

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

February 14, 2025

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

Hawaii

Consent to Mortgage, General Lease No. S-5162, DHL Mahi Opco, LLC,
Lessee, Lalamilo, South Kohala, Hawaii, Tax Map Key: (3) 6-9-001:017.

APPLICANT AND REQUEST:

DHL Mahi Opco, LLC, requesting consent to mortgage from Goldman Sachs
Bank USA, Mortgagee, in an amount not to exceed \$275,000,000.

LEGAL REFERENCE:

Section 171-22, Hawaii Revised Statutes, as amended.

LOCATION:

Portion of Government lands situated at Lalamilo, South Kohala, Hawaii,
identified by Tax Map Key: (3) 6-9-001:017, as shown on the attached map
labeled Exhibit A.

AREA:

230.067 acres, 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:

Archaeological park, public beach park, public access roadway to archaeological
park and public beach park and commercial recreational use, including but not

limited to golf course purposes.

TERM OF LEASE:

55 years, commencing on July 24, 1987 and expiring on July 23, 2042. The most recent rental reopening occurred on July 24, 2017. The next scheduled rental reopening is July 24, 2027.

ANNUAL RENTAL:

\$80,000.00 due in semi-annual payments of \$40,000.00.

USE OF LOAN PROCEEDS:

The proceeds of the loan will be used as follows:

Payoff preferred equity investors	\$161,959,502.00
Return to common equity investors	\$101,546,841.00
Loan origination fee (1%)	\$ 2,750,000.00
Easdil fee (0.45%)	\$ 1,237,500.00
Closing costs	\$ 1,250,000.00
Stub interest	\$ 756,157.00
Interest Rate Cap policy (2yr. cap @ 5.0%)	\$ 500,000.00
Resort Enhancement Projects	\$ 5,000,000.00

The Resort Enhancement Projects include integrating solar systems to produce clean energy for the resort and golf course, installation of energy management systems in the hotel and other buildings to reduce energy use, repair of water leaks throughout the properties to reduce water consumption, installing LED lighting throughout the resort to increase energy efficiency, add new equipment to the resort kitchens and replace AC chillers at one of the restaurants with energy efficient chillers.

BACKGROUND:

General Lease No. S-5162 (GLS-5162) was issued to Mauna Lani Resort, Inc. for a term of 55 years commencing on July 24, 1987 for the following purposes: (1) an archaeological park; (2) a public beach park; (3) public access roadway to the archaeological park and public beach park; and (4) commercial recreational use, including but not limited to golf course.

At its meeting of October 27, 1995, Item F-1-c, the Board of Land and Natural Resources approved as amended a request for the assignment of the lease to Mauna Lani Resort (Operations), Inc. (MLRI), and the assignment was executed

effective as of January 1, 1996.

At its meeting of July 14, 2017, under agenda item D-5 as amended, the Board consented to the assignment of lease from MLRI, as Assignor to DHL Mahi Opco, LLC (DHL Mahi), as Assignee.

On December 12, 2017, the Chairperson of the Board of Land and Natural Resources consented to a mortgage between DHL Mahi Opco, LLC, as mortgagor, and ACORE Capital Mortgage, LP, as mortgagee in an amount not to exceed \$165,000,000. Although the loan proceeds were initially to be used to primarily to reimburse DHL Mahi, for its acquisition costs, the loan obligated DHL Mahi to use an estimated \$120,000,000 of the proceeds to undertake major renovations to the resort, including enhancement of the golf courses and related facilities of which the leasehold interest is a part.

On February 1, 2023, a release of mortgage for the above was recorded in both Land Court and Regular System of the Bureau of Conveyances as a result of an investor preferred equity contribution.

DISCUSSION:

DHL Mahi is now seeking a consent to mortgage in the amount of \$275,000,000. The mortgage will encumber the 230 acres of State leased land as well as 19 privately owned properties of approximately 521 additional acres.

The State lease lands are composed of an approximate 190 acres of Archaeological park containing the Puako petroglyph fields, a public access road and parking area; approximately 20 acres is developed as a public beach park with a comfort station, showers, picnic area, road access and parking area; and the remaining 20 acres lessee has developed as an inclusion to its golf course (2 holes) including 3 small archaeological sites. The lessee is responsible to manage and maintain all portions of the leased area.

DHL Mahi, through its counsel, has provided staff with the mortgage documents including the leasehold loan agreement, promissory note and term sheet. Staff has reviewed these documents and present their findings below.

The mortgage is an interest-only, non-amortized, variable-rate loan. The interest rate is equal to the 30-day Secured Overnight Funding Rate (SOFR) plus 280 base points with a floor of 3.00% on the SOFR. As of January 17, 2025 the SOFR was 4.36% which would make the interest rate 7.16%.

The term of the mortgage is 2 years with an option for 3 one-year extensions which require an increase of the interest rate spread by 25 basis points each time

for the 2nd and 3rd extensions totaling a 50 basis point increase upon the commencement of 3rd extension. The mortgage requires the purchase and maintenance of an Interest Rate Cap, which costs \$500,000 for the first 2-year term and must be repurchased for any of the extensions.

The loan is secured by a first mortgage on the fee simple interests held by the lessee (the Mauna Lani Resort and ancillary privately held lands), as well as the leasehold interest in GLS-5162. Although the State leased lands have significant cultural, historical and resource value due to the archaeological features and public park they contain, the main resort facilities are located on the private properties to be mortgaged, which serve as the primary economic driver for this transaction.

The organizational structure of the lessee, DHL Mahi Opco, LLC, is attached as Exhibit B. The Mauna Lani Resort is ultimately owned by Gladiolus Holdings, Inc. (97%) and PHG Mahi, LLC (3%). Gladiolus Holdings, Inc. is owned by Elliott Associates, L.P. and Elliott International, L.P., which in turn are ultimately controlled by Paul Singer. PHG Mahi, LLC is owned by various individuals and the controlling owner is Greg Hartman.

As listed in the "USE OF LOAN PROCEEDS" section of this submittal, most of the loan proceeds are going towards repayment of investors without improvements to the lease lands. The preferred equity investors are to receive ~\$162,000,000 as payback for the previous loan payoff. The common equity investors are receiving ~\$101,000,000 as a return on their investment. As represented by Lessee's counsel, the equity investors currently have cash investment in the Mauna Lani Resort of ~\$466,000,000. After these payouts to investors, there remains ~\$202,000,000 invested cash capital in the Mauna Lani Resort concern.

Lessee is in compliance with all lease terms and conditions including rent, insurance and performance bond.

RECOMMENDATION: That the Board:

1. Consent to the mortgage between DHL Mahi Opco, LLC, Mortgagor, and Goldman Sachs Bank USA, Mortgagee, subject to the following:
 - a. The loan proceeds shall be used for the purposes as stated in "Use of Loan Proceeds" above. The Lessee shall maintain records of loan expenditures which may be inspected by the Department;
 - b. The standard terms and conditions of the most current consent to

mortgage form, as may be amended from time to time;

- 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

KEM

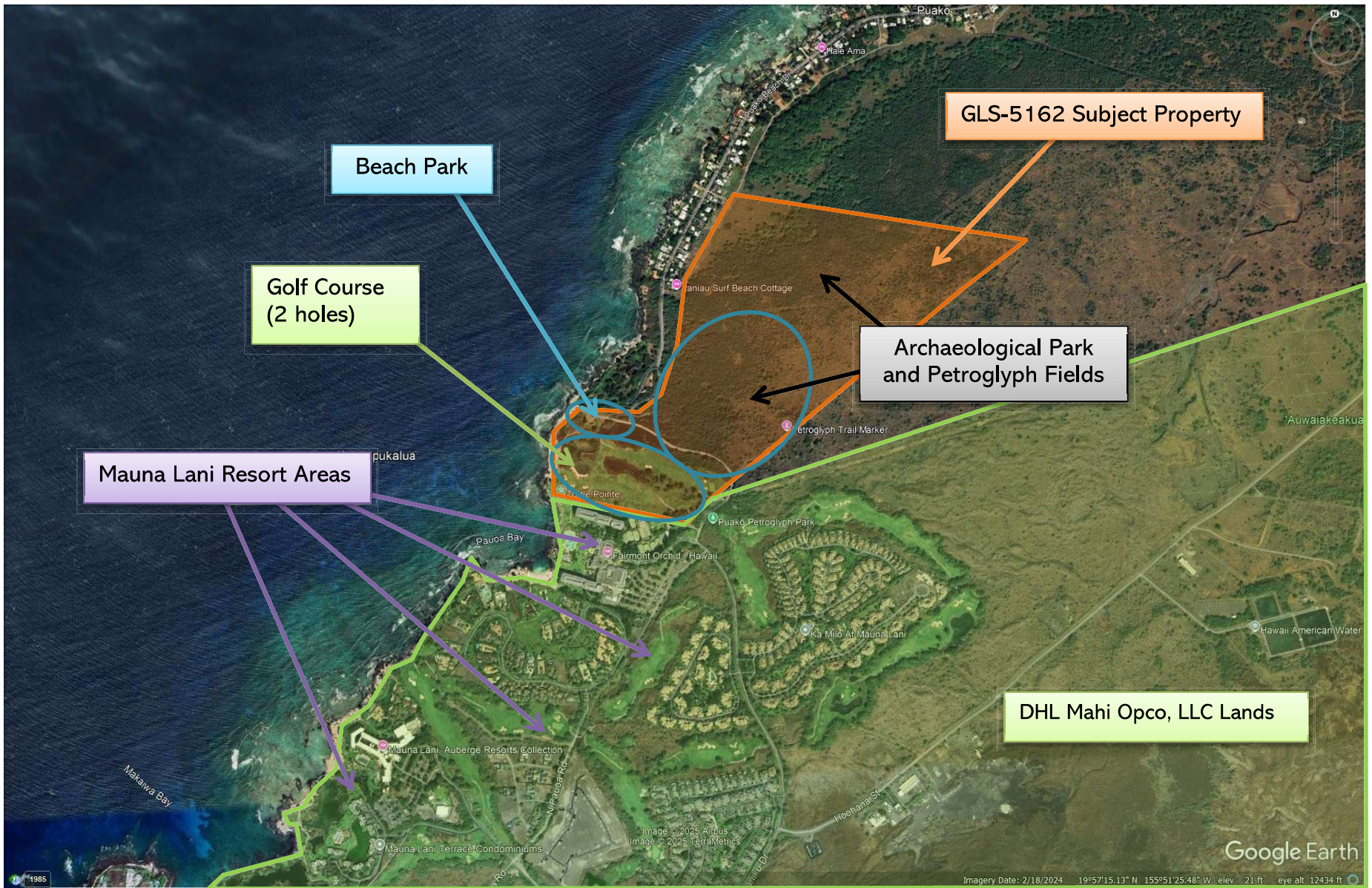
Candace Martin
Acting District Land Agent

APPROVED FOR SUBMITTAL:



Dawn N. S. Chang, Chairperson

RT



Beach Park

Golf Course
(2 holes)

Mauna Lani Resort Areas

GLS-5162 Subject Property

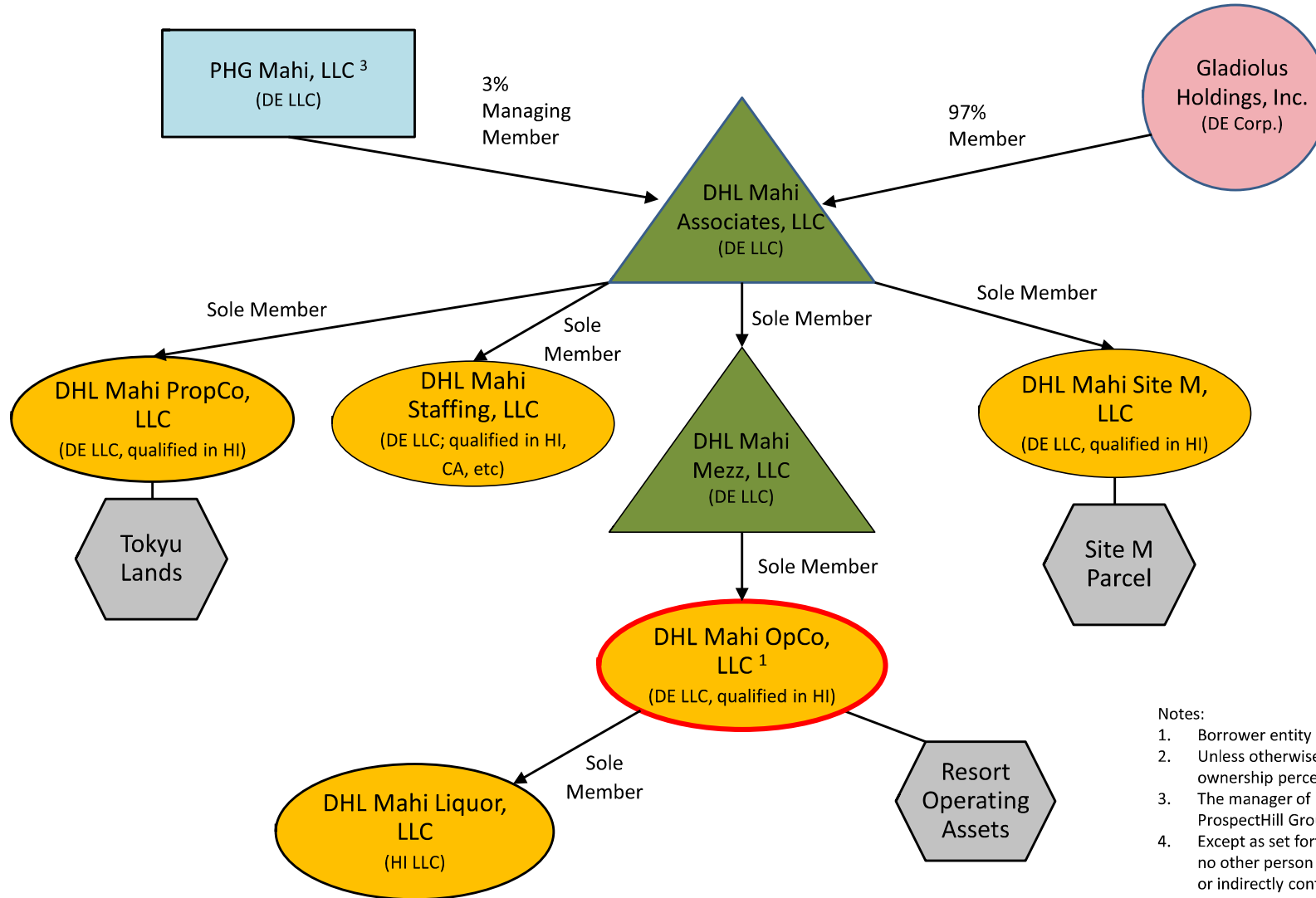
Archaeological Park
and Petroglyph Fields

DHL Mahi Opco, LLC Lands

Google Earth

Imagery Date: 2/18/2024 19°57'15.13" N 155°51'25.48" W elev. 21 ft eye alt. 12434 ft

**Mauna Lani Resort
Organizational Chart**



- Notes:
1. Borrower entity (red outline)
 2. Unless otherwise specified, ownership percentages are 100%
 3. The manager of PHG Mahi, LLC is ProspectHill Group, LLC.
 4. Except as set forth on this chart, no other person or entity directly or indirectly controls or owns a 10% or more interest in Borrower.