

FOR ACTION

I. REQUEST

Whether the Authority Shall Adopt the Findings of the Permitted Interaction Group and Accept the Recommendations of the Permitted Interaction Group Established at the November 3, 2021, HCDA Kakaako Board Meeting, Pursuant to Hawaii Revised Statutes 92-2.5(b), to Examine the Operations and Management of the Honuakaha Limited Partnership Relating to the Honuakaha Senior Rental Housing Project located at 545 Queen Street, Honolulu, Hawaii 96813 and Identified by Tax Map Key No. 2-1-031-021 Presented During the August 3, 2022 HCDA Kakaako Board Meeting.

II. BACKGROUND

The Permitted Interaction Group (“PIG”) was established on November 3, 2021 and presented its findings and recommendations on August 3, 2022.

III. DISCUSSION

Findings:

1. **Rent Increases:** Rent increases are needed to cover increases in expenses, reduce operating losses and maintain an adequate reserve. The last rent increase was in 2013 and rent should have increased incrementally over time. As a result, an operating deficit developed. The deficit was also compounded by the installation of air conditioner in all units, which increased utility expenses.

In January 2022, rents were increased for the first time in 9 years for existing tenants by 5%.

2. **Operating Losses:** The project is currently generating operating losses of about \$200K to \$460K annually.
3. **Reserve Study:** Reserve studies are needed to estimate the costs of repairing and replacing major components of the Project over time. The last reserve study was performed in 2001. As a result, large projects were not properly budgeted for.

In August 2020, a reserve study was performed. It indicated that during that year about \$300,000 was needed to be set aside by the Honuakaha Limited Partnership (“HLP”) during that year. This reserve amount needs to increase every year to enable the project to fund the estimated \$5.70 million in needed future capital improvements.

Recommendations:

1. Increase Rent Annually: The PIG recommends the HCDA prepare a detailed budget every year and increase rent 5% annually.
2. Unit Turnover: Upon turnover of units, rents on new units are able to be increased to prevailing market rents which are substantially higher than current rents of existing tenants. However, higher rents are partially offset by a “turnover/releasing” period and any capital costs incurred to maintain units in preparation for new occupants.
3. Reserve Study: The PIG recommends the HCDA commission a reserve study bi-annually to ensure adequate funding of reserves, and associated budget requests.
4. Performance Metrics: The PIG recommends the HCDA develop, closely monitor and manage project operations based on a dashboard report which shows trends on a running monthly basis to include occupancy, net operating income, Section 8 statistics, unit turnover and receivables.

IV. RECOMMENDATION

Adopt the Findings of the PIG and Accept the Recommendations of the PIG Established at the November 3, 2021, HCDA Kakaako Board Meeting, Pursuant to Hawaii Revised Statutes 92-2.5(b), to Examine the Operations and Management of the HLP Relating to the Honuakaha Senior Rental Housing Project located at 545 Queen Street, Honolulu, Hawaii 96813 and Identified by Tax Map Key No. 2-1-031-021 Presented During the August 3, 2022, HCDA Kakaako Board Meeting.

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Approved By:

Chair Chason Ishii *Chason Ishii*

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