

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

May 9, 2025

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

GLS-4302

Hawaii

After-the-Fact Consent to Sublease under General Lease No. S-4302, Yamada Transfer, Inc., Lessee, to David S. De Luz Enterprises, Inc., Sublessee, and Succeeded by De Luz Automotive LLC, Sublessee, Waiakea House Lots, Waiakea, South Hilo, Hawaii, Tax Map Key: (3) 2-2-037:089.

APPLICANT:

Yamada Transfer, Inc., as sublessor, a Hawaii for-profit corporation to David S. De Luz Enterprises, Inc. as sublessee, a Hawaii for-profit corporation dissolved 12/31/2024, sublease succeeded by De Luz Automotive LLC, dba De Luz Chevrolet, a Hawaii limited liability company.

LEGAL REFERENCE:

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

LOCATION:

Portion of Government lands of Waiakea House Lots situated at Waiakea, South Hilo, Hawaii, identified by Tax Map Key: (3) 2-2-037:089, as shown on the attached map labeled Exhibit A.

AREA:

4.82 acres, more or less.

ZONING:

State Land Use District: Urban
County of Hawaii CZO: MG-1a (General Industrial – 1 acre min.)

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 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 November 10, 2020, the subject request is exempt from the preparation of an environmental assessment pursuant to General Exemption Type 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 Part 1, Item 40 that states, "Leases of State land involving negligible or no expansion of change of use beyond that previously existing." The proposed subleases constitute 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.

DCCA VERIFICATION:

Sublessor: Yamada Transfer, Inc.

Place of business registration confirmed: YES
Registered business name confirmed: YES
Applicant in good standing confirmed: YES

Sublessee: David S. De Luz, Sr. Enterprises, Inc.:

Place of business registration confirmed: YES
Registered business name confirmed: YES
Applicant in good standing confirmed: YES 2018-2024
Corporation was dissolved 12/2024

Sublessee: De Luz Automotive LLC:

Place of business registration confirmed: YES
Registered business name confirmed: YES
Applicant in good standing confirmed: YES

LEASE CHARACTER OF USE AND TERM:

General industrial purposes.

Term of 55 years, commencing on May 12, 1970 and expiring May 11, 2025.

SUBLEASE CHARACTER OF USE AND TERM:

Sublease A – 18,000 square feet (sf) for parking of new vehicles.

Term: 01/19/2018 – 05/11/2025

Sublease B – 19,800 sf for parking of vehicles.

Term: 03/07/2019 – 05/11/2025

Sublease C – 16,000 sf including an 8,000 sf warehouse, 5,940 sf of paved area, and 2,060 sf of unpaved area for the warehousing of automobile parts and automobile service and repair.

Term: 06/12/2022 – 05/11/2025

ANNUAL LEASE RENT:

\$153,000.00 for the period 05/12/2010 thru 05/11/2020;

\$166,340.00 for the period 05/12/2020 thru 05/11/2025; Payable in two semi-annual installments due the 12th day of May and November.

ANNUAL SUBLEASE RENTAL INCOME:

Sublease A - \$33,750.00 + GE Tax;

Sublease B - \$32,256.00 + GE Tax;

Sublease C - \$81,600.00 + GE Tax and CAM (common areamaintenance).

Refer to attached Exhibits B and B-1 for further analysis.

RECOMMENDED ADJUSTMENT TO LEASE RENTAL:

Staff is recommending no adjustment to the lease rent.

Refer to attached Exhibits B and B-1 for further analysis.

BACKGROUND:

General Lease No. S-4302 (GLS-4302) was sold to Robert M. Yamada, Maile E. Chong, Ronald L. Yamada and Donald K. Yamada dba Yamada Transfer by way of public auction. The lease was issued for a term of 55 years commencing on May 12, 1970 and expiring May 11, 2025.

At its meeting of April 25, 1975, agenda item F-1-h, the Board approved an

assignment of lease from the five individuals to their corporate successor, Yamada Transfer, Inc.

By letter dated August 11, 1992, the Department of Land and Natural Resources (DLNR) was notified there was a corporate name change from Yamada Transfer, Inc. to Yamada Diversified Corporation.

At its meeting of September 8, 1997, agenda item D-24, the Board approved a consent to assignment of lease from Yamada Diversified Corporation to a newly formed corporation named Yamada Transfer, Inc. (Yamada).

Over the ensuing years both the Board and the Chairperson have approved various subleases for portions of leased premises, however, the lessee has continued to utilize a majority of the property for its own business operations. The previous subleases were to:

Sears Roebuck and Company, approved by Board at its meeting of 9/8/1997;
Robert's Central Laupahoehoe, Inc., approved by Board at its meeting of 6/5/1998 item D-30;
Planet Granite, LLC, approved by Board at its meeting of 1/10/2003 item D-19;
Jack's Tours, Inc., approved by Board at its meeting of 6/18/2004 item D-2; and
Suisan Company Limited, two successive subleases, approved by Chairperson on 5/2/2011 and 10/11/2011.

After staff analysis performed at the times indicated and under the applicable Board Rent Participation Policies, none of the above subleases met the threshold to warrant a rent increase to the lease.

DISCUSSION:

Yamada has historically been prompt with its requests for sublease consents. The three sublease consent requests were received at the Hawaii District Land Office on 1/30/2018 (sublease A), 3/28/2019 (sublease B) and 6/28/2022 (sublease C). The requests were not assigned for processing at the time they were received.

In April 2025, Yamada requested a 1-year holdover¹ of the lease which is set to expire on 05/11/2025. It was discovered that the consent to sublease requests were not processed and are therefore being done now.

¹ The request for holdover is the subject of a concurrent submittal being presented at the May 9, 2025 Board meeting.

David S. De Luz Sr. Enterprises, Inc. (De Luz Enterprises), sublessee, was dissolved at the end of 2024 upon the sale of Big Island Toyota to Servco Pacific. At the time, the sublease areas were being used by De Luz Automotive LLC (De Luz Chevrolet) which has the same officers as De Luz Enterprises and the subleases were not included in the sale. With this change, De Luz Chevrolet became the successor sublessee in January 2025. In the event the Board approves the 1-year holdover of the lease, De Luz Chevrolet will continue as sublessee through the holdover period.

Using the Rent Participation Policy 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. Staff was guided by section 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, these subleases are occurring in the last five 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 uses the majority of the property and improvements for their own business operations.

Staff analysis of the income derived from the subleases reveals that the income does not generate a profit using only the annual lease rent, real property taxes and GE Tax as expenses. If other expenses, such as insurance, repairs and maintenance were included, the deficit would increase substantially. The Sublease Profit Calculation Worksheet (Exhibit B-1) shows that the income generated by the subleases only assists in defraying some of the costs of the lease. Yamada utilizes a majority of the premises for its own business operations.

Staff is recommending that the Board approve the sublease consents without an increase to the annual rent. Staff is recommending that in the event the Board approves the 1-year holdover of the lease, it also consents to the extension of

the subleases through the holdover period.

The lessee is in compliance with the terms and conditions of the lease and the real property taxes are paid to date.

RECOMMENDATION:

That the Board:

1. Declare that, after considering the potential effects of the proposed dispositions as provided by Chapter 343, HRS, and Chapter 11-200, 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. Approve an After-the-Fact Consent to Sublease under General Lease No. S-4302, Yamada Transfer, Inc., Lessee, to David S. De Luz Enterprises, Inc., Sublessee, and Succeeded by De Luz Automotive LLC, Sublessee, 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 consent to sublease 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.
3. In the event the Board approves a 1-year holdover of General Lease S-4302, consent to the continuation of the subject subleases to De Luz Automotive LLC for the duration of the holdover period 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 consent to sublease 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

Candace Martin
Acting District Land Agent

APPROVED FOR SUBMITTAL:



Dawn N.S. Chang, Chairperson

EXHIBIT A

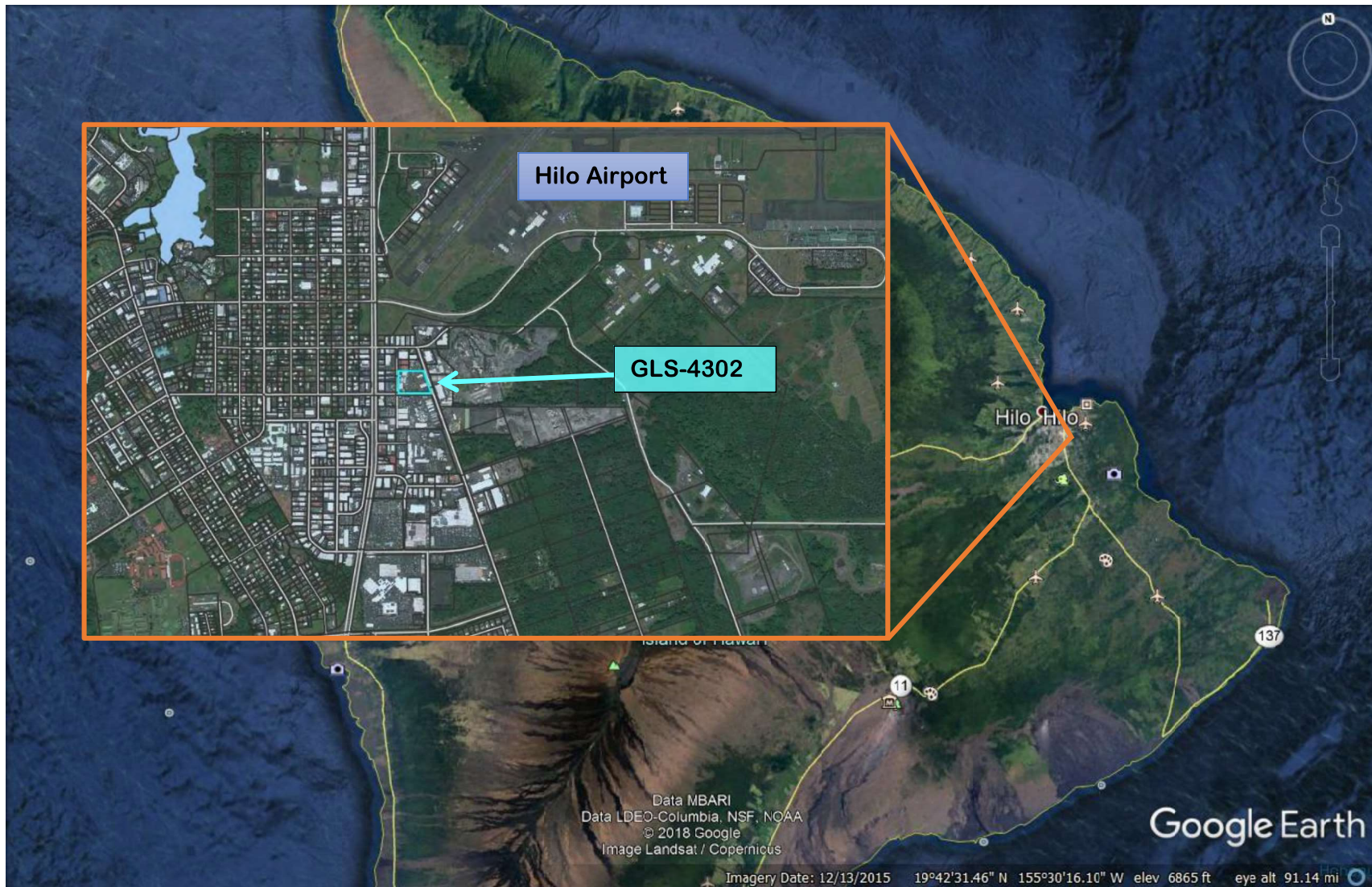
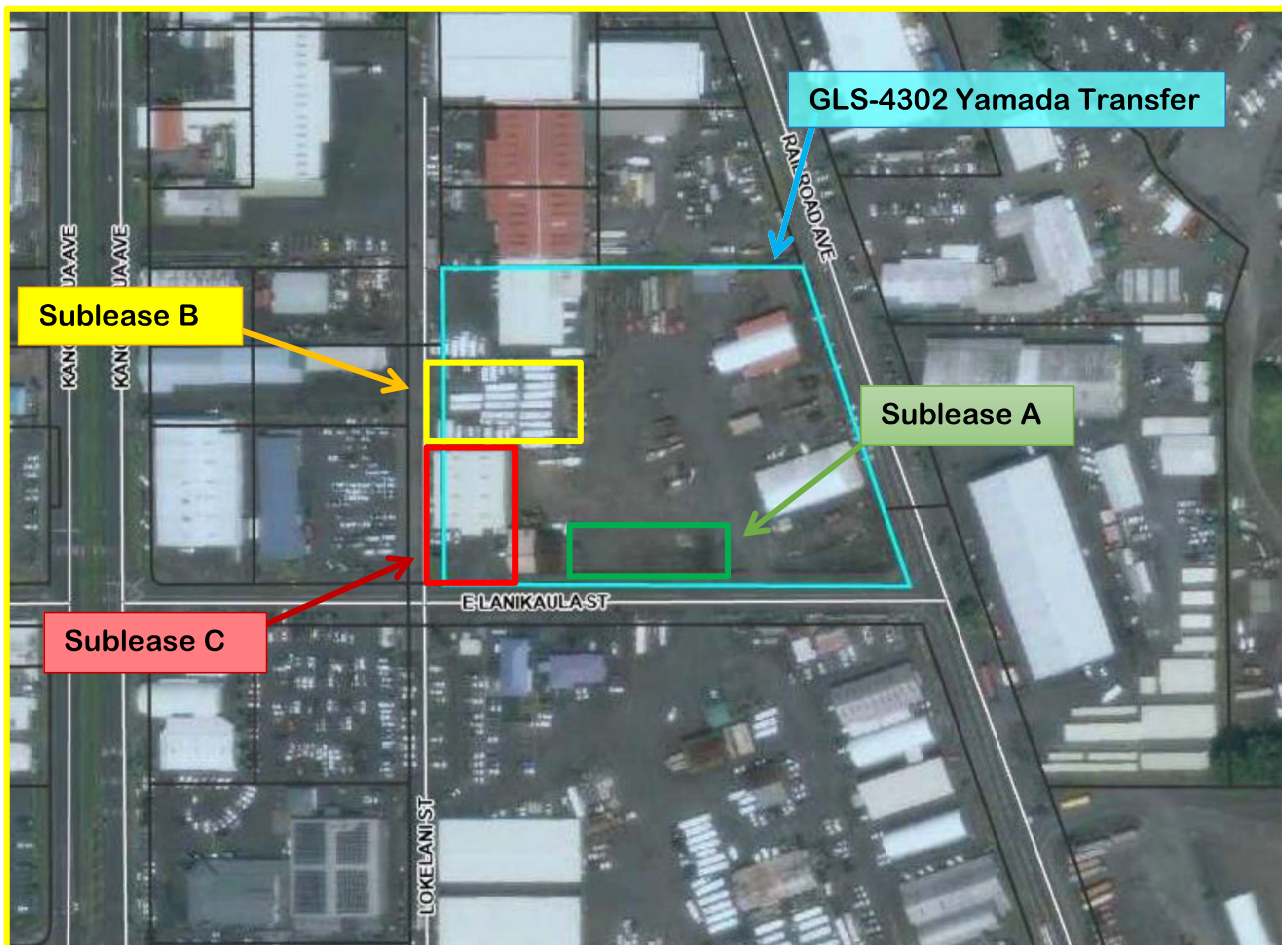


EXHIBIT A



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

SYLVIA LUKE
LIEUTENANT GOVERNOR | KA HOPE KIA'ĀINA



EXHIBIT B

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

April 24, 2025

MEMORANDUM

TO: Dawn N.S. Chang, Chairperson

THROUGH: Ian Hirokawa, Acting Assistant Administrator

FROM: Candace Martin, Acting District Land Agent *C.M.M.*

SUBJECT: In-House Recommendation – Sublease Participation Calculation

GL No.:	S-4302
Lessee/Sublessor:	Yamada Transfer, Inc.
Sublessee:	David S. De Luz Sr. Enterprises, Inc.
Location:	Waiakea, South Hilo, Hawai'i
Lease area:	4.82 acres more or less
Sublease Area:	~53,800 square feet (1.25 acres)
Tax Map Key:	(3) 2-2-037:089
Character of Use:	General Industrial purposes

We have been requested to provide an in-house evaluation of a potential ground rent increase due to subleasing of General Lease No. S-4302 (GLS-4302), Yamada Transfer, Inc., Lessee/Sublessor and David S. De Luz Sr. Enterprises, Inc., Sublessee. 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-4302 was May 12, 1970 for a term of 55 years and expiring on May 11, 2025. There 18 days remaining in the lease term. Lessee is requesting a 1-year holdover of the lease concurrent with the request for consent to these subleases.

The subleasing provision of GLS-4302 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 three sublease consent requests were received at the Hawaii District Land Office on 1/30/2018 (sublease A), 3/28/2019 (sublease B) and 6/28/2022 (sublease C). The requests were not assigned for processing at the time they were received. Therefore, we will be analyzing the period of January 2018 through the lease expiration of May 2025. We are also including an analysis of the 1-year holdover period in the event the Board approves the holdover.

The annual rent for the period 05/12/2010 through 05/11/2020 was determined by independent appraisal to be \$153,000.00. The final lease reopening occurred in May 2020 with the annual rent determined to be \$166,340.00.

Improvements to the property include a ~8,000 sf warehouse completed in 1971 and is currently rented as sublease C. Other improvements are an ~3,760 sf office building with an attached canopy of ~3,600 sf completed in 1976 and 2 other detached canopy type structures of ~3,600 and 1,600 sf. Property perimeter is fenced and gated with chainlink mesh. The balance of the property is approximately 50/50 paved/unpaved. The large capacity cesspool was converted to an approved Individual Wastewater System in 2009. Water and electric utilities service the property. Improvements are owned by the lessee until expiration of the lease in 2025.

The sublessee has 3 separate areas under separate subleases as follows:

Sublease A = ~18,000 sf of parking area;

Sublease B = ~19,800 sf of parking area;

Sublease C = ~8,000 sf warehouse + 5,940 sf paved + 2,060 sf unpaved areas.

The sublessee is the previous owner of Big Island Toyota, which was recently sold and David S. De Luz Sr. Enterprises, Inc. was dissolved as of 12/31/2024. It was succeeded by De Luz Automotive, LLC dba De Luz Chevrolet as the sublessee as of 01/01/2025 under the same terms and conditions. The sublease areas are used for extra parking areas for shipments of new vehicles and rotation of inventory. The warehouse area is used for warehousing of parts and vehicle servicing.

Sublessee is charged a monthly CAM (costs and maintenance) fee of \$982.00 per month for sublease C. Sublease A & B are not charged a CAM. The CAM currently totals \$6,120.00 in annual income to the Lessee. The CAM includes proportional shares of real property tax, fire insurance on the building, grounds maintenance, exterior building maintenance. Sublessee is responsible for its electric and water services.

General Excise Tax is charged to sublessee at a rate of 4.712% of monthly rent and CAM, if applicable to the sublease.

Synopsis of subleases:

Sublease A: Rent area: 10,800sf
Sublease term: 01/19/2018 – 04/18/2018
Sublease monthly rent rate: \$1,687.50 + GE Tax
Sublease term: 04/19/2018 – 05/11/2025 Rent area increase to: 18,000sf
Sublease monthly rent rate: \$2,812.50 + GE Tax

Sublease B: Rent area: 19,800sf
Sublease term: 03/07/2019 - 05/11/2025
Sublease monthly rent rate: \$2,688.00 + GE Tax

Sublease C: Rent area: ~16,000sf
Sublease term: 06/03/2022 – 05/11/2025
Sublease rent rate: \$6,800.00 + \$982.00 CAM + GE Tax

AGGREGATE ANNUAL CALCULATIONS: GL No. S-4302

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

	<u>2018-2020</u>	<u>2021-2025</u>	<u>2025-2026</u>
	Period Averages	Period Averages	Holdover Period
Annual Sublease Income	\$ 53,821.45	\$120,538.07	\$166,900.46
LESS Annual Expenses	<u>\$128,736.98</u>	<u>\$185,724.87</u>	<u>\$173,016.02*</u>
Annual Net Sublease Profit:	<u>\$ (74,915.53)</u>	<u>\$ (65,186.80)</u>	<u>\$ (6,115.56)</u>

*Does not include real property tax costs as they have not been assessed yet.

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, these subleases are occurring in the last five 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 uses the majority of the property and improvements for their own business operations.

As illustrated in the above synopsis of subleases and the attached Sublease Profit Calculation Worksheet (Exhibit B-1), the income derived from the subleases does not generate a profit using the minimum credit for expenses (excluding insurance, repairs and maintenance). GE Tax is charged on the subleases, so it has been included in the annual income and expenses. No vacancy allowance has been allowed as this is an after-the-fact request with actual income and expense figures.

Based on the analysis above and the attached sublease profit calculation worksheet, staff is recommending that DLNR does not share of the profits and an increase to the annual lease rent is not warranted.

Annual Retroactive Lease Rent Adjustment for GLS-4302 = \$0.00

Staff has analyzed the sublease income and expense potentials for the proposed 1-year holdover of the lease (05/12/2025 – 05/11/2026) and has concluded that no profit would be realized from the continuation of the sublease and therefore, no increase to the rent would be recommended.

EXHIBIT B-1

Sublease Profit Calculation Worksheet

GL-4302 Yamada Transfer, Inc.

	2018	2019	2020	2021	2022	2023	2024	2025*	Holdover Year**
Base Rent Income	\$27,562.50	\$60,630.00	\$66,006.00	\$66,006.00	\$113,606.00	\$147,606.00	\$147,606.00	\$64,902.50	\$147,606.00
CAM Income	\$0.00	\$0.00	\$0.00	\$0.00	\$6,874.00	\$11,784.00	\$11,784.00	\$5,401.00	\$11,784.00
GE Tax	\$1,298.75	\$2,856.89	\$3,110.20	\$3,110.20	\$5,677.02	\$7,510.46	\$7,510.46	\$3,312.70	\$7,510.46
Total Sublease Income	\$28,861.25	\$63,486.89	\$69,116.20	\$69,116.20	\$126,157.02	\$166,900.46	\$166,900.46	\$73,616.20	\$166,900.46
LESS Annual Lease Rent	\$153,000.00	\$153,000.00	\$166,340.00	\$166,340.00	\$166,340.00	\$166,340.00	\$166,340.00	\$83,170.00	\$166,340.00
LESS Property Tax	\$28,906.05	\$30,077.70	\$31,306.06	\$30,959.38	\$38,669.80	\$43,178.78	\$43,178.78	\$0.00***	unknown****
LESS Insurance	\$0.00	\$0.00	\$0.00	\$0.00					
LESS GE Tax	\$1,154.45	\$2,539.48	\$2,764.65	\$2,764.65	\$5,046.28	\$6,676.02	\$6,676.02	\$2,944.65	\$6,676.02
LESS R&M & Water	\$0.00	\$0.00	\$0.00	\$0.00					
Total Allowable Expenses	\$183,060.50	\$185,617.18	\$200,410.71	\$200,064.03	\$210,056.08	\$216,194.80	\$216,194.80	\$86,114.65	\$173,016.02
Sublease Profit	(\$154,199.26)	(\$122,130.29)	(\$131,294.51)	(\$130,947.83)	(\$83,899.06)	(\$49,294.34)	(\$49,294.34)	(\$12,498.45)	(\$6,115.56)
Recommended Rent Increase	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

* The 2025 column is calculated for January thru May.

** Holdover year is June 2025 thru May 2026.

*** Taxes for this period were paid in the previous year.

**** Taxes for this period have not yet been assessed.