420,867.97	Parking Ground Rent	\$127,440.00	Total Ground Rent Paid	\$841,100.47
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Additional Ground Rent	\$420,867.97								
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Total Ground Rent Paid	\$841,100.47								
Previous Extension	The Board previously approved a 12-year extension for the period October 1, 2030 through September 30, 2042. The rent can be reset on October 1 of 2030 and 2036 during this extended term.								
History or Ground Lease Discussions and Proposed Improvements	<p>From 2012-2018 Lessee had ongoing discussions with DHHL with the hopes of progressing towards a lease extension.</p> <p>From 2017-2021, Lessee spent over \$19 million on property improvements with the expectation that these funds would be considered part of the required improvements for a ground lease extension. These improvements included development of a new outparcel, interior renovations, and build out of tenant suites as further detailed on the attached Development Plan.</p> <p>Over the next five years, from 2022-2026, Lessee is projecting to spend over \$14.5 million on further property improvements as detailed on the attached Development Plan.</p> <p><i>In total this spend equates to 84% of the market value of the property, far above the 30% required for a ground lease extension.</i></p>								

**Prince Kuhio Plaza
Development Plan**

General Lease No. 202
Lessee: Prince Kuhio Plaza, LLC, ultimate successor-in-interest to Orchid Isle Group

Appraised Market Value of As-Is Improvements as of August 10, 2021 \$40,000,000
 Required Improvements (30%) of Market Value \$12,000,000

Improvements Recently Completed (2017-2021)	Costs
PKP Plaza Redevelopment	\$3,114,845
Redevelop fmr Sports Authority	\$6,896,474
Construction/Buildout of Tenant Suites	\$4,500,737
Aesthetic Upgrades	\$44,233
Site Work	\$135,254
Life Safety	\$867,071
Structure Repairs/Improvements	\$415,033
Equipment	\$65,398
Lighting	\$10,545
Electric	\$43,274
HVAC	\$113,103
Parking Lot	\$630,936
Plumbing	\$956,870
Roof	\$1,319,334
Signage	\$8,555
Sidewalk Refurbishment	\$29,126
Total Cost of Recent Improvements (2017-2021)	\$19,150,787

Proposed Improvements (2022-2026)	Costs
Construction/Buildout of Tenant Suites	\$9,295,601
New Restaurant Outlot	\$3,690,000
Maka'ala Street Exit Improvements	\$150,000
Equipment	\$50,873
Lighting	\$204,442
Electric	\$40,183
HVAC	\$263,910
Parking Lot	\$79,377
Roof	\$5,948
Signage	\$16,982
Building	\$36,579
Fencing	\$55,000
Weatherproofing	\$187,000
Network Upgrades	\$79,200
Phone System	\$10,000
Life Safety	\$20,600
Office Refresh	\$60,000
Water Fountain Replacement	\$4,000
Security Equipment	\$313,366
Total Cost of Proposed Improvements (2022-2026)	\$14,563,061

Total Improvement Spend 2017-2016 **\$33,713,849**
 Total Spend as % of Market Value **84%**

Brookfield
Properties

Prince Kuhio Plaza

Hilo, Hawaii

Exhibit "C"
Item No. F-5



Prince Kuhio Plaza Overview

Prince Kuhio Plaza is a long standing pillar of the Hilo community and a major economic driver on the Big Island. As the largest indoor shopping center on the Big Island of Hawaii, the property boasts more than 60 dining, retail, entertainment, and service options. Brookfield Properties, the long-term owner of Prince Kuhio Plaza, has consistently invested in maintenance and upgrades of the property, maintained a vibrant array of retailers and service providers and provided important community events and services.

Located along the Mamalahoa Highway in Hilo, the center serves the residents of East Hawaii and is home to many destination retailers including the Big Island's only TJ Maxx, Tractor Supply Store, Hot Topic, American Eagle, Kay Jewelers, Spencer Gifts, Old Navy and Maui Tacos.

Visitors can catch new releases at the only cinema in East Hawaii, enjoy dining options such as Starbucks, KFC, Zippy's, IHOP and Genki Sushi, and shop at retailers including Macy's, Bath & Body Works, Petco, Hawaiian Island Creations and many more.

Additionally, Prince Kuhio Plaza offers a variety of daily needs and service offerings for the Hilo community including US Renal Care (opening 2022), Longs Drugs, HFS Credit Union, First Hawaiian Bank, Kuhio Dental Group, Maika'i Veterinary Clinic, US Armed Forces and the Social Security Administration.

Visitors also can experience seasonal events such as craft fairs, signature community events, entertainment by local artists and musicians, COVID testing/vaccine pop-ups as well as visit the Big Island Hall of Fame, located within the center.

Economic Impact of Prince Kuhio Plaza

Economic Impact

Prince Kuhio Plaza has a significant economic impact on the island of Hawaii:

Annual Property Taxes Paid (2020): \$757,899

- Highest property tax payer on the east side of the Island
- One of the highest property tax payers on entire Island

Annual General Excise Tax Paid (2020): \$5,058,494

- Estimated to be surpassed only by Costco and Walmart

Employment (2019, pre-COVID): 1500 employees

- Including 600 full time and 900 part time
- The largest source of employment on the Big Island- ahead of Four Seasons (1,300), Maua Kea Beach Hotel (1,100), Hilton Waikoloa Village (920) and KTA Super Stores (850)

Estimated Annual Wages Paid (2020): \$34,786,500

- For 1500 employees, based on average local retail wages

Annual Payroll Taxes Paid (2020): \$10,400,000

Contribution to DHHL Income (2020): \$614,147

- Representing over 10% of the General Lease income received on the Big Island

Direct Benefit to DHHL Beneficiaries

In addition to the economic and community impact of Prince Kuhio Plaza, the long-term ground lease provides direct benefits to the DHHL beneficiaries:

Annual payments of \$100K

- Part of our annual lease payments is allocated to...(need to clarify/verify this)

Designated Space and Usage in the mall for beneficiaries:

- Merrie Monarch craft fair
- Preference for Hawaiian-owned businesses

Maka'ala Ingress/Egress Improvements:

- As part of our development plan, Brookfield will commit to work with the municipalities, and commit up to \$150K for improvements, to the Maka'ala street exits in order to improve traffic flow

Recently Completed Major Capital Investments

Prince Kuhio Plaza Improvement Projects

In 2016, Brookfield Properties completed a \$6M aesthetic interior renovation of the mall which included new tile floors, furniture in all common areas, column wraps, and lighting

Before



After



Prince Kuhio Plaza Improvement Projects

In 2016 we also demolished the "Hilo Hattie building" at a cost of \$5M to make way for new retailers such as Verizon Wireless and Genki Sush

Before



After



Prince Kuhio Plaza Improvement Projects

In 2018, another \$7M was expended to re-lease the former Sports Authority premises to TJ Maxx and Petco



Before



After



Prince Kuhio Plaza Improvement Projects

In 2020, another \$3.1M was spent on tenant improvements and landlord work to lease the former Safeway outparcel to Tractor Supply Company.

Before



After



Community Events

Prince Kuhio Plaza Events

Prince Kuhio Plaza is centrally located in the main shopping area in Hilo, making it an ideal location to host community events and entertainment. Additionally, being the only enclosed shopping center on the island further solidifies the property as the best event space due to Hilo's ever changing weather.

Prince Kuhio Plaza hosts more than 50 events per year, making it a gathering place for the community. The property takes great pride in knowing that it is the premier venue for hosting events and supporting the Hilo community.

Events range from large to small and include the following:

- Monthly performances by both Hilo and Pahoa Kapuna groups
- School performances
- The Armed Forces band that plays annually during Kamehameha week
- Performances by acclaimed local artists such as Ben Kaili, Bruddah Walter, and Komakakino
- Chinese New Year celebrations
- Walk for the Cure event for The Arthritis Foundation
- Merry Monarch and Mother's Day Craft Fairs

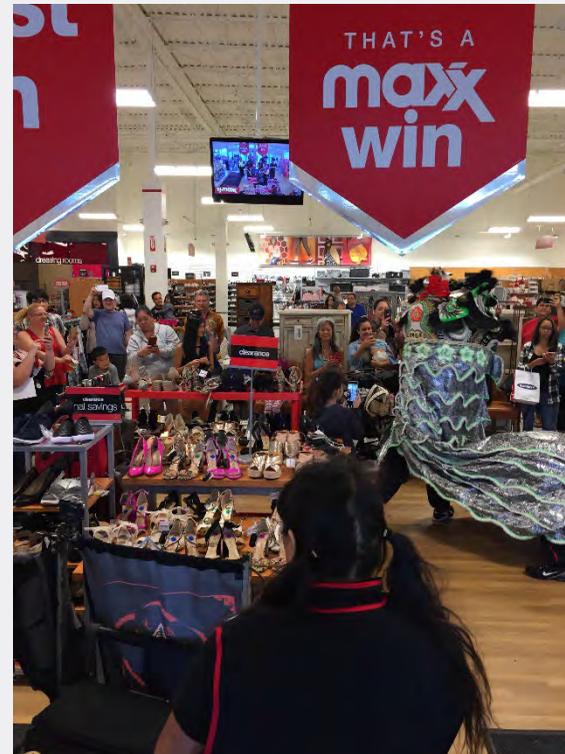
Prince Kuhio Plaza COVID-19

Prince Kuhio Plaza was used as a testing site many times throughout the pandemic, and ~1.5K doses of the COVID-19 vaccine were administered on site from May through July



Chinese New Year Celebration

Pre COVID-19, Prince Kuhio Plaza hosted an annual traditional lion dance to ward off evil spirits and bless the tenants with good fortune and blessings for the New Year. About 80% of mall tenants participated and attendance exceeded 1,500



Walk to Cure Arthritis

Due to its prime location in Hilo, Prince Kuhio Plaza hosts a variety of non-profit organization events, including the Arthritis Foundation's Walk for the Cure event



Walk to Cure Arthritis® National Sponsors



Merrie Monarch Craft Fair

One of the biggest annual events in Hilo is the Merrie Monarch Craft Fair. Prince Kuhio Plaza is a favorite host location because it is indoors, air conditioned and has become “the spot” for some of Hawaii’s most unique and iconic vendors including Manaola, Hawaii’s Finest, Missing Polynesia, and Nahe Waihine. With around 45 vendors and crafters from around the state, Merrie Monarch week draws thousands of customers to the mall each day



Mother's Day Craft Fair

This annual three day craft fair host several local vendors selling gift for mothers on their special day. One of the main vendors is Carmela Orchids who also vends during Valentine's Day week



UHH-Daniel K. Inouye College of Pharmacy Health Fair

This annual event drives large numbers of people to see booths run by the students in the College of Pharmacy, various vendors in the health field, as well as informational booths and even free health screenings



Kris Fuchigami's Ukulele Contest

This annual event is sponsored by Kris Fuchigami and several local stores to promote the ukulele and entertain the public



Christmas Events

There are many events for Christmas, and they go from the second week in November all the way to Christmas day. Events include: photos with Santa, pet nights for photos with your pets, COH-RSVP gift wrapping, Junior Achievement of Hawaii Island Trade Show, Laulima Giving Program hosted by KHON2, and a holiday craft fair



Big Island Sports Hall of Fame

The Big Island Sports Hall of Fame leases a wall in the mall's common area for their display. This popular attraction hosts their inductee ceremonies in the mall in front of the wall when new athletes are inducted into the Hall of Fame

