

Reviewed and Approved by Executive Director: Wayne K. K. K.
September 7, 2022

FOR ACTION

I. SUBJECT

Consider Authorizing the Executive Director to Enter Into a Purchase and Sale Agreement with Victoria Ward, Ltd. or its Affiliate, Involving HCDA's purchase from VWL of the Following Mixed-Use Parcels owned by VWL, located at 956/958 Queen Street, Honolulu Hawaii 96813, and further described by Tax Map Key No. (1) 2-3-003-022, and located at 955/957 Kawaiahao Street, Honolulu, Hawaii 96813, and further described by TMK No. (1) 2-3-003:094, for the Purpose of HCDA's proposed development of an affordable housing, mixed-use project on the VWL parcels, the total purchase price which shall not exceed \$6,250,000.00 as follows:

- a. Cash not to exceed the total amount of \$1,000,000.00 and,
- b. The transfer to Victoria Ward Limited, a total of 70,000 square feet of supplemental floor area from the Floor Area Bank, with an agreed upon value of \$5,250,000.00,

and upon other terms and conditions as follows:

- c. Recognition by HCDA that approximately 70,019 sq. ft. of industrial floor area that could have been built by VWL on the VWL parcels shall be applied as a credit against VWL's master plan requirement to provide approximately 740,000 sq. ft. of industrial floor area in VWL's master plan area; and
- d. Recognition by HCDA that VWL's Land Block 6, has been satisfied; and
- e. Other standard and customary representations, warranties, conditions, terms and agreements consistent with similar purchase and sale transactions

II. BACKGROUND

A Kakaako Affordable Rental Housing Task Force was formed on September 6, 2017, for the purpose of considering and recommending proactive strategies for encouraging low to middle-income rental housing development in the Kakaako community development district ("Kakaako"). The task force's recommendations ("Task Force Report") were presented for information to the Kakaako members at its June 6, 2018, and for action at its July 11, 2018 meeting.

It was acknowledged in the Task Force Report that HCDA no longer owns developable lands and that more affordable housing units could be developed if HCDA proactively acquired land. The Task Force Report, which was adopted by the Kakaako board, included a recommendation that the Authority consider utilizing money in its reserved housing special fund ("RH Special Fund") to purchase land for development of affordable rental housing projects.

At its March 2, 2022 meeting, the Kakaako board met with HCDA Executive Director Nakamoto in an informational executive session to initiate discussion on a possible land acquisition in Kakaako with the intent to develop more affordable housing. At its August 3, 2022 meeting, the Kakaako board met with HCDA Executive Director Nakamoto, and with HCDA Director of Planning and Development, Carson Schultz.

III. DISCUSSION

The possible land acquisition, referenced above, is an opportunity to purchase two contiguous 10,000 square foot ("sq. ft.") parcels from VWL that are in the Central Kakaako area at 956/958 Queen Street and 955/957 Kawaiahao Street, referred to herein as the VWL Parcels. See, tax map key parcel map, attached hereto as Exhibit "A".

The VWL Parcels are zoned as a single mixed-use zone (MUZ) under the Ward Neighborhood Master Plan, which allows for light industrial, commercial, and residential uses. The floor area ratio ("FAR") for the parcels is 3.5. VWL plans to develop a storage facility on the VWL Parcels if the lots are not purchased by HCDA.

The development "model" for the VWL Parcels will be consistent with the development model used by HCDA for the Nohona Hale and Ola Ka Ilima Artspace Lofts communities. Under this model, HCDA staff proposes to cause to be developed an affordable housing, mixed-use project on the VWL Parcels through a request for proposal process. HCDA would not be the actual developer.

A real estate appraiser, retained by HCDA, has valued the fee simple interest of the VWL Parcels and the improvements thereon at \$6,250,000. The annual lease rent from the VWL Parcels is approximately \$300,000.

There is approximately \$8,000,000 in HCDA's RH Special Fund that could be used to acquire land for the development of affordable housing. If HCDA pursued an all-cash transaction for the VWL Parcels, it would significantly reduce the balance of its RH Special Fund limiting future land acquisition and affordable housing development opportunities.

To preserve funds in the RH Special Fund, HCDA staff proposes utilizing its floor area "bank" ("FA Bank") as a part of the transaction. The FA Bank holds floor area derived from remnant parcels of land owned by HCDA and has proven to have value to certain large-scale developers in the past. In the last decade, HCDA has sold floor area from the FA Bank to the developers of the Symphony and 404 Piikoi Phase IV projects. The floor area for those projects were sold at an amount between \$34.00 and \$42.00/sq. ft.

VWL is willing to sell, in fee simple, the VWL Parcels and the improvements thereon for cash and non-cash consideration in the total amount of \$6,250,000, consisting of the following:

1. \$1,000,000 in cash (from HCDA's RH Special Fund); and

2. 70,000 sq. ft. of supplemental floor area held in HCDA's floor area "bank" that VWL may transfer to parcels within its master plan and utilized in accordance with the master plan. There is no appraisal for the supplemental floor area. VWL could have insisted on cash consideration only for the VWL Parcels. The sale of 70,000 sq. ft. of supplemental floor area for \$5,250,000 equates to \$75/sq. ft. The supplemental floor area in the RH Bank, arguably, has limited value because of the limited amount of potential buyers for the floor area. The \$75/sq. ft. value of the floor area in this proposed transaction represents what VWL, a willing buyer, and HCDA, a willing seller, are willing to agree on.

The other terms of the purchase and sale are as follows:

2. Recognition that approximately 70,019 sq. ft. of industrial floor area that could have been built by VWL on the VWL Parcels be applied as a credit against VWL's master plan requirement of providing approximately 740,000 sq. ft. of industrial floor area. VWL is required to provide approximately 740,000 sq. ft. of industrial use under its master plan. VWL has represented that if it retained ownership of the VWL Parcels that VWL could have developed the lots as an industrial use storage facility. HCDA staff's internal three-dimensional site analysis has confirmed that at least 70,019 sq. ft. of storage could be built on the parcels; and
3. Recognition that VWL's obligation to maintain a minimum FAR of 1.5 on its Land Block 6 has been satisfied;
4. Other standard and customary representations, warranties, conditions, terms, and agreements consistent with similar transactions; and
5. Due diligence satisfactory to the Executive Director.

See, Victoria Ward, Ltd. Letter of Interest dated July 22, 2022, attached hereto as Exhibit "B".

The proposed use of \$1,000,000 in cash from the RH Special Fund, supplemented by non-cash consideration, as described above, will allow HCDA to use the remainder of the funds in the RH Special Fund to possibly purchase additional parcels for the development of affordable housing, mixed-use projects.

III. RECOMMENDATION

It is recommended that the Board authorize the Executive Director to enter into a Purchase and Sale Agreement with Victoria Ward, Ltd. or its affiliate, involving HCDA's purchase from VWL of the following mixed-use parcels owned by VWL, located at 956/958 Queen Street, Honolulu Hawaii 96813, and further described by Tax Map Key No. (1) 2-3-003-022, and located at 955/957 Kawaiahao Street, Honolulu, Hawaii 96813, and further described by

TMK No. (1) 2-3-003:094, for the purpose of HCDA's proposed development of an affordable housing, mixed-use project on the VWL parcels, the total purchase price which shall not exceed \$6,250,000.00 as follows:

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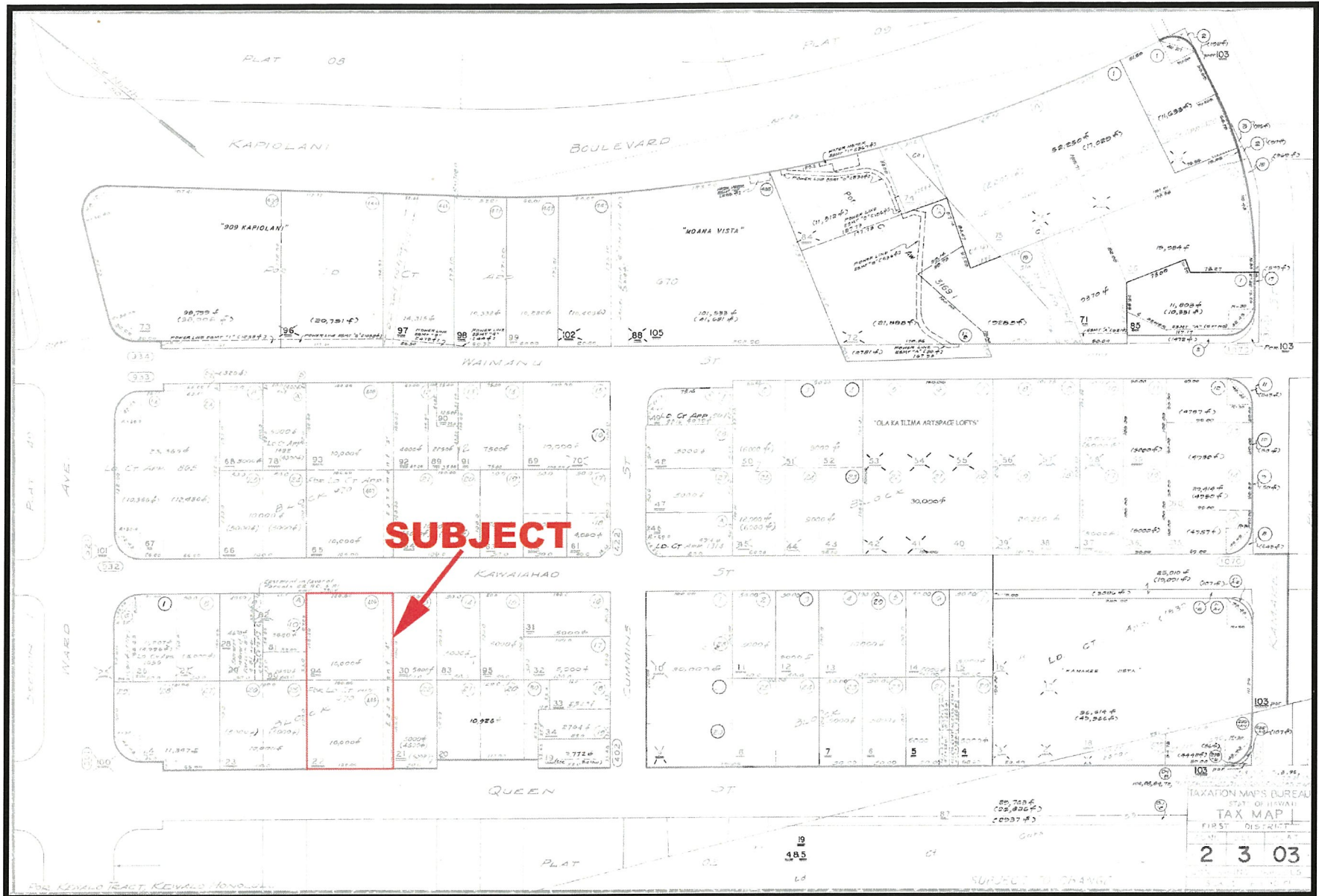
- c. Recognition by HCDA that approximately 70,019 sq. ft. of industrial floor area that could have been built by VWL on the VWL parcels shall be applied as a credit against VWL's master plan requirement to provide approximately 740,000 sq. ft. of industrial floor area in VWL's master plan area; and
- d. Recognition by HCDA that VWL's Land Block 6, has been satisfied; and
- e. Other standard and customary representations, warranties, conditions, terms and agreements consistent with similar purchase and sale transactions

and further authorize the Executive Director to undertake all tasks necessary to effectuate the purpose(s) of this for action.

Attachment:

Exhibit A: Tax Map Key Parcel Map

Exhibit B: Letter of Interest from Victoria Ward, Ltd., dated July 22, 2022



TAX MAP



WARD VILLAGE®

H O N O L U L U , H I

July 22, 2022

CONFIDENTIAL

Mr. Craig K. Nakamoto
Executive Director
Hawai'i Community Development Authority
547 Queen Street
Honolulu, Hawai'i 96813

Re: Proposed Block P-1 (TMK: 2-3-03-22 & 2-3-03-094) Transaction

Dear Mr. Nakamoto:

On behalf of Victoria Ward, Ltd. (VWL), thank you for the discussions regarding the proposed sale of VWL's Block P-1 (TMK: 2-3-03-22) of the Ward Neighborhood Master Plan (Block P-1) to the Hawai'i Community Development Authority (HCDA). VWL is pleased to be able to work with HCDA to obtain final approval of a mutually-agreeable transaction that will result in additional affordable housing in Kaka'ako.

As the parties have had a number of discussions and email exchanges since HCDA first approached VWL in May, 2021 about HCDA's interest in acquiring Block P-1, and the HCDA Board is scheduled to discuss the transaction and proposed terms in executive session during the Board's August, 2022 meeting, VWL takes this opportunity to briefly summarize the parties' discussions and VWL's understanding of the material terms.

Based on the HCDA staff's interest in acquiring Block P-1, and the initial representations and discussions by and between the staff and VWL in May and June, 2021, VWL placed on hold its pre-development work to construct a storage facility on Block P-1 and also suspended its discussions with an established potential lessor to operate the storage facility. Thereafter, from June through November, 2021, VWL and the HCDA staff discussed an appraisal of Block P-1, and based on the final appraisal from Medusky & Co. dated November 16, 2021, the parties agreed on an appraised value for the parcel of \$6.25 million. On January 19, 2022, VWL and the HCDA staff met to discuss proposed terms for the transaction, and from January through April, 2022, VWL provided site access, the parties exchanged information, and Kaimana Environmental Solutions LLC conducted a Phase I environmental site assessment. In early June, 2022, the parties discussed the timeline for Board approval, including consideration of the transaction during the Board's August, 2022 meeting in executive session, and formal approval of the transaction by the Board at its September, 2022 meeting.



WARD VILLAGE

As discussed with the HCDA staff, the material terms that will be presented and discussed with the HCDA Board for the Block P-1 transaction are:

1. The fee simple conveyance of Block P-1 from VWL to HCDA for HCDA's development of affordable housing;
2. Satisfaction of the approximately 70,019 square feet of industrial area planned for Land Block 6 of the Ward Neighborhood Master Plan;
3. Satisfaction of the minimum of 1.5 FAR planned for Land Block 6 of the Ward Neighborhood Master Plan;
4. The payment of \$6.25 million from HCDA to VWL in the form of:
 - a. \$1,000,000 in cash; and
 - b. \$5,250,000 in the form of 70,000 square feet of residential floor area credit that VWL may transfer and use at its discretion within the Ward Neighborhood Master Plan development lot(s) (based on \$75.00 per square foot);
5. A transaction period from the date of this letter to December 31, 2022 to execute a formal agreement; and
6. Standard and customary representations, warranties, conditions, terms, and agreements for transactions of this nature.

Please let us know if the foregoing summary of the parties' discussions and material terms is inconsistent with your understanding.

As this letter contains information identifying and pertaining to real property under consideration for future public acquisition and also contains confidential business information, including confidential commercial information where there is a likelihood of substantial competitive harm if disclosed at this time, VWL respectfully requests that this letter and its contents be kept confidential and not disclosed to third parties without the express written consent of VWL.

Thank you again for the opportunity to work with HCDA on this matter, and we look forward to finalizing the transaction for the benefit of future residents of Kaka'ako.

Sincerely,
VICTORIA WARD, LTD.

Doug Johnstone
Vice President
Victoria Ward, Ltd.