NELHA LEASING AND RATE POLICY

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NELHA LEASING AND RATE POLICY

1. PURPOSE OF DOCUMENT

The purpose of this document is to establish a leasing policy for NELHA lands and to provide a basis and method to calculate lease rates for NELHA ground leases. This policy takes precedence over the previous NELHA Board approved lease policy of 2006.

2. GENERAL

2.01 Land Uses

There are five types of land uses at NELHA: extractive, productive, energy, offshore and other. Land rates depend on the type of land use.

A. Energy Use

The intended use of the land is to produce energy or an energy related product. The intended use of the seawater delivered to an energy tenant could be to produce an energy product (such as biofuels), to provide low cost cooling (solar) or as an integral part of the energy production (OTEC).

B. Extractive Use

The intended use of the land and the seawater delivered to an extractive user is to extract either the water or some other marketable product contained in the water and export the water or product generated from the site.

C. Productive Use

The intended use of the land and the seawater delivered to a productive user is to produce a product using the seawater as a medium or low cost cooling alternative and to export the product from the site. Aquaculture tenants are productive tenants.

D. Offshore Use

This category is for projects that take place in the NELHA offshore corridor.

E. Other

This category is for any use that does not fit into the other four categories (energy, extractive, productive and offshore). This may include education, outreach, research and retail projects or any other type of project that is considered appropriate for the mission of NELHA.
2.02 **Project/Tenant Categorization**
NELHA classifies projects into four categories: research, pre-commercial, commercial and other. The type of lease agreement used will depend on the type of project and its projected duration.

A. **Basic Research**
   A basic research project is concerned with contributing to the knowledge base of science and technology. It may have no immediate commercial application. These are often University or Government Lab projects.

B. **Pre-Commercial**
   A pre-commercial project is transitioning or scaling-up to commercial categorization.

C. **Commercial**
   A commercial project has immediate commercial goals.

D. **Other**
   This category includes non-profit projects such as education, outreach, conservation which are considered appropriate for the mission of NELHA but do not fit in the other three categories.

2.03 **Types of Land Use Agreements**
There are three types of land use agreement: Memorandum of Understanding (MOU) for extremely short term research projects, Rental Agreements for short term research and pre-commercial projects and office space, and long term Subleases.

A. **Memorandum of Understanding (MOU)**
   An MOU (Attachment 1) is used for short research projects with durations less than three months. The MOU contains the minimum State requirements with respect to Liability and Indemnification. An MOU is appropriate for researchers/students visiting from Universities and other research institutions to carry out short term projects using NELHA’s unique resources. For resident researchers, a rental agreement is more appropriate. An MOU may not be assigned or transferred to a third party. Board approval is not required for an MOU.

B. **Rental Agreement (RA)**
   A Rental Agreement (Attachment 2) is used for research, pre-commercial and other projects. It can cover any type of space including office, open, lab, mixed, research campus, Gateway and technical park space. The term of a Rental Agreement does not exceed one year and is renewed on a yearly basis. A Rental Agreement may be assigned upon written approval of the NELHA Executive
Director. Certain clauses may be struck out of a rental agreement depending on the project categorization. For example, the % rent clause is struck out of the agreement for all but pre-commercial projects. Board approval is not required for a Rental Agreement. There are two types of Rental Agreement boiler plate documents, one for office space within the incubator building and one for the other spaces.

C. Sublease

A sublease (Attachment 3) document is used for long term projects regardless of categorization although most long term subleases are for commercial projects. Typical term is 30 years ten year reopenings. The standard sublease contains provisions for standard terms including percentage rent, offsets and exclusions. A Sublease may be assigned upon NELHA Board approval. Board approval is required for a Sublease.

3. POLICY

3.01 Project Initiation

An application for tenancy at NELHA shall follow the guidelines outlined in the NELHA Project Initiation Packet (PIP, Attachment 4). This document is available to the public online at www.nelha.org. The general process starts with a consultation with NELHA staff. The project may or may not require Board approval depending on its nature, duration and desired location and desired facilities.

3.02 RAC Review Process

The Research Advisory Committee (RAC) is composed of experts from various technical fields including aquaculture, ocean science, geothermal, energy, environmental as well as business experts. Their role is to advise the Board on the merit, scientific interest, industrial importance and/or suitability of the proposed project to NELHA’s mission, goals and resources. All sublease proposals will be reviewed by the RAC. The decision to submit proposals for short term projects resulting in an MOU or Rental Agreement to the RAC will be made by the Executive Director. When in doubt, the Executive Director will submit short term proposals to the RAC.

For those projects that require Board review and approval, NELHA staff may send the proposals and staff recommendations to the RAC for an initial review well before the scheduled Board meeting. The RAC shall return its review and recommendation no later than fourteen (14) days after its receipt of the proposal. NELHA staff shall work with the prospective tenant on any issues that were raised during staff and/or RAC reviews.
3.03 Timing of Submission to the NELHA Board

The proposal can only be placed on the next available Board agenda after NELHA staff has completed due diligence, and the proposer has addressed all the issues raised by staff and RAC reviews of the project. NELHA staff will determine when a proposal is ready for presentation to the Board. Should there be significant modifications to the initial proposal reviewed by the RAC, the RAC may be asked for a second review. The second review (or the first review in the case that there was no initial review) shall be requested no later than fourteen (14) days before the scheduled Board meeting and the RAC shall prepare its recommendation and send it to NELHA staff no later than one day before the Board meeting.

Only proposals received no later than four weeks before close of business at 4:30PM prior to the scheduled Board meeting will be considered for the Board agenda. However, the proposal will only be presented to the Board if staff considers it to be in final form and ready for presentation. Meeting the 4 week timeline does not guarantee placement on the agenda.

3.04 Board Approval Process

Projects requiring long term subleases shall first seek approval in concept from the NELHA Board. Final approval shall be sought as a second step by the submission of a final Business Plan and Sublease Term Sheet to be approved by the Board.

For approval in concept, staff shall distribute the proposal, the staff review/recommendation and the final RAC review/recommendation (if available) in the Board package for the meeting in which the proposal approval was placed on the agenda. The proposal shall comply with the Project Initiation Packet requirements. If the final RAC review/recommendation is not available for distribution through the Board packet, it will be distributed at the Board meeting. A presentation by the applicant may or may not take place at the Board meeting. The Board members will have the opportunity to ask questions of the applicant if present and NELHA staff as well as the opportunity to discuss the proposed project. The Board will make a motion regarding the proposal to approve, disapprove or conditionally approve applicant’s request.

For final approval, submitter shall follow the guidelines described in the Project Initiation Packet. The process is similar to that described for approval in concept. The final proposal, the term sheet or draft sublease, the staff review/recommendation and the RAC final review/recommendation shall be included in the Board package.
3.05 Authority of Executive Director

Unless directed otherwise by the Board, the NELHA Executive Director has the authority to execute MOUs and Rental Agreements without NELHA Board approval.
The Executive Director has authority to approve the assignment of a Rental Agreement.
The NELHA Executive Director has the authority to execute a sublease only after the NELHA Board has given “approval in concept” and final approval to the project as well as reviewed the sublease term sheet for the sublease that is to be executed.
Sublease extensions may require Board approval as per section 3.08.
Consents to Mortgage and consents to Assignment shall be presented to the Board for approval. The Executive Director shall have authority to execute the consents after Board approval provided that there are no modifications to the standard form. Any modification to the standard consent forms shall be approved by the Board in the form of a term sheet or a draft consent before execution by the Executive Director.
The Executive Director shall report the execution of all new agreements to the Board at the meeting immediately following the date that the agreements were executed.

3.06 Sublease Execution Policy Schedule

Final approval for a sublease shall be sought by the applicant within 1 year of the approval in concept.

All subleases shall be executed within one year of final approval by the NELHA Board of Directors, unless specific approval for a longer time is given. The Board approval may be revoked if a lease fails to be executed within the one year time period. After a revocation of approval, the potential tenant that desires to continue the process of entering into a lease with NELHA shall be required to re-submit the sublease proposal to obtain Board approval. If the sublease for the re-submitted sublease proposal is not executed with one year of Board approval, new submissions will not be considered.

In the process of executing a long term sublease, the tenant must remain in communication with NELHA by giving NELHA an update or otherwise communicate with NELHA. There shall be no more than two months lapse time between two consecutive written communications. The Board approval will lapse if these minimum written communication requirements are not met.
3.07 Termination for non-performance
Sublease agreements may be terminated by the NELHA Executive Director according to the Breach and Termination clauses which are part of each short term and long term agreement. The Executive Director shall report the termination to the NELHA Board.

3.08 Sublease extensions
Standard sublease extensions shall not require Board approval provided that lease terms match current standard terms (Attachment 3) with respect to rental rates, reopening, % rent, royalty, liability insurance, and assignments and that the ongoing operations at the time of the extension are in conformance with the Business Plan which is part of the Sublease. If the original sublease has nonstandard terms in those 6 areas, an extension request shall be made to the Board for its approval.

3.09 Standard Sublease Clauses
Refer to the boiler plate document in Attachment 3 for Sublease standard clauses and the boiler plate document in Attachment 2 for Rental Agreement standard terms.

3.10 Sublease Term Length
The term of any sublease shall not exceed the term length of NELHA’s Master Lease S-5619 with DLNR. S-5619 lease term expires July 2nd, 2066. Sublease terms shall be adjusted according to project capital investment and expected return on the capital investment. NELHA’s Master Lease authorizes NELHA to execute subleases with terms of one year to 30 years.

3.11 Parcel Size
Minimum parcel size in the area of the park north of the Public Beach Park is 1 acre. Minimum parcel size in the area of the park south of the Public Beach Park is 3 acres. Parcel sizes covered by new subleases shall be limited to 20 acres unless it can be demonstrated to the Board that it is within NELHA’s mission to provide a larger parcel.

3.12 Changes in Business Plan
Tenant shall submit any changes to the Business Plan that is part of his/her sublease in writing and prior to desired implementation of the changes. Implementation shall occur after NELHA Board approval is obtained. Changes in business plan may require execution of a new lease with new lease terms reflecting changes in use of project classification.
3.13 Alternative Energy & Biotechnology Demonstration Incubator Leasing Policy

Office space is available at NELHA at the Alternative Energy & Biotechnology Demonstration Incubator in the Research Campus. Tenants leasing office space are not required to lease other space in the research campus nor the technical park. Currently, tenants are not charged a Common Area Maintenance (CAM) charge. However, the Board may decide to implement a CAM charge at a later time. NELHA shall provide parking permits tenant at NELHA’s discretion. Rates for the incubator office space are listed in Attachment 7. Rates for the incubator shall be reviewed on an annual basis. Incubator leases shall not be automatically renewed upon term expiration. All incubator leases shall be reviewed and considered for renewal in the month of June immediately previous to the expiration date of July 1st.

4. RENTAL RATES

4.01 Establishing Rental Rates

Appraisals
Rental rates will be based on professional appraisals of NELHA lands. A comprehensive professional land appraisal will be contracted out every 10 years and will provide the basis for the establishment of land rates by the Board. Once the Board has approved a set of lease rates, these will be posted on the NELHA website and made generally available to the public. The Executive Director and NELHA leasing staff shall base all rent discussions and proposals on the established and published land rates until arbitrated rates are established (refer to section 4.04).

Improved/Unimproved Lands
Rental rates for unimproved land, as well as Research Campus/Gateway space shall be published. Rates for improved properties shall be set on a case by case basis using an underlying unimproved land value plus additional lease rent based upon improvements including but not limited to grading, paving, sub-grade utilities, disposal trenching, fencing, buildings, and tanks.

Percentage Rental Rates
Percentage rental rates shall be established for all Pre-commercial and Commercial projects as well as for any other projects deemed appropriate under all land uses. The percentage rental rates shall be established according to the type of product produced. The three types of products anticipated are energy, wholesale and retail products. Aquaculture and seawater products may be sold wholesale (ie sale of large quantities to be sold by a retailer) or retail (ie directly to the consumer). Percentage rental rates for wholesale shall be lower than for retail. Should a company sell
several types of products, Sublessee shall be required to separate sales by types of products and shall owe percent rent according to the type of product.

4.02 Minimum Rent
There is a minimum rental fee of $200/month for all types of land use agreements and regardless of tenant categorization (including non-profit education, outreach, and conservation tenants).

4.03 Sublease Rent Reopenings and Rent Adjustments
NELHA long term subleases shall contain annual adjustments tied to CPI as well as reopening clauses. In the event that CPI declines, rent will remain the same and not increase until cumulative CPI (declines plus subsequent gains) become positive. The standard sublease reopening clause shall establish reopening periods every 10 years. The Executive Director and NELHA leasing staff shall offer the appropriate established rate (depending on land use and tenant categorization) to take effect at sublease reopening provided that this rate is higher than the current rate. If the established rate is less than the current rate, the current rental rate shall be proposed. Should there be disagreement on the rate, the standard reopening clause outlines the appraisal and arbitration process to follow to establish a final rate.

4.04 Use of Arbitrated Rates
Occasionally, published rates will be disputed and a full arbitration procedure involving three professional appraisers may take place to establish a binding and final rate. The Executive Director and NELHA leasing staff will use the most recent arbitrated value in lieu of the published rate for the appropriate land use and tenant categorization in reopenings as well as new lease negotiations because the arbitrated rate will reflect the most recent professionally appraised market value. The arbitrated rate shall be adjusted according to the size of the land under lease using a Dilmore Table (Attachment 6). The most recent arbitrated rate shall be used until a new complete land appraisal at NELHA is carried out and new rates approved by the Board. Arbitrated rates may be used for any type of short or long term agreement provided it is for the appropriate land use.

4.05 Short Term Agreement Extensions
Occasionally, short term rental agreements will need to be extended. The Executive Director and NELHA leasing staff shall offer the appropriate established rate (depending on land use and tenant categorization) to take effect at the expiration of the short term agreement provided that the increase in monthly rent be less than 5% or the rate equal to the 12-month change in the Honolulu consumer price index, whichever is greater.
If negotiations are not completed before the term of the agreement expires, the tenancy may be continued on a month to month basis. However, the total monthly rental rate may increase by 5% every month until an extension in the form of a supplemental agreement has been executed. It will be to the tenant’s advantage to complete discussions before the end of their agreement term.

4.06 Existing Leases and Agreements
This section applies to leases and agreements which are in existence at the time this leasing policy comes into effect.
There will be a 6 month grace period for existing month to month tenants to agree and execute a new short term rental agreement or sublease if appropriate. The 6 month grace period will start on the date that this leasing policy is put into effect. After the 6 month grace period, total monthly rental rate shall increase by 5% every month until an extension in the form of a supplemental agreement has been executed.
The rental rates established in this policy shall apply to all existing subleases upon the sublease reopenings.

4.07 Rental Rate Adjustment for Size using Dilmore Table
The Dilmore Table (Attachment 6) is an accepted method for size adjustment to rental rates in Hawaii. The table is based on the Dilmore curve which allows for upwards adjustment of the rental rate for smaller properties and downwards adjustment of the rental rate for larger properties.
The formula to obtain the adjusted rate is:
\[ R_{\text{subject}} = R_{\text{arbitrated}} \times C \]
where:
- \( R_{\text{subject}} \) is the adjusted subject rate,
- \( R_{\text{arbitrated}} \) is the arbitrated rate and
- \( C \) is the coefficient obtained from Attachment 6 corresponding to \( A_{\text{arbitrated}}/A_{\text{subject}} \)
and where \( A_{\text{arbitrated}} \) is the arbitrated area and \( A_{\text{subject}} \) is the subject area.
The Dilmore size adjustment shall be applied to arbitrated rates to adjust for size.

4.08 Non Profit rates
Non-profit projects with special environmental or educational goals may be considered for a reduced rate over the established and published rate although a reduced rate may or may not be receive final approval from the Board. In order to qualify for consideration, the project and the tenant should be entirely non-profit and the reduced rate considered should not be less than 60% of the published rate for the corresponding land use and land size.
4.09 Published Rental rates
Current published rental rates are included in Attachment 7. The NELHA Board last approved these rates on June 21, 2022.

4.10 Administrative fees
Effective as of the date this policy is approved, there shall be no administrative leasing fees charged including fees for rental agreements, MOUs, subleases and agreement extensions and amendments.

4.11 Mixed Use Rent
Occasionally, mixed use projects may be submitted to NELHA. A mixed use project is defined as a project which may have components that qualify it for two or more of the five types of land uses described in Section 2.01. The amount of land required for each use (including administrative offices and parking) shall be determined and total rental rate shall be based on the rental rates for each use and the amount of land reserved for each use.

4.12 Incentives
The standard sublease allows for the value of permanent land improvements accumulated in the first 5 years of the lease to offset % rent for the first 10 years of the sublease.

4.13 Incubation rates in the Research Campus and Designated Small Business Incubators
In order to incubate projects in the Research Campus and Designated Small Business Incubators, reduced rates may be applied in the first three years provided that the rate is the lowest at the beginning of the first year and matches the Board established rate by the end of the third year. The Board may, at its own discretion, allow for the base rental fees of incubation projects transitioning from the research campus to the technical park, to be reduced or waived for a period not to exceed 18 months or commencement of construction, whichever occur first.

4.14 Rental Deferral Policy
In November 2010, the NELHA Board approved a rental deferral policy to address the needs of companies that find themselves in problematic fiscal situations. The policy is described in Attachment 8.
5. ATTACHMENTS

Attachment 1: Boiler plate MOU (upon request)
Attachment 2: Boiler plate Rental Agreements for incubator office space and for other types of space (upon request)
Attachment 3: Boiler plate Sublease (upon request)
Attachment 4: NELHA Project Initiation Packet (PIP) (upon request)
Attachment 5: ACM Consultants 2010 Appraisal of NELHA lands (upon request)
Attachment 6: Dilmore Size Adjustment Table
Attachment 7: 2022 Rental rates
Attachment 8: Rental Deferral Policy (upon request)
### Dilmore Curve

#### Size Adjustment Table

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<tbody>
<tr>
<td>0.31</td>
<td>0.07</td>
<td>0.05</td>
<td>0.04</td>
<td>0.03</td>
<td>0.02</td>
</tr>
<tr>
<td>0.32</td>
<td>0.04</td>
<td>0.02</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

### Size Adjustment Tables

<table>
<thead>
<tr>
<th>$A_s$</th>
<th>80% Curve</th>
<th>82.5% Curve</th>
<th>85% Curve</th>
<th>87.5% Curve</th>
<th>90% Curve</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.33</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

---

**ATTACHMENT 6**
This update adjusts the 2016 leasing policy rates which were based on the June 10, 2010, professional appraisal by ACM Consultants, Inc. and the rental arbitration for BIAC (June 2011).

Rates shall be adjusted annually, every July 1st, according to the US Bureau of Labor Statistics Consumer Price Index (CPI). If the CPI declines, the rental fee shall remain the same as the previous year and shall not increase until cumulative CPI calculated as the sum of the declines plus subsequent gains becomes positive.

### FIXED RENTAL RATES

<table>
<thead>
<tr>
<th>Use</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Use *</td>
<td>$1,900.00/acre/month (or most recent arbitrated rate if different)</td>
</tr>
<tr>
<td>Extractive Use *</td>
<td>$1,900.00/acre/month (or most recent arbitrated rate if different)</td>
</tr>
<tr>
<td>Productive Use *</td>
<td>$360.00/acre/month for 10-acre parcel (or most recent arbitrated rate if different)</td>
</tr>
<tr>
<td>Office (Stand-alone in campus)</td>
<td>$1.85/SF/month</td>
</tr>
<tr>
<td>Research Campus/Gateway</td>
<td></td>
</tr>
<tr>
<td>Laboratory space</td>
<td>$2.10/SF/month</td>
</tr>
<tr>
<td>Covered space/tent areas</td>
<td>$0.80/SF/month</td>
</tr>
<tr>
<td>Open air wet lab</td>
<td>$1.60/SF/month</td>
</tr>
<tr>
<td>Improved land/open space</td>
<td>$0.30/SF/month</td>
</tr>
<tr>
<td>Incubator Building</td>
<td></td>
</tr>
<tr>
<td>Office with windows</td>
<td>$2.40/SF/month</td>
</tr>
<tr>
<td>Office without windows</td>
<td>$2.10/SF/month</td>
</tr>
</tbody>
</table>

*Rates listed are for unimproved lands. Rates for improved properties shall be set on a case-by-case basis using an underlying unimproved land value plus additional lease rent based upon improvements including but not limited to grading, paving, sub-grade utilities, disposal trenching, fencing, buildings, and tanks.

### PERCENT RENTAL RATES

Percent rental rates range from 2.5% to 7% depending on whether products sold are wholesale or retail.