

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

October 28, 2010

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

PSF No.: 10od-144

OAHU

Consent to Sublease General Lease No. S-5805, Waikiki Community Center, Lessee, to United Self Help,, International Church of the Foursquare Gospel dba Hope Chapel Waikiki, Coalition of a Drug Free Hawaii, Waikiki Beach Chaplaincy, Inc., and Waikiki Health Center, Sublessees, Waikiki, Honolulu, Oahu, Tax Map Key: (1) 2-6-025:008.

APPLICANT:

Waikiki Community Center, a domestic non-profit organization, as Sublessor, to United Self Help, International Church of the Foursquare Gospel dba Hope Chapel Waikiki, Coalition of a Drug Free Hawaii, Waikiki Beach Chaplaincy, Inc., and Waikiki Health Center, domestic non-profit organizations, as Sublessees.

LEGAL REFERENCE:

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

LOCATION:

Portion of Government lands situated at Waikiki, Honolulu, Oahu, identified by Tax Map Key: (1) 2-6-025:008, as shown on the attached map labeled Exhibit A.

AREA:

1.56 acres, more or less.

TRUST LAND STATUS:

Non-ceded; acquired after Statehood.

DHHL 30% entitlement lands pursuant to the Hawaii State Constitution: No

LEASE CHARACTER OF USE:

Youth, education and multi-service community center to house human services and community activities purposes.

SUBLEASE CHARACTER OF USE:

Community services purposes.

TERM OF LEASE:

30 years, commencing on April 1, 2007 and expiring on March 31, 2037. Next rental reopening is scheduled for April 1, 2017.

TERM OF SUBLEASE:

See Exhibit B.

ANNUAL RENTAL:

\$156.00.

ANNUAL SUBLEASE RENTAL:

See Exhibit B.

RECOMMENDED ADJUSTMENT TO LEASE RENTAL:

None. See Exhibit C attached for review by staff appraiser on sandwich calculations.

DCCA VERIFICATION:

SUBLESSOR:

Place of business registration confirmed:	YES <u>x</u>	NO <u>  </u>
Registered business name confirmed:	YES <u>x</u>	NO <u>  </u>
Good standing confirmed:	YES <u>x</u>	NO <u>  </u>

SUBLEESSEE:

Place of business registration confirmed:	YES <u>x</u>	NO <u>  </u>
Registered business name confirmed:	YES <u>x</u>	NO <u>  </u>
Good standing confirmed:	YES <u>x</u>	NO <u>  </u>

REMARKS:

Since 1982, Waikiki Community Center (WCC) is the lessee of the subject property for

community service purposes. In 2007, the Board authorized the issuance of a new 30-year lease to WCC for the purposes cited above.

The five (5) sublessees are listed on Exhibit B, with their respective area, term, and rent. All of the sublessees are providing community services at the subject premises. According to the review by the staff appraiser, there is no sandwich rent involved.

WCC is in compliance with the terms and conditions of the subject master lease. Staff believes that the proposed use would involve negligible or no expansion or change in use of the subject area beyond that previously existing. A copy of the environment assessment exemption notification is attached as Exhibit D.

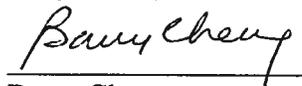
There are no issues regarding any rental reopening, as the next reopening will not occur until 2017. Staff did not solicit comments on the subject request as it is for housekeeping purposes only. Staff has no objection to the request.

RECOMMENDATION:

That the Board consent to the sublease under General Lease No. S-5805 between Waikiki Community Center, as Sublessor, to United Self Help, International Church of the Foursquare Gospel dba Hope Chapel Waikiki, Coalition of a Drug Free Hawaii, Waikiki Beach Chaplaincy, Inc., and Waikiki Health Center, as Sublessee, subject to any applicable conditions cited above which are by this reference incorporated herein and further subject to the following terms and conditions:

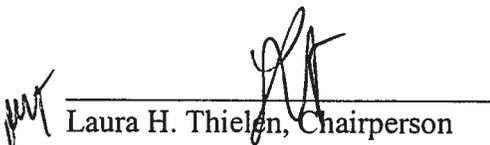
1. The standard terms and conditions of the most current consent to sublease form, as may be amended from time to time;
2. Review and approval by the Department of the Attorney General; and
3. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,

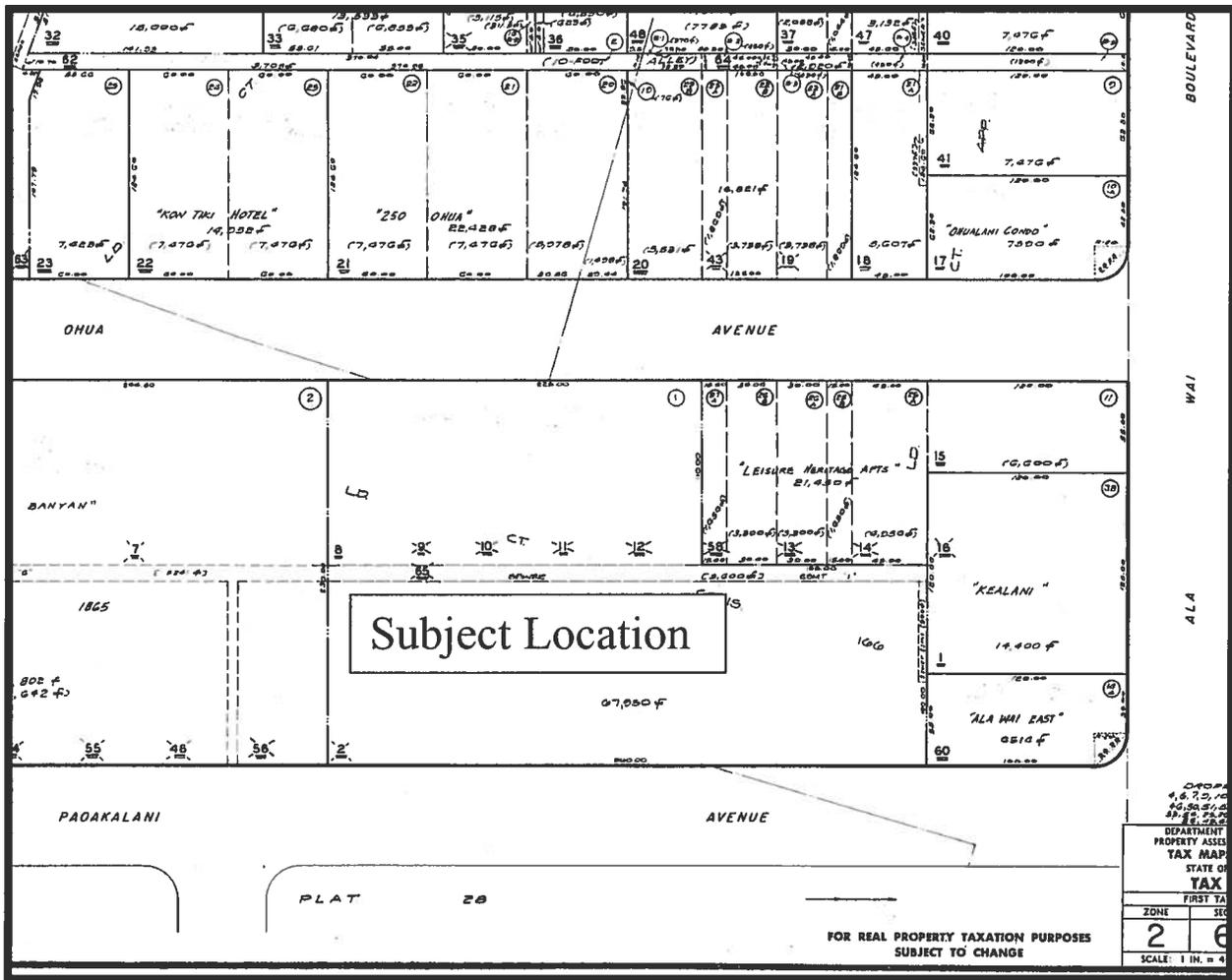


Barry Cheung  
District Land Agent

APPROVED FOR SUBMITTAL:



Laura H. Thielon, Chairperson



TMK (1) 2-6-025:008

**EXHIBIT A**

General Lease No. 5805 - Consent to Subleases

Name of Sublessees	Premises	Area (sq. ft.)	Commencement of Sublease	Expiration of Sublease	Rent 1		Rent 2		Rent 3	
					Up to	Up to	Up to	Up to	Up to	Up to
United Self Help	H203	229	3/1/2010	2/28/2013	231.95	2/28/2011	239.24	2/29/2012	246.18	2/28/2013
Hope Chapel	203E	991	6/1/2010	5/31/2013	1,005.44	5/31/2011	1,035.30	5/31/2012	1,066.32	5/31/2013
Coalition for a Drug Free Hawaii	201A	400	3/1/2010	2/28/2013	405.83	2/28/2011	417.88	2/29/2012	430.40	2/28/2013
Waikiki Beach Chaplaincy	Building E	989	6/1/2010	5/31/2013	1,003.41	5/31/2011	1,033.21	5/31/2012	1,064.16	5/31/2013
Waikiki Health Center	Health Building	5,752	1/1/2010	3/31/2037	4,458.00	12/31/2010	4,592.00	12/31/2011	4,730.00	12/31/2012

Note:  
 Rent for the remaining term of the sublease for Waikiki Health Center is subject to reopening, as noted in the sublease agreement.



STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
LAND DIVISION

POST OFFICE BOX 621  
HONOLULU, HAWAII 96809

October 4, 2010

MEMORANDUM

TO: Laura H. Thielen, Chairperson *LHT*

THROUGH: Russell Y. Tsuji, Land Division Administrator

FROM: Cyrus C. Chen, Real Estate Appraisal Manager *Cyrus Chen*

SUBJECT: In-House Valuation Recommendation – Waikiki Community Center Sublease Rent Calculation

PSF No.: 10OD-144 (GL 5805)  
Applicant: Waikiki Community Center  
Location: Waikiki, Honolulu, Oahu, Hawaii  
Land Area: 64,350 sq. ft.  
Building Area: 34,018 sq. ft. (Total)  
Tax Map Key: (1) 2-6-25: 8  
Char. of Use: Community center purposes

The applicant has been subleasing a portion of their building to the Waikiki Health Center (WHC) via sublease effective January 1, 2010. There are also four smaller subtenants renting spaces of various sizes. These smaller subtenants have subleases, which all commenced between March 1, 2010 and June 1, 2010. The Waikiki Community Center (WCC) is a Hawaii nonprofit corporation, which leases the property from the State for a nominal rent of \$156 per annum. The particulars of these subleases are summarized in Table 1 attached.

The applicant has been subleasing 5,752 square feet of space in the building to Waikiki Health Center (WHC) for \$4,458 per month since January 1, 2010. Four smaller sublessees have also committed to short-term subleases within WCC for three-year terms in spaces ranging from 229 to 991 square feet. The rents typically step up in one-year intervals by an average of approximately 3%.

Nonprofit corporations which are leasing land and improvements from the State are required to share in sublease rents with the State according to the sublease rent participation policy approved by the Board on May 26, 2000, Item D-24, and amended January 26, 2001, Item D-8. According to the policy, if the lessee is paying any amount less than fair market value on

subleases of improvements owned by the State, the Board shall revise the rent to include as additional rent, 100% of that portion of the sublease rent in excess of the original ground rent paid to the State. The formula approved by the Board reflects the intent of the Board regarding the calculation of sublease sandwich profit and shall serve as a guideline in Staff's calculation. Specifically, the formula allows the deduction of management and vacancy loss, repair and maintenance, real property tax, insurance and ground rent before the additional annual rent is assessed. Furthermore, the Board authorizes staff to use their discretion in representing the State's interest in applying the formula to address the varying sublease arrangements that may not fit neatly into the formula.

A previous sublease calculation was performed by Staff dated December 21, 2004, which was based on information supplied by the WCC. This analysis was reviewed and approved by the Chairperson. The analysis recommended no sublease rent due the State due to the negative net income figure derived. A similar method and analysis is the basis for this current analysis based on updated information provided by WCC. When WCC commenced occupancy of the building, no plans were available. In order to begin renovation and upgrade work on the building, plans needed to be prepared after the fact. The WCC contracted an engineering firm to derive more accurate estimates of building areas and served as the basis for their current subleases and data provided to staff. Staff analysis of the subject revenue and expenses pertaining to the subject subleases are summarized in Table 2.

According to WCC, WHC is responsible for 30% of the total common area expenses associated with the center and 60% of the utility costs. The four other subtenants combined are responsible for approximately 9% of the common area expenses.

WCC provided the operating budget for 2009, estimates of operating revenues and expenses. Also provided were replacement and reserve estimates in the near term along with some historical operating expense data for utility, water and sewer charges. Other data submitted included a table displaying facilities square footage derived from an engineering firm. This table indicates individual demised area square footage and common area square footage. These figures were used for calculation of years 2010 to 2013 revenues and expenses and the allocation of these expenses between the subtenants.

Expenses listed were considered regular periodic expenditures necessary to facilitate operation of the building and grounds. Most of the expenses were accounted for in their 2009 property management budget. WCC staff indicates the 2009 property management budget figures are the most recent data available and suggested these figures are the most accurate. For the purposes of this analysis, expenses were allowed to grow at an industry average of 3% per annum, similar to the annual escalation in the sublease rents.

Therefore, based on the foregoing analysis as shown on Table 2, the rent due DLNR for sublease rents from the WHC and the four other subtenants as of the date of this document is \$0 due to the negative \$138,369 net operating income figure calculated.

Approved/Disapproved:

*ML*   
\_\_\_\_\_  
Laura H. Thielen, Chairperson

*10/11/10*  
\_\_\_\_\_  
Date

cc: District Branch Files  
Central Files

**OCT 14 2010**

**TABLE 1**  
**WAIKIKI COMMUNITY CENTER**  
**PROJECTION OF WAIKIKI HEALTH CENTER SUBLEASE AND OTHER TENANTS**  
For period of January 2010 to May 2013  
310 Paoakalani Avenue  
Waikiki, Honolulu, Hawaii  
TAX MAP KEY: (1) 2-6-25: 8

Subtenants	Area	Annual Rent			
		1/10 to 12/10	1/11 to 12/11	1/12 to 12/12	1/13 to 12/13
Waikiki Health Center	5,752	\$53,496.00	\$55,104.00	\$56,760.00	\$58,462.80
United Self Help	229	\$2,319.50	\$2,856.30	\$2,940.28	\$492.36
Hope Chapel	991	\$7,038.08	\$12,274.30	\$12,640.74	\$5,331.60
Coalition for a Drug Free	400	\$4,058.30	\$4,990.46	\$5,139.76	\$860.80
Waikiki Beach Chaplaincy	989	\$7,023.87	\$12,249.52	\$12,615.17	\$5,320.80

**TABLE 2**  
**WAIKIKI COMMUNITY CENTER**  
**PROJECTION OF WAIKIKI HEALTH CENTER SUBLEASE AND OTHER TENANTS**  
For period of January 2010 to December 2013  
310 Paoakalani Avenue  
Waikiki, Honolulu, Hawaii  
TAX MAP KEY: (1) 2-6-25: 8

GROSS REVENUE	Waikiki Health Center	Other Subtenants	Total
Rental Income			
Gross Leasable Area (Sq. Ft.)	5,752	2,609	8,361
Space Rent	\$223,823	\$98,152	\$321,975
Facility Use Fees (WHC)	82,334	0	82,334
Facility Use Fees (Subtenants)	0	24,975	<u>24,975</u>
Total			\$429,283
<b>Total Potential Gross Rental Income Before Expense Recovery</b>	<b>\$306,157</b>	<b>\$123,126</b>	<b>\$429,283</b>
Avg. Monthly Rent Per Square Foot of GLA	\$1.11	\$1.31	\$1.07
OPERATING EXPENSE SUMMARY			
Salaries	\$37,070	\$11,245	\$48,315
Employee Health/Retirement	3,895	1,181	5,076
Payroll taxes & benefits	7,561	2,293	9,854
Repairs, maintenance & service contracts	68,465	20,768	89,233
Property Management Supplies	18,199	5,520	23,719
Maintenance Salaries	31,661	9,604	41,265
Insurance	8,284	2,513	10,796
Property Mang. Supplies & Other	19,830	6,015	25,846
Electricity (WHC)	96,642	0	96,642
Electricity (Subtenants)	0	37,130	37,130
Professional/Finance fees (not including appraisal)	6,307	1,913	8,220
Printing & Publication	0	0	0
Water/Sewer (WHC)	7,656	0	7,656
Rental & maintenance equipment	1,883	571	2,454
Telephone & Internet	7,984	2,422	10,405
GET on Facility Rentals	7,531	2,284	9,815
Ground Rent	<u>187</u>	<u>57</u>	<u>244</u>
Indicated Operating Expense	\$323,153	\$103,516	\$426,668
Replacement Reserves for Structural Repairs	\$108,172	\$32,812	\$140,984
<b>TOTAL OPERATING EXPENSES w/ Reserves</b>	<b>\$431,324</b>	<b>\$136,328</b>	<b>\$567,652</b>
NET INCOME SUMMARY			
Net Operating Income/Deficit	(\$125,168)	(\$13,201)	(\$138,369)
Net Sublease Rents Due			\$0



**STATE OF HAWAII**  
**DEPARTMENT OF LAND AND NATURAL RESOURCES**  
**LAND DIVISION**

POST OFFICE BOX 621  
HONOLULU, HAWAII 96809

October 28, 2010

**EXEMPTION NOTIFICATION**

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

Project Title: Consent on Subleases

Project / Reference No.: 10od-144

Project Location: Honolulu, Oahu, TMK (1) 2-6-025:008

Project Description: Consent to subleases

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

Exemption Class No.: In accordance with the "Division of Land Management's Environmental Impact Statement Exemption List", approved by the Environmental Council and dated April 28, 1986, the subject project is considered to be exempt from the preparation of an environmental assessment pursuant to Exemption Class No.1, that states: "Operations, repairs, maintenance of existing structures, facilities, equipment, or topographical features, involving negligible or no expansion or change of use beyond that previously existing".

The subject request pertains to the use of the existing leased premises to Waikiki Community Center for community services purposes. 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.

Consulted Parties Not applicable

Exemption Item Description  
from Agency Exemption List: Not applicable

**EXHIBIT D**

Exemption Notification for Consent

October 28, 2010

Page 2

Recommendation:

It is recommended 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.

---

Laura H. Thielen, Chairperson

---

Date