

Shall the Authority Consent to an Extension for the Sale of Na Lei Hulu Kupuna's Leasehold Interest to Mark Development Inc. in Accordance with the Proposed Purchase and Sale Agreement and Authorize the Interim Executive Director to Execute and Deliver any and all Related Sale Documents by the Closing Date of May 31, 2017?

Staff Report

June 1, 2016

Background: Na Lei Hulu Kupuna Apartments (“Project”) is a seventy-five (75) unit senior affordable rental studio apartment building, located at 610 Cooke Street. It was built in 1991 with Low Income Housing Tax Credits (“LIHTC”) on land leased from the City and County of Honolulu (“City”) and the Hawaii Housing Finance Development Corporation (“HHFDC”). The Project is owned by Na Lei Hulu Kupuna Limited Partnership (the Hawaii Community Development Authority as 1% general partner and Bank of Hawaii as 99% limited partner) (“Partnership”). The Project includes a manager’s unit, laundry facilities, community room and security camera system. The studios are fully furnished, including beds, table and chairs, TVs and air conditioning.

On September 30, 2014, Mark Development, Inc. (“MDI”) submitted a letter to the Partnership with a bid to purchase Na Lei Hulu Kupuna Senior Apartments “as is, where is,” attached as Exhibit A. On February 11, 2015, the HCDA board voted to approve the sale in accordance with the proposed Purchase and Sale Agreement (“PSA”) for a price of two million, eight hundred sixty-nine thousand dollars (\$2,869,000.00). The executed copy of the PSA is attached hereto as Exhibit B. Board action further authorized the Executive Director to execute and deliver all related sales documents.

The acquisition was contingent on MDI’s ability to negotiate lease extensions with the City and HHFDC and secure financing to acquire and rehabilitate the twenty-four (24) year old Project. The executed PSA set a closing deadline of June 30, 2016. In the PSA, MDI has committed that all units at Na Lei Hulu Kupuna will remain as affordable senior rentals.

Holding the 99% interest position in the Partnership, Bank of Hawaii negotiated the “optimal” sales price based on the Project’s performance and cash flows of rent revenue of six hundred ninety-two thousand and four dollars (\$692,004.00) annually with rent controlled by HUD affordable guidelines. Bank of Hawaii expects net proceeds from the Sale to differ no more than 3% from the acquisition price after all consideration of any adjustments or transaction costs. This would yield net proceeds of no less than two million, seven hundred eighty-two thousand, nine hundred and thirty dollars (\$2,782,930.00), of which, 1% (or no less than twenty-seven thousand, eight hundred and twenty-nine dollars (\$27,829.00) would be due to the HCDA. The HCDA staff received verbal confirmation that Bank of Hawaii has no current stake in re-

syndication of the Project as contemplated by MDI, however it did not guarantee that it would not respond to a solicitation or submit a proposal on the future project.

Discussion: On May 13, 2016, MDI submitted a letter to the partnership requesting an eleven (11) month extension of the PSA, to extend the closing deadline to May 31, 2017 as attached hereto as Exhibit C. MDI cited numerous reasons for the extension, which relates to securing financing.

While MDI did apply for the 4% LIHTC program, during 2015 the HHFDC updated its Qualified Application Plan (“QAP”), which sets forth the parameters for evaluating and awarding tax credits and other subsidies. While MDI previously sought to finance the acquisition with 4% LIHTC and Rental Housing Trust Fund subsidies, after consultation with HHFDC, they were advised that the Project would be a prime candidate for the 9% LIHTC Program. The 9% LIHTC Program would yield significant cost savings.

As a result, MDI withdrew its 4% LIHTC application. Granting the extension would allow MDI adequate time to submit an application for the 9% LIHTC, and also reapply for the 4% LIHTC, if necessary.

Relative to the Ground lease, MDI has secured a firm commitment from HHFDC for a lease assignment and extension. MDI has received a verbal commitment from the City which is requiring a new lease be drafted for approval by the City Council.

Recommendation: Staff recommends that the Authority consent to an Extension for the Sale of Na Lei Hulu Kupuna's Leasehold Interest to Mark Development Inc. in accordance with the proposed purchase and Sale Agreement and authorize the Interim Executive Director to execute and deliver any and all related sale documents by a new closing date of May 31, 2017.

Attachments: Exhibit A – Mark Development Inc. Letter Requesting Sale of Na Lei Hu Kupuna dated September 30, 2014

Exhibit B – Executed Na Lei Hulu Purchase and Sale Agreement dated March 30, 2015

Exhibit C – Na Lei Hulu Extension Letter Request dated May 13, 2016